Hyundai reports lowest earnings in more than 5 years

Hyundai Motor Co reported Thursday its lowest quarterly earnings in more than five years after underestimating strong demand for SUVs and losing ground to local brands in China.

South Korea's largest automaker said its third quarter net income was 1.2 trillion won ($1.1 billion) for July-September quarter, slumping more than 25 percent over a year earlier.

The result, its worst since the first quarter of 2010, was below even the lowest estimate by analysts. The maker of Sonata and Tucson vehicles was expected to post 1.5 trillion won in quarterly profit, according to a survey of analysts by FactSet, a financial data provider.

Hyundai has suffered from weakening sales in China while its lack of new SUV models until recently led to lower share in key markets. The company has focused on sedans rather than SUVs, misreading consumer demand at a time of sluggish global demand for sedans such as the Elantra.

Hyundai, part of the world's fifth-largest automaker along with affiliate Kia Motors Corp., faced a slew of challenges in China, the US and South Korea.

Its China sales plunged 30 percent in July over a year earlier and then sank 16 percent in August as Chinese auto brands introduced new models. The decline was narrowed to 5 percent in September.

Lee Won-hee, Hyundai's chief financial officer, said its sales in China will turn higher this month compared with a year earlier, helped by a cut in tax on auto purchases. (AFP)

SK Hynix misses Q3 analyst estimates

South Korea's SK Hynix Inc announced a fall in third quarter profits Thursday due to slowing global demand for memory chips that failed to offset orders from Apple for its popular new iPhone.

The world's second-largest memory chip maker said net profit totalled 1.05 trillion won ($925 million) in the July-September period — down 4.3 percent from a year ago and below analyst estimates.

The global memory chip industry is on a downturn due to weakening demand for personal computers, smartphones and televisions.

According to market tracker Gartner, global shipments of personal computers were down 7.7 percent in the third quarter, fuelling pressure for chipmakers to cut prices.

On a more positive note, Apple looks set to cement its position as SK Hynix's largest customer.

The California tech giant sold 13 million iPhone 6S and 6S Plus models in nine markets in a record-breaking weekend launch for the latest version of its iconic smartphone last month. (AFP)

One in five South Koreans will be 65 or over by 2026

For S. Korea's $430 bn pension giant, looking bad is the problem

SEOUL, Oct 22, (RTRS): Last year investment managers at South Korea's National Pension Service (NPS), which oversees $430 billion in assets, were looking to buy a portfolio of blue-chip stocks from emerging markets including Southeast Asia.

The investment was to have been part of a push to diversify a heavily domestic portfolio, but ultimately the world's third-largest pension fund took a pass.

Fear of second-guessing and criticism by auditors and politicians if the investment turned sour outweighed the promise of upside, said an NPS investment manager familiar with what happened.

"It's always: 'is there a possibility this could go bad?'," said the investment manager, declining to be identified as he was not authorised to speak to the media.

"Because some investment managers might have been previously criticised (by government auditors) and now avoid investments that could be controversial."

Heavy scrutiny distracts NPS managers from generating higher returns on retirement money earmarked for the fastest-ageing population among advanced economies, insiders say.

Since last month, the chief investment officer of NPS has been brought before four parliamentary panels to explain and justify investment decisions — an increasingly onerous annual process that has "cut into" the work of investment managers below him, said another NPS manager.

NPS' domestic influence, and the subsequent scrutiny it faces, has grown steadily as its assets have ballooned. Set up in 1988, NPS managed 500 trillion won of assets as of end-July, compared with around 141 trillion won at the close of 2004.

"The balance between accountability of a public fund and the room to make returns is important," said an NPS spokesman.

While NPS might feel vindicated about its Southeast Asia decision last year — an MSCI index of stocks in that region has fallen about 14.6 percent in the year to Oct 21 — it knows it needs to diversify, and it wants at least 30 percent of its assets to be held overseas by 2020.

At the end of 2014, 78 percent of NPS' holdings were invested in South Korea, even though the country accounts for less than 2 percent of global capital markets.

In contrast, the Canada Pension Plan Investment Board (CPPIB) held about 76 percent of its assets overseas as of March, while Japan's Government Pension Investment Fund had around 35 percent of its assets outside Japan as of June.

In South Korea, NPS owns 5 percent or more of some 166 companies including Samsung Electronics and Hyundai Motor.

NPS's awkward influence came to the fore in July when it cast the deciding vote for a merger between two units of Samsung Group — a deal that many investors said short-changed minority shareholders.

