Corporate Top Trends Update

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This report does not constitute a rating action

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South Korea

Export-Focused Economy To Face Trade Strains

Key Takeaways

- Korea's large and growing trade surplus may attract U.S. tariffs, which would hit makers of autos, industrial machinery, and semiconductors.
- Weaker U.S. support for EVs may slow sales further and pressure Korean firms in EV value chains, especially firms with aggressive U.S. investments.
- 13% of our outlooks on Korean firms are negative, none is positive. Steel firms face China supply, petrochemicals face overcapacity, both under weak demand. High-tech chips can pass-on tariff costs, helped by AI needs.

Tariffs and U.S. policy shifts could weigh on Korean issuers. Korea has a sizable and rapidly growing trade surplus with the U.S. that totaled to US$70 billion in 2024 (see chart 1). This may attract U.S. tariffs and add costs to Korean firms. Most at risk are makers of autos, industrial machinery, and semiconductors--the top three Korean exports to the U.S.

Chart 1

Korea's large and growing U.S. trade surplus may attract tariffs

Kora's trade with the U.S.

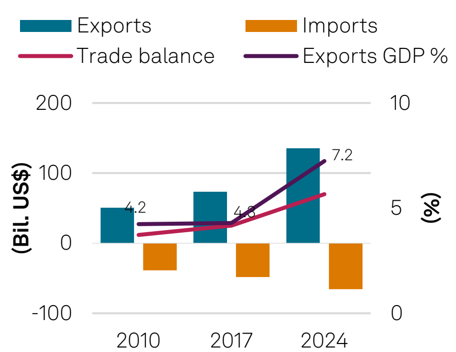
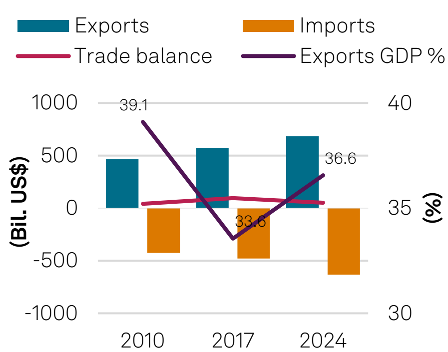


Chart 2

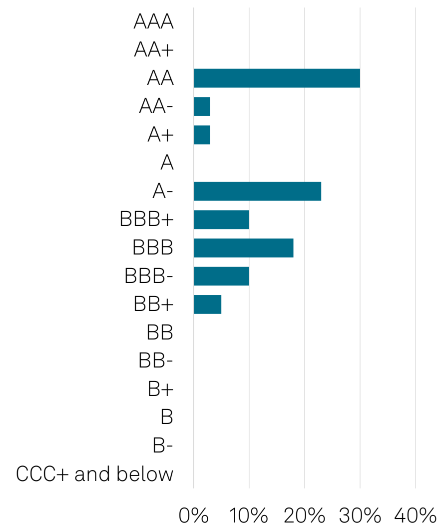
Korea's large export sector flags exposure to global demand

Kora's total trade

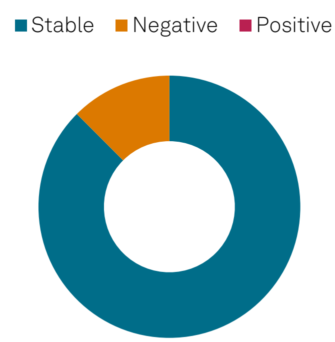


Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

Reduced U.S. policy support for electric vehicles (EVs) could also hit Korean firms. This could slow EV adoption and pressure Korean firms across the EV value chain, particularly battery makers with investments in the U.S. Indirect impact on growth resulting from tariffs and other policy shifts could weigh on Korean industries sensitive to global demand, such as steel and petrochemicals. The country's exports to global markets total to a third of the size of its GDP (see chart 2).

Ratings are under increasing downward pressure. Outlooks on our ratings for Korean firms are showing a skew to the downside: 13% are negative and none is positive. This contrasts with a year ago, when our outlook distribution was more balanced, with 8% positive and 5% negative.

Even before the new U.S. administration took office, Korean firms faced weak demand and deteriorating market conditions. Some entities' aggressive investments compounded this weakness. We recently downgraded LG Chem Ltd. and LG Energy Solution Ltd. and revised the outlook on Posco Holdings Inc. and its two subsidiaries to negative, for example.

EV-related sectors feeling the strain. Global EV sales growth has slowed considerably over the past 18 months, particularly in non-China markets. The Trump administration's stance on energy transition suggests that policy support for EVs may weaken, and demand in the U.S. may deteriorate as a result.

This poses a significant risk for Korean EV battery makers that invested aggressively in North America; a view reflected in our recent downgrade of LG Energy Solution and negative outlook on SK Innovation. Related capital expenditure is a drag on profitability and will push up their leverage. Further erosion of U.S. EV demand would only compound the impact. Korean firms that actively invested in EV battery materials, including Posco Holdings and LG Chem, are likely to report weak results even without such a policy shock.

Petrochemical and steel face a longer cyclical downturn. Overcapacity and weak demand will continue to weigh on the profitability of Korean petrochemical companies in 2025. Recovery could be delayed due to their dependence on export sales and the thin margin spreads for commodity chemicals. Even with tighter controls over capital expenditure, rating buffers will likely narrow.

In steel, Korean producers such as Posco and Hyundai Steel Co. are contending with margin pain due to rising supply from China. The demand picture will likely stay hazy. The decline in raw material prices will only partially mitigate the deterioration in crack spreads, in our view.

Korean automakers are relatively well positioned in a tougher market. Even without new U.S. tariffs, we expect volume growth of global light-vehicles sales to slow to 1%-3% in 2024-2026, compared with 9.8% in 2023. Prices will also weaken across the U.S. and Europe following a period of strength.

Hyundai Motor-Kia is relatively well-placed to handle these pressures, thanks to its competitive product offerings in hybrid vehicles and pure EVs. The company's market share gains in the U.S. and strong sales of high-margin hybrids will help offset higher buyer incentives and other sales costs amid intensifying competition. They will also help moderate the impact of new tariffs.

The effect of tariffs on Mexico, Canada, and Europe should not be material for Korean carmakers. Hyundai Motor-Kia, for example, ships only a few models from

Mexico to the U.S. The hit would be harder, however, if the U.S. imposed tariffs on all countries. The entities export sizable volumes from Korea to the U.S., and price hikes resulting from such tariffs would weigh on overall demand in the U.S.

AI demand to support certain tech companies. The recent boom in AI-related demand has driven the current upcycle in the memory semiconductor industry. Growth in the highly profitable high bandwidth memory (HBM) segment spurred by AI demand will likely continue to drive strong performance for some Korean semiconductor makers.

SK Hynix Inc., in particular, is well placed to take advantage of this trend given its strong positioning in the segment versus Samsung Electronics Co. Ltd. and Micron Technology Inc. Conventional memory, in contrast, is likely to see pricing pressure due to subdued end-market demand.

Korean memory makers are less likely to be impacted by tariffs. High-tech products such as HBM make up a significant portion of their memory chip sales to the U.S. As such chips are in tight supply, HBM producers will be able to pass on any additional tariff costs to their customers. On the non-conventional memory side, while producers are less able to pass-on such costs, U.S. sales are not large enough to materially impair their profitability.

Related Research

South Korea

- Steel Brief: U.S. Tariffs To Hit Korean Producers Harder Than Regional Peers, Feb. 18, 2025
- Korean Corporate Credit Trends: An Uphill Climb In 2025, Dec. 2, 2024

Editor's note: S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

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