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Tech Team

Minha Choi
Senior Analyst
minha22.choi@samsung.com

Yeonghoon Kang
Research Associate
yeonghoon.kang@samsung.com

▶ **AT A GLANCE**

Recommend	BUY	
Target price	KRW68,000	61.9%
Current price	KRW42,000	
Market cap	KRW1.3t/USD0.9b	
Shares (float)	30,058,498 (45.2%)	
52-week high/low	KRW70,700/KRW42,000	
Avg daily trading value (60-day)	KRW3.2b/ USD2.4m	

▶ **ONE-YEAR PERFORMANCE**

	1M	6M	12M
Studio Dragon Corporation (%)	-7.1	-14.3	-39.5
Vs Kosdaq (%pts)	-3.9	-16.8	-37.4

▶ **KEY CHANGES**

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	68,000	74,000	-8.1%
2024E EPS	1,301	2,208	-41.1%
2025E EPS	1,549	2,594	-40.3%

▶ **SAMSUNG vs THE STREET**

No of estimates	12
Target price	62,583
Recommendation	3.9
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

Studio Dragon (253450)

Earnings to remain lackluster throughout 1H

- We believe Studio Dragon's 1Q operating profit tumbled 34.8% y-y to KRW14.1b due to a sharp y-y drop in number of episodes aired. Yet, its new titles likely generated solid earnings given that all aired both on TV channels and global OTT platforms.
- Considering the firm's programming lineup, we expect its earnings to remain lackluster throughout 1H before rebounding h-h in 2H.
- Given Studio Dragon's solid fundamentals, we advise a long-term approach to the stock.

WHAT'S THE STORY?

1Q preview—time to moderate expectations: We now expect Studio Dragon's 1Q results to show consolidated sales and operating profit down 25.5% and 34.8% y-y, respectively, to KRW157.3b and KRW14.1b, the latter missing consensus. We believe y-y deterioration in operating results was unavoidable given that the number of episodes aired tumbled y-y from 112 (specifically, 73 on TV channels and 39 on OTT platforms) to 64 (specifically, 54 on TV channels and 10 on OTT platforms). Despite only modest sales from old titles, new dramas likely generated solid earnings given that all aired both on TV channels and global OTT platforms (such as Netflix, Disney+, and Amazon Prime Video). Moreover, Studio Dragon likely booked some viewership incentives related to popular dramas such as *Marry My Husband* and *Queen of Tears*. In 1Q, it supplied Netflix with 10 episodes of *The Whirlwind*, an original miniseries.

Earnings to stay low through 1H: Considering Studio Dragon's content lineup, we forecast that its earnings will remain lackluster throughout 1H24—although the schedule by which the firm delivers new original content to OTT platforms is subject to change. In 2Q, the company should see few of its episodes air on TV channels, and it should also recognize depreciation cost for the dramas broadcast in 1Q. The company said it will produce at least 24 dramas (13 for TV and 11+ for OTT platforms) this year. Looking at its drama lineup, we expect its earnings to pick up h-h in 2H. Moreover, Netmarble is planning to release MMORPG *Arthdal Chronicles: Three Forces* on Apr 24, which shares the same universe as the *Arthdal Chronicles* drama. Studio Dragon should book a minimum guaranteed commission income and, depending on the game's performance, a share of the revenue.

SUMMARY FINANCIAL DATA

(Continued on the next page)

	2023	2024E	2025E	2026E
Revenue (KRWb)	753	663	778	884
Operating profit (KRWb)	56	53	65	78
Net profit (adj) (KRWb)	30	39	47	55
EPS (adj) (KRW)	1,001	1,301	1,549	1,820
EPS (adj) growth (% y-y)	-40.6	30.0	19.1	17.5
EBITDA margin (%)	32.1	28.2	24.3	23.7
ROE (%)	4.4	5.5	6.3	6.9
P/E (adj) (x)	51.5	32.3	27.1	23.1
P/B (x)	2.2	1.8	1.6	1.5
EV/EBITDA (x)	6.5	6.4	6.3	5.4
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company data, Samsung Securities estimates

To ride out tough times: Industry conditions have yet to improve much, but Studio Dragon clearly has the strengths and fundamentals needed to weather the storm. We recommend a long-term approach to the stock, believing its operating results will bounce back as its content distribution channels expand and as industry conditions gradually improve. Reflecting our new 1Q estimates, we cut our 2024 net profit forecast by 37%. As our 12-month-forward valuation basis rolls forward, we slash our target price by 19% to KRW55,000 (based on 8.6x forward EV/EBITDA; a 30% discount to its three-year average).

