

PERFORMANCE OF KOREAN COMPANIES DURING FY 1998

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Korean companies, ending their fiscal year on December 31, 1998, showed the worst performance last year, as their sales growth dropped and their P&L (profit-loss) statements worsened considerably. The tight money supply, mergers between financial firms, workout programs for "bad companies" and strong corporate restructuring have been the biggest stories in the Korean economy during 1998. It is, under these circumstances, no surprise that Korean firms' business performance outlined poor results.¹⁾

Sales and Profits

Sales of registered companies in 1998 posted mere growth of 11.6 percent, much lower than the 18.8 percent in

1997, for a total of 494.96 trillion won. In particular, the sales growth of manufacturing companies rose only 2.6 percent, a mere one-fifth of the 12.9 percent rise in 1997. In the manufacturing sector, the turnover rate of large-cap companies increased 3.4 percent, while that of small- and medium-cap companies was flat, up 0.6 percent. 1998's sluggish sales growth of the listed companies was due mainly to shrunken domestic demand stemming from the economic crisis.

Despite the marginal increase of total sales by Korean companies, total net income recorded a deficit of 28,657 billion won, in drastic contrast to that of the previous year, 4,655 billion won. Among total 510 companies, 182 firms recorded red and 328 firms black.

Table 1. Top 10 Biggest Sales Companies

(Unit : 100 million won)

Companies	Sales		Operating Income
	Amount	Growth(%)	
Daewoo Corp.	368,941	53.7	1,458
Samsung Corp.	341,963	15.0	- 984
Hyundai Corp.	341,497	36.4	110
Samsung Electronics	200,842	8.8	4,409
LG Corp.	187,584	20.4	37
KEPCO	140,819	7.4	15,485
POSCO	111,377	14.6	14,153
SK Corp.	110,488	2.7	1,814
LG Electronics	98,528	6.6	1,671
Korea Telecom	87,739	12.7	4,243

1) For this study, 510 firms which openly disclosed their performance reports as of March 31, out of total 585 listed companies ending the fiscal year December 31, 1998, were surveyed. The data used here are based on the public report printed in the April 6 issue of the *Maeil Business Newspaper*.

Table 2. Top 10 Gainers in Operation Profit*(Unit : 100 million won)*

Companies	Operation Profit		Sales
	Amount	Growth(%)	
KEPCO	15,485	49.2	140,819
POSCO	14,153	26.7	111,377
Ssangyong Oil Refinery	5,444	386.1	59,689
Samsung Electronics	4,409	182.5	200,842
Korea Telecom.	4,243	117.0	87,739
SK Telecom	3,938	133.6	35,452
Korean Air	3,262	Red	45,854
Daewoo Heavy Ind.	2,269	60.0	62,139
Tae Kwang Ind.	1,898	470.2	14,800
Samsung Display Devices	1,821	47.1	33,037

Financial companies' net income loss amounted to 11,819 billion won, whereas non-financial companies suffered a 16,838 billion won loss. However, considering that there are only 19 financial companies out of total 510 companies, the financial companies' huge loss was a main reason for the poor performance. Under rigorous corporate restructuring, most banks had to post great amount of losses of 12 to 13 trillion won stemming from their bad loans. Only four financial firms, Hana Bank (110.8 billion won), Kookmin Bank (73.4 billion won), Shinhan Bank (58.9 billion won) and KorAm Bank (53.4 billion won), marked black on their net profit statement.

The large amount of profit loss in non-

financial companies is attributed to the sharp increase in financial costs which stemmed from the interest rate hike. The total financial cost of non-financial firms reached 12,136.5 billion won, which was a 63.2 percent increase over the previous year. However, excluding cases of defaulted firms, such as Kia Motors (6,650 billion won loss), Kia Motors Sales (353 billion won loss) and Sammi Steel (3,426 billion won loss), many manufacturing firms still enjoyed marginal profits.

Although the overall performance of Korean companies was poor, sectors reaped contrasting results. Electric & gas and telecommunications, which were affected

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Table 3. Sectoral Comparison of Operating Profit*(Unit : 100 million won)*

Black Sectors		Red Sectors	
Sctor	Amount	Sctor	Amount
Electric & Gas	16,692	Banks	-116,386
Telecommunication	8,405	Auto Parts	-51,068
Refined Petroleum	7,127	Textiles	-19,652
Basic Metals	5,905	Construction	-18,069
Chemicals	4,374	Non-metallic Mineral	-3,985
Electronics	2,949	Papers	-1,828
Machineries	1,989	Wholesale	-1,696
		Foods & Beverages	-1,494
		Electrical Machinery	-438

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relatively less by the domestic economic stagnation, chalked up marginal operation profits, recording 712.7 billion won and 840.5 billion won, respectively. Meanwhile, the banking, auto parts, textiles and construction sectors marked losses from operation.

Outlook for Year 1999

Korean companies were faced with the toughest environment for business in 1998. However, the ongoing restructuring and recovering economy has brightened the business outlook of 1999. First, cash inflow from business operations of non-financial companies in 1998 increased 24.8% to 23,789 trillion won. Accordingly, the ratio of

liability to sales recorded 56.3 percent, down 3.4 percent points from 59.7 percent in 1997. The increasing cash flow from operations signifies that Korean companies switched their business operation criteria from sales or asset-oriented strategy to profit-oriented strategy. With increasing cash from business activities, Korean companies are able to reduce loans and cut down their debt-to-equity ratio. Second, Korean companies are expected to regain their business competitiveness and build a sound financial structure through painful corporate restructuring. During 1998, many ailing companies have been "worked out" and merged; even sound firms have spun off their non-performing subsidiaries and assets. Consequently, Korean companies are expected to show a much sounder performance in generating revenues and sales this year, with considerable cutdown of financial costs and recovery of their business competitiveness. **VIP**