

Samsung Electronics (005930KS)



Research Center
Analyst: Sang Woo Oh
swoh@leading.co.kr
822-2009-7254

LEADING

SNAPSHOT: Seizing the No.1 spot in the smartphone market

Samsung and Apple will maintain their dominance in the market

- Samsung Electronics (SEC) and Apple command 50% of the global smartphone market. We expect that SEC and Apple will maintain their dominance in the market.

Samsung's advantages over Apple

1. Apple = one trick pony vs. SEC = diverse product lineup

- High-end smartphones are mainly sold in developed countries such as the U.S and Western Europe. However, the smartphone market growth is slowing down in such countries. As a result, Apple will be adversely affected by the market slowdown given the company's single product line.
- On the other hand, SEC has a diverse product lineup from low-end mobile phones under US\$50 to high-end smartphones such as Galaxy S 3. As such, SEC is able to generate stable sales.

2. Apple's outsourcing vs. SEC's own vertically integrated production line

- Apple has a production risk because the company outsources its production and assembly without own manufacturing plant. Contrary to the initial estimate of 50million units, Apple only sold 27 million units of iPhone due to a problem in production outsourcing.
- On the other hand, SEC has virtually no production risk as the world's best IT company with its own vertically integrated manufacturing line for parts production to final products.

3. Importance of hardware as well as design

- Consumers consider smartphone design as a top priority. However, hardware becomes an important factor once the design factor is out of the way.
- SEC's AMOLED consumes less power than Apple's LCD while providing similar resolution. SEC is expected to come up with unbreakable AMOLED display with reduced thickness in 2~3 years. It will surely become SEC's advantage over Apple.

Concerns and analysis about SEC's future

1. SEC's high dependence on Google – partnership rather than a concern

- SEC highly depends on Google's operating system, Android, for its smartphones and should improve its software development. However, Google would not have the top position over Apple's iOS without SEC in the smartphone OS market. As a result, SEC and Google are likely to maintain the partnership.

2. Apple shunning away from SEC's parts – SEC's favor in the long term

- Parts purchasing power is very important to Apple because the company outsources all parts production and assembly. SEC, the largest parts supplier of Apple, is the most cost-competitiveness part company in the world.
- If Apple excessively tries to replace SEC as a part supplier, Apple will face increase in part price because other companies have higher production costs than SEC.
- Therefore, increase in part price will positively affect SEC in the long term.



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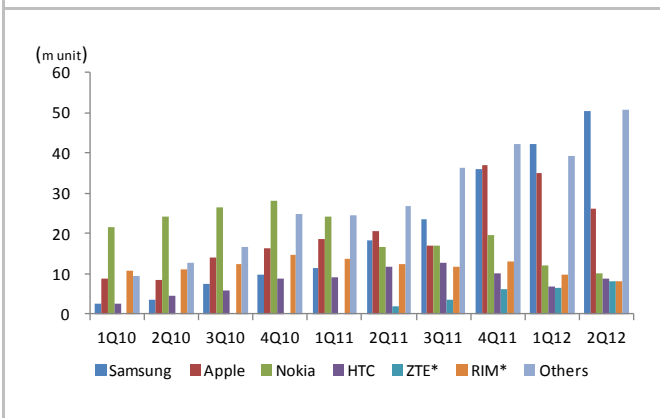
Dominance of SEC and Apple

SEC and Apple lead the smartphone era

The global IT market grows driven by smartphones, and SEC and Apple are dominant in the market. SEC and Apple ship 50% of total smartphones, and the trend will not change in the short term. Smartphone shipments of SEC and Apple are 500m and 260m units, respectively in 2Q12. Accumulated shipments are 2.05bn units (SEC) and 2.02bn (Apple).

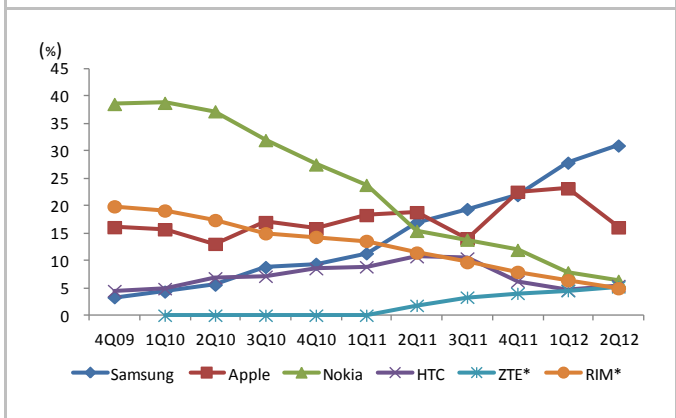
SEC and Apple are likely to maintain their dominance in the market. Moreover, ongoing lawsuits between SEC and Apple have been issues, and SEC was positively affected from the legal disputes. Sales of Nokia and RIM slowed down, and HTC, an Android-based smartphone vendor, also decreased its market share from the peak in the end of 2011. Excluding SEC and Apple, only ZTE increased the market share. We believe that the trend will continue for a while.

Exhibit 1. Smartphone sales by vendor



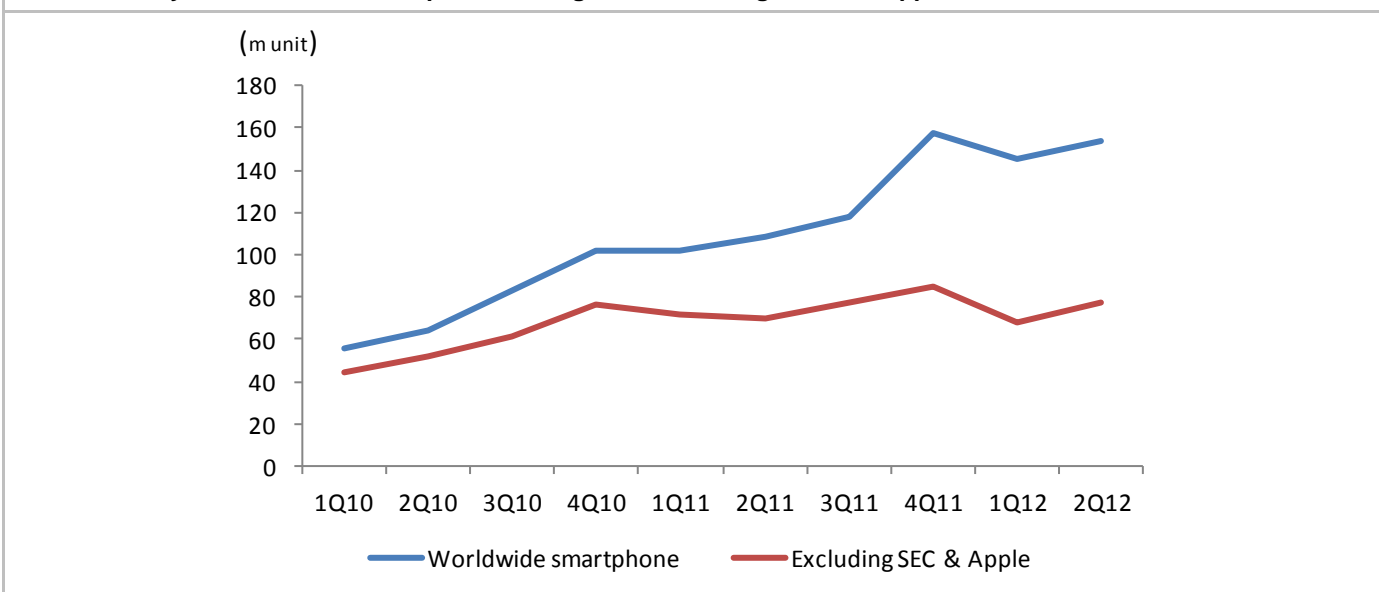
Source: Gartner, Leading Research Center

Exhibit 2. Global M/S by vendor



Source: Gartner, Leading Research Center

Exhibit 3. Very low worldwide smartphone sales growth excluding SEC and Apple



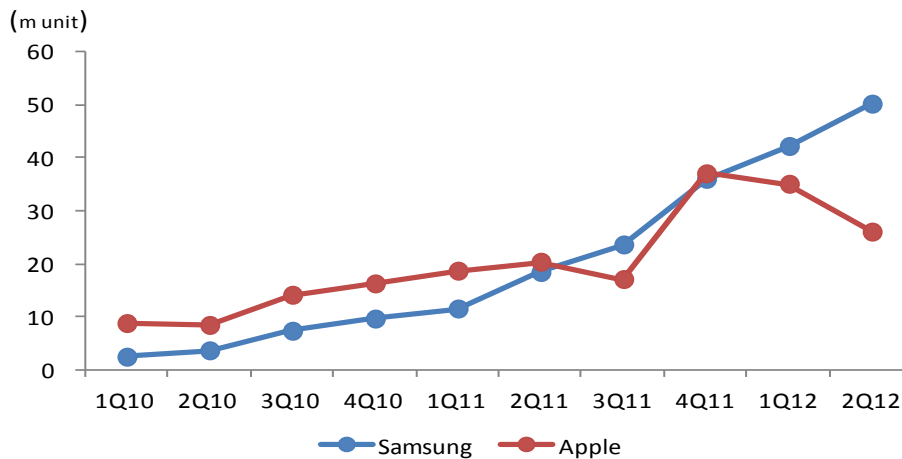
Source: Gartner, Leading Research Center

Apple's biggest problem – limitations of a single product

Decrease in sales before a new product release

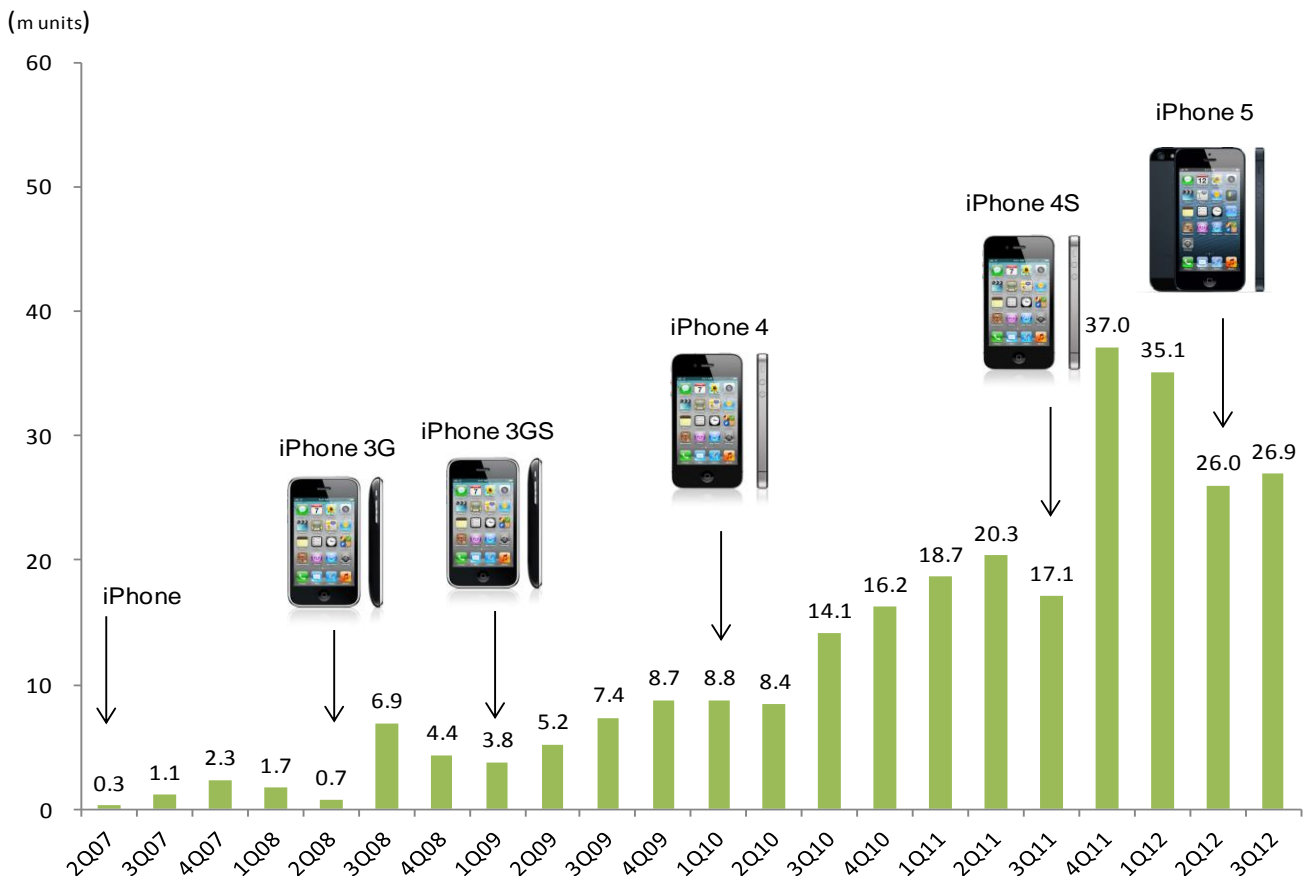
Apple transformed the IT market by innovative products. However, some people concerns how long Apple maintains its innovation. iPhone is the best selling IT device in the history as a single product and the record will be hardly broken. However, quarterly sales of iPhone show limitations of a single product. Apple's iPhone sales sharply decrease in the quarter just before new iPhone release. If new product fails, the impact will be huge on the company.

Exhibit 4. Smartphone shipments trend of Samsung and Apple



Source: Gartner, Leading Research Center

Exhibit 5. Apple iPhone sales and release date



Source: Gartner, Leading Research Center

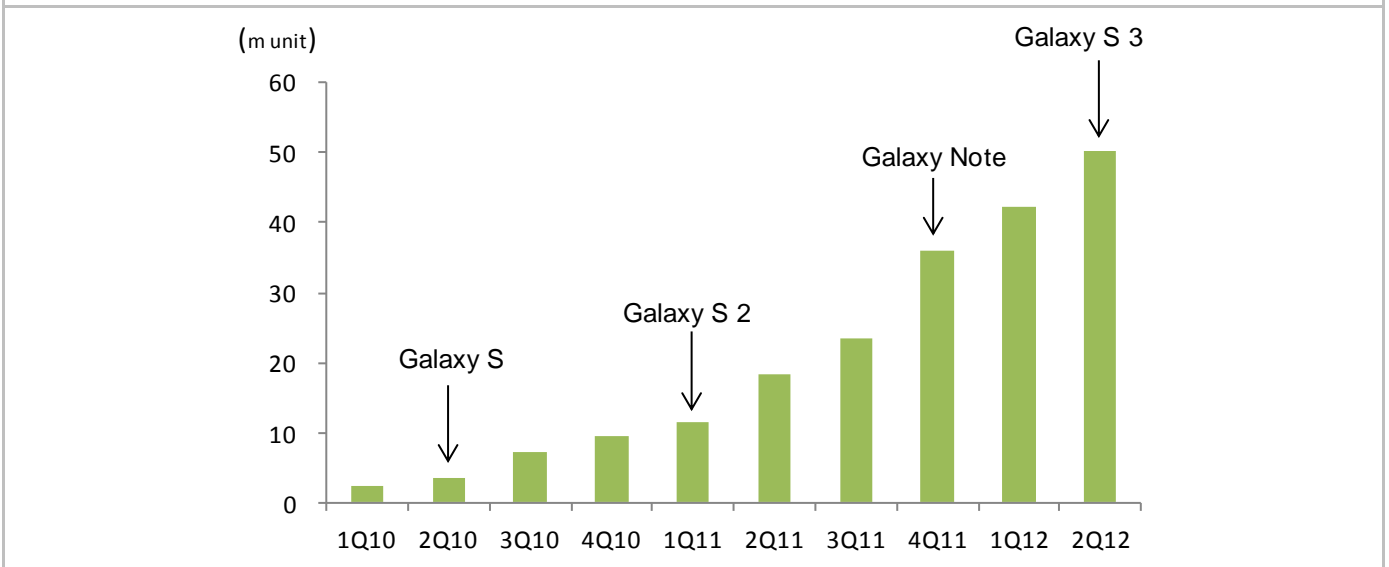
SEC will steadily maintain its growth

SEC is superior in terms of sales and stability

New product release does not affect SEC's smartphone sales unlike Apple. There are three reasons.

1. Diverse products
2. Short release cycle of a new product
3. Attracting consumers by products in diverse price categories

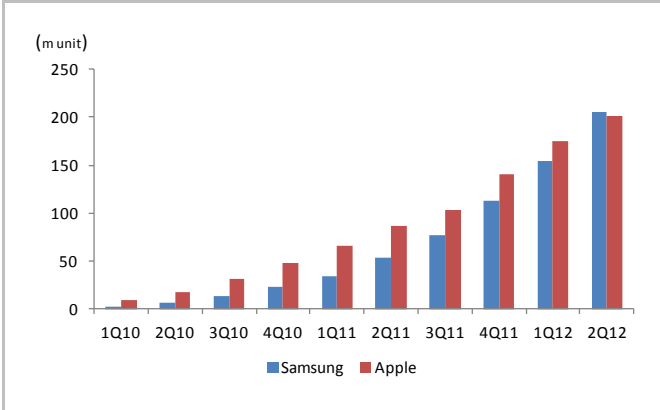
Exhibit 6. Samsung smartphone sales and release date



Source: Gartner, Leading Research Center

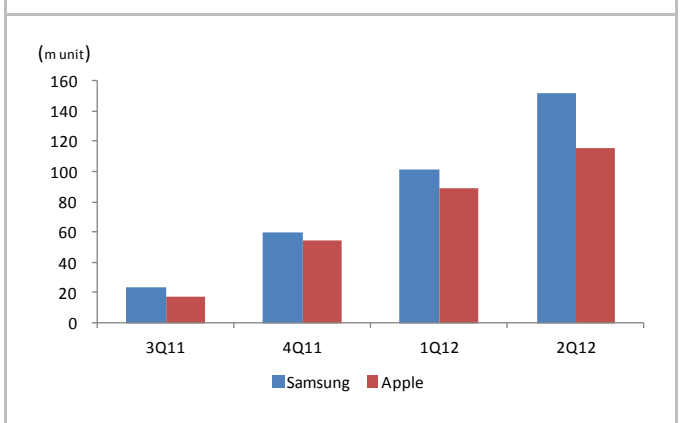
Smartphones of SEC have higher growth than Apple.