In doing so, NPS bypassed an external committee, mostly of academics, charged with advising on difficult votes.

Political interference goes beyond second-guessing.

As part of a government push to decentralise from Seoul, the NPS investment office will relocate next year to the small city of Jeonju, a move that some private fund managers and insiders say makes NPS a less attractive place to work.

It is also relatively understaffed.

NPS had 261 people in its investment office as of September, managing on average about 1.9 trillion won ($1.68 billion) in assets each. By comparison, CalPERs, the largest US pension fund, has about 370 people in its investment office overseeing $288 billion in assets, a CalPERS spokesman said, or $779 million each.

To address its staffing shortfall, NPS is hiring about 70 investment managers this year, and for the first time, four foreigners, for offices in London and New York, but NPS top brass still think they need more, according to an NPS spokesman.

The NPS hopes more staff means squeezing more returns out of investments.

Its 6.9 percent average annual return between 2009 and 2013 lagged the 11-13 percent rates of Norway's GPFG and the Netherlands's ABP, the world's second-and fourth-largest pension funds, according to South Korea's parliamentary budget office.

It slightly outperformed Japan's GPIF, the largest pension fund.

NPS said it is a long-term investor and its performance should be judged accordingly.

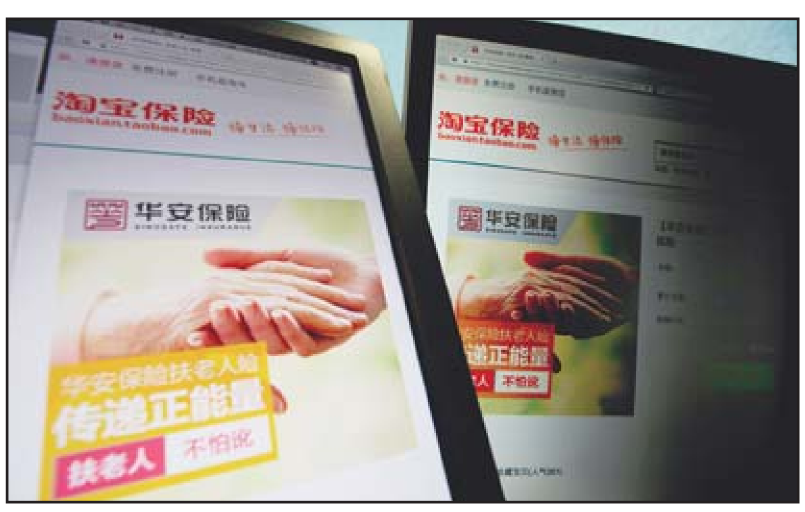
But the clock is ticking — one in five South Koreans will be 65 or over by 2026.

In 2043, the value of NPS assets is expected by the government to peak at 2,561 trillion won before declining, as payouts overtake fund inflows, at current distribution rates.

Last year, NPS reported a modest return rate of 5.25 percent, partly because of a negative 5.4 percent return on the Korean stocks held by NPS.

"There is no clear public consensus on how to manage the national pension scheme," said Shim Ji-heon, a researcher at the National Assembly Budget Office.

"We need to start a public discussion on whether to leave the fund's inflow and outflow levels as they are, or to rethink the level of risk the pension is willing to take on."



An e-commerce website by Alibaba and Hua'an insurance, also known as Sinosafe Insurance, selling an insurance product to protect good Samaritans from being scammed by elderly people they help is displayed on computer screens in Beijing, Oct 22. Concern has grown in recent years with scams in which elderly people are found to have turned against their helpers. Some have been caught on video purposely falling next to cars to rip off the motorists. (AP)

As China economy weakens, recession stalks North Asia

Tech, freight firms feeling the squeeze

BEIJING, Oct 22, (RTRS): The slowdown in China's economy, the world's second largest, is sucking the growth out of North Asia and tilting some economies towards recession.

As China undergoes a painful rebalancing of an economy that accounts for 16 percent of global GDP — up from below a tenth a decade ago — the International Monetary Fund predicts 5.5 percent growth this year for a region that also includes export powerhouses Japan, South Korea, Hong Kong and Taiwan.

That would be the weakest growth rate since the global financial crisis.

Japan's exports grew by 0.6 percent from a year earlier in September, the slowest since August last year, data showed on Wednesday, as shipments to China dropped by 3.5 percent.

