

Korea Zinc (010130 KS) / MBK Partners

Partial Tender Offer

MBK's partial tender offer is an appealing opportunity in the currently traded range of KRW705,00-715,000.

MBK Partners partial tender offer

- MBK is seeking anywhere from 6.98% (1,445,036) to 14.6% (3,024,881) of the company.
- MBK offers KRW750,000 per share.
- The offer period started at September 13, 2024 and expires on October 6, 2024 (Last business day October 4, 2024).

Korea Zinc buyback scheme

- The company in collaboration with Bain aims to acquire 3,726,591 shares (18.0% stake).
- The buyback will take place at KRW830,000 per share.
- The buyback period started at October 3, 2024 and October 23, 2024.
- MBK filed an injunction claiming the share buyback was against shareholders' interests, alleging that Korea Zinc was offering an excessively high repurchase price.

Offer consideration

- MBK Partners has teamed up with Korea Zinc's largest shareholder, the Young Poong (associated with the Jang family). The Young Poong Group along with one of the branches of the founding family, owns about 33.1% of Korea Zinc.
- We note that in the past 3 weeks, the traded volume exceeded 3.5 million shares mainly between KRW660,000 and KRW710,000.
- The fact that the share price has not surged up to KRW750,000 we expect that the majority of the minority stakeholders aim to tender their shares into the MBK offer.

CBR view

- We note that based on our calculations, the deal represents a meaningful takeover premium.
- We see the share buyback program execution is a low-probability scenario, but we see the MBK tender as an appealing offer for minority shareholders.
- We believe that around 70% of Korea Zinc minority shares were tendered into the MBK offer thus one may be able to tender 80% of his shares. Therefore one may consider buying Korea Zinc shares below ~KRW 720,000 and tender all their stake into the ongoing MBK offer.

Regulatory

- The tender statement does not mention any regulatory approval as a condition.
- However, we note that regulatory prohibition in theory still could be an obstacle to the acquisition of a controlling interest.
- There is a fear that MBK is backed by Chinese money and Korea Zinc will be sold to a Chinese company.
- We note that MBK Partners is founded by a Korean American businessman. The company has or had politically sensitive portfolio companies in Korea.

Timing

- MBK's ongoing tender offer ends on October 6, 2024, and its expected settlement is October 10, 2024.

Deal closing probability

- We estimate an implied deal closing probability of ~75.8% assuming deal settlement by October 10, 2024 and downside to KRW600,000.

Valuation:

- We estimate that Korea Zinc shares would trade around KRW585,000-601,000 in a no-deal situation, based on its historical valuation compared to peers.
- The standalone is based on historical premiums/discounts over the peer group valuation representing approximately 1.3 LTM P/E and 1.1 LTM EV/S.
- Based on our LBO model, we see room for PE bidders to offer a takeout price slightly above KRW 800,000 per share.
- Based on our ROIC model, we estimate that the current price is unlikely to provide an appropriate return per se. However, also note that acquiring the controlling stake is not necessarily big business per se, but it can allow the MBK to capitalize on all the improvements across the entire stake.

Deal Terms

1 010130 KS = KRW750,000

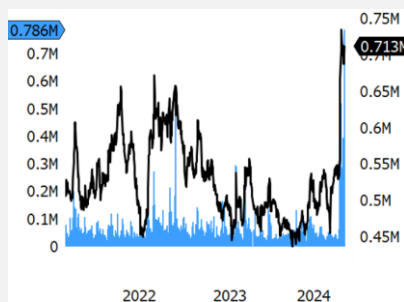
Target: Korea Zinc

Country	South Korea
Bloomberg	010130 KS
Sector	Base Metals
Share price (KRW)	713,000.00
Market cap (KRWbillion)	14,761.4
Free float (%)	~47.0

Acquirer: MBK Partners

Country	South Korea
Bloomberg	N/A
Sector	Private Equity
Share price (\$)	N/A
Market cap (\$m)	N/A
Free float (%)	N/A

Target Price Chart



Status

Tender offer deadline: October 4, 2024

Author

Keve Paldeak

Event Driven Analyst

k.paldeak@chainbridgeresearch.com

+36 1 720 5258 (direct line)

Gabor Kokosy

g.kokosy@chainbridgeresearch.com

Theodor Dan Le

t.ledan@chainbridgeresearch.com

Keve Paldeak

k.paldeak@chainbridgeresearch.com

Zsombor Nagy

z.nagy@chainbridgeresearch.com

Chain Bridge Research

88 Pine Street 31st Floor

New York, NY 10005

Tel (New York): +1-646-839-5566

Tel (New York): +1-212-233-0100

Key terms of the merger

Transaction Details

Announcement Date	September 12, 2024
Offer terms	1 010130 KS = KRW750,000 (raised, the original was KRW666,000 per share)
% owned by Korea Zinc stockholders	N/A
Deal Size (Market Value)	KRW15.5 trillion (\$11.6 billion)
Offer structure	Tender Offer
Korea Zinc's Board Recommendation	No (Hostile)
Voting Agreement	Indirectly: MBK also said it would seek to buy Young Poong Precision shares at KRW25,000 apiece.
Korea Zinc Incorporation	South Korea
MBK Partners Incorporation	South Korea
Tender Offer Statement (Korean)	Click here for the merger agreement
Updated Tender Offer Statement (Korean)	Click here for the announcement
Synergies	■ N/A

Indicated Closing Date

- October 10, 2024

Dividends

- Since 2023 Korea Zinc regularly pays dividends twice per year. The next dividend ex-date is expected at the end of December 2024, with an expected value of KRW5,000 per share.