Exhibit 7. SEC's accumulated sales is larger than Apple



Source: Gartner, Leading Research Center

Exhibit 8. SEC's higher growth after iPhone 4S release



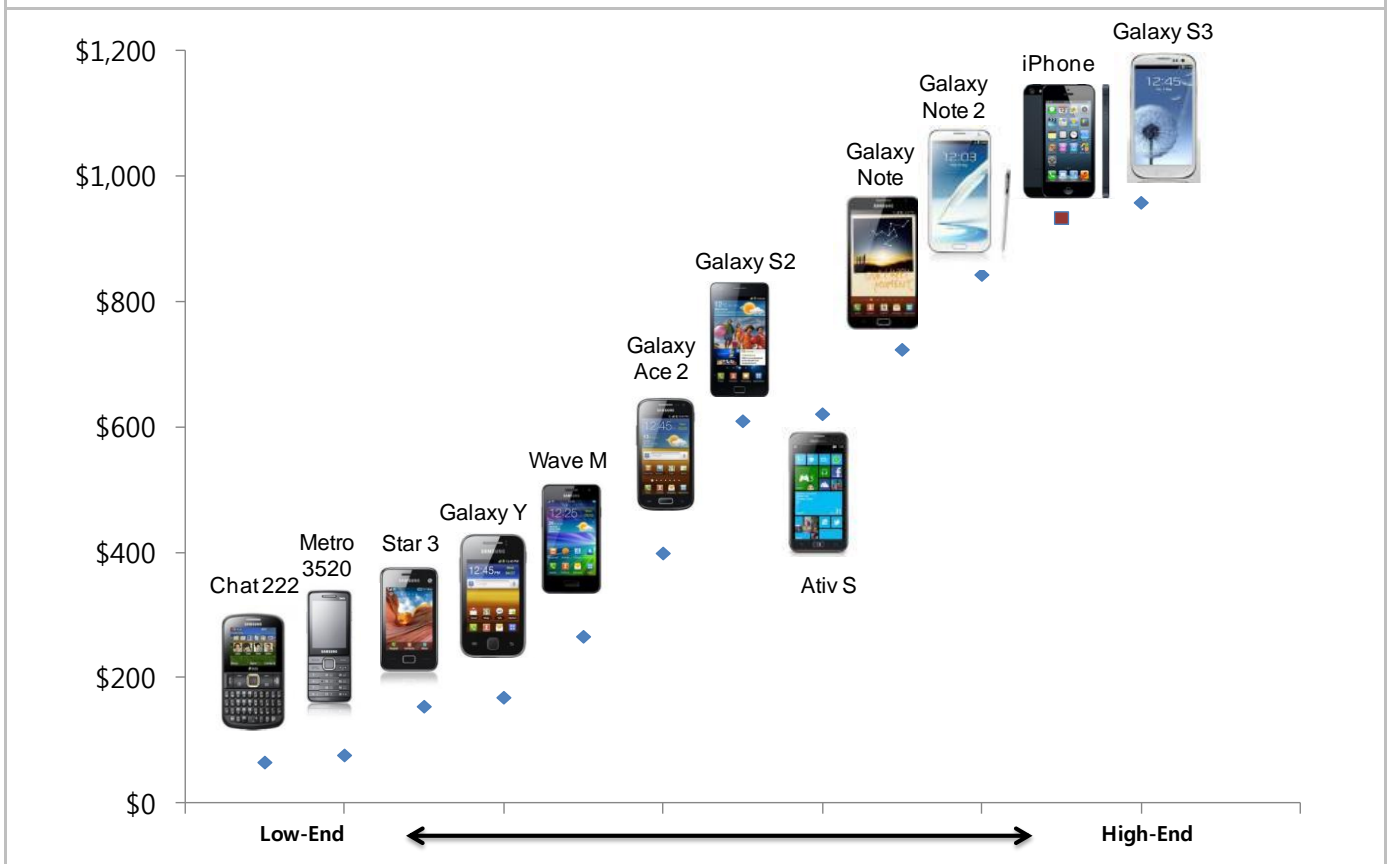
Source: Gartner, Leading Research Center

Covering all price categories via diverse products

Product & Product segmentation

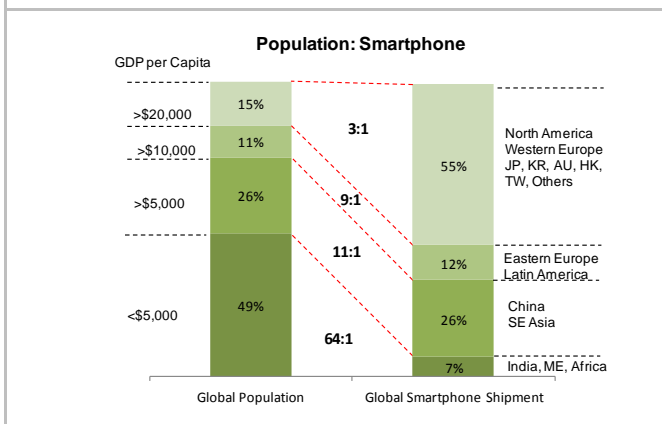
SEC has a diverse product lineup from low-end feature phones under US\$50 to high-end smartphones over US\$900. SEC attracts various consumers by diverse products while maintains a premium brand image through high-end smartphone marketing such as Galaxy S series and Galaxy Note series. Although margin is not high excluding high-end smartphones, SEC is able to satisfy global consumers' needs given diverse products.

Exhibit 9. Smartphone selling price comparison



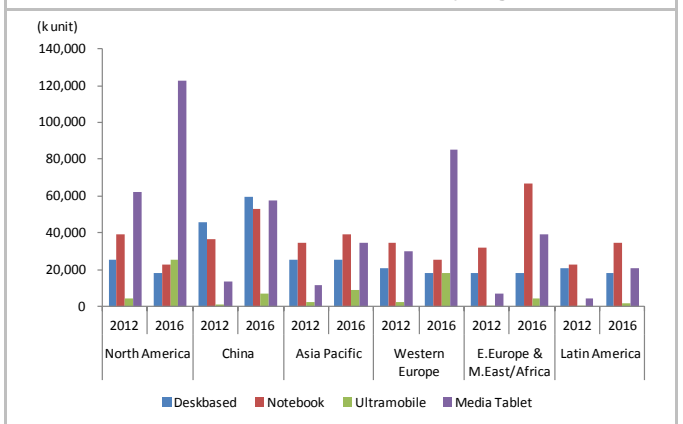
Source: Gartner, Leading Research Center

Exhibit 10. The ratio of smartphone to GDP per capita



Source: Gartner, Leading Research Center

Exhibit 11. Different IT device needs by region

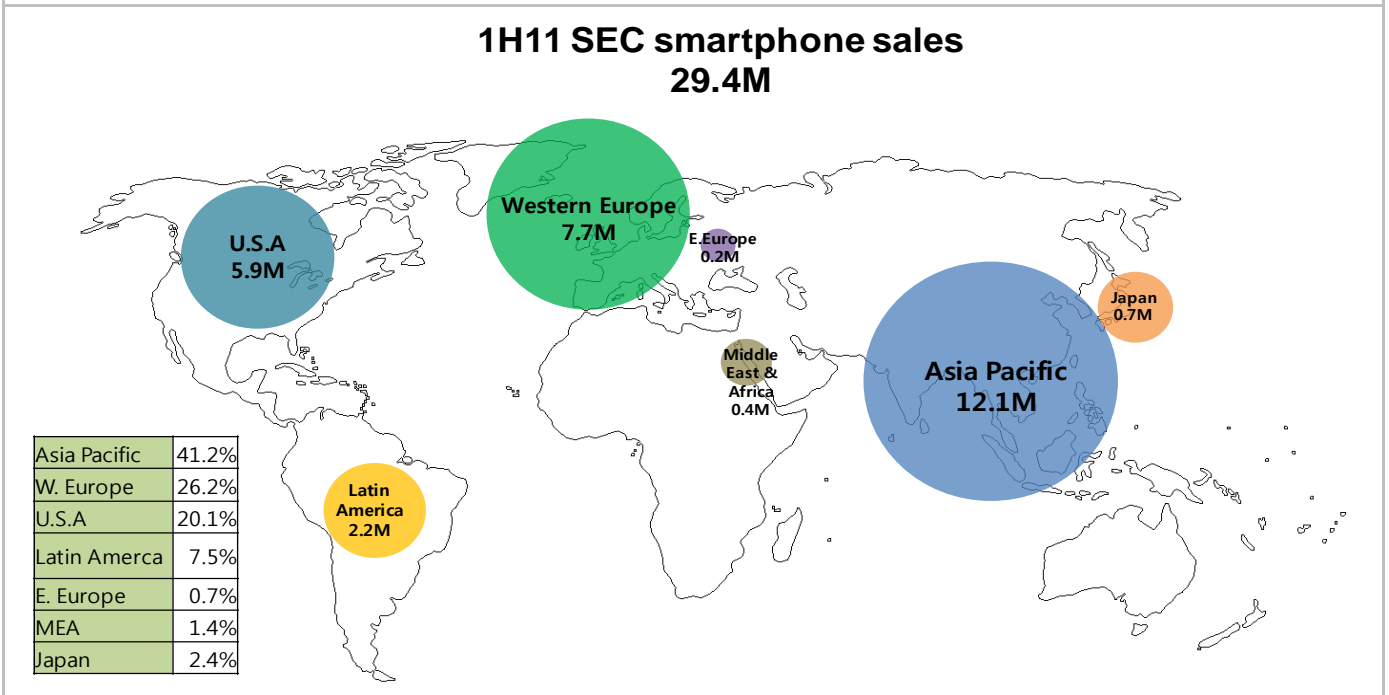


Source: Gartner, Leading Research Center

Well balanced growth across the world

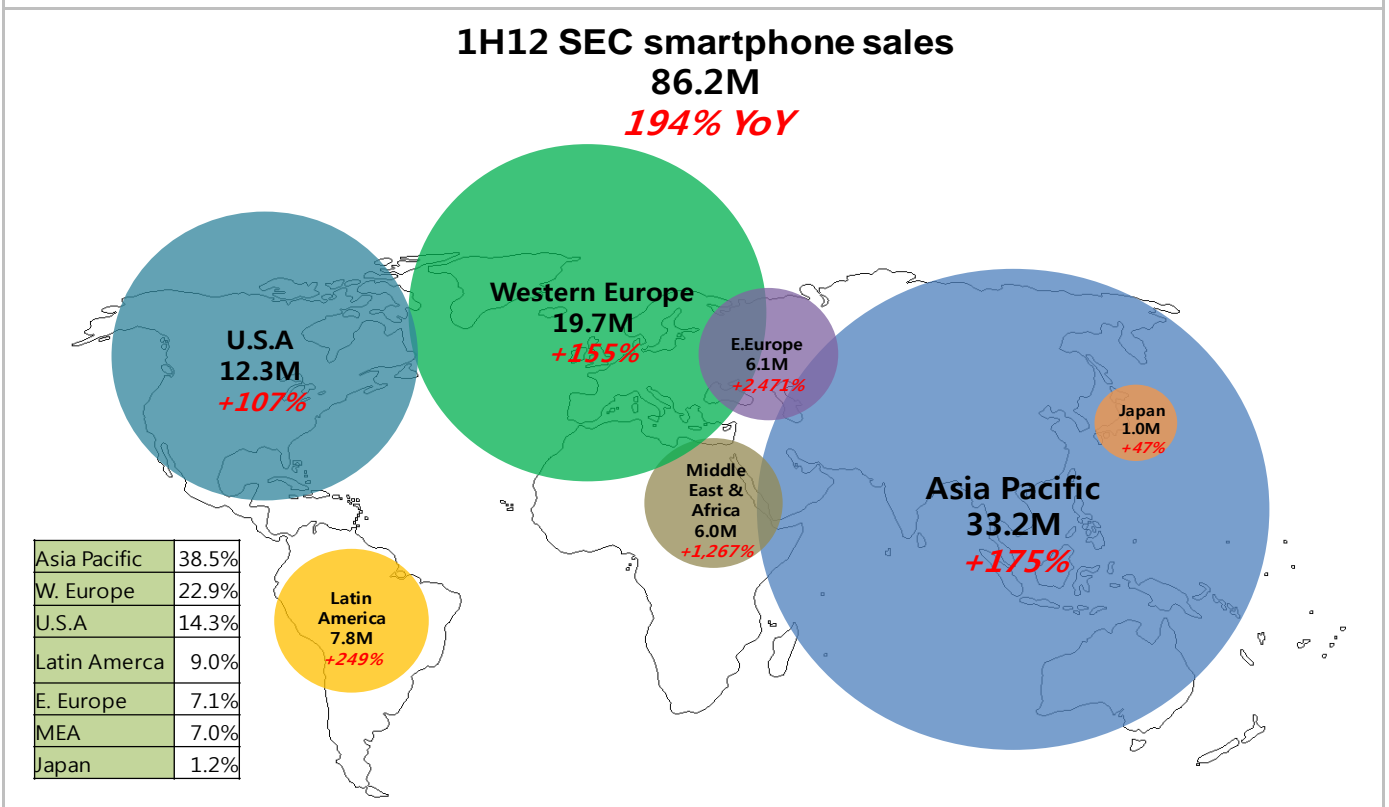
SEC's smartphone sales grew 155% in 1H12 from 1H11 in Western Europe. SEC also increased its smartphone sales over 1,000% in Eastern Europe and the Middle East and Africa. Especially, SEC increased smartphone sales 175% to 86.2m units in 1H12 from 1H11 in Asia Pacific which is the largest market in the world.