"Without a doubt, as long as China remains in a very soft spot ... it's natural that North Asia, which is very highly oriented to China's market, whether directly or as a conduit, also takes a knock," said Vishnu Varathan, a senior economist at Mizuho Bank in Singapore.

Japan's weak export numbers have heightened concerns that its economy may slip into recession in the third quarter, with a weak yen not doing enough to support its overseas shipments.

Singapore narrowly missed a third-quarter recession after the export-reliant economy expanded just 0.1 percent from the previous three months, but Taiwan still looks very close to one.

Growth

China's rapid growth and liberalisation, especially after accession to the World Trade Organisation in 2001, gave a tremendous boost to Asian trade. Supply chains spread across the region, sucking in everything from coal to fuel its factories, to electronic components for mobile phones to be shipped to markets in the West.

Now, though, things are different.

PMI readings are contracting across most of Asia-Pacific, with new orders falling at the fastest pace since early 2009, and inventories piling up, meaning that production may have further to fall before economies shake off spare capacity, according to HSBC.

On Tuesday, Japan's Yaskawa Electric Corp, which specialises in factory automation and robotics and relies on China for about a fifth of its sales, trimmed its annual revenue outlook, citing China's economic slowdown.

Nidec Corp, another Japanese technology firm, on Wednesday posted higher second-quarter operating profit but kept its outlook unchanged, citing China's slowdown.

Yasuo Sakuma, a fund manager at Bayview Asset Management in Tokyo, doesn't see things improving soon for companies like Yaskawa. "We still need to be cautious, considering we're not seeing a bottoming out in orders," he said.

Elsewhere, South Korea's exports tumbled 8.4 percent from a year earlier in September, while Taiwan's export orders for that month declined 4.5 percent, with orders from China sinking 9.8 percent.

As global trade stalls, Asia's air and sea cargo operators are feeling the pressure, with the only boost to business coming from pre-Christmas shipments to the United States.

"We're seeing some good volumes from China. The tonnage is there, but given the air freight capacity on the market we're not getting the 'super' peak yields we would be hoping for at this time of year," said Mark Sutch, Cathay Pacific's general manager for cargo sales and marketing.

"We will be operating our peak transpacific schedule ... this week and expect the peak to continue to Thanksgiving (at end-November). A pre-Christmas rush is hard to predict."

At Hong Kong Air Cargo Terminals (HACTL), one of the main cargo handlers, business is flat compared with last year.

"Slowdown in China is impacting Hong Kong in a whole range of ways, including air cargo," said HACTL's CEO Mark Whitehead. "I can't see significant growth in this market ... although longer term I do have a very robust view of air cargo."

Economists predict that North Asia's dismal export numbers will continue for some time.

"It's going to probably look like that to the first half of 2016 at least," said Mizuho's Varathan. "We're looking for (China's) exports to bottom and some pick-up in consumption as we head into the middle of next year.

'Move reflects failure in social morals'

Insurance guards Chinese do-gooders against scams

BEIJING, Oct 22, (AP): Now there's an answer to a sad, strange and common question in China: How can someone be a good Samaritan to an elderly person in need without getting scammed?

China's e-commerce giant Alibaba has partnered with an insurance company to introduce a one-year, three-yuan (50-cent) insurance plan that covers up to 20,000 yuan in litigation fees for anyone who wants to help an older person to their feet but is concerned about being accused of knocking them down to begin with. The novelty insurance product attracted more than 60,000 buyers since going on sale Oct 15.

Concern has grown in recent years with media attention given to various scams in which elderly people are found to have turned against their helpers. Some have been caught on video purposely falling next to cars to rip off the motorists.

A joke circulating in China's social media says a new criterion in judging one's wealth is whether he or she has the guts to help an elderly person.

"Many people want to do good deeds by helping the elderly to their feet, but they are also worried about getting scammed," said Xu Ting, product manager at Alibaba. "We hope the insurance plan can help reduce some financial costs by paying for litigation fees that can help restore the facts."

One of the best-known cases occurred in 2007 in the eastern city of Nanjing, where a young man took an old woman to a hospital after she fell at a bus stop. When the woman was diagnosed with bone fractures, she demanded that the young man pay the medical bill, saying he knocked her over and should be held responsible for her injuries. The man denied wrongdoing.

Without solid evidence, the court assigned no fault to either party but ruled the man should shoulder 40 percent of the medical costs. The verdict stirred a wave of criticism, with the public largely believing the man had been unfairly punished.