Korea Zinc capitalization

- Korea Zinc Equity ■ Shares issued: 20,703,283
- Korea Zinc Debt ■ KRW1.4 trillion
- Korea Zinc Net Leverage ■ Net cash

Deal Valuation Multiples

- 1-day premium 34.9%
- LTM EV/Sales 1.5x
- FY1 EV/Sales 1.3x
- FY2 EV/Sales 1.2x
- LTM P/E 28.1x
- FY1 P/E 24.0x
- FY2 P/E 20.7x
- FY1 EV/EBITDA 11.7x
- FY2 EV/EBITDA 10.9x

Timetable

■ Deal Announcement	September 12, 2024
■ Offer period starts	September 13, 2024
■ Offer period ends	October 6, 2024 (Last business day: October 4, 2024)
■ Korean review period for core status ends	October 10, 2024
■ Settlement (CBR est.)	October 10, 2024

Key conditions to the tender offer

- Minimum Acceptance Level ■ At least 1,445,036 shares (Approximately 6.98% of total issued shares)
- Maximum Acceptance Level ■ Up to 3,024,881 shares (Approximately 14.61% of total issued shares)

Key Korea Zinc shareholders

Shareholders	%
Young Poong Corp	25.4
National Pension Service	7.6
Korea Zinc Co Ltd	5.8
HANWHA H2 ENERGY USA CORP	4.8
Chang Hyung Chin	3.5
Vanguard Group Inc/The	2.0
Choi Yun-Beom	1.8
Choi Chang-Gyu	1.6
BlackRock Inc	1.4
Mirae Asset Financial Group	1.1
Norges Bank	0.9
Others	44.2

Source: Bloomberg

Company descriptions & rationale for the merger

KOREA ZINC DESCRIPTION

- Korea Zinc Co., founded in 1974, is the world's largest refined zinc producer and a key player in the non-ferrous metals sector. The company is headquartered in Ulsan, South Korea, and is integral to the country's industrial ecosystem, contributing significantly to various sectors, including construction, electronics, and automotive.
- The company specializes in the production of zinc and other non-ferrous metals, operating advanced smelting facilities that emphasize efficiency and environmental sustainability. Korea Zinc has recently begun investing in battery metals and renewable energy, seeking to diversify its portfolio in response to changing market demands.
- The company accounts for about 12% of the world's zinc produced outside of China, 5% of lead, and 9% of its silver.

Products/Services

- Non-ferrous Metals Production & Sale – accounted for approximately 81.7% of its net sales in 2023.
- Non-ferrous Metals Trade Agent – accounted for approximately 15.1% of its net sales in 2023.
- Waste Disposal, etc. – accounted for approximately 3.2% of its net sales in 2023.

Sales Geographical distribution

- Korea – accounted for approximately 90.6% of its net sales in 2023.
- Australia – accounted for approximately 8.6% of its net sales in 2023.
- South America – accounted for approximately 0.9% of its net sales in 2023.

MBK PARTNERS DESCRIPTION

- MBK Partners is one of the largest and most respected private equity firms in Asia, specializing in investments across North Asia, including China, Japan, and Korea. Established with a strategic focus on the region, MBK Partners has built a robust network through its offices in key financial hubs—Beijing, Hong Kong, Seoul, Shanghai, and Tokyo. Founded with a focus on delivering value through control investments, MBK has established itself as a formidable player in the private equity landscape, managing approximately \$30 billion in assets.

Investment strategy

- MBK focuses on management-led buyouts, corporate divestitures, and strategic partnerships. The firm prioritizes control investments, believing that having managerial rights is essential for driving value creation and achieving sustainable growth.
- The firm employs a hands-on approach, with a team of local professionals who engage closely with management to implement operational improvements and identify growth opportunities.
- With offices in Seoul, Beijing, Hong Kong, Shanghai, and Tokyo, MBK leverages local expertise to navigate complex market dynamics and ensure compliance with regulatory frameworks.

STRATEGIC RATIONALE FOR THE MERGER

- **Return to Zinc:** MBK aims to refocus Korea Zinc on its core operations in zinc production, moving away from the company's recent expansion into renewable energy and hydrogen investments. This shift suggests a belief that Korea Zinc's strengths lie in its established zinc smelting business, which is currently the largest in the world.
- **Improvement of Governance Structures:** The acquisition is framed as an effort to improve corporate governance. MBK Partners has expressed a commitment to restoring what it views as "damaged governance" under the current management. This implies that MBK believes the company can be better managed with professional oversight, potentially leading to improved decision-making and operational efficiency.
- **Professional Management Approach:** MBK has a history of enhancing the value of companies it acquires through strategic management practices. The firm intends to apply its expertise in operational improvements and long-term investment strategies, similar to its successful transformation of DN Solutions.

BACKGROUND

- Korea Zinc was co-founded in 1974 by the Choi and Jang families, who maintained a joint management structure for 75 years. This partnership was a hallmark of the company's operations, reflecting the traditional family-run business model prevalent in South Korea's chaebol system.
- Over the decades, the ownership stakes in Korea Zinc evolved, with Young Poong (associated with the Jang family) emerging as the largest shareholder. By the end of June, Young Poong held a significant 25.4% stake in Korea Zinc.
- Choi Yun-beom, grandson of co-founder Choi Ki-ho, became chairman in 2022. His push into battery metals and renewable energy led to tensions with Young Poong, who preferred a focus on traditional zinc operations.