Exhibit 12. Samsung smartphone sales in 1H11



Source: Gartner, Leading Research Center

Exhibit 13. Samsung smartphone sales in 1H12

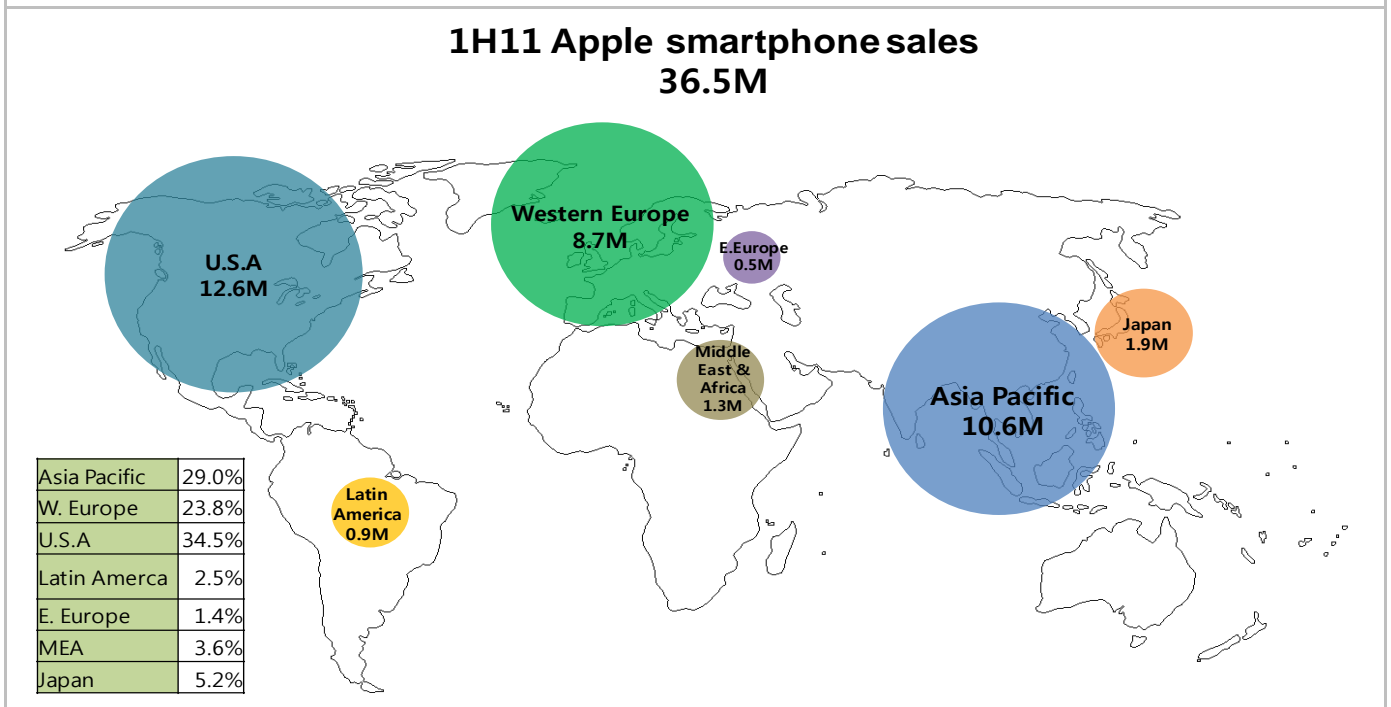


Source: Gartner, Leading Research Center

A slowdown of Apple's growth in the U.S and W.Europe

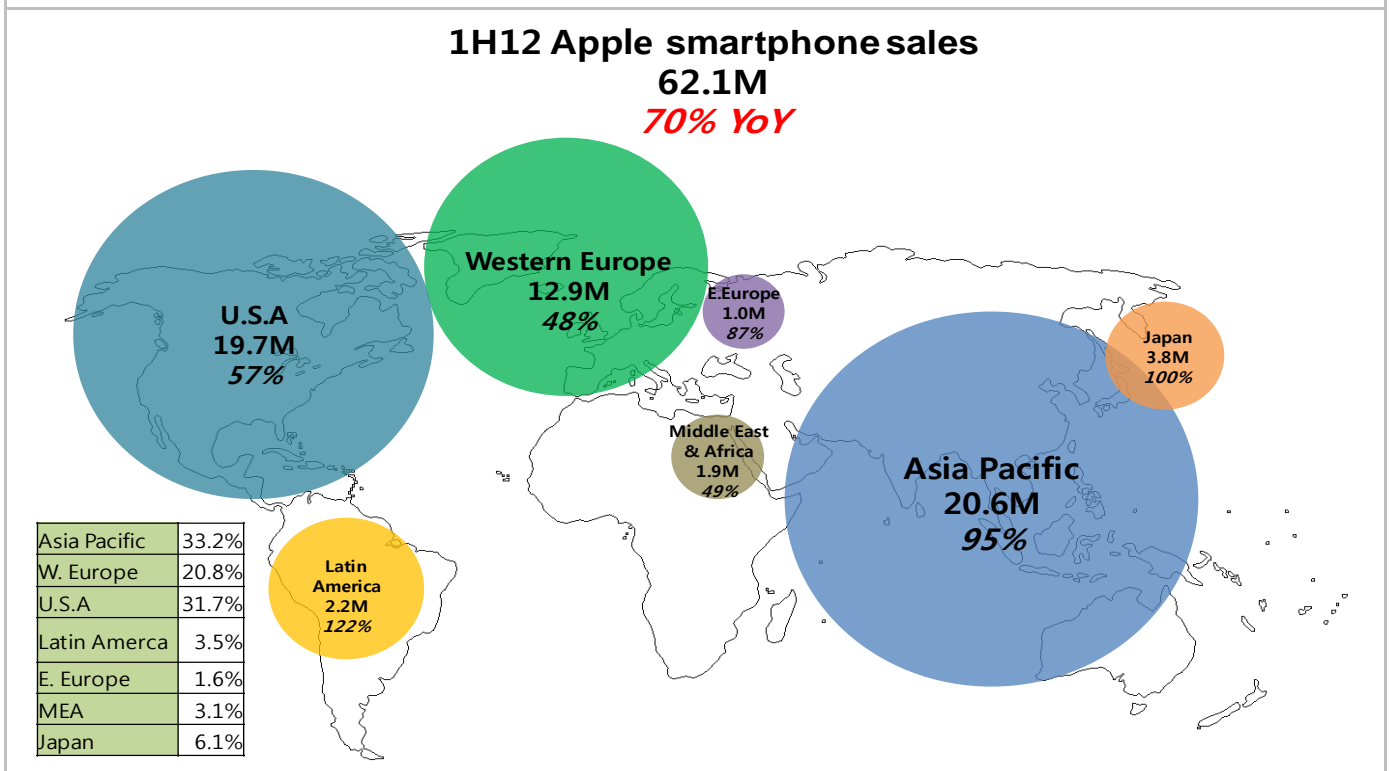
In 1H12, Apple's smartphone sales merely grew 50% in the U.S and Western Europe and 95% in Asia Pacific. Apple increased its smartphone sales 70% from 1H11 in the global market.

Exhibit 14. Apple smartphone sales in 1H11



Source: Gartner, Leading Research Center

Exhibit 15. Apple smartphone sales in 2H11

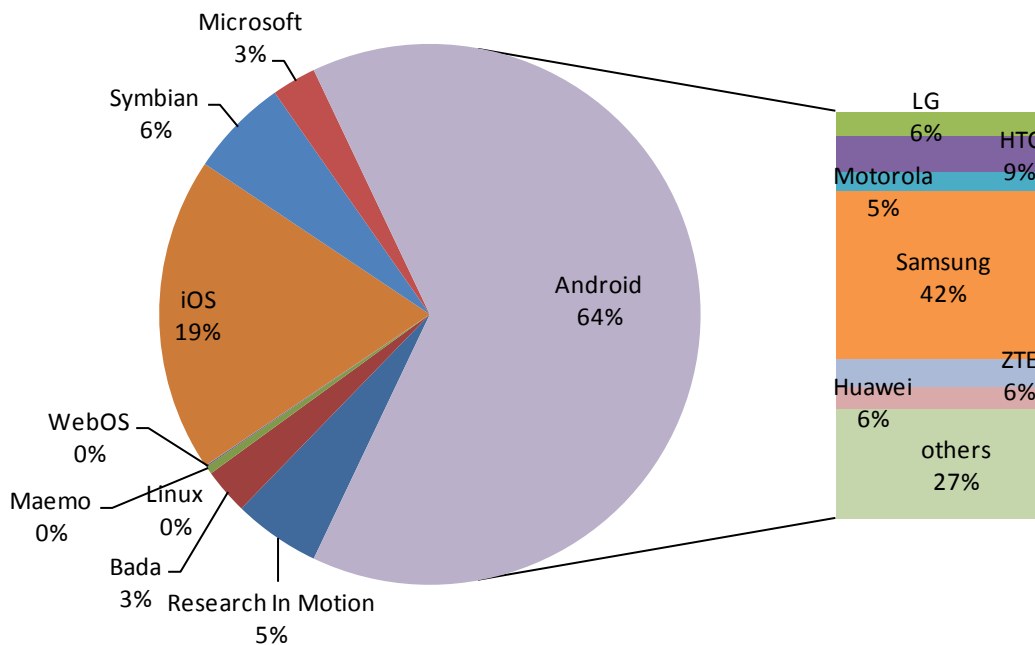


Source: Gartner, Leading Research Center

Is SEC dangerous due to high dependence on Google?

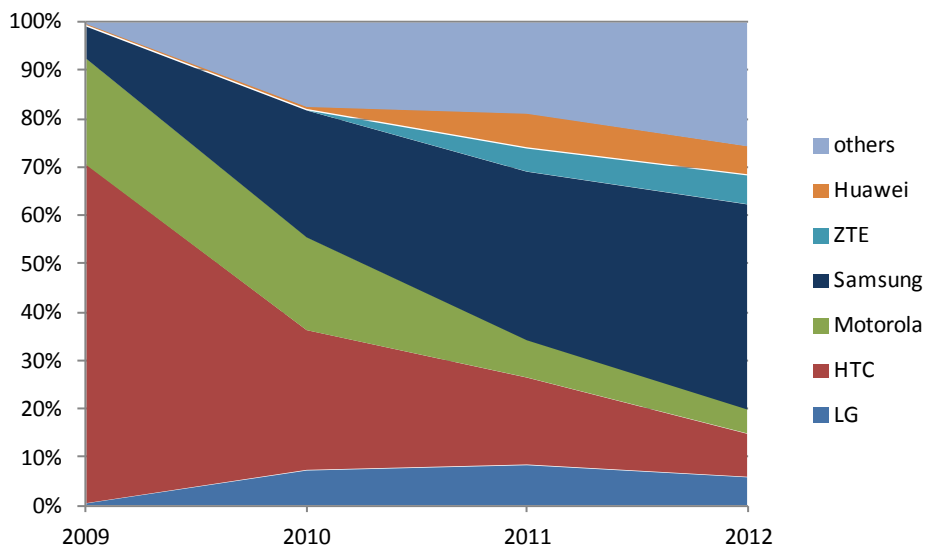
SEC and Google need each other and will keep the partnership.

Exhibit 16. SEC accounts for 42% of Android's M/S of 64%



Source: Gartner, Leading Research Center

Exhibit 17. The ratio of SEC constantly increases in Android OS



Source: Gartner, Leading Research Center

Apple and SEC increase brand value

According to BRAND-FINANCE, brand value of SEC and Apple increased.

Exhibit 18. Top 25 global brand value in 2012

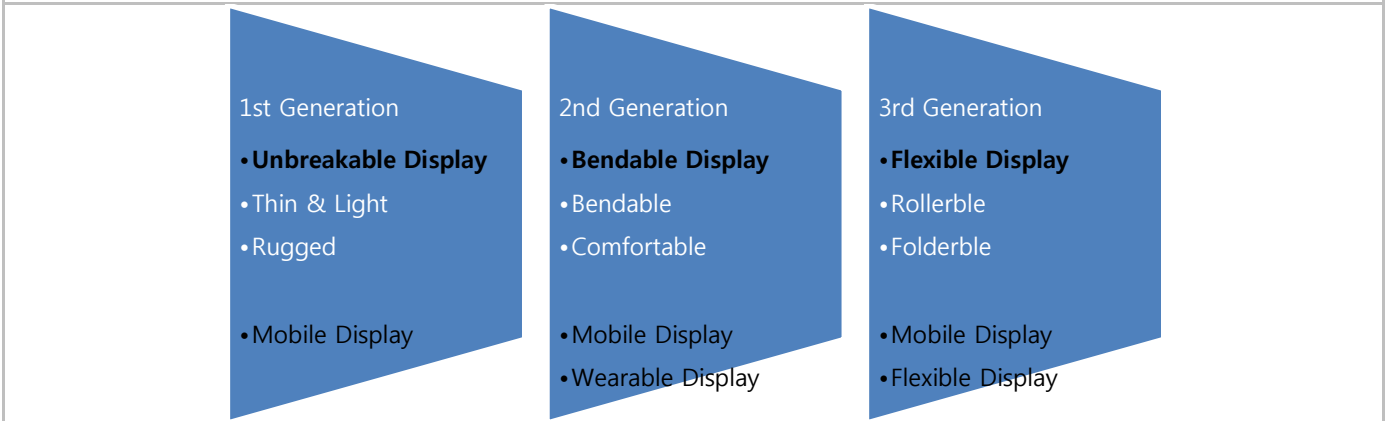
Rank	Rank	Name	Country	Brand Value (\$mn)	Brand Rating	EV (\$mn)	Brand Value / EV	Brand Value (\$mn)	Brand Rating	EV (\$mn)	Brand Value / EV
2012	2011			2012	2012	2012	2012 (%)	2011	2011	2011	2011 (%)
1	8	Apple	USA	70,605	AAA+	350,257	20%	29,543	AAA	244,382	12%
2	1	Google	USA	47,463	AAA+	155,895	30%	44,294	AAA+	143,016	31%
3	2	Microsoft	USA	45,812	AAA+	165,151	28%	42,805	AAA+	165,725	26%
4	4	IBM	USA	39,135	AA+	241,208	16%	36,157	AA+	189,718	19%
5	3	Walmart	USA	38,320	AA	155,189	25%	36,220	AA	154,325	23%
6	18	Samsung	Korea	38,197	AAA-	199,331	19%	21,511	AA+	113,327	19%
7	7	GE	USA	33,214	AA+	468,287	7%	30,504	AA+	475,066	6%
8	16	Coca-Cola	USA	31,082	AAA+	83,696	37%	25,807	AAA+	69,508	37%
9	5	Vodafone	U.K	30,044	AAA+	189,232	16%	30,674	AAA+	192,456	16%
10	32	Amazon.com	USA	28,665	AA+	94,398	30%	17,780	AA	64,132	28%
11	10	AT&T	USA	28,379	AA+	235,495	12%	28,884	AA+	235,987	12%
12	12	Verizon	USA	27,616	AA	203,306	14%	27,293	AA	381,093	7%
13	11	HSBC	U.K	27,597	AAA	122,741	22%	27,632	AAA	171,163	16%
14	13	NTT Group	Japan	26,324	AAA-	359,332	7%	26,927	AA+	275,617	10%
15	14	Toyota	Japan	24,461	AA	209,855	12%	26,152	AA+	204,864	13%
16	9	Wells Fargo	USA	23,229	AA+	133,473	17%	28,944	AA+	136,069	21%
17	6	Bank of America	USA	22,910	AA+	50,527	45%	30,619	AAA-	133,551	23%
18	17	McDonald's	USA	22,230	AAA	102,389	22%	21,842	AAA	89,595	24%
19	30	Shell	Netherland	22,021	AAA-	238,670	9%	18,605	AAA-	222,664	8%
20	27	Intel	USA	21,908	AA+	113,435	19%	19,078	AA+	92,546	21%
21	13	HP	USA	21,707	AA+	54,454	40%	26,756	AA+	84,186	32%
22	23	BMW	Germany	21,262	AAA-	96,483	22%	20,157	AA+	92,873	22%
23	22	The Home Depot	USA	20,902	AA-	62,521	33%	20,423	AA-	60,527	34%
24	19	Tesco	U.K	20,051	AAA-	65,520	31%	21,129	AAA	69,868	30%
25	15	Santander	Spain	19,969	AAA-	59,551	34%	26,150	AAA	100,281	26%

Source: Brand-Finance

Hardware differentiation (1) AMOLED

AMOLED is a display has a high potential to grow in the future. AMOLED is likely to influence to the market in the future.

Exhibit 19. AMOLED is in the initial stage but high potential to grow



Source: Leading Research Center

Exhibit 20. SEC's flexible display hammer test (Top left is a general display)



Source: Captured video from YouTube, Leading Research Center

Hardware differentiation (2) S pen

The S pen is a major marketing factor applying to Galaxy Note and tablet PCs. SEC changed its flagship table PC from Galaxy Tab, which had sluggish sales, to the S pen equipped Galaxy Note 10.1.

Exhibit 21. Samsung Galaxy Note 10.1 and Galaxy Note 2



Source: Gartner, Leading Research Center

Exhibit 22. Samsung Galaxy Note spec comparison

Galaxy Note	Model	Galaxy Note 2
146.85*82.95*9.65(mm)	Dimensions	151.1*80.5*9.4(mm)
182g	Weight	180g
1.5Ghz Dual Core Snapdragon S3	CPU	1.6Ghz Quad Core Exynos 4412
1GB	RAM	2GB
5.3-inch HD (1280*800) HD Super AMOLED	Display	5.5-inch HD (1280*720) HD Super AMOLED
Back 8megapixel/front 1.9MP	Camera	Back 8megapixel/front 1.9MP
2,500mAh	Battery	3,100mAh
Android 4.0 Ice Cream Sandwich	OS	Android 4.1 Jelly Bean
16/32GB	Capacity	16/32GB
NFC/ Bluetooth 3.0+HS/Pop-up play/TouchWiz	Others	Air View/NFC/Bluetooth 4.0/Pop-up note/TouchWiz/Easy Clip/Idea Sketch/Handwriting/Photo Note/Pop-up Note/Upgraded S pen/Multi Window/Best Face

Source: Samsung, Leading Research Center

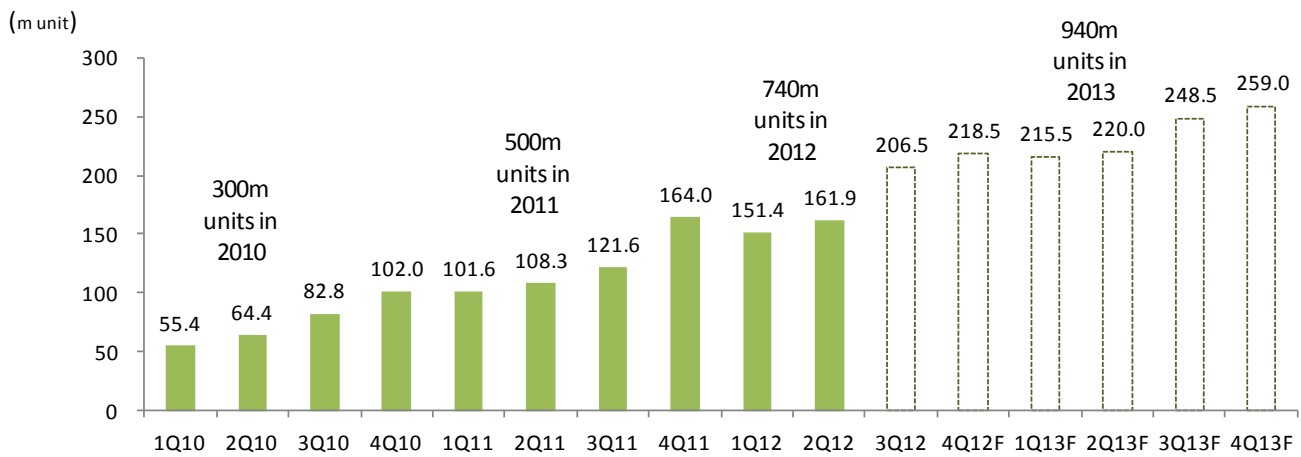
Smartphone market outlook

SEC and Apple will maintain their dominance in the market. We believe that SEC has advantages over Apple given a diverse product lineup.

Smartphone market estimation in 2013

We estimate smartphone sales of 780m units in 2012 and 940m units in 2013. Smartphone growth is likely to be 27.0% in 2013.