According to the party-run People's Daily, a Chinese college professor examined 149 disputes involving people helping others to their feet between 2004 and this year and concluded that the helpers got framed in 84 cases, the helpers were at fault in 32 and the facts of the remaining cases were unclear.

"It's chilling that there is a high percentage of cases in which the Samaritans get framed," opined Guangming Daily, another party newspaper.

The People's Daily editorialized on Tuesday that the new insurance product by Alibaba and Hua'an Insurance provides a possible solution to the moral quandary, but also reflects a failure in China's social morals.

"You can taste frustration and bitterness in this seemingly quite civic-minded and public-minded approach," the People's Daily wrote.

Commentaries have questioned what has turned the elderly into scammers. Some critics have blamed the authoritarian country's political system. Yet many among the Chinese public have arrived at a different consensus: Some bad people have simply grown old.

China has reduced capacity in steel industry by 77.8mn tonnes

LONDON, Oct 22, (RTRS): China has reduced capacity in its steel industry by 77.8 million tonnes, President Xi Jinping said on Wednesday, fending off criticism that China's cut price steel exports had brought the British steel sector to its knees.

"China has reduced capacity in its steel industry by 77.8 million tonnes," Xi said. The comments were translated into English by a Reuters native Mandarin speaker.

An earlier simultaneous translation of Xi's words erroneously put the reduction in steel and iron capacity at 700 million tonnes.

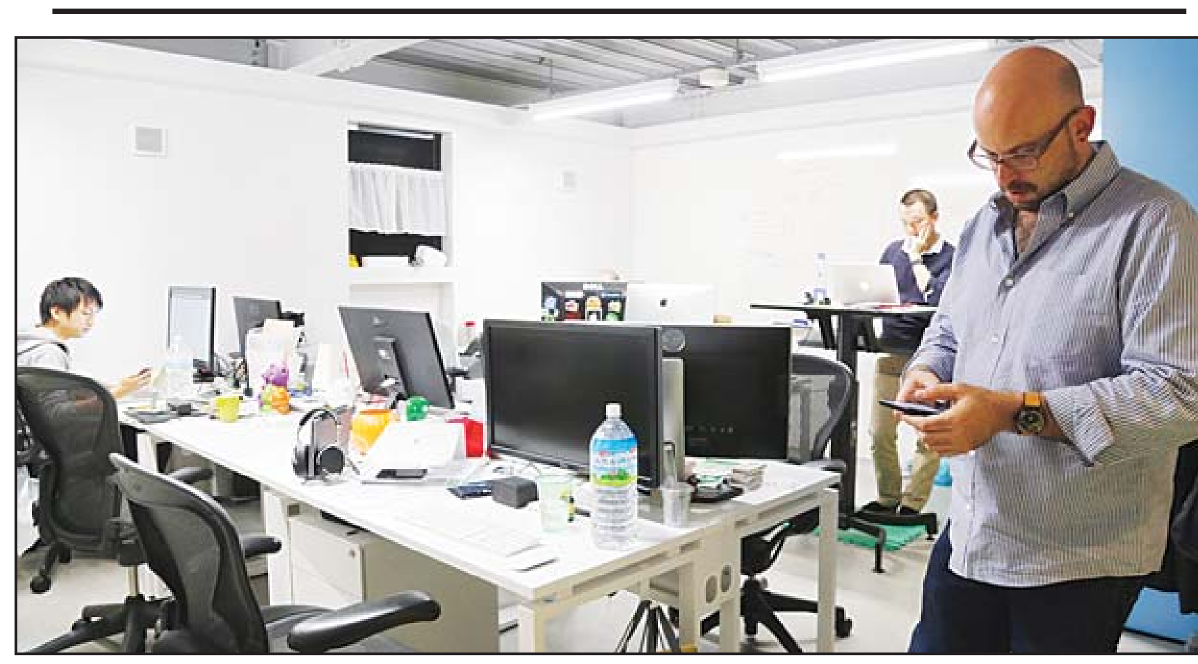
China makes nearly half the world's 1.6 billion tonnes of steel and experts estimate its mills have about 300 million tonnes worth of excess steelmaking capacity.

Earlier this year, China said it will aim to cut as much as 80 million tonnes of steel capacity in the next three years. Last year, it eliminated 31.1 million tonnes of steel capacity.

According to the latest figures from the World Steel Association, China produced 269 million tonnes of iron ore in 2013. Its iron ore miners have come under pressure this year from record low iron ore prices.