- The Choi family's stake became diluted over time due to divisions among his five sons, while the Jang family maintained a more concentrated ownership structure. This fragmentation sparked debates over the suitability of co-management by third-generation family members.
- March 25, 2024: Korea Zinc announced its intention to buy managerial rights of Sorin Corp., a company trading Young Poong Group's non-ferrous metals, in a bid to end the 75-year partnership with Young Poong. Currently, Korea Zinc holds a 66.7% stake in Sorin, while Young Poong's owner family holds 33.3%. This unit symbolizes the longstanding partnership between the founding families. Additionally, Korea Zinc plans to cease joint purchases of raw materials and end personnel exchanges with Young Poong.
- September 11, 2024: MBK Partners signed a deal with Young Poong and the founder's family, granting MBK a call option to buy a portion of Young Poong's stake in Korea Zinc. This agreement would eventually enable MBK to secure a controlling interest and grant it voting rights over Young Poong's shares.
- September 12, 2024: MBK Partners announced a tender offer to acquire a controlling stake in Korea Zinc, valuing the company at approximately 13.7 trillion won (KRW660,000 per share). The company aimed to acquire anywhere from 6.98% to 14.6% of the company.
 - Following the deal announcement the outside directors of Korea Zinc have [issued](#) a formal statement expressing their strong opposition to the hostile takeover attempt by Young Poong and MBK Partners. Key critiques are leveled against Young Poong, accusing it of relying on Korea Zinc's successes while failing to address its own operational, environmental, and safety challenges. MBK Partners is labeled as a speculative capital, focused on short-term profits, raising fears of asset stripping and loss of key technologies. The directors emphasize the risk to Korea Zinc's long-term strategy, which includes significant partnerships with major Korean conglomerates and crucial industries.
- September 18, 2024: The conflict escalated as Ulsan Mayor Kim Doo-gyum and local council members expressed concerns over MBK's involvement in the management struggle. Mayor Kim called for local residents to buy shares in Korea Zinc to protect it from perceived foreign influence, alleging that MBK was backed by Chinese capital.
 - In response to growing concerns, MBK Partners clarified that their tender offer was not hostile or intended to seize control of Korea Zinc. They framed the tender as a collaborative move with Korea Zinc's largest shareholder to solidify management rights and contribute to local and national economic growth. MBK reassured stakeholders about maintaining employment and supporting local communities, dismissing fears of overseas technology leaks or predatory asset stripping. MBK also pointed to their successful track record with DN Solutions as evidence of their commitment to long-term growth.
 - MBK acquired Doosan Machine Tools in 2016 and sold it in 2021 to the domestic automotive parts company DN Automotive.
 - The Chinese pledge is based on MBK's historical move. In 2013, MBK acquired ING Life Insurance, pledging to hold it for over 10 years and protect jobs. But within six months, the firm cut more than half of its executive team and offered voluntary retirement to 30% of employees. Two years later, MBK began negotiations to sell a 40% stake to China's Anbang Insurance Group. By 2018, MBK had sold the remaining shares to Shinhan Financial Group, making a 2 trillion won profit in just five years.
 - Also one of MBK's limited partners is a large Chinese sovereign wealth fund.
- September 19, 2024: Australia's political and business sectors are strongly opposing Young Poong Co.'s attempt to transfer its stake in Korea Zinc to MBK Partners, fearing that the private equity firm's influence could jeopardize Korea Zinc's significant renewable energy and hydrogen projects in Queensland, leading to potential job losses and investment declines.
 - Australian federal lawmaker Bob Katter has stated that he will insist on intervention by the country's Foreign Investment Review Board (FIRB) to prevent any management change.
 - MBK Partners Vice Chairman Kim Kwang-il stated: "MBK Partners is not a foreign fund. We do not have any plan to sell Korea Zinc to Chinese capital," and "It would take around 10 years to improve the governance of Korea Zinc. We hope an entity like a domestic conglomerate could acquire the company then,".
 - Korea Zinc Chairman Choi Yoon-beom sent a letter to executives and employees, expressing his strong determination to block MBK Partners' tender offer. This is the first time Choi has publicly addressed the ongoing management dispute with Young Poong.
- September 23, 2024: Hanwha, LG concerned about feud over Korea Zinc's control.
 - Vice Chairman Lee Je-joong labeled the bid as "predatory behavior" and warned that a takeover could lead to the leakage of core technologies abroad, jeopardizing South Korea's industrial competitiveness.
- September 24, 2024: Chang denied views that the tender offer is a hostile takeover bid.
 - "Is it hostile because we joined hands with them? I am not hostile. I am a person who has tried to revive Korea Zinc and I am trying to set an example once again," he said.
 - "The decision was made based on the assessment that the company is considerably exemplary, forward-looking and reliable," he said, adding the alliance with MBK Partners was suggested by the Young Poong management.
 - The outside directors [issued](#) a statement where they denied MBK Partners' and Young Poong's claims regarding the company performance and management.
- September 25, 2024: Korea Zinc is raising 400 billion won (\$300.9 million) through the issuance of commercial papers.

- The company announced that it had **applied for "national core technology" status** with the South Korean government for some of its technologies. The review takes about 15 days. If granted, government signoff would be needed if a foreign buyer ever emerges for Korea Zinc.
- September 26, 2024: MBK Partners and Young Poong have raised their tender offer price for Korea Zinc to KRW750,000 up from the previous KRW660,000.
 - The tender offer price for Young Poong Precision also increased to 25,000 won from 20,000 won.
 - The official offer deadline was extended to October 6, 2024, while the business day deadline remained October 4, 2024.
- September 30, 2024: Korea Economic Daily reported that Korea Zinc Chairman Choi Yun-beom is in talks with KKR, Bain Capital, Hanwha Group, Meritz Financial Group and others to come up with ideas to fend off MBK's tender offer.
 - MBK Partners is open to considering a higher offer to take control of Korea Zinc Co. if rival suitors for the world's biggest producer of refined zinc and lead emerge, a top executive of the private equity firm said.
- October 2, 2024: Korea Zinc management announced a buyback scheme in collaboration with Bain Capital at KRW830,000 per share.
 - Young Poong and MBK filed a second injunction, claiming the share buyback was against shareholders' interests, alleging that Korea Zinc was offering an excessively high repurchase price.