Exhibit 23. Worldwide quarterly smartphone sales forecast

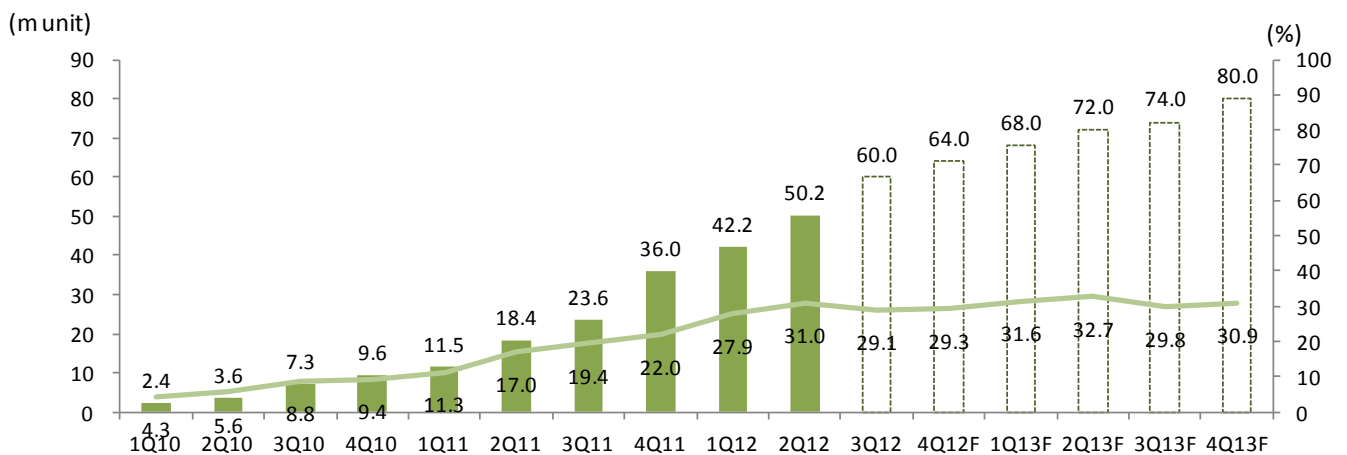


Source: Gartner, Leading Research Center estimates for quarterly sales

SEC is estimated to grow 35.9% in 2013 with a diverse product lineup

SEC successfully launched Galaxy series, SEC's flagship smartphone model, with the company's premium brand image. SEC is expected to maintain its brand image. SEC is likely to continually increase sales in various regions for diverse income groups with the product lineup.

Exhibit 24. SEC smartphone sales forecast (Left: sales, right: M/S)

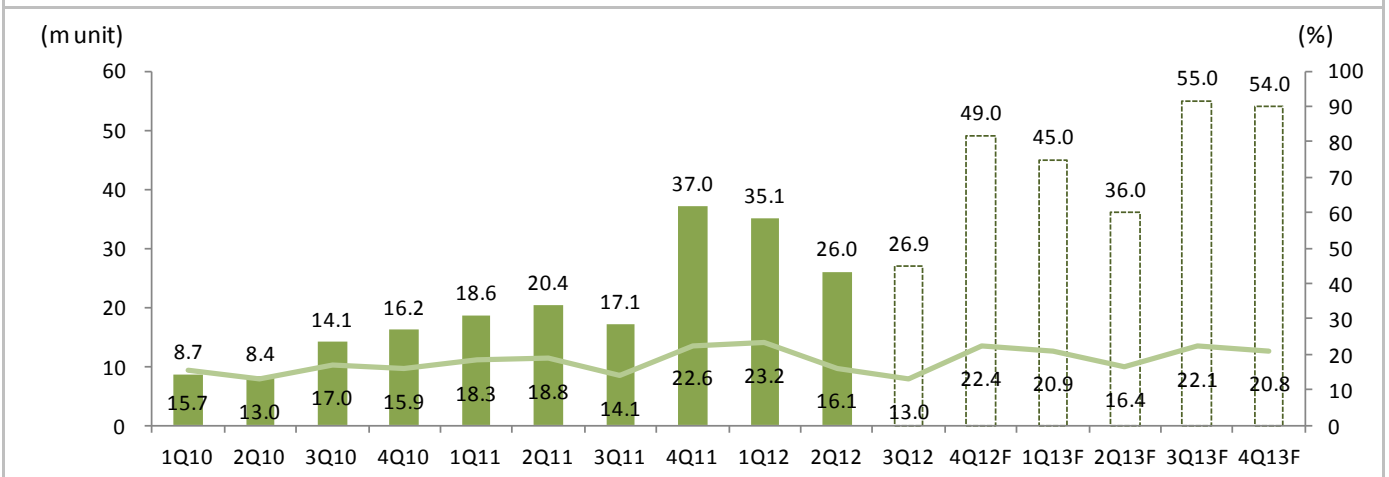


Source: Gartner, Leading Research Center

Apple is estimated to grow below market growth due to limitations of a single product

iPhone is estimated to record the largest sales with a single product. However, Apple's market share is likely to come in at 16~22%. We estimate that Apple will grow below the market average of 25.7% in 2013. Apple merely sold iPhone of 27 m units due to the supply challenges in 3Q12. iPhone sales are estimated to increase to 49m units in 4Q12F and then decline until new iPhone release.

Exhibit 25. Apple smartphone sales forecast (Left: sales, right: M/S)

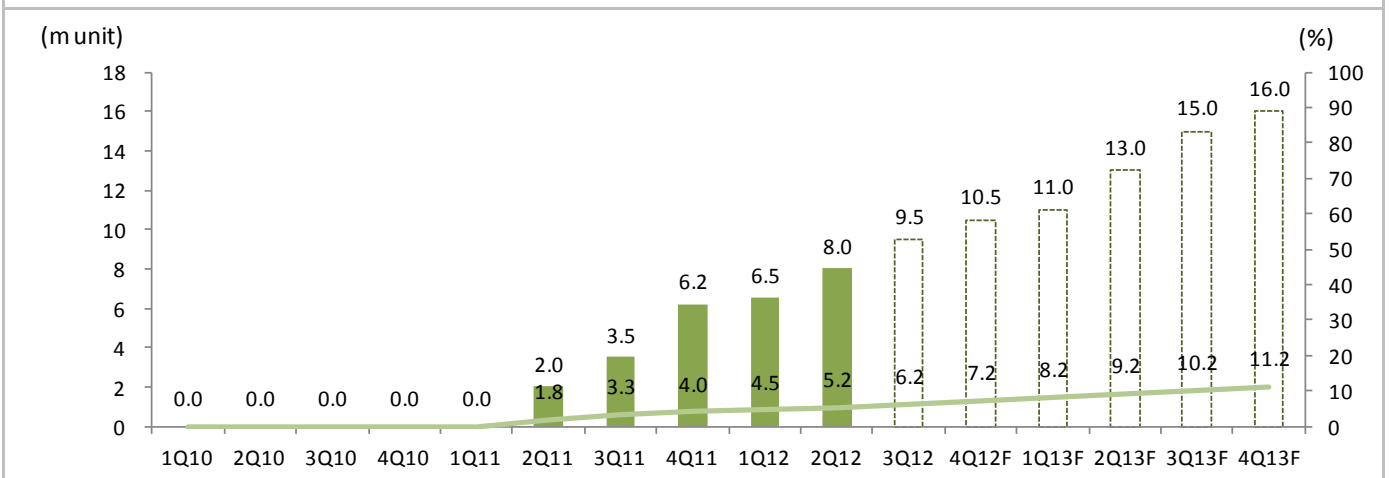


Source: Gartner, Leading Research Center

ZTE's high growth of 59.4% in 2013

ZTE rapidly grows with low-end smartphones in the Chinese market. ZTE's major target consumer is a region where has the low smartphone penetration rate. Therefore, ZTE is expected to maintain current growth in 2013. ZTE is likely to increase its market share to 11.2% in 2013.

Exhibit 26. ZTE smartphone sales forecast (Left: sales, right: M/S)

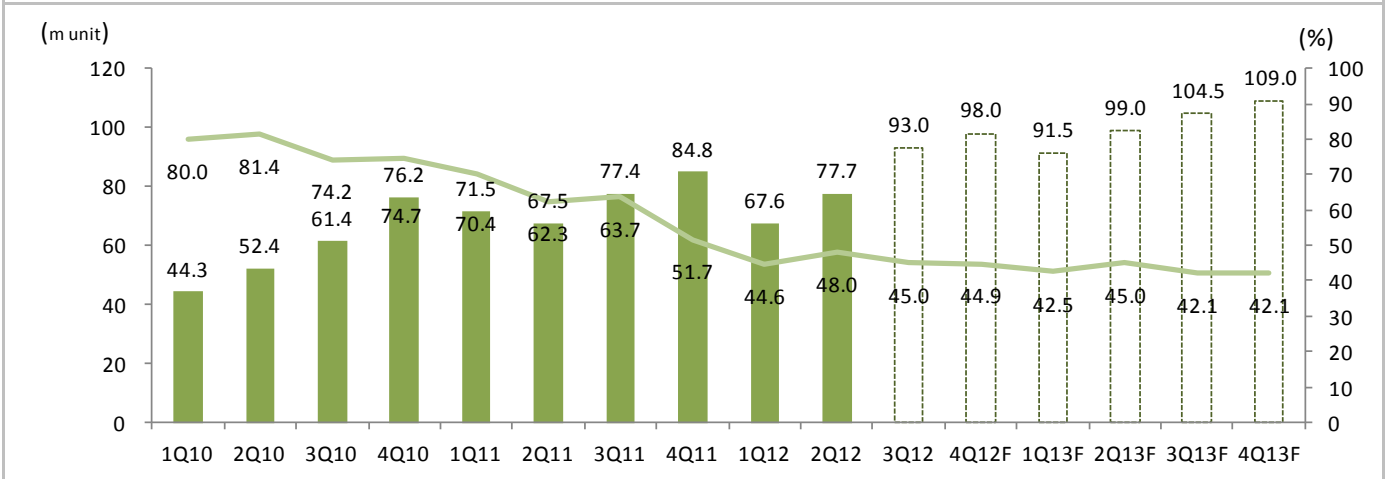


Source: Gartner, Leading Research Center

The rest of the smartphone vendors

The rest of the smartphone vendors such as Nokia and HTC are estimated to grow 27.7% which is the similar level to the market.

Exhibit 27. Other vendors smartphone sales forecast (Left: sales, right: M/S)



Source: Gartner, Leading Research Center

Outlook for Apple cutting down SEC parts

Apple outsources all components

Apple outsources production of all hardware parts and assembly to manufacturing companies such as Foxconn for iPhone. Major smartphone parts are displays, batteries, application processors, mobile DRAMs, and NANDs.

Apple has reduced orders from SEC for internal iPhone5 components. Although Apple needs to diversify its supply source, the action will negatively affect Apple.

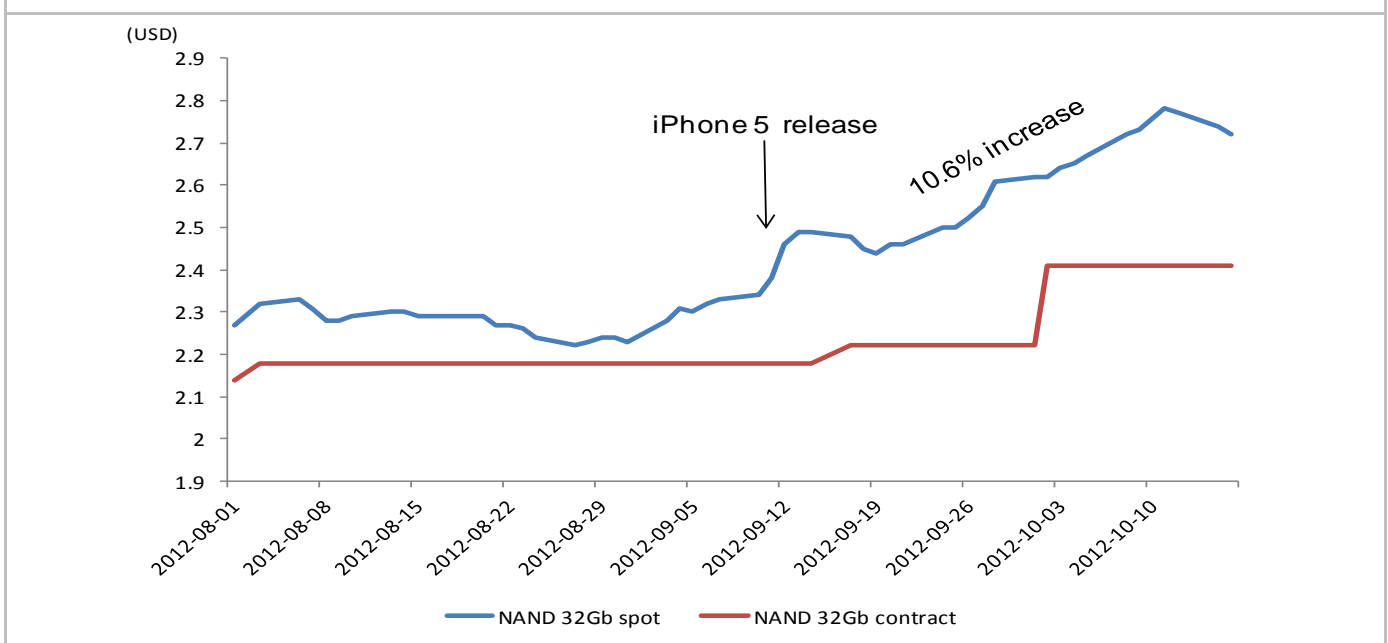
Apple has the highest purchasing power among IT companies consuming around 30% of global mobile semiconductors. Apple requires suppliers to cut their supply prices, and SEC is no exception. As a result, Apple's high operating margin comes from low price components such as semiconductors and displays.

SEC is able to supply semiconductors at the lowest prices with the highest semiconductor technologies in the world. If SEC is excepted as Apple's parts supplier, Apple will face increase in components prices and supply shortage. Actually, prices of NAND flash surged 10.6% since iPhone5 released. Hence, components manufacturers including SEC will benefit from Apple's action.

Apple also looks to turn to TSMC to produce its AP chips for next-generation iPhones. However, if TSMC produces Apple's AP chips, existing TSMC's customers will use SEC's foundry due to short of gloable non-volatile memory capacity. SEC will be able to secure high margin.

Consequentially, Apple's action leaving SEC will negatively affect Apple rather than SEC.

Exhibit 28. Price of NAND flash increased 10.6% since iPhone5 released



Source: Gartner, Leading Research Center

Samsung Electronics (005930 KS)

Seizing the No.1 Spot in the Smartphone Market

Analyst : Sang Woo Oh
swoh@leading.co.kr
 82-2-2009-7254



Leading Traffic Light: Green



Samsung Electronics is...

- ✓ The world's top handset vendor with the foremost hardware technology
- ✓ SEC is the most successful in dealing with the market changes in the IT industry



Green light because:

- ✓ SEC is expected to maintain the No.1 spot in the smartphone market in 2013
- ✓ SEC maintains stable growth with diverse products from low-end to high-end

IT Industry Overview:

- Improvement in brand value and Galaxy series sales given the smartphone market growth
- SEC and Apple are dominant in the market, but SEC's growth is stronger than Apple's



Business Environment:

- SEC's premium brand image is recognized at No.6 among all global corporations
- The semiconductor market recovery is driven by increase in NAND prices as well as stable DRAM prices



Outstanding Value Creation:

- High ROE of 20% is expected to be maintained for the next three years given high profitability with optimal product and part portfolios
- EVA will be maintained at the 15% range in 2012F~2014F



Valuation:

- Target price of W1,920,000 reached by applying the target PER of 9.8x to 2013F EPS of W195,746
- 49.2% upside potential from the current price of W1,287,000

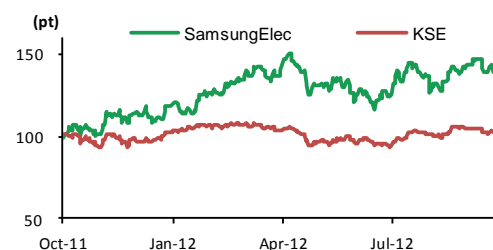


BUY

Target Price (KRW)	W1,920,000
Current Price (KRW)	W1,287,000
Upside Potential (%)	49.2%

Key Data	October 26, 2012		
Sector	Semiconductor		
KOSDAQ	1,891.45		
Market Cap. (Wbn)	189,574.2		
Shares Outstanding (m)	147.3		
Foreign Ownership (%)	50.6		
52 Week High (KRW)	1,410,000		
Low (KRW)	924,000		
60-davg. turnover (Wbn)	428.8		
Major Shareholders	(%)		
Kun Hee Lee & Others	17.6		
NPS	6.6		
Performance (%)	1M	6M	12M
Absolute	(2.9)	(4.0)	39.3
Relative	1.6	0.3	40.9

Relative Performance



CAVEAT EMPTOR!!! – Watch out for...

- Possibility of investor's confidence dwindling due to lawsuits with Apple

Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	PER (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	136,323.7	12.4	10,925.3	8.0	9,760.6	64,981	73.2	12.3	5.4	15.0	2.0
2010	154,630.3	13.4	17,296.5	11.2	16,146.5	107,258	65.1	8.8	5.0	20.4	1.9
2011	165,001.8	6.7	16,249.7	9.8	13,734.1	90,694	(15.4)	11.7	5.3	14.6	1.8
2012E	199,246.0	20.8	28,534.8	14.3	23,238.2	154,179	70.0	8.3	3.8	20.9	1.8
2013E	234,784.3	17.8	35,693.4	15.2	29,052.1	195,746	27.0	6.6	2.9	21.5	1.5
2014E	259,869.3	10.7	41,436.2	15.9	33,730.3	227,271	16.1	5.7	2.3	20.4	1.2

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Section 1-1: Valuation – Target Price of W1,920,000

PT of W1,920,000, 49.2% upside potential

We initiate coverage on Samsung Electronics (SEC) with the target price of W1,920,000. Applying the target PER of 9.8x to 2013F EPS of W195,748, we derive the target price implying 49.2% upside potential from the current price of W1,287,000.