Table 1. Quarterly results and forecasts

(KRWb)	1Q23	4Q23	1Q24E	Chg (% q-q)	Chg (% y-y)	Consensus	Diff (%)
Sales	211.1	161.1	157.3	-2.4	-25.5	167.0	-5.8
Operating profit	21.6	-3.8	14.1	nm	-34.8	17.5	-19.6
Operating margin	10.2	-2.4	9.0	nm	-1.3	10.5	-1.5
Pre-tax profit	22.1	-25.8	12.6	nm	-43.2	19.7	-36.3
Net profit (controlling)	18.4	-16.7	9.8	nm	-46.8	15.0	-34.6

Source: Company data, WiseFn, Samsung Securities

Table 2. Results and forecasts

(KRWb)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E	2022	2023	2024E	2025E
Sales	121.1	157.5	228.9	190.5	211.1	163.5	217.4	161.1	157.3	120.5	196.3	189.5	697.9	753.1	663.4	778.2
Programing	35.4	43.8	59.4	54.0	43.2	42.5	35.0	33.4	38.2	26.4	29.6	30.3	192.5	154.1	124.6	140.1
Distribution	77.7	103.9	165.8	132.8	211.1	163.5	217.4	161.1	157.3	120.5	196.3	189.5	480.2	588.9	522.5	620.9
Others	8.0	9.8	3.8	3.7	2.3	2.1	2.3	3.4	3.6	4.9	3.7	4.0	25.2	10.1	16.3	17.2
Gross profit	25.5	35.4	27.4	11.7	30.8	23.9	28.8	4.3	22.1	14.2	25.8	22.8	100.0	87.9	84.9	98.6
SG&A	7.4	8.4	8.4	10.5	9.2	7.7	6.9	8.2	8.1	7.8	7.4	8.5	34.8	32.0	31.8	34.1
Operating profit	18.1	27.0	18.9	1.2	21.6	16.3	21.9	-3.8	14.1	6.3	18.5	14.3	65.2	55.9	53.2	64.5
Non-operating profit	2.0	3.0	6.5	-18.1	0.5	-0.4	3.3	-22.0	-1.5	0.5	0.9	-2.9	-6.6	-18.7	-3.0	-4.8
Pre-tax profit	20.1	30.0	25.5	-17.0	22.1	15.8	25.1	-25.8	12.6	6.9	19.4	11.4	58.6	37.2	50.1	59.7
Net profit (controlling)	15.6	25.6	17.8	-8.5	18.4	10.2	18.2	-16.7	9.8	5.3	15.1	8.9	50.6	30.1	39.1	46.6
Gross margin	21.1	22.5	12.0	6.1	14.6	14.6	13.2	2.7	14.1	11.8	13.2	12.0	14.3	11.7	12.8	12.7
Operating margin	15.0	17.1	8.3	0.6	10.2	9.9	10.1	-2.4	9.0	5.2	9.4	7.6	9.3	7.4	8.0	8.3
Net margin (controlling)	12.9	16.2	7.8	-4.4	8.7	6.2	8.4	-10.4	6.2	4.4	7.7	4.7	7.2	4.0	5.9	6.0
Chg (% y-y)																
Sales	3.4	48.5	97.2	28.8	74.4	3.8	-5.0	-15.4	-25.5	-26.3	-9.7	17.6	43.3	7.9	-11.9	17.3
Programing	-19.1	55.4	64.0	1.5	21.9	-3.1	-41.0	-38.1	-11.5	-37.8	-15.4	-9.1	19.4	-20.0	-19.1	12.4
Distribution	23.0	53.8	155.2	66.4	171.6	57.3	31.2	21.3	-25.5	-26.3	-9.7	17.6	74.3	22.6	-11.3	18.8
Other	-21.5	-5.1	-74.8	-75.3	-71.0	-78.4	-38.3	-7.8	57.4	132.6	58.7	19.2	-49.9	-59.7	60.6	5.4
Gross profit	7.8	74.0	30.5	-20.7	20.8	-32.4	5.2	-63.1	-28.2	-40.8	-10.3	428.4	25.4	-12.1	-3.3	16.1
SG&A	27.7	28.1	31.7	25.1	24.3	-8.7	-17.8	-22.4	-12.7	2.3	6.2	4.1	27.9	-8.0	-0.7	7.3
Operating profit	1.4	95.7	29.9	-81.4	19.3	-39.8	15.4	nm	-34.8	-61.1	-15.5	nm	24.0	-14.3	-4.8	21.4
Non-operating profit	-37.8	1,085.2	67.8	nm	-75.6	nm	-49.9	nm	nm	nm	-72.4	nm	nm	nm	nm	nm
Pre-tax profit	-4.6	113.7	37.9	nm	10.0	-47.3	-1.3	nm	-43.2	-56.7	-22.9	nm	12.7	-36.5	34.7	19.1
Net profit (controlling)	0.4	170.2	20.5	nm	17.8	-60.1	1.9	nm	-46.8	-47.5	-16.9	nm	29.5	-40.5	30.0	19.1
Gross margin	0.9	3.3	-6.1	-3.8	-6.5	-7.8	1.3	-3.5	-0.5	-2.9	-0.1	9.4	-2.0	-2.7	1.1	-0.1
Operating margin	-0.3	4.1	-4.3	-3.7	-4.7	-7.2	1.8	-3.0	-1.3	-4.7	-0.6	9.9	-1.4	-1.9	0.6	0.3
Net margin (controlling)	-0.4	7.3	-5.0	-3.9	-4.2	-10.0	0.6	-5.9	-2.5	-1.8	-0.7	15.0	-0.8	-3.3	1.9	0.1