MBK-Young Poong's claims

- Corporate value of Korea Zinc undermined under Choi's leadership
- Choi impaired Korea Zinc's profitability with investments unrelated to core business
- MBK has no plans to sell Korea Zinc to Chinese entity

Korea Zinc's claims

- MBK pursuing hostile takeover with intent to seize Korea Zinc's assets
- MBK seeks to sell Korea Zinc to overseas buyer after takeover
- Korea Zinc's core technology may be leaked overseas

Source: The Korea Times

Key risks

TAKEOVER DEFENSE AND COUNTERBID

- Korea Zinc's management has described the MBK offer as predatory and has viewed it as a hostile action from the beginning. Consequently, they are urging shareholders not to tender their shares and are exploring different strategies to fend off the offer.
- The independent directors of Korea Zinc have formally voiced their strong opposition to the attempted hostile takeover by Young Poong Group and MBK Partners. Their statement criticizes Young Poong for leveraging Korea Zinc's financial successes while neglecting to resolve its own operational inefficiencies and challenges related to environmental and safety compliance. MBK Partners is characterized as speculative capital, primarily driven by short-term profit motives, raising concerns about potential asset stripping and the loss of critical proprietary technologies. The directors stress that the takeover poses a significant threat to Korea Zinc's long-term strategic goals, which involve key partnerships with major Korean conglomerates and industries vital to its sustained growth and innovation trajectory.
 - The fear of shutting down the Korea Zinc subsidiary (Sun Metals) in Australia made the offer a target of potential FIRB investigation as well.
- Korea Zinc has applied for its high-nickel precursor processing technology to be designated as a "national core technology" by the South Korean government.
 - This status, if granted, would give the company additional protection by requiring government approval for any sale of major shares to foreign investors, thus limiting the ability of MBK to sell Korea Zinc to potential international buyers, particularly those from China.

Shareholder buyback and counterbid

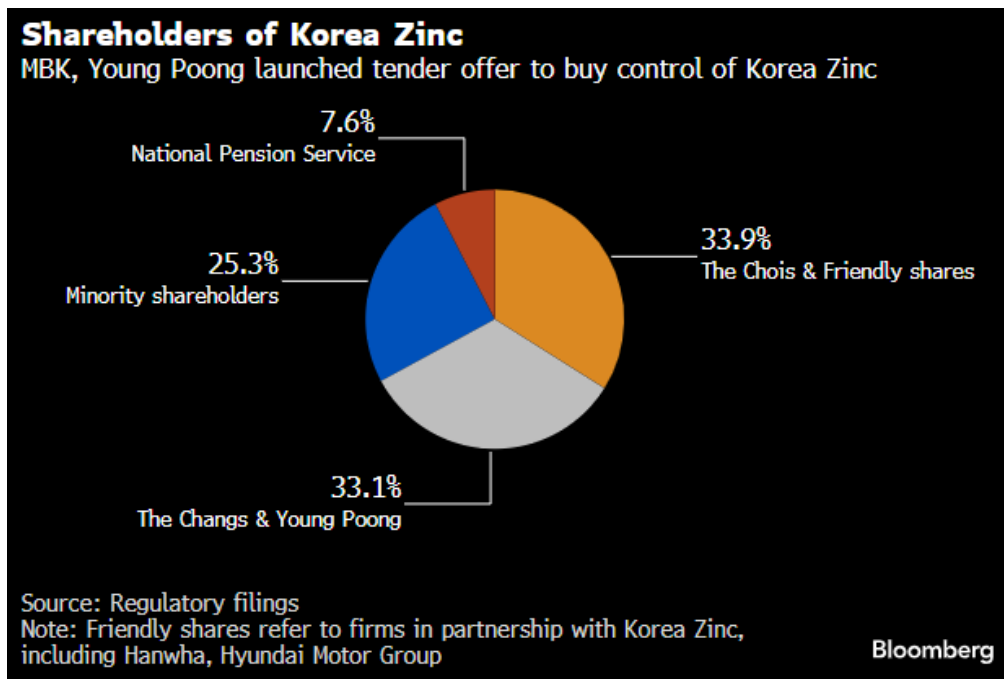
- On October 2, 2024, Korea Zinc management announced a buyback scheme in collaboration with Bain Capital.
 - Korea Zinc Chairman Choi Yun-beom stated that the company plans to acquire up to 3,209,009 shares (~15.5%) at KRW830,000 per share.
 - The total purchase value is estimated to be around 2.66 trillion won.
 - Additionally, Bain Capital intends to allocate approximately KRW430 billion towards a tender offer aimed at acquiring 517,582 shares, which constitute approximately 2.5% of the total outstanding shares of Korea Zinc.
 - The tender offer will run from October 3, 2024, to October 23, 2024.
- The combined bid aims to acquire shares that represent an 18% stake out of the 25.3% total minority stake.
 - We note that previously Choi Yun-beom was in talks with KKR, Bain Capital, Hanwha Group, Meritz Financial Group, and others to come up with ideas to fend off MBK's tender offer.
- We note that the buyback scheme came after that a local court dismissed an injunction filed by Young Poong and MBK Partners on October 2, 2024, which sought to prevent Korea Zinc from repurchasing its shares during their tender offer period.
- Young Poong and MBK argued that it was illegal for Korea Zinc and its chairman, Choi Yun-beom, to repurchase treasury shares as they are considered related parties under the Capital Markets Act, which prohibits such transactions during an ongoing tender offer.
- The court ruled that Korea Zinc does not qualify as a related party to Young Poong, noting the absence of any explicit agreement on joint ownership of shares, a key legal criterion for determining related party status.
- Despite the court's rejection, Young Poong and MBK filed a second injunction the same day, claiming the share buyback was against shareholders' interests, alleging that Korea Zinc was offering an excessively high repurchase price.
- This second injunction seeks to prevent Korea Zinc's board from proceeding with the buyback, arguing that the inflated price breaches directors' fiduciary duties by failing to act with due care and loyalty.
 - "Acquiring treasury shares at a price above their actual value not only violates the director's duty of care and loyalty but also constitutes a breach of fiduciary duty," the Young Poong-MBK coalition argued.
- We note that as a consequence of the share buyback tender scheme the potentially previously tendered shareholder will withdraw to sell their shares to the company.
- We note that some analysts predict that MBK could raise its bid to KRW900,000 per share.