Steady growth in the smartphone market with the highest technology in the world

SEC is the fastest growing smartphone vendor driven by the highest hardware technology in the world. We believe that SEC and Apple will maintain their dominance in the smartphone market for a while. SEC seems to have advantages over Apple given a diverse product lineup.

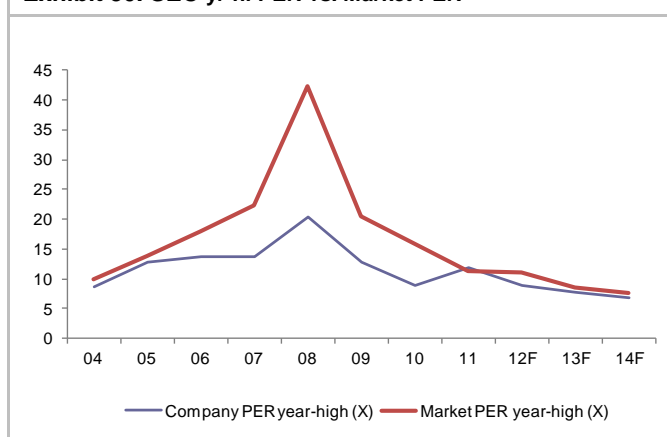
However, SEC is traded at the PER of 7.2x which is lower than the 2013F global peer average PER of 9.8x. We believe that 26.5% discount from the global peer average is excessive because SEC is the world's top smartphone vendor on the sales base and is able to stably grow with smartphones in diverse price categories.

Exhibit 29. SEC Valuation vs. Industry Valuation

(X, %)	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Company PER year- high (X)	8.7	12.8	13.8	13.6	20.4	12.7	8.8	12.0	9.1	7.2	6.2
Market PER year- high (X)	9.9	13.9	17.9	22.3	42.4	20.4	16.0	11.2	11.0	8.5	7.6
Premium/(Discount) to industry (%)	(11.9)	(8.0)	(23.2)	(38.8)	(52.0)	(37.7)	(44.6)	6.7	(16.8)	(15.6)	(18.2)

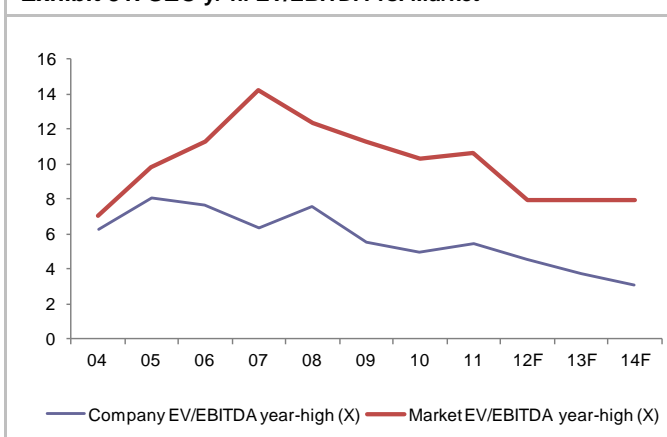
Source: Company data, Leading Research Center
*Market = KOSPI

Exhibit 30. SEC yr-hi PER vs. Market PER



Source: Fnguide, Leading Research Center

Exhibit 31. SEC yr-hi EV/EBITDA vs. Market



Source: Fnguide, Leading Research Center

Section 1-2: Valuation – Peer Valuation

Global mobile vendors as a peer group

We select global mobile device vendors as a peer group because SEC is growing with smartphone which accounts the largest part of the company's sales.

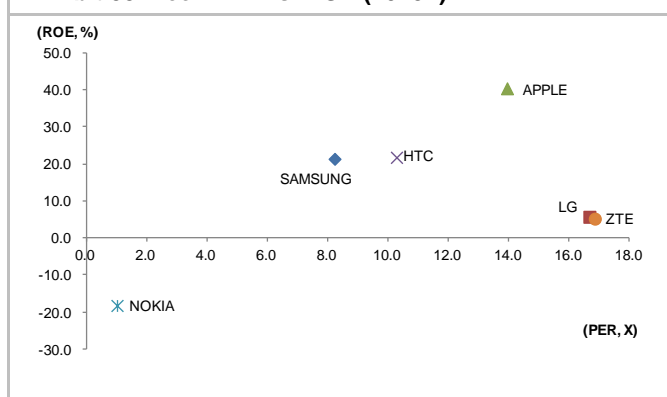
Exhibit 32. Peer valuation comparison

Company	Code	Country	Market Cap. (US\$m)	Revenue (US\$m)				OPM (%)			
				10	11	12E	13E	10	11	12E	13E
Samsung	005930 KS	Korea	173,277.6	133,789.0	149,080.4	178,440.1	200,176.5	10.7	9.4	14.7	14.8
LG Electronics	066570 KS	Korea	10,992.0	48,239.2	49,021.3	46,607.4	48,507.9	0.2	0.6	2.3	2.8
APPLE	AAPL US	US	578,220.2	65,225.0	108,249.0	156,508.0	194,593.8	28.2	31.2	35.3	34.4
HTC	2498 TT	Taiwan	7,666.3	8,858.0	15,848.7	10,489.6	10,206.5	15.8	14.8	8.2	7.6
NOKIA	NOK US	Finland	9,587.1	56,309.5	53,829.1	38,697.1	37,404.7	4.9	0.0	-3.4	1.2
ZTE	000063 CH	China	4,971.7	10,329.7	13,347.7	16,031.9	18,902.3	6.0	3.2	0.3	2.2
RIM	RIM CN	Canada	3,946.0	19,907.0	18,435.0	11,046.9	10,968.9	23.3	10.0	-10.6	-4.3

Company	PER (X)				EV/EBITDA (X)				P/B (X)				ROE (%)			
	10	11	12E	13E	10	11	12E	13E	10	11	12E	13E	10	11	12E	13E
Samsung	9.0	11.9	8.2	7.1	4.1	4.5	4.2	3.4	1.4	1.4	1.8	1.5	19.9	14.4	21.4	20.1
LG	48.3	n/a	16.7	10.3	16.3	11.3	6.6	5.7	1.4	0.9	1.0	0.9	12.6	-3.6	5.7	8.6
APPLE	19.3	14.6	15.1	11.4	11.2	8.3	8.6	6.2	5.6	4.9	5.3	3.7	35.3	41.7	40.5	36.8
HTC	18.6	6.8	10.3	11.5	14.4	4.6	5.7	6.6	9.7	4.1	2.5	2.4	56.4	70.4	21.8	21.1
NOKIA	n/a	n/a	n/a	n/a	6.4	6.9	n/a	6.6	n/a	n/a	0.9	1.0	13.5	-8.9	-18.2	-1.0
ZTE	22.4	32.4	16.8	9.6	16.4	17.2	9.9	5.4	3.3	2.8	1.2	1.1	14.3	5.6	5.2	10.7
RIM	10.4	3.3	n/a	n/a	5.8	1.6	4.1	1.8	3.9	0.7	0.5	0.4	41.4	23.1	-9.0	-3.5

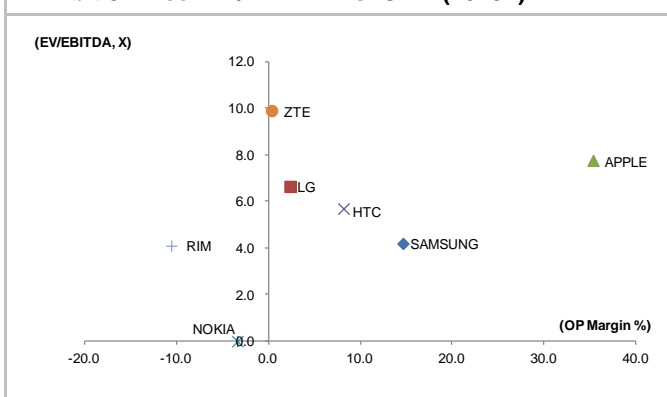
Source: Company data, Bloomberg, Leading Research Center (as of October 25, 2012) n/a because of minus net profit or no consensus available

Exhibit 33. Peer PER vs. ROE (2013F)



Source: Bloomberg, Leading Research Center

Exhibit 34. Peer EV/EBITDA vs. OPM (2013F)



Source: Bloomberg, Leading Research Center

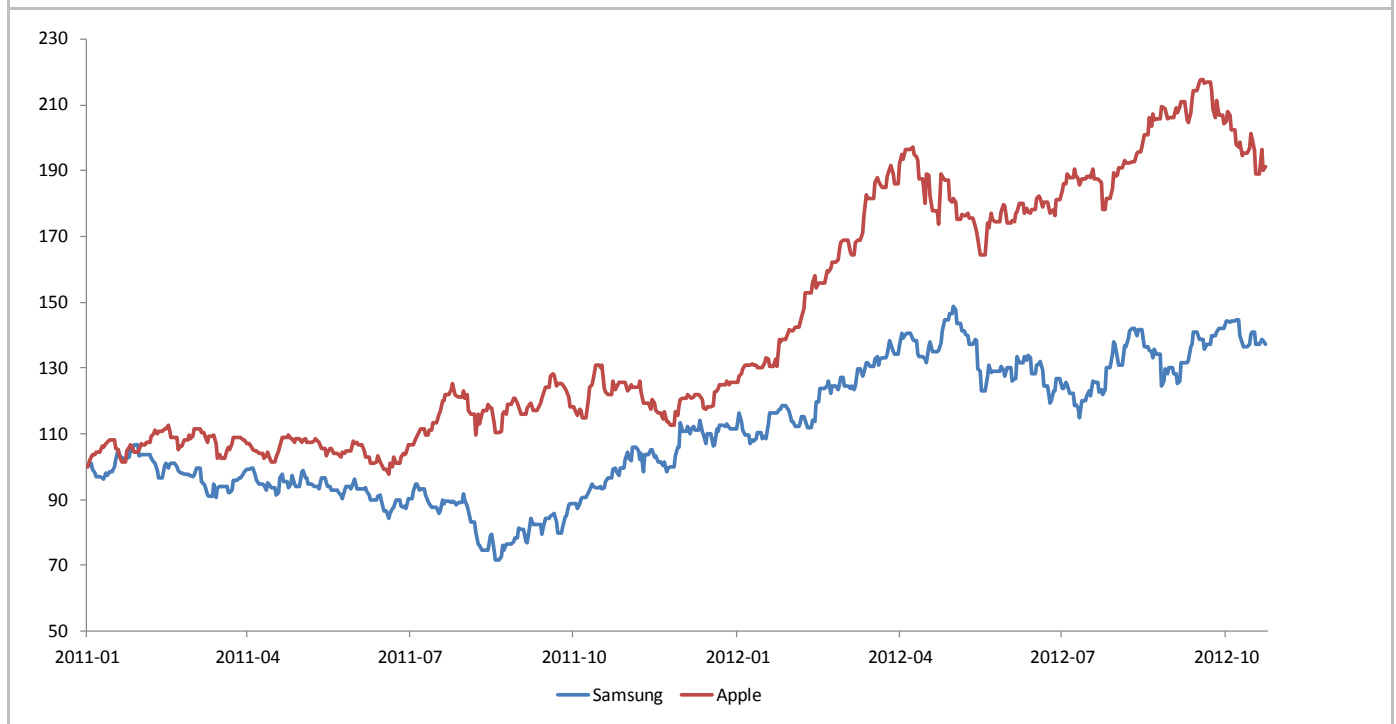
Exhibit 35. SEC vs. Apple earnings comparison

Company	Sales (\$mn)						OP (\$mn)					
	2011	2012F	1Q12	2Q12	3Q12	4Q12E	2011	2012F	1Q12	2Q12	3Q12	4Q12E
Samsung	149,080	180,541	40,040	41,301	46,492	49,163	13,964	24,963	4,985	5,548	7,248	6,711
Apple	108,249	156,194	39,186	35,023	35,966	55,066	33,790	55,231	15,384	11,573	10,944	19,489

Company	NP (\$mn)						OPM (%)					
	2011	2012F	1Q12	2Q12	3Q12	4Q12E	2011	2012F	1Q12	2Q12	3Q12	4Q12E
Samsung	12,070	20,391	4,299	4,381	5,898	5,616	9.4	13.8	12.5	13.4	15.6	13.6
Apple	25,922	41,797	11,622	8824	8223	14,716	31.2	35.4	30.4	35.4	30.4	35.4

Source: Bloomberg, Leading Research Center estimates for Samsung, applying 2012E KRW/USD of W1,120

Exhibit 36. SEC vs. Apple relative stock price since 2011

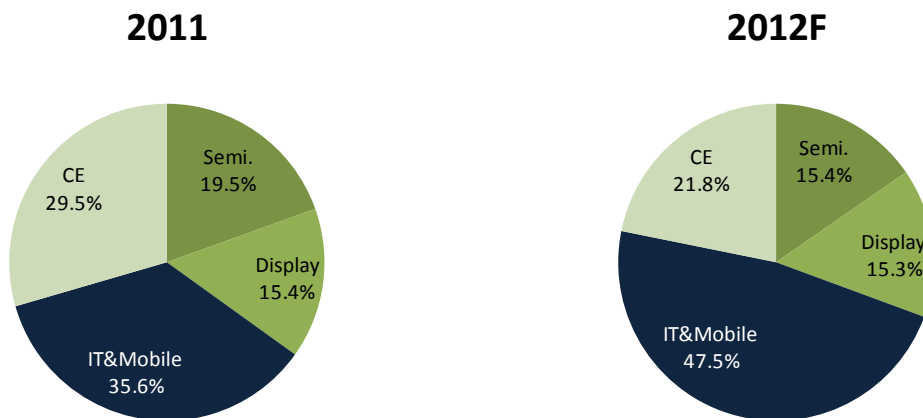


Source: Bloomberg, Leading Research Center

Section 2: Operation Overview

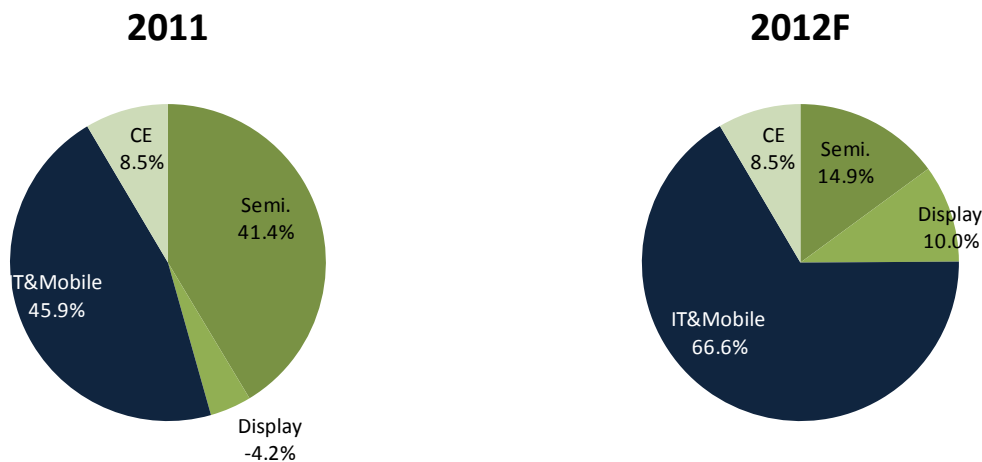
Perfectly transforming to vertically integrated mobile vendor along with the IT market change

Exhibit 37. Revenue breakdown



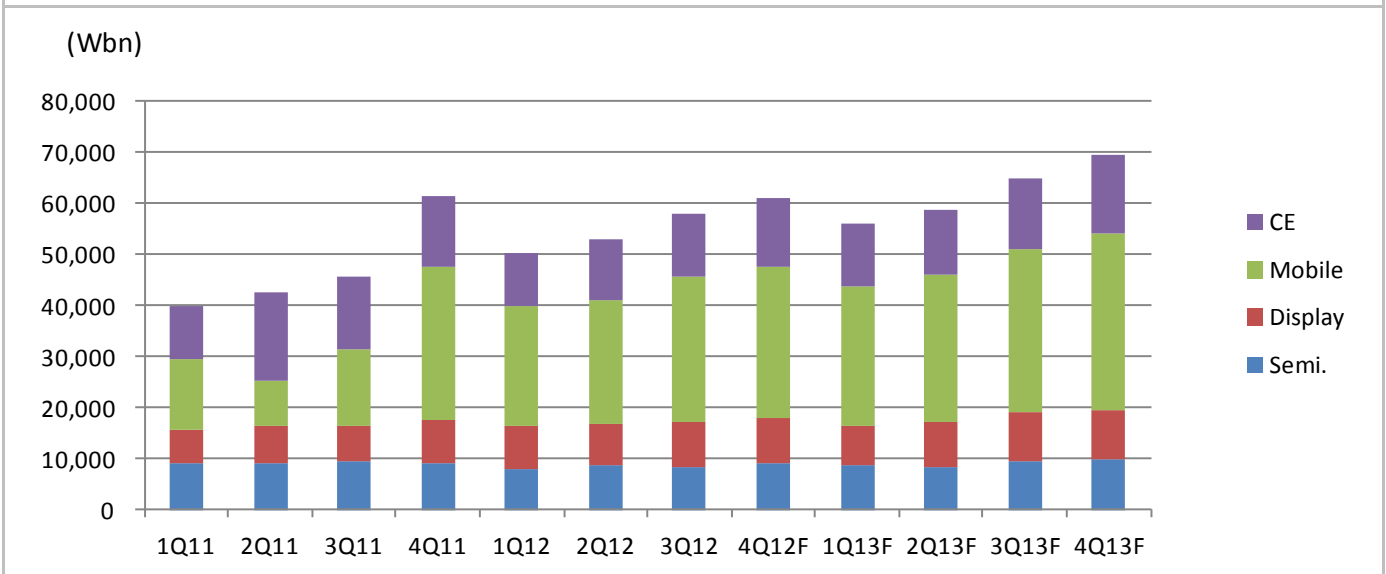
Source: Company Data, Leading Research Center