The UK steel industry has seen over 4,000 jobs lost or put at risk this month alone, with most steelmakers, unions and some politicians pinning the blame on Chinese steel exports, which they say are sold at below fair value.

China is expected to export a record 100 million tonnes of steel this year.



In this file photo, Moneytree spokesman Zach Taub (right), checks his mobile phone as other staff members work at their office in Tokyo. Tucked in a shabby alley of Shibuya, Japan's Silicon Valley, is a startup that's done the almost impossible: win funding from the country's notoriously conservative banks. Moneytree, with a staff of 18 people, has developed technology for free iPhone and iPad applications that allow people to track their expenses, bank accounts, credit-card billing and other aspects personal finances, attracting 850,000 people over three years. (AP)

Entrepreneurship grows

Japan startup gets bank funding

TOKYO, Oct 22, (AP): Tucked in a shabby alley of Shibuya, Japan's Silicon Valley, is a startup that's done the almost impossible: win funding from the country's notoriously conservative banks.

It's a hopeful sign the world's third largest economy, known for tight regulations, the old boys' network and adversity to risk-taking, may be warming up to new types of entrepreneurship.

Moneytree, with a staff of 18, has developed iPhone and iPad applications that allows people to track their expenses, bank accounts, credit card billing and other aspects of personal finances, attracting 850,000 downloads over three years.

The company has been a hit with the younger generation in Japan, who routinely use smartphones to pay for goods and services. Half the Moneytree users are women, unusual for financial applications, which tend to attract older men.

Founders say one reason for their success is how Moneytree is based on the old Japanese idea of "kakeibo," a tabulated book housewives used before the arrival of computers to keep a daily record of household spending, which still resonates with Japanese.

Nagisa Ichikawa, consultant and editor-in-chief of an online fashion magazine, said Moneytree is handy because she hardly ever uses cash anymore. She often leaves home without her wallet and just takes her laptop and phone.

"It's good for people who might spend too much, like on clothes, without realizing it," she said.

But what really sets Moneytree apart is how it has convinced banks to back it.

Japanese banks are known for keeping their business restricted to a circle of established companies. But these days even they are trying to change, seeking ways to jump on board the growing field of financial technology, said Nobi Hayashi, who consults and writes about technology in Japan.

"It's a stunning achievement that they got such significant funding," Hayashi said of Moneytree. "Startups like this one tend to be seen as outsiders and encounter a lot of problems."

Moneytree, which has relied on money from its founders and "angel" investments, which come from supportive wealthy individuals, since setting up in 2012, is getting financing in the millions of dollars from Japan's three biggest banks: Mizuho Capital Co, Mitsubishi UFJ Capital Co, SMBC Venture Capital, as well as Salesforce.com Inc.

A monetary breakdown of the investments, announced Thursday, was not disclosed.

Venture

Startups getting that kind of money have tended to be venture wings of bigger companies — not one like Moneytree, founded by an Australian and two Americans, with employees from Britain, Indonesia, New Zealand and Sweden, as well as Japan.

With the Japanese economy gradually humming again, after two decades of stagnation, investors are looking to budding entrepreneurship in Japan. Every weekend in Tokyo is filled with events and parties for investors to meet up with aspiring business owners.

Capital raised by venture companies in Japan topped 100 billion yen ($1 billion) for the first time in six years last year, reflecting the health of the startup scene. It's still going strong, at 62.4 billion yen ($520 million) for the first half of this year, according to Japan Venture Research.

Matthew Romaine, who founded Gengo, a Tokyo-based startup for online translation services, said he had to go to Silicon Valley for fundraising five years ago, and got money from Japanese angel investors only afterward.

"There's a lot more opportunity. It's a really good time for entrepreneurs," he said of the startup environment.

The unraveling of lifetime employment at traditional companies is helping by providing a breeding ground for talent looking for more excitement than the drab "salaryman" lifestyle, said Romaine.

Paul Chapman, chief executive and founder of Moneytree, said he hopes the company will serve as a role model for other startups, helping break down barriers.

"Moneytree is growing up," he said of the bank investments.

The startup hopes to make money by offering the service to companies, and has already signed a deal with Dai Nippon Printing Co. Other companies have expressed interest.

Security is a major concern. Moneytree officials said there have been no problems so far, as long as users keep to the rules, such as avoiding free Wi-Fi connections. Moneytree says it uses the same security technology as Amazon.