CBR view

- We see that both parties are strongly committed to winning the controlling stake. We believe that for founding families, this is as much an emotional issue as a financial one.
- We highlight that regulatory approvals are not conditions of the deal thus we do not expect the emergence of any regulatory barrier.
- We feel that the injunction of Young Poong-MBK coalition is justified. A share buyback at this price is likely to be value-destructive for the remaining (not tendering in the buyback) shareholders.
- Based on the market reaction we anticipate that market players are considering it uncertain whether the buyback will take place.

OFFER CONSIDERATION

- MBK Partners has teamed up with Korea Zinc’s largest shareholder, the Young Poong (associated with the Jang family). The Young Poong Group along with one of the branches of the founding family, owns about 33.1% of Korea Zinc.
 - MBK Partners have a call option to buy a part of Young Poong’s stake in Korea Zinc.
- MBK is seeking anywhere from 6.98% (1,445,036) to 14.6% (3,024,881) of the company.
 - The Tender Offeror will not purchase all the shares tendered if the number of shares tendered (i) is less than the minimum number of shares to be purchased, (ii) is more than the minimum number of shares to be purchased but less than the maximum number of shares to be purchased, and (iii) exceeds the maximum number of shares to be purchased. The Tender Offer Price will be paid in cash.
- Kim Kwang Il, a partner of MBK, said in a press conference that even if it only got about 7% of Korea Zinc that would be enough to influence the company.
 - “If we can acquire an additional 7% stake, we should be able to have a say in the company that would take it to the direction we wanted,” he said.
- We note that the other founding family (Choi family who currently delegates the management and opposes MBK Partners’ tender offer) has gathered around 34% with support from Hyundai Motor Company, Hanhwa, and LG Chem. They will not tender their shares.
- We also note that while NPS has not publicly declared its position, industry insiders suggest that its involvement could tip the balance in favor of Chairman Choi.



Source: Bloomberg

- We note that in the past 3 weeks, the traded volume exceeded 3.5 million shares mainly between KRW660,00 and KRW710,000.
- The fact that the share price has not surged up to KRW750,000 we expect that the majority of the minority stakeholders aim to tender their shares into the MBK offer.
- We believe that around 70% of Korea Zinc minority shares were tendered into the MBK offer thus one may be able to tender 80% of his shares. Therefore one may consider buying Korea Zinc shares below ~KRW 720,000 and tender all their stake into the ongoing MBK offer.

I. Scenario: If the refused shares sold at standalone - KRW600,000 per share				
Tendered shares (% of minority shares)	Tendered minority shares	Accepted shares (% of the total tendered)	Refused shares (% of the total tendered)	Implied exit price per share
100%	25%	55%	45%	KRW 683,004
90%	23%	61%	39%	KRW 692,227
80%	20%	69%	31%	KRW 703,755
70%	18%	79%	21%	KRW 718,577
60%	15%	92%	8%	KRW 738,340
50%	13%	100%	0%	KRW 750,000

II. Scenario: If the refused shares sold to the company at KRW830,000 per share				
Tendered shares (% of minority shares)	Tendered minority shares	Accepted shares (% of the total tendered)	Refused shares (% of the total tendered)	Implied exit price per share
100%	25%	55%	45%	KRW 785,731
90%	23%	61%	39%	KRW 780,812
80%	20%	69%	31%	KRW 774,664
70%	18%	79%	21%	KRW 766,759
60%	15%	92%	8%	KRW 756,219
50%	13%	100%	0%	KRW 750,000

Source: CBR

CBR view

- We note that based on our calculations, the deal represents a meaningful takeover premium.
- We see the share buyback program execution is a low-probability scenario, but we see the MBK tender as an appealing offer for minority shareholders.
- However we highlight that we believe that around 70% of Korea Zinc minority shares were tendered into the MBK offer thus one may be able to tender 80% of his shares. Therefore one may consider buying Korea Zinc shares below ~KRW 720,000 and tender all his stake into the ongoing MBK offer.

REGULATORY RISKS AND TIMING

- The tender statement does not mention any regulatory approval as a condition.
- However, we note that regulatory prohibition in theory still could be an obstacle to the acquisition of a controlling interest.
- We note that the company applied for a “national core technology” status on September 25, 2024. The status would grant for Korea Zinc that the government signature would be premerger criteria for foreign buyers to gain controlling stake over the company:
 - Zinc is classified as a critical mineral by the United States. According to research and consulting firm Wood Mackenzie, Korea Zinc and its affiliated entities contributed 8.5% to the global refined zinc production in the previous year. In contrast, Chinese refineries were responsible for 49% of the global output.
 - We note that according to the [World Economic Forum](#) zinc is an essential material for green technologies such as solar and wind power as well as enhancing the durability and longevity of materials and EV batteries.
- There is a fear that MBK is backed by Chinese money and Korea Zinc will be sold to a Chinese company.
- We note that MBK Partners is founded by a Korean American businessman. The company has or had politically sensitive portfolio companies in Korea such as:
 - **Coway:** Leading health appliance rental and service company, with over 50% market share. The was sold after 6 years to a Korean company.
 - **D’Live:** One of the largest multi-system cable operators in Korea, with a 16.2% market share. D’Live has over 2.4 million cable TV and nearly 570,000 internet service subscribers in the greater Seoul metropolitan area.
 - **Daesung Industrial Gases:** Korea’s largest and only nationwide supplier of industrial gases, with annual production capacity of 16.3 million tons. Daesung operates manufacturing facilities in major industrial complexes across Korea and also has plants in China. The company was sold following almost 3 years to an Austral asset management company.
 - **Macquarie Asia Infrastructure:** Korea’s #1 machine tools manufacturer with 30% market share. The company was sold in 2022 after less than 6 years.
 - **Hanmi Capital:** Leading provider of lease financing primarily for auto and medical equipment in Korea. The company was sold. The company was sold in 2007 less than 1 year.
 - **HK Savings Bank:** One of the oldest mutual savings banks and the second largest in Korea, with over W2.0 trillion in assets. The company was sold in 2016 slightly less than 10 years.
 - **Orange Life:** Previously ING Life Korea, is the fifth largest life insurer in Korea. The company was sold to a Korean company following 5 years of ownership.
- Australian federal lawmaker Bob Katter has stated that he will insist on intervention by the country's Foreign Investment Review Board (FIRB) to prevent any management change.
- We note that the Foreign Investment Review Board (FIRB) possesses the authority to impose conditions on the ownership structures of Australian businesses, regardless of whether they are held offshore.