Exhibit 38. Operating profit breakdown



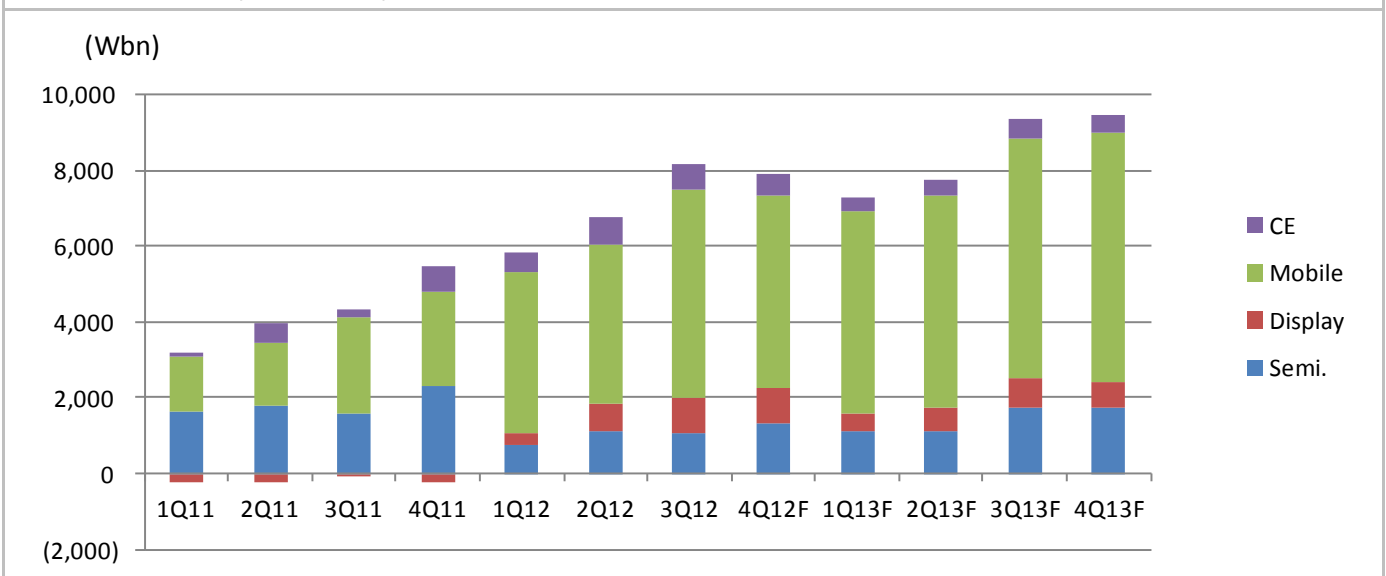
Source: Company Data, Leading Research Center

Exhibit 39. Quarterly revenue trend by division



Source: Company Data, Leading Research Center

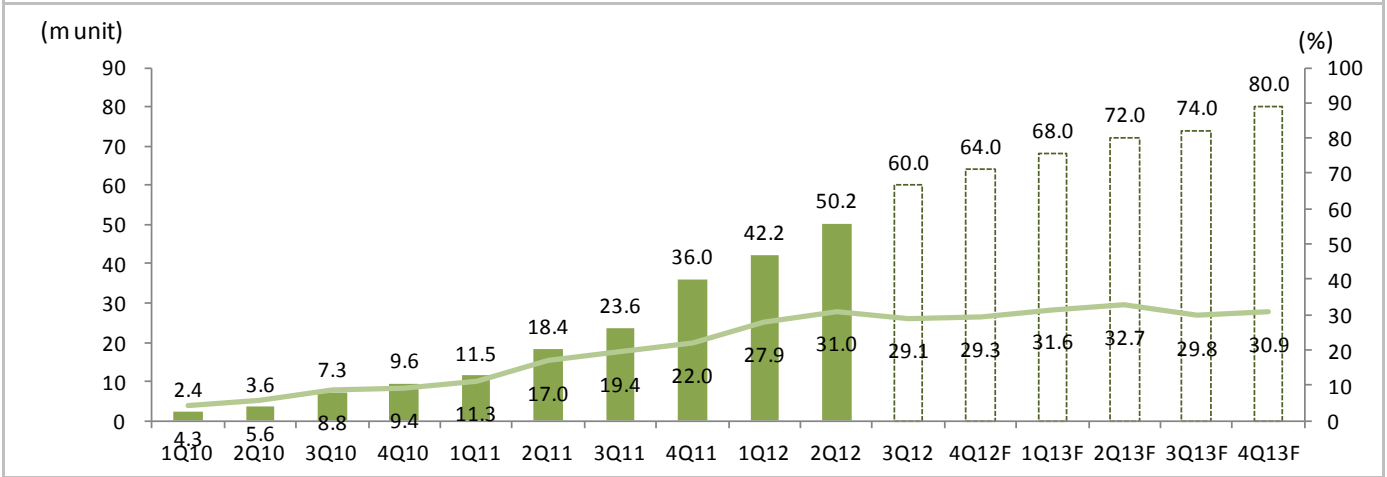
Exhibit 40. Quarterly OP trend by division



Source: Company Data, Leading Research Center

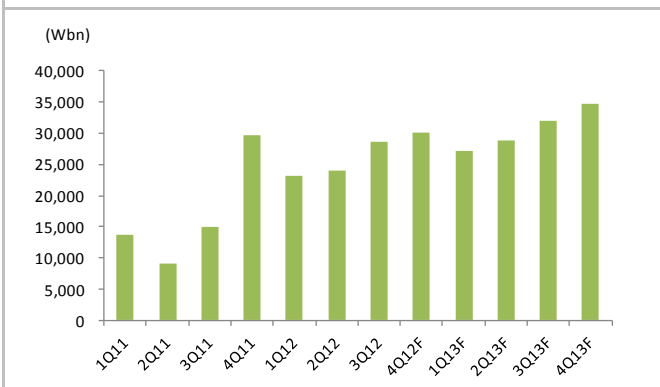
Stable growth of the IM division despite concerns about slowdown of premium smartphones

Exhibit 41. SEC smartphone sales forecast (Left: sales, right: M/S)



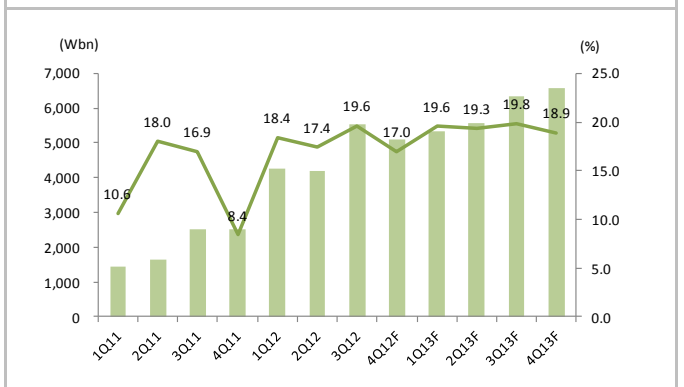
Source: Gartner, Leading Research Center

Exhibit 42. Quarterly revenue of the IM division



Source: Company Data, Leading Research Center

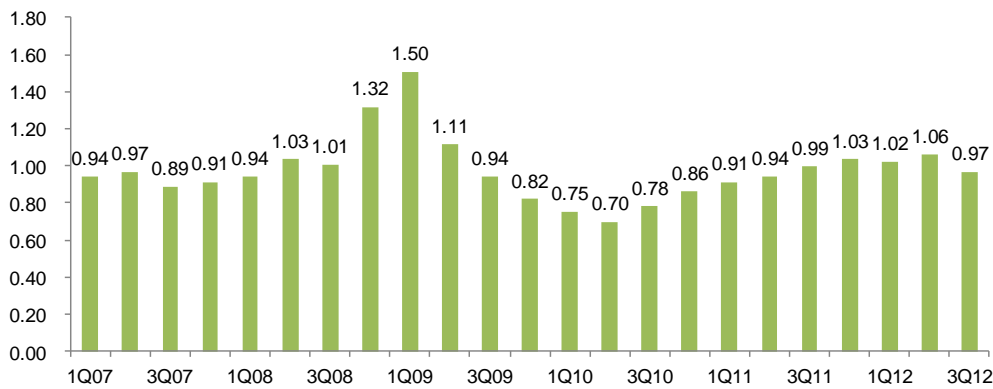
Exhibit 43. OP (left) and OPM (right) of the IM division



Source: Company Data, Leading Research Center

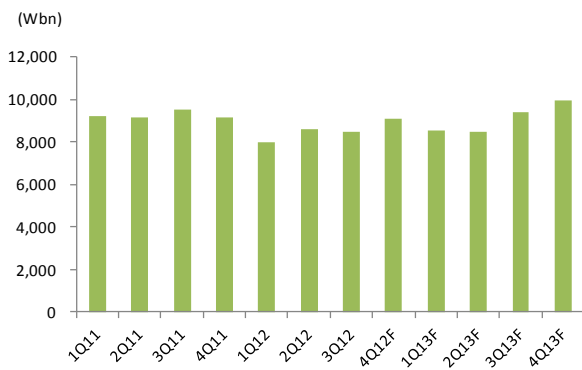
Increasing profitability of the semiconductor division

Exhibit 44. Quarterly semiconductor inventory index



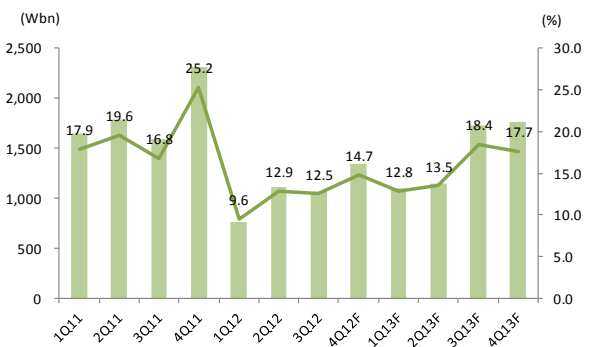
Source: Gartner, Leading Research Center

Exhibit 45. Quarterly revenue of the semi. division



Source: Company Data, Leading Research Center

Exhibit 46. OP (left) and OPM(right) of the semi. division



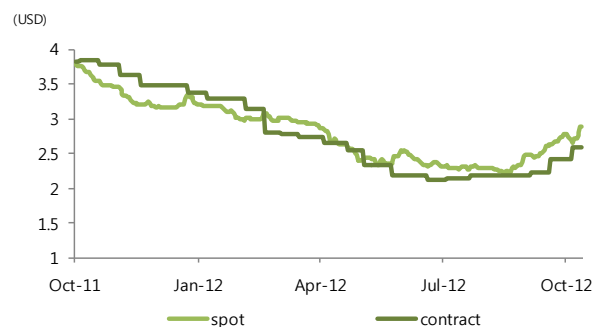
Source: Company Data, Leading Research Center

Exhibit 47. 2G DDR3 DRAM price trend



Source: Company Data, Leading Research Center

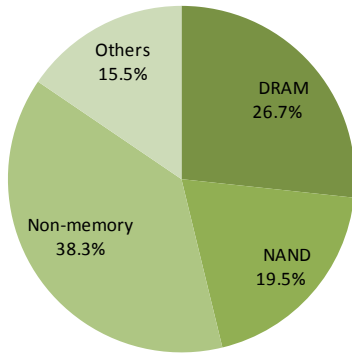
Exhibit 48. 32G NAND price trend



Source: Company Data, Leading Research Center

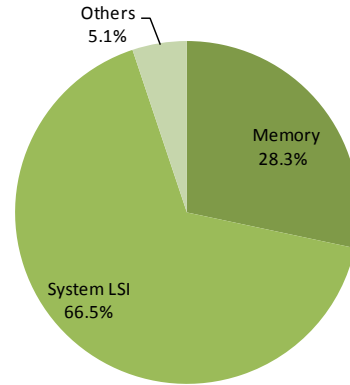
The semiconductor division also grows with smartphone

Exhibit 49. Revenue breakdown of the semi. division (2012F)



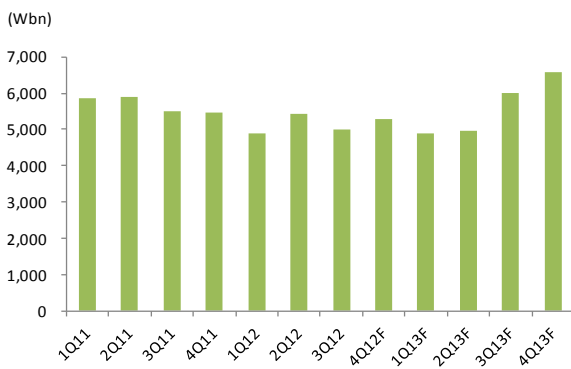
Source: Company Data, Leading Research Center

Exhibit 50. OP breakdown of the semi. division (2012F)



Source: Company Data, Leading Research Center

Exhibit 51. Quarterly memory sales trend



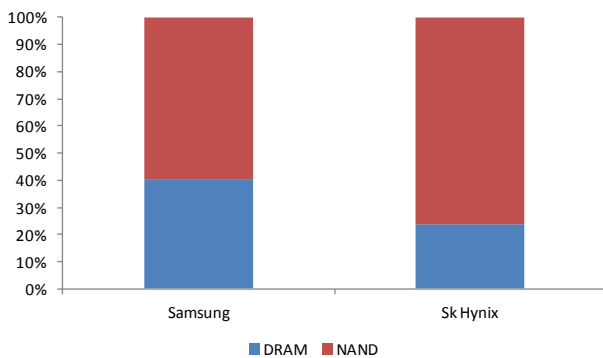
Source: Company Data, Leading Research Center

Exhibit 52. Quarterly non-memory sales trend



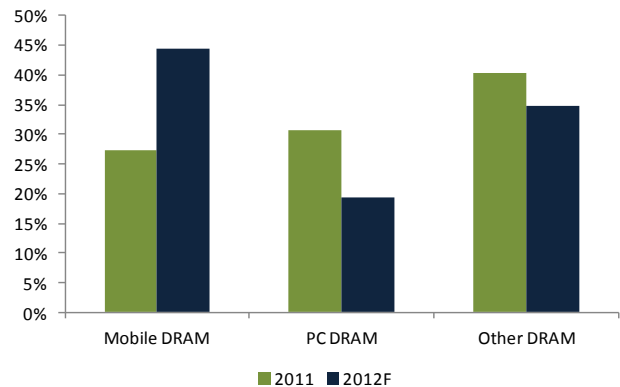
Source: Company Data, Leading Research Center

Exhibit 53. NAND and DRAM proportion in memory



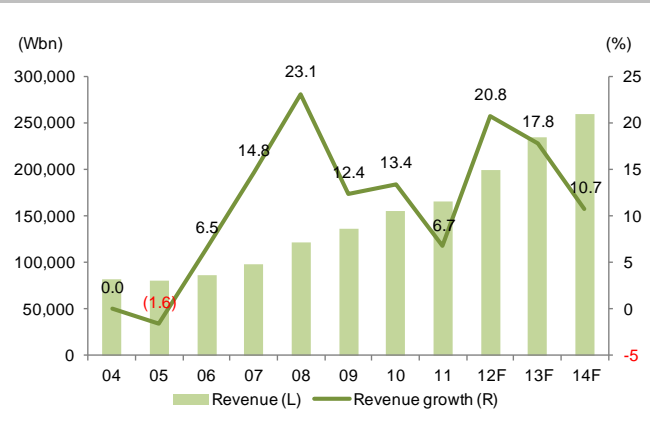
Source: Company Data, Leading Research Center

Exhibit 54. increasing mobile DRAM ratio to DRAM



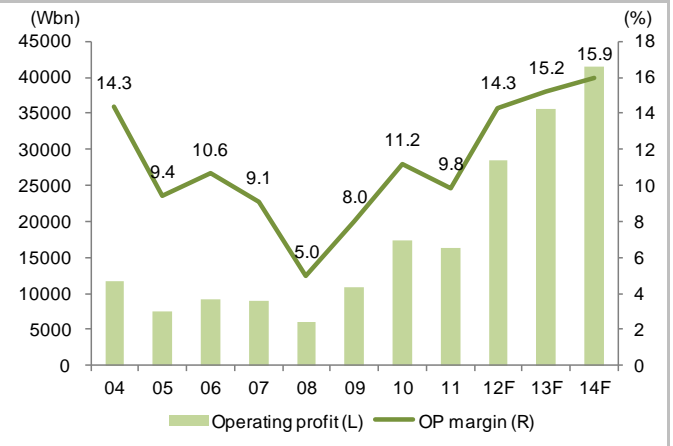
Source: Company Data, Leading Research Center

