



Elliott says minority shareholders of Samsung C&T were unfairly treated due to Samsung's "exclusive concerns" with the leadership succession.
PHOTO: AFP

'VULTURE' VERSUS CHAEBOL IN KOREA

The dispute between Elliott Associates and Samsung over the merger of Cheil Industries and Samsung C&T smacks of holdout tactics on the activist hedge fund's part. **BY SHIN JANG-SUP**

SOMETHING really strange is happening in Korea. A merger plan was announced, the share price of the company immediately rose 15 per cent and shareholders enjoyed profits to the tune of 20 per cent in a month. But minority shareholders contend that the merger is unfair and their rights are seriously infringed. One of them even filed a lawsuit against the company management. The international media is nearly unanimous in reporting the issue as if the management has done something wrong. It is difficult to understand the situation if one only sees the numbers.

One can begin to understand the situation if the names involved are connected to the numbers. One is Elliott Associates, an activist hedge fund – a pioneer of "vulture funds" – and the other is Samsung Group, Korea's largest chaebol, which was in the final stages of leadership succession after its founder Lee Kun-Hee fell into a coma.

The merger in question is that between Cheil Industries (the de facto holding company of the Samsung Group) and Samsung C&T (which has construction and trading businesses.)

On May 26, Cheil Industries announced plans to acquire Samsung C&T for US\$8 billion. Elliott had an undisclosed 4.95 per cent stake of Samsung C&T, which it later increased to 7.12 per cent, becoming the third largest shareholder.

Elliott opposed the merger and filed a lawsuit to stop it. It argues that minority shareholders of Samsung C&T were unfairly treated due to Samsung's "exclusive concerns" with the leadership succession.

Institutional Shareholder Services (ISS), an advisory firm on shareholder voting, sided with Elliott by advising investors to say "no" to the planned merger.

The strange thing is that both Elliott and ISS do not want to explain the market movement, which already brought about an estimated US\$100 million gain for Elliott in one month. Elliott still argues that Samsung C&T is undervalued. ISS also says: "The (market) reaction was very positive . . . despite the fact that the merger carries no premium." They only provide anal-

yses of assets and the "intrinsic value" of the two companies.

If share prices jumped, despite "no premium", it would be due to one of two possibilities: either the market is stupid, or somebody is manipulating the market. But the Korean stock market is completely open and its investors include all sorts of foreign and domestic institutions. It is unthinkable that some stupid investors pushed the prices up and the other stupid investors did not act on it. The perception of an all-powerful Samsung manipulating the Korean stock market is somehow widespread among foreign journalists, and one of whom actually asked me: "What is stopping Samsung from doing so?" Such views are demeaning to Korea's financial regulatory authority and to investors in the Korean stock market.

In my view, the market movement can be easily explained: the "premium" does exist. Cheil's share price has continued to rise because investors expected that Samsung Group would mobilise all available resources to make this de facto holding company a success. Samsung C&T's share price jumped with the announcement of the merger plan because it was able to ride on the premium attached to Cheil. A saying in the stock market goes, "stocks are fed on dreams". This is why stock prices of some venture companies skyrocket even without profits or indeed without any underlying assets. Investors mostly vote on future prospects.

Why then does Elliott dismiss this self-evident explanation and continue to argue about

"undervaluation"? Elliott's past investment record may provide an answer. According to Greg Palast's book *Vultures' Picnic* and other writings, Elliott has often employed holdout tactics to earn super-normal profits. For instance, Elliott held hostage the Brady Plan (the debt restructuring plan for Latin American debt in 1989) by purchasing Peru's defaulted loans at US\$11.4 million and then won a lawsuit in a New York court to give it US\$58 million, including US\$20.7 million of face value and interest that the country could not pay to its creditors for years. It held international aid to Congo hostage and received US\$90 million for the country's debts that it bought at US\$20 million. During the global financial crisis of 2008-9, Elliott even held hostage the US government's rescue operation of General Motors by purchasing Delphi, GM's key parts supplier, threatening to shut it down. The result was at least US\$1.29 billion in profits for Elliott – about 44 times its original investment.

It seems likely that the same tactic is being applied to Samsung by holding its succession process as hostage. Elliott is not satisfied with a 20 per cent profit and expects it could earn more if it exploits the anti-chaebol sentiment widespread in Korea and abroad. If it is really a crusader against the chaebol, it should not have bought Samsung shares in the first place. It is also strange that so much of the international media is criticising the party that is being held out, rather than the one who is holding out.

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ELLIOTT-SAMSUNG DISPUTE TIMELINE

- May 10, 2014 Chairman Lee Kun-Hee falls into a coma
- June 26, 2014 Everland and Cheil Industries merge
- May 26, 2015 Cheil Industries and Samsung C&T announce a merger plan
- June 4, 2015 Elliott Associate reveals 4.95 per cent undisclosed stake in Samsung C&T and increases it to 7.12 per cent, becoming the third largest shareholder. It opposes the merger and files a lawsuit to stop it
- June 10, 2015 Samsung C&T sells 5.6 per cent of treasury shares to KCC, its white knight
- June 11, 2015 Elliott files another lawsuit arguing the sale of treasury shares was "illegal"
- July 1, 2015 Seoul court dismisses Elliott's lawsuit on merger decision
- July 3, 2015 ISS advises opposing the merger
- July 7, 2015 Seoul court dismisses Elliott's lawsuit against the treasury share sale
- July 17, 2015 Samsung C&T's shareholder meeting scheduled to vote on the merger