CBR view

- We do not expect a regulatory move regarding the ongoing tender.

FINANCING

- Financing is not among the conditions of the tender offer according to the tender offer statements.
- The financing is partly reliant on a loan of 300 billion won (approximately \$227 million) provided by Young Poong Group to Korea Corporate Investment Holdings Co., MBK's special purpose company. Young Poong Group does not plan to use its own cash for the takeover bid, as it needs funds to develop its smelting factory, which is facing environmental issues.
- We note that MBK Professionals is one of the largest in North Asia.
 - MBK Professionals has around \$30 billion in AUM.

CBR view

- We do not see financing as a meaningful risk for the offer.

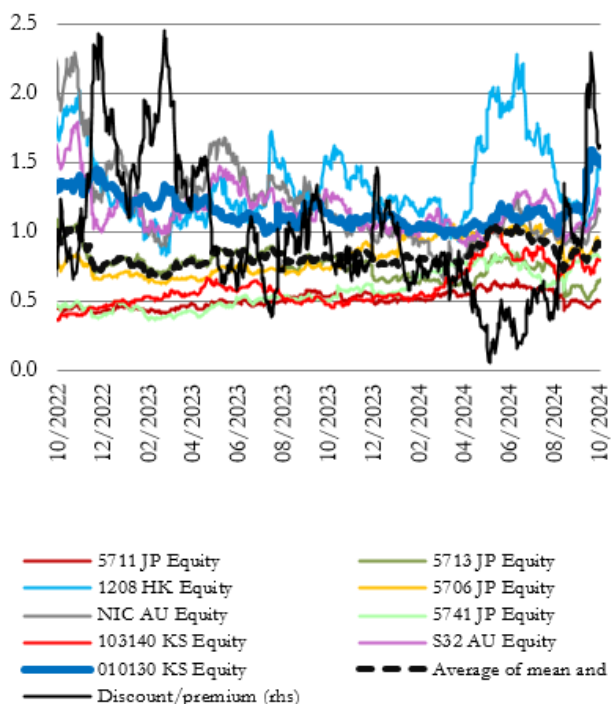
Valuation

STANDALONE VALUE

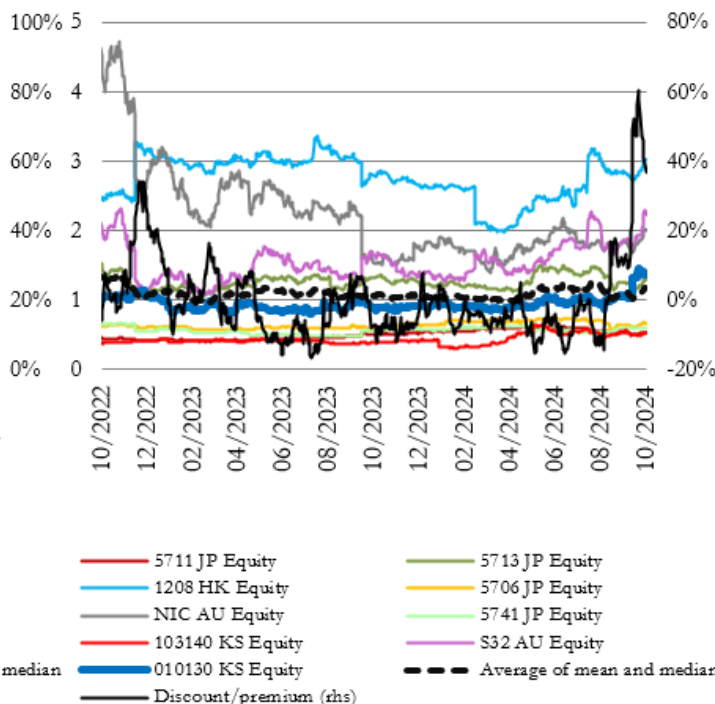
- We estimate that Korea Zinc shares would trade around KRW585,000-601,000 in a no-deal situation.
- We note that our standalone is based on historical premiums/discounts over the peer group valuation representing approximately 1.3 LTM P/E and 1.1 LTM EV/S.

Company	Price	Mkt Cap (\$m)	LTM P/BV	FY1 P/E	FY2 P/E	Net Income CAGR	FY0 ROA	FY1 EBITDA Margin	FY1 EV/S	FY2 EV/S	Sales CAGR
MITSUBI MATERIALS	2,593.00	2,374	0.5x	7.8x	7.7x	6.5%	2.2%	4.6%	0.3x	0.3x	7.8%
SUMITOMO MET MIN	4,446.00	9,002	0.7x	13.7x	10.8x	31.5%	2.0%	9.7%	0.3x	0.3x	6.3%
MMG	2.77	4,324	1.4x	162.9x	54.3x	74.1%	0.6%	44.1%	2.1x	1.6x	12.7%
MTSUI MINING &	4,932.00	1,970	0.9x	8.1x	8.3x	24.6%	7.0%	11.6%	0.3x	0.3x	4.1%
NICKEL INDUSTRIE	0.92	2,713	1.1x	54.1x	20.0x	34.5%	2.9%	19.1%	1.6x	1.3x	14.6%
UACJ CORP	5,050.00	1,699	0.8x	10.5x	9.4x	32.8%	2.7%	9.1%	0.4x	0.4x	3.5%
POONGSAN CORP	61,300.00	1,306	0.8x	6.6x	7.0x	16.1%	5.6%	10.1%	0.1x	0.1x	7.4%
SOUTH32 LTD	3.67	11,424	1.3x	21.2x	15.8x	41.1%	-1.4%	26.1%	1.3x	1.2x	0.5%
Average			0.9x	35.6x	16.7x	32.7%	2.7%	16.8%	0.8x	0.7x	7.1%
Median			0.9x	12.1x	10.1x	32.2%	2.4%	10.8%	0.4x	0.4x	6.8%
KOREA ZINC CO	688,000.00	10,832	1.5x	22.0x	19.0x	16.0%	4.5%	11.2%	0.0x	0.0x	9.5%