Exhibit 55. Revenue and Growth trend



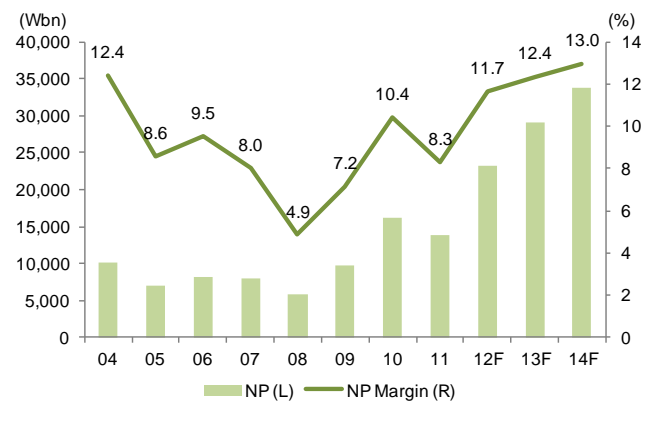
Source: Company data, Leading Research Center

Exhibit 56. Operating profit and OPM trend



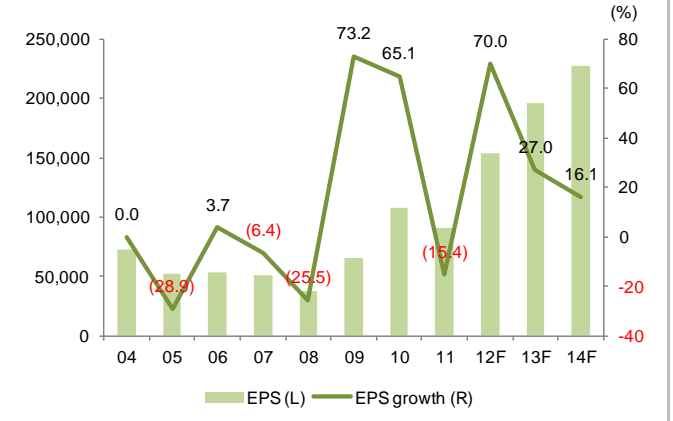
Source: Company data, Leading Research Center

Exhibit 57. Net profit and NP margin trend



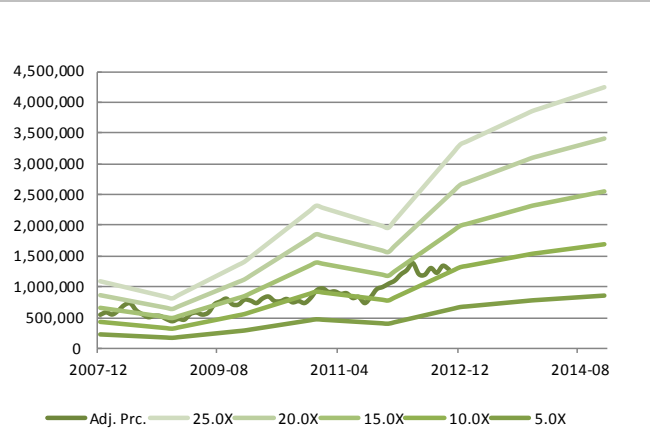
Source: Company data, Leading Research Center

Exhibit 58. EPS and EPS growth



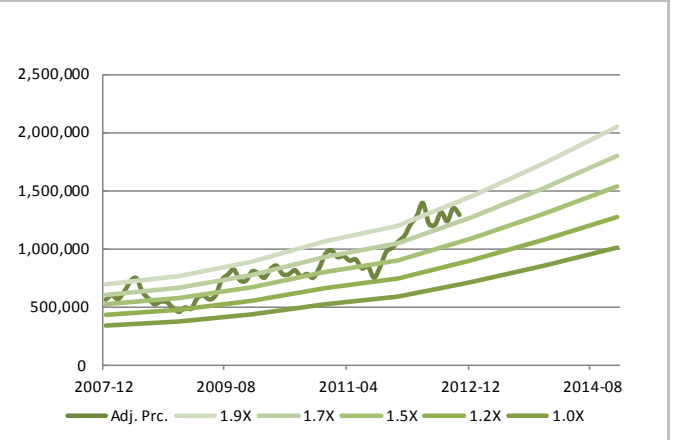
Source: Company data, Leading Research Center

Exhibit 59. PER Band



Source: FnGuide

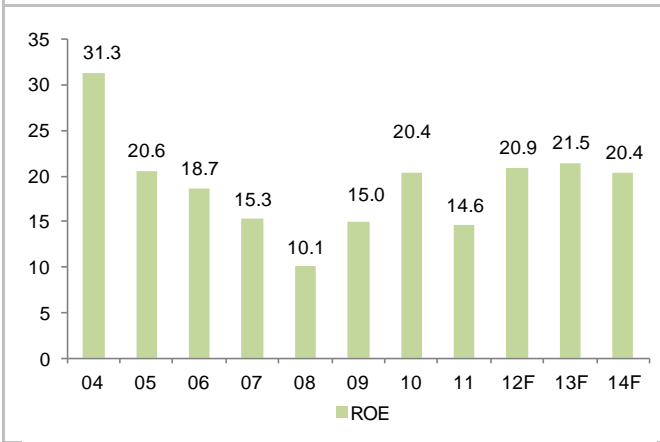
Exhibit 60. PBR Band



Source: FnGuide

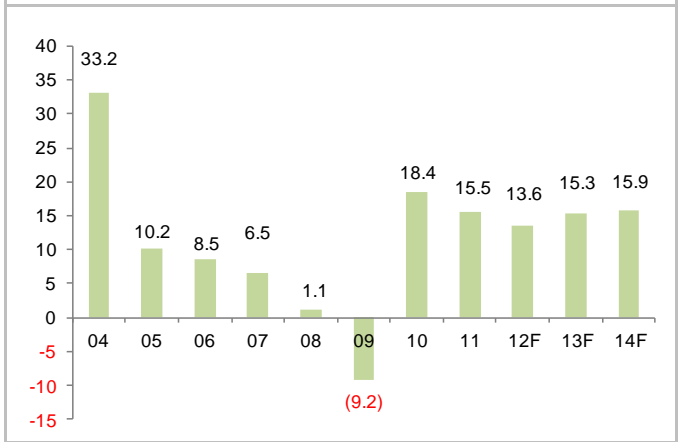
Section 3: Is the company a value creator?

Exhibit 61. ROE (%)



Source: Company data, Leading Research Center

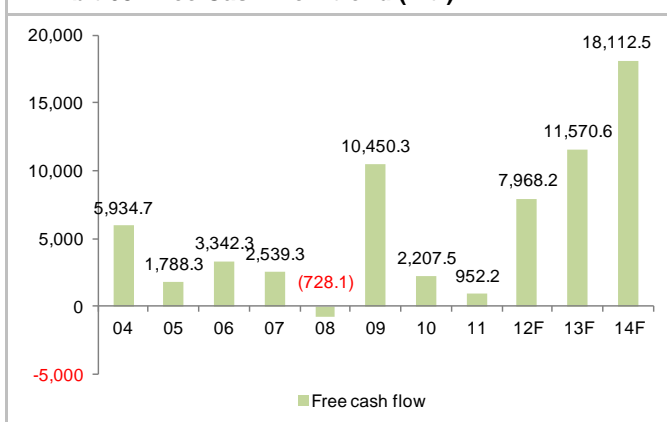
Exhibit 62. ROIC less WACC (%)



Source: Company data, Leading Research Center

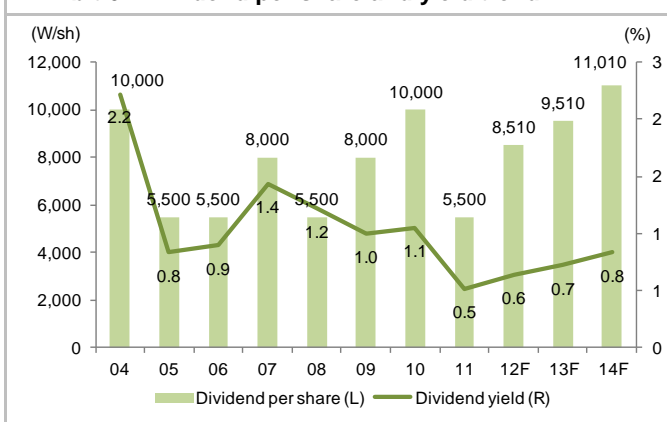
Section 4: Free cashflow generation and dividend policy?

Exhibit 63. Free Cash Flow trend (Wtr)



Source: Company data, Leading Research Center

Exhibit 64. Dividend per share and yield trend



Source: Company data, Leading Research Center

Exhibit 65. Dividends per share and dividend rate trend

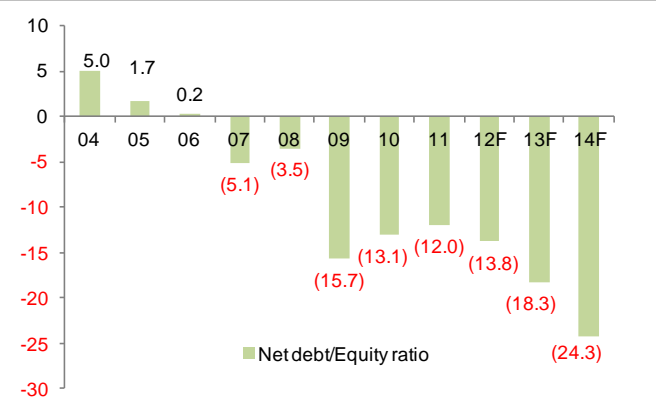
(Wbn)	04	05	06	07	08	09	10	11	12E	13F	14F
Cash from operation	16,432	13,329	15,081	14,791	13,360	18,522	23,827	22,918	35,998	42,826	52,707
CAPEX	10,497	11,540	11,738	12,252	14,088	8,072	21,619	21,966	28,030	31,255	34,595
Free cash flow	10,662	6,589	5,580	5,766	4,757	12,547	6,250	9,097	12,698	11,666	18,190
Total dividend	1,596	849	832	819	1,315	824	1,918	875	1,140	1,448	1,618
Dividend/shr (W/shr)	10,000	5,500	5,500	8,000	5,500	8,000	10,000	5,500	8,510	9,510	11,010
Dividend yield(%)	2.2	0.8	0.9	1.4	1.2	1.0	1.1	0.5	0.6	0.7	0.8

Note: Dividend yield on last price of the year

Source: Company data, Leading Research Center

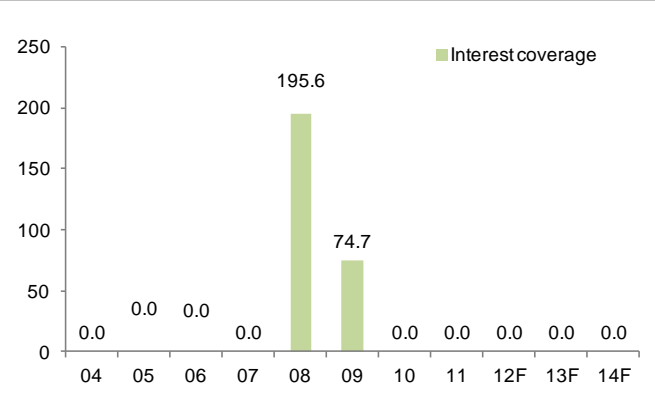
Section 5: Are the debt and interest burden manageable?

Exhibit 66. Net debt/equity ratio (%)



Source: Company data, Leading Research Center

Exhibit 67. Interest coverage (X)



Source: Company data, Leading Research Center

Exhibit 68. Interest bearing debt and interest coverage trend

(Wbn)	04	05	06	07	08	09	10	11	12F	13F	14F
Interest bear debt	17,654	16,432	14,477	14,513	17,455	9,395	10,775	14,647	14,472	14,472	14,472
Cash & equivalents	15,852	15,739	14,372	17,392	19,655	20,883	22,480	26,878	31,577	42,138	59,067
Net int bearing debt	1,802	693	105	(2,879)	(2,200)	(11,489)	(11,705)	(12,231)	(17,106)	(27,666)	(44,595)
Net debt/equity (%)	5.0	1.7	0.2	(5.1)	(3.5)	(15.7)	(13.1)	(12.0)	(13.8)	(18.3)	(24.3)
Net interest	170.1	218.2	294.4	294.1	670.3	535.3	581.1	644.1	616.0	572.3	527.9
Interest coverage (x)	n/a	n/a	n/a	n/a	195.6	74.7	n/a	n/a	n/a	n/a	n/a

Source: Company data, Leading Research Center

Section 6: Earnings Forecast

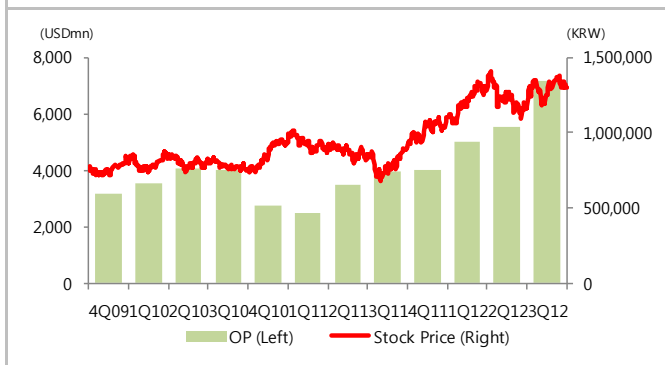
Exhibit 69. Earnings forecast by division

(Wbn)	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12F	2012F	1Q13F	2Q13F	3Q13F	4Q13F	2013F
Earnings									-3.5%	1,756					
Revenue	36,985	39,439	41,274	47,304	165,002	45,271	47,597	52,182	54,196	199,246	52,258	54,985	61,437	66,104	234,784
OP	2,949	3,752	4,253	5,296	16,250	5,850	6,724	8,122	7,839	28,535	7,776	8,136	9,751	10,030	35,693
Pretax profit	3,388	4,165	4,132	5,474	17,159	6,350	6,730	8,247	7,971	29,299	7,887	8,267	9,916	10,187	36,258
NP	2,785	3,506	3,442	4,001	13,734	5,048	5,193	6,598	6,377	23,216	6,310	6,614	7,933	8,149	29,006
Margins(%)															
OPM	8.0	9.5	10.3	11.2	9.8	12.9	14.1	15.6	14.5	14.3	14.9	14.8	15.9	15.2	15.2
Pretax profit margin	9.2	10.6	10.0	11.6	10.4	14.0	14.1	15.8	14.7	14.7	15.1	15.0	16.1	15.4	15.4
NPM	7.5	8.9	8.3	8.5	8.3	11.2	10.9	12.6	11.8	11.7	12.1	12.0	12.9	12.3	12.4
Divisional Earnings Semi.									16.5%						
Revenue	9,176	9,159	9,482	9,173	36,990	7,977	8,597	8,721	9,096	34,390	8,517	8,450	9,371	9,955	36,293
OP	1,645	1,791	1,589	2,314	7,339	762	1,110	1,151	1,342	4,364	1,094	1,141	1,728	1,757	5,721
OPM	17.9	19.6	16.8	25.2	19.8	9.6	12.9	13.2	14.7	12.7	12.8	13.5	18.4	17.7	15.8
Display									-						
Revenue	6,513	7,091	7,085	8,554	29,243	8,536	8,250	8,458	8,567	33,810	7,926	8,474	9,658	9,370	35,429
OP	-229	-213	-86	-221	-749	279	755	1,091	900	3,024	476	593	773	656	2,497
OPM	-3.5	-3.0	-1.2	-2.6	-2.6	3.3	9.1	12.9	10.5	8.9	6.0	7.0	8.0	7.0	7.0
IT & mobile									5.1%						1.243
Revenue	13,691	9,130	14,898	29,730	67,448	23,223	24,044	29,920	31,451	108,636	29,957	31,834	35,167	38,027	134,985
OP	1,458	1,647	2,524	2,504	8,133	4,274	4,187	5,629	5,347	19,437	5,889	6,010	6,823	7,213	25,935
OPM	10.6	18.0	16.9	8.4	12.1	18.4	17.4	18.8	17.0	17.9	19.7	18.9	19.4	19.0	19.2
CE									0.3%						
Revenue	10,475	17,125	14,358	14,000	55,958	10,674	12,222	11,604	11,604	46,104	12,379	12,747	13,762	15,273	54,161
OP	81	530	236	660	1,506	527	714	429	430	2,101	371	446	482	458	1,757
OPM	0.8	3.1	1.6	4.7	2.7	4.9	5.8	3.7	3.7	4.6	3.0	3.5	3.5	3.0	3.2

Source: Company data, Leading Research Center

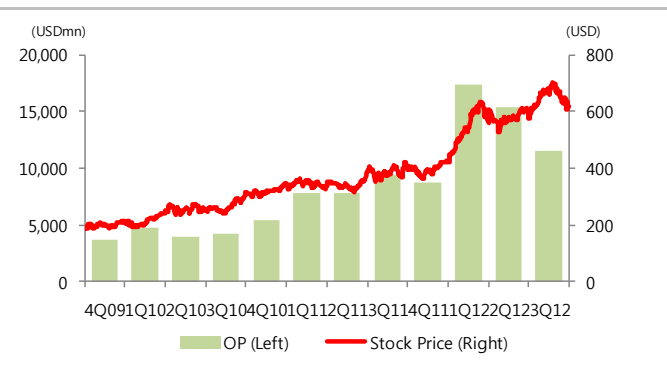
Peer companies operating profit and stock price trend

Exhibit 70. Samsung Electronics



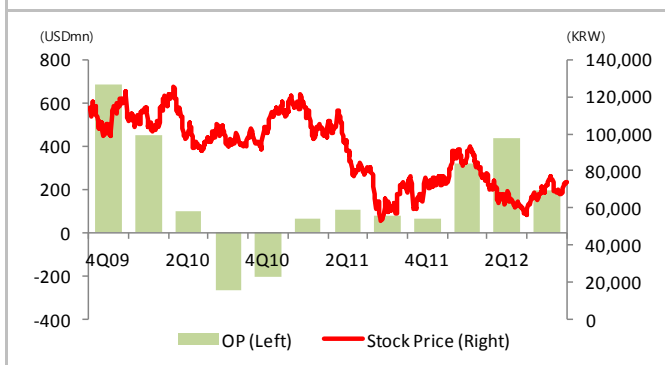
Source: Bloomberg, Leading Research Center