Peers P/BV and discount/premium



Peers EV/LTM Sales and discount/premium



Source: CBR and Bloomberg

PREMIUM

The increased offer represents:

- 34.9% premium over Korea Zinc’s stock closing on Sept. 12
- 39.7% premium to the weighted arithmetic average stock price (KRW 536,762) for the one month prior to the business day before the public offering announcement date (August 13, 2024 - September 12, 2024)
- 44.7% premium to the weighted arithmetic average stock price (KRW 518,436) for the two months prior to the business day before the public offering announcement date (July 13, 2024 - September 12, 2024)
- 45.1% premium to the weighted arithmetic average stock price (KRW 516,735) for the three months prior to the business day before the public offering announcement date (June 13, 2024 - September 12, 2024)

LBO

- We see room for PE bidders to offer a takeout price slightly above KRW 800,000 per share.
- Our assumptions include
 - Offer at KRW750,000/Korea Zinc share
 - 3% LT growth rate
 - Net debt as of “June 30, 2024.”
 - LT EBITDA margin 12%
 - Equity participation 50%
 - Leverage 6.0x in FY1
 - Interest coverage 2.5x in FY1
 - Credit spread 3.5%
 - 29% tax rate
 - 5-year IRR of 9.9%
 - No synergies

Sensitivity tables

		Bid Price				
		750 000	780 000	800 000	830 000	850 000
EBITDA Marg	10.0%	7.0%	6.8%	6.7%	6.5%	6.4%
	11.0%	8.5%	8.3%	8.2%	8.1%	8.0%
	12.0%	9.9%	9.8%	9.7%	9.5%	9.4%
	13.0%	11.3%	11.1%	11.0%	10.9%	10.8%
	14.0%	12.5%	12.4%	12.3%	12.2%	12.1%

		Bid Price				
		750 000	780 000	800 000	830 000	850 000
LT Growth	1.0%	9.4%	9.3%	9.2%	9.0%	8.9%
	2.0%	9.7%	9.5%	9.4%	9.3%	9.2%
	3.0%	9.9%	9.8%	9.7%	9.5%	9.4%
	4.0%	10.2%	10.0%	9.9%	9.8%	9.7%
	5.0%	10.4%	10.3%	10.2%	10.0%	9.9%

		Bid Price				
		750 000	780 000	800 000	830 000	850 000
EV/EBITDA	10.5x	6.7%	5.3%	4.4%	3.0%	2.1%
	11.0x	8.1%	6.7%	5.8%	4.4%	3.6%
	11.7x	9.9%	8.5%	7.6%	6.3%	5.5%
	12.0x	10.6%	9.3%	8.4%	7.1%	6.3%
	13.0x	12.8%	11.5%	10.7%	9.5%	8.7%

		Bid Price				
		750 000	780 000	800 000	830 000	850 000
Equity Part.	40.0%	11.1%	10.9%	10.7%	10.6%	10.5%
	50.0%	9.9%	9.8%	9.7%	9.5%	9.4%
	55.0%	9.5%	9.4%	9.3%	9.1%	9.0%
	60.0%	9.1%	9.0%	8.9%	8.8%	8.7%
	65.0%	8.8%	8.7%	8.6%	8.5%	8.4%

		Bid Price				
		750 000	780 000	800 000	830 000	850 000
Interest Margin	3.0%	10.2%	10.0%	9.9%	9.8%	9.7%
	3.3%	10.0%	9.9%	9.8%	9.6%	9.5%
	3.5%	9.9%	9.8%	9.7%	9.5%	9.4%
	3.7%	9.8%	9.7%	9.6%	9.4%	9.3%
	4.0%	9.7%	9.5%	9.4%	9.2%	9.1%

ROIC

We estimate that the current price is unlikely to provide an appropriate return per se. However, also note that acquiring the controlling stake is not necessarily big business per se, but it can allow the MBK to capitalize on all the improvements across the entire stake.

- We assumed:
 - 27% effective tax rate
 - KRW17.5 billion synergies (5% of operating cost)

ROIC calculations

Deal value (KRWm)	2024	2025	2026
<i>Bid price (/ sh.)</i>	750,000	750,000	750,000
<i>O/S (m)</i>	20.7	20.7	20.7
Market value (m)	15,527,460	15,527,460	15,527,460
Net Debt (m)	- 460,016	- 460,016	- 460,016
Deal value (m)	15,987,476	15,987,476	15,987,476
ROIC calculation			
BEST Operating Profit (m)	937,857	1,015,580	1,061,215
<i>Synergies</i>	-	8,750	17,500
<i>Restructuring costs</i>	-	-	-
Adj. Operating Profit (m)	937,857	1,024,330	1,078,715
<i>Tax (27%)</i>	253,221	276,569	291,253
NOPAT (m)	684,636	747,761	787,462
ROIC	4.3%	4.7%	4.9%
WACC	7.6%	7.6%	7.6%

Sensitivity tables

Price vs Operating profit

	Bid price (KRW/share)	Bid price (KRW/share)				
		600000	700000	750000	800000	900000
2026 Op. Profit (KRWm)	900000	5.2%	4.5%	4.2%	3.9%	3.5%
	1000000	5.8%	5.0%	4.6%	4.4%	3.9%
	1061215	6.1%	5.3%	4.9%	4.6%	4.1%
	1100000	6.3%	5.5%	5.1%	4.8%	4.3%
	1200000	6.9%	5.9%	5.6%	5.2%	4.7%

Price vs Synergies

	Bid price (KRW/share)	Bid price (KRW/share)				
		600000	700000	750000	800000	900000
Ann. Cost Syn. (KRWm)	10000	6.1%	5.2%	4.9%	4.6%	4.1%
	15000	6.1%	5.3%	4.9%	4.6%	4.1%
	17500	6.1%	5.3%	4.9%	4.6%	4.1%
	20000	6.1%	5.3%	4.9%	4.6%	4.1%
	25000	6.2%	5.3%	5.0%	4.7%	4.2%

Price vs Tax rate

	Bid price (KRW/share)	Bid price (KRW/share)				
		600000	700000	750000	800000	900000
Tax rate	23%	6.4%	5.6%	5.2%	4.9%	4.4%
	25%	6.3%	5.4%	5.1%	4.8%	4.2%
	27%	6.1%	5.3%	4.9%	4.6%	4.1%
	29%	5.9%	5.1%	4.8%	4.5%	4.0%
	31%	5.8%	5.0%	4.7%	4.4%	3.9%

Synergies vs Tax rate

	Annual cost savings (KRWm)	Annual cost savings (KRWm)				
		100000	15000	17500	20000	25000
Tax rate	23%	5.6%	5.2%	5.2%	5.2%	5.2%
	25%	5.4%	5.0%	5.1%	5.1%	5.1%
	27%	5.3%	4.9%	4.9%	4.9%	5.0%
	29%	5.2%	4.8%	4.8%	4.8%	4.8%
	31%	5.0%	4.6%	4.7%	4.7%	4.7%

Source: CBR and Bloomberg

ANALYST TARGET PRICES

- Fundamental analysts' target prices for 010130 KS ranged between KRW480,00 and KRW720,000 before the merger announcement.

Disclosures:

This report was produced by Chain Bridge Research (“Chain Bridge”), a wholly-owned subsidiary of PCS Research Group LLC (PCS), and is intended only for use by the recipient. All materials published by Chain Bridge are intended for use only by professional, institutional, buy-side investors. Use by the general investing public is prohibited. The information and analysis contained in these publications are copyrighted and may not be duplicated or redistributed for any reason. Chain Bridge reserves the right to refuse any subscription request based upon the above criteria. Companies and individuals residing in Hungary, and affiliates of firms based in Hungary are prohibited from subscribing to the services of Chain Bridge Research.

Chain Bridge Research
88 Pine Street 31st Floor
New York, NY 10005
Tel (New York): +1-646-839-5566
Tel (New York): +1-212-233-0100
www.chainbridgeresearch.com

Neither the information, nor any opinion expressed, constitutes a solicitation by Chain Bridge for the purchase or the sale of securities. This publication does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are "eligible counterparties" or "professional clients", and may not, therefore, be redistributed to third parties without the express written consent of Chain Bridge. The information set forth herein was obtained from publicly available sources that we believe to be reliable. While due care is taken by Chain Bridge in compiling the data and in forming its opinions, Chain Bridge gives no warranty, express or implied, and it does not guarantee the accuracy or completeness of the information provided. Additional information is available upon request.

Chain Bridge manages conflicts identified through its confidentiality and independence policies, maintenance of a Stop List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from impartial investment research, and disclosure to clients via client documentation. Chain Bridge and/or persons associated with it may own securities of the issuers described herein and may make purchases or sales after this report has been disseminated to Chain Bridge institutional subscribers.

The following Research Analysts employed by Chain Bridge contributed to this report: Gabor Kokosy, Theodor Dan Le, Zsombor Nagy, Keve Paldeak. Chain Bridge’s home office is located at 88 Pine Street 31st Floor, New York, NY. Its branch office is located at 31 Felhevizi u. 1st Floor 4, 1025 Budapest, Hungary. The firm’s branch office is where information about the valuations herein are located, unless otherwise indicated in the report.

At the time of this report, there are no planned updates to the recommendations. For previous recommendations concerning financial instrument(s) or issuer(s) mentioned in this report – if any – or other financial instrument(s) and issuer(s) during the preceding 12-month period, please refer to our [website](#).

The reports published by Chain Bridge intend to provide clients with a view regarding the various risks and critical factors impacting the completion of certain mergers and acquisitions. Therefore, the opinions expressed do not fit with traditional buy, sell, and hold ratings.

Neither Chain Bridge nor PCS are investment firms or credit institutions. Affiliates of Chain Bridge and PCS include investment firms that are SEC registered investment advisers and FINRA Member broker-dealers (together, “Affiliates”). The Affiliates have not performed and do not expect to perform investment banking services for the issuer(s); are not market makers, and are not party to any agreements with the issuer(s). The issuer(s) has not been a client of Chain Bridge, PCS or the Affiliates. Chain Bridge, the research analysts, PCS, and the Affiliates have not received any compensation from the issuer(s). Chain Bridge research analysts’ remuneration is determined exclusively by Chain Bridge management and is based on the quality and accuracy of the analyst’s research. Investment firm Affiliates do not contribute to appraisals of Chain Bridge analysts. Remuneration from Chain Bridge to research analysts is not linked to investment firm activities of Affiliates. Conflicts of interest for employees of PCS and Affiliates are managed by a formal code of ethics and information barrier procedures which include, but are not limited to, policies related to restricted lists, personal trading rules, and the prohibition of misuse of material non-public information.

Copyright 2024 – PCS Research Group LLC