Exhibit 71. Apple



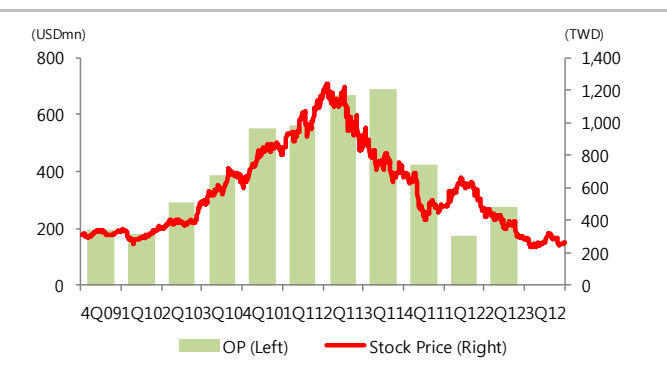
Source: Bloomberg, Leading Research Center

Exhibit 72. LG Electronics



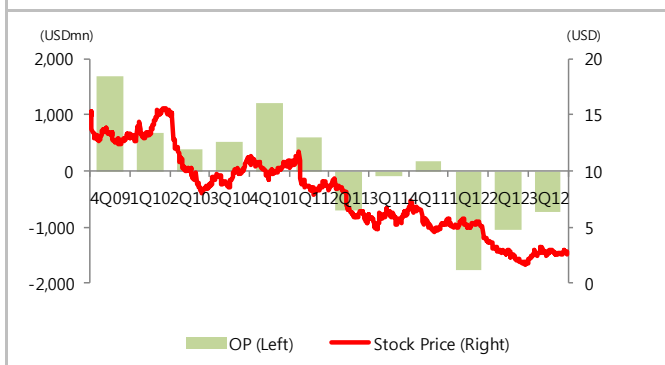
Source: Bloomberg, Leading Research Center

Exhibit 73. HTC



Source: Bloomberg, Leading Research Center

Exhibit 74. Nokia



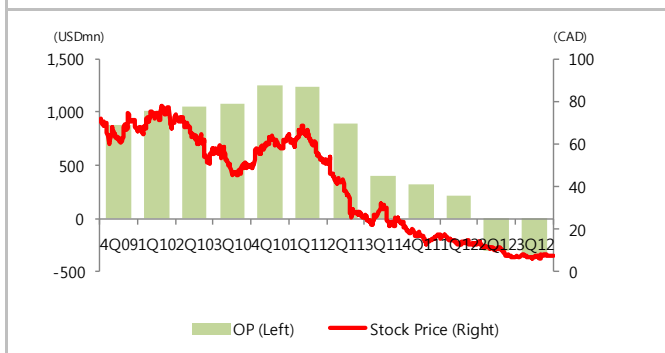
Source: Bloomberg, Leading Research Center

Exhibit 75. ZTE



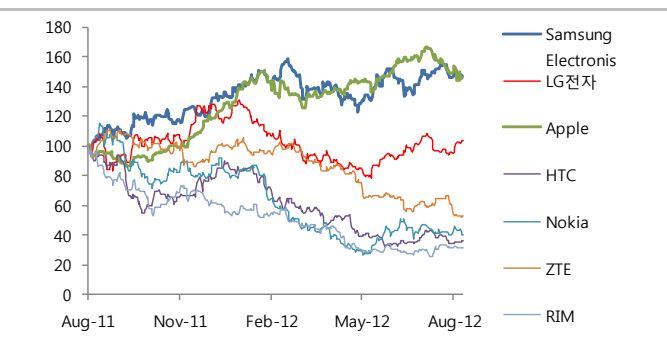
Source: Bloomberg, Leading Research Center

Exhibit 76. RIM



Source: Bloomberg, Leading Research Center

Exhibit 77. relative performance



Source: Bloomberg, Leading Research Center

Financial Statement

Income statement

(Wbn)	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Revenue	81,963	80,630	85,835	98,508	121,294	136,324	154,630	165,002	199,246	234,784	259,869
% chg yoy		(1.6)	6.5	14.8	23.1	12.4	13.4	6.7	20.8	17.8	10.7
COGS	52,953	55,252	60,056	70,881	89,762	94,595	102,667	112,145	127,062	151,762	166,794
Gross profit	29,010	25,378	25,779	27,627	31,532	41,729	51,964	52,857	72,184	83,022	93,075
GP margin (%)	35.4	31.5	30.0	28.0	26.0	30.6	33.6	32.0	36.2	35.4	35.8
SG&A	17,250	17,802	16,650	18,654	25,500	30,749	35,342	37,402	44,194	47,328	51,639
Operating income	11,761	7,575	9,129	8,973	6,032	10,980	16,621	15,455	27,990	35,693	41,436
Adj. OP margin (%)	14.3	9.4	10.6	9.1	5.0	8.1	10.7	9.4	14.0	15.2	15.9
Net other income	0.0	0.0	0.0	0.0	(0.0)	(54.8)	675.5	794.8	544.5	0.0	0.0
Reported OP	11,761	7,575	9,129	8,973	6,032	10,925	17,297	16,250	28,535	35,693	41,436
Net equity method gains	496	342	520	378	838	1,592	2,267	1,399	1,201	1,093	1,079
Financial income	2,393.2	2,528.5	2,714.2	3,492.4	9,777.0	10,619.5	8,545.1	9,030.6	8,920.8	8,483.2	8,554.3
Financial expenses	2,273.4	2,320.4	2,535.3	3,210.5	10,069.0	10,944.8	8,780.0	9,520.5	9,338.5	8,972.3	8,927.9
Income before tax	12,376	8,125	9,828	9,633	6,578	12,192	19,329	17,159	29,318	36,297	42,142
Income tax	2,207	1,218	1,634	1,710	688	2,431	3,182	3,425	6,079	7,245	8,412
Tax rate (%)	17.8	15.0	16.6	17.8	10.5	19.9	16.5	20.0	20.7	20.0	20.0
Net profit	10,169	6,907	8,194	7,923	5,890	9,761	16,147	13,734	23,238	29,052	33,730
Controlling interest	10,790	7,640	7,926	7,421	5,526	9,572	15,799	13,359	22,906	29,052	33,730
Non-controlling	(620.7)	(733.0)	267.6	502.4	364.3	189.0	347.5	374.9	331.9	0.0	0.0
Other comprehensive inc	196.5	249.6	86.7	1,342.6	1,932.7	(3,074.4)	1,102.1	(557.7)	625.4	0.0	0.0
Total comprehensive inc	10,365	7,157	8,280	9,266	7,823	6,686	17,249	13,176	23,864	29,052	33,730

Balance sheet

(Wbn)	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Current assets	31,991	32,240	33,519	40,363	46,833	54,211	61,403	71,502	85,360	106,776	130,332
Cash & equivalents	3,130	4,083	4,222	5,832	8,815	10,150	9,791	14,692	23,129	33,346	49,918
ST financial assets	12,723	11,657	10,150	11,560	10,840	10,734	12,689	12,186	8,449	8,792	9,149
Accounts receivables	7,918	8,500	10,062	12,114	13,602	19,797	21,309	24,153	29,174	35,584	39,440
Inventory	5,804	5,865	6,753	7,969	9,493	9,839	13,365	15,717	19,243	23,471	26,015
Others	2,417	2,136	2,331	2,888	4,084	3,692	4,249	4,755	5,366	5,584	5,811
Non-current assets	37,013	42,222	47,847	53,012	58,467	57,968	72,886	84,129	98,418	110,282	122,662
Tangible Assets	23,962	29,276	33,785	37,381	42,496	43,560	52,965	62,044	74,259	85,798	97,846
LT financial assets	6,065	5,378	6,148	7,642	7,310	14,663	11,375	12,428	13,078	13,078	13,078
Inv in related co's	545	633	658	705	787	1,256	2,779	3,355	3,687	3,711	3,731
Inv in joint ventures	6,441	6,935	7,256	7,285	7,874	(1,511)	5,767	6,302	7,395	7,695	8,007
Others	69,005	74,462	81,366	93,375	105,301	112,180	134,289	155,631	183,778	217,058	252,994
Current liabilities	26,108	24,908	25,515	29,791	32,205	34,204	39,945	44,319	48,213	53,690	57,307
Accounts payables	7,622	7,544	8,188	9,900	10,702	13,543	16,050	18,509	21,595	26,340	29,195
ST financial liabilities	12,058	11,595	10,133	10,440	11,290	8,014	9,554	9,684	8,586	8,586	8,586
Others	6,427	5,770	7,194	9,452	10,213	12,647	14,341	16,126	18,032	18,764	19,526
Non-current liabilities	6,497	7,947	7,911	7,612	10,172	4,930	4,995	9,467	11,696	11,895	12,103
LT payables	207	671	641	639	674	1,121	1,073	1,025	909	909	909
LT financial liabilities	5,596	4,838	4,344	4,072	6,165	1,380	1,222	4,963	5,885	5,885	5,885
Others	694	2,438	2,926	2,901	3,334	2,429	2,701	3,480	4,902	5,101	5,308
Total liabilities	32,604	32,854	33,426	37,403	42,377	39,135	44,940	53,786	59,910	65,586	69,410
Paid-in capital	898	898	898	898	898	898	898	898	898	898	898
Capital surplus	6,240	6,338	6,365	6,575	6,589	4,617	4,404	4,404	4,404	4,404	4,404
Others	(3,270)	(4,898)	(6,461)	(6,872)	(4,789)	(7,015)	(4,726)	(5,244)	(3,609)	(3,609)	(3,609)
Retained earnings	30,577	37,369	44,464	51,065	55,420	71,065	85,015	97,543	119,702	147,306	179,418
Non-controlling interest	1,957	1,900	2,675	4,306	4,807	3,480	3,760	4,246	2,475	2,475	2,475
Total shareholder equity	36,400	41,607	47,940	55,972	62,924	73,045	89,349	101,845	123,869	151,473	183,585

Free cashflow analysis

(Wbn)	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Net profit	10,790	7,640	8,194	7,923	5,890	9,761	16,147	13,734	23,238	29,052	33,730
Adj. for non-cash exp.	7,743	7,994	8,484	9,845	11,996	16,963	14,088	16,476	20,117	19,153	21,988
Depreciation	5,185	6,020	6,873	8,498	10,095	11,138	11,394	13,592	16,463	20,046	22,860
Net FX gains	121	27	79	6	(622)	288	0	0	0	0	0
Net eq method gains	496	342	309	97	539	1,592	2,267	1,399	1,201	1,093	1,079
Others	3,175	2,343	1,999	1,451	1,817	7,706	4,962	4,283	4,855	199	207
Chg in op assets & liab	(2,100)	(2,306)	(1,597)	(2,978)	(4,526)	(6,599)	(5,668)	(4,057)	(6,027)	(5,379)	(3,011)
Incr in WC (decr)	(1,829)	(3,098)	(4,801)	(2,798)	(406)	(11,911)	(9,164)	(7,242)	(10,884)	(15,383)	(9,255)
Others	3,929	5,404	6,398	5,776	4,932	18,510	14,832	11,299	16,911	20,762	12,266
Cash from operations	16,432	13,329	15,081	14,791	13,360	18,522	23,827	22,918	35,998	42,826	52,707
Capital expenditures	10,497	11,540	11,738	12,252	14,088	8,072	21,619	21,966	28,030	31,255	34,595
Free cash flow	5,935	1,788	3,342	2,539	(728)	10,450	2,208	952	7,968	11,571	18,112
Dividend	1,596	849	832	819	1,315	824	1,918	875	1,140	1,448	1,618
Incr in investment assets	1,156	536	64	111	207	(55)	(406)	(5)	576	1,093	1,079
Share issues	0	0	0	0	0	0	0	0	0	0	0
Increase in debt	(5,714)	(1,142)	(1,920)	367	2,773	(622)	1,702	3,758	(468)	0	0
Others	1,536	1,692	(388)	(367)	2,461	(5,813)	(2,756)	1,061	2,653	1,188	1,156
Net cash flow	(996)	953	139	1,610	2,983	3,246	(359)	4,900	8,437	10,218	16,572
Beginning cash	4,126	3,130	4,083	4,222	5,832	6,904	10,150	9,791	14,692	23,129	33,346
Ending cash	(3,130)	(4,083)	(4,222)	(5,832)	(8,815)	(10,150)	(9,791)	(14,692)	(23,129)	(33,346)	(49,918)

Stability ratios

	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Current ratio	123	129	131	135	145	158	154	161	177	199	227
Quick ratio	100	106	105	109	116	130	120	126	137	155	182
Inv. holding period (d)		26	27	27	26	26	27	32	32	33	35
A/R collection period (d)		37	39	41	39	45	49	50	49	50	53
A/P period (days)		34	33	34	31	32	35	38	37	37	39
Interest bear debt (Wbn)	17,654	16,432	14,477	14,513	17,455	9,395	10,775	14,647	14,472	14,472	14,472
Cash & equivalents (Wbn)	15,852	15,739	14,372	17,392	19,655	20,883	22,480	26,878	31,577	42,138	59,067
Net int. bear debt (Wbn)	1,802	693	105	(2,879)	(2,200)	(11,489)	(11,705)	(12,231)	(17,106)	(27,666)	(44,595)
Net debt/equity (%)	5	2	0	(5)	(3)	(16)	(13)	(12)	(14)	(18)	(24)
Liability/equity (%)	90	79	70	67	67	54	50	53	48	43	38
Interest coverage (X)	n/a	n/a	n/a	n/a	196	75	n/a	n/a	n/a	n/a	n/a

Valuations and margins

	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
EV/EBITDA (X)		8.0	6.3	5.1	4.3	5.4	5.0	5.3	3.8	2.9	2.3
EPS (W)		51,868	53,809	50,378	37,515	64,981	107,258	90,694	154,179	195,746	227,271
EPS yoy chg (%)		(28.9)	3.7	(6.4)	(25.5)	73.2	65.1	(15.4)	70.0	27.0	16.1
PER (X)		12.7	11.4	11.0	12.0	12.3	8.8	11.7	8.3	6.6	5.7
BVPS (W)		51,868	53,809	50,378	37,515	64,981	107,258	90,694	154,179	195,746	227,271
P/BVPS (X)		2.8	2.3	1.8	1.3	2.0	1.9	1.8	n/a	n/a	n/a
Dividend/sh (W)		5,500	5,500	8,000	5,500	8,000	10,000	5,500	8,510	9,510	11,010
Dividend yield (%)		0.8	0.9	1.4	1.2	1.0	1.1	0.5	0.7	0.7	0.9
ROE (%)		20.6	18.7	15.3	10.1	15.0	20.4	14.6	20.9	21.5	20.4
ROA (%)		10.7	10.2	8.5	5.6	8.8	12.8	9.2	13.5	14.5	14.4
GP margin (%)		31.5	30.0	28.0	26.0	30.6	33.6	32.0	36.2	35.4	35.8
OP margin (%)		9.4	10.6	9.1	5.0	8.1	10.7	9.4	14.0	15.2	15.9
NP margin (%)		8.6	9.5	8.0	4.9	7.2	10.4	8.3	11.7	12.4	13.0
EBITDA margin (%)		16.9	18.6	17.7	13.3	16.2	18.6	18.1	22.6	23.7	24.7
ROIC (%)		18.6	19.3	16.9	10.9	16.0	23.7	18.1	26.5	28.0	28.0
WACC (%)		9.4	11.7	11.4	9.8	25.8	3.4	1.4	10.5	10.5	10.5
ROIC less WACC (%)		9.3	7.7	5.5	1.1	(9.8)	20.3	16.7	16.0	17.5	17.5

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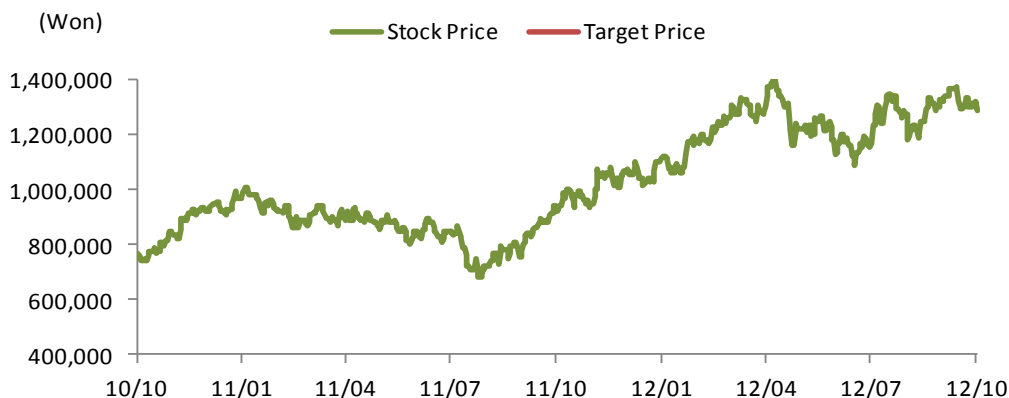
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► Ratings and target price history in past two years

Samsung Electronics (005930 KS)

Date	2012-10-29
Rating	BUY
Target Price	1,920,000

► Target price changes in past two years



► Investment period and ratings

Company

BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

Industry

OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months