Source: Company data, Samsung Securities

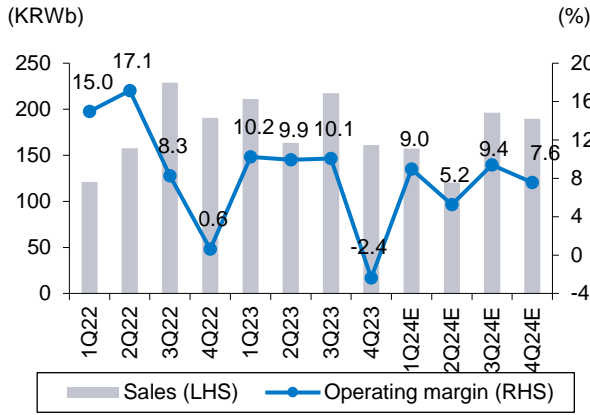
Table 3. Drama lineup (from 2024)

Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Days
2024	1	tvN	Maestra: Strings of Truth	Dec 9 - Jan 14, 2024	12	Choi Yiyun	Kim Jeongkwon	Sat, Sun
	2		Marry My Husband	Jan 1-Feb 20	16	Sin Yudam	Park Wonkook	Mon, Tue
	3		Captivating the King	Jan 21-Mar 3	16	Kim Seonduk	Cho Namkook	Sat, Sun
	4		Wedding Impossible	Feb 26-Apr 2	12	Park Seulki	Kwon Yeongil	Mon, Tue
	5		Queen of Tears	Mar 9-Apr 28	16	Park Jieun	Kim Heewon	Sat, Sun
	6		Graduation (tvN X Tving)	May 11-Jun 30	16	Park Kyeonghwa	Ahn Panseok	Sat, Sun
	7		Player S2: Master of Swindlers	Jun 3-Jul 9	12	Park Sangmoon	So Jaehyun	Mon, Tue
	8		The Auditors	Jul, 2024	16	Choi Minho	Kwon Youngil	Mon, Tue
	9		Mom's Friend's Son	Aug, 2024		Shin Haeun	Yu Jewon	Sat, Sun
	10		Jeong Nyeon	Oct, 2024		Choi Hyobi	Jung Jiin	Sat, Sun
	11		Won Kyung (tvN X Tving)	Dec, 2024	13	Lee Youngmi	Kim Sangho	Mon, Tue
	12	Tving	Study Group	2H24	10	Um Seonho	Lee Janghoon	
	13		Good or Bad Dong Jae	2024		Hwang Hajeong	Park Gunho	
	14	Netflix	Gyeongseong Creature S1 Part 1 (Supply in 4Q23)	Jan 5	3	Kang Eungyeong	Jeong Dongyun	
	15		Hierarchy	2Q24	7	Cho Hyemi	Bae Hyunjin	
	16		Sweet Home 3	2Q24	8		Lee Eungbok	
	17		Gyeongseong Creature S2	3Q24	7	Kang Eungyeong	Jeong Dongyun	
	18		Whirlwind (supply over 1Q24-2Q24)	4Q24	12	Park Kyeongsoo	Kim Yongwan	
	19		Trunk (made by Gtist)	4Q24	8	Park Eunyoung	Kim Kyutae	
	20		Hong Rang	TBD	12	Kim Jin-a	Kim Hongsun	
21	AppleTV+	The Big Door Prize 2 (supply over 3Q23-4Q23)	Apr 24-Jun 12	10	David West Read	Anu Valia		
22	Japan	(Japan) Like Asura	TBD			Koreeda Hirokazu		
TBD	1	tvN	Love on a Single Log Bridge	TBD				
	2		When the Stars Gossip	TBD	20	Seo Sookhyang	Park Shinwoo	
	3	TBD	Everything Will Come True	TBD	12	Kim Eunsook	Lee Byeonghun	
	4		The Price of Confession	TBD		Kwon Jongkwan	Lee Junghyo	
	5		Black Salt Dragon	TBD			Lee Suhyeon	
	6		I'm Against My Romance	TBD		Kim Eun	Lee Eungbok	
	7		The Plotters	TBD			*Cowork with Universal Studio	
	8		Mastermind	TBD			*Cowork with CBS Studio	
	9		Netflix	Crash Landing on you (US)	TBD			

Note: Titles highlighted in green are streamed through Netflix, light blue Tving, and orange Disney+, purple Amazon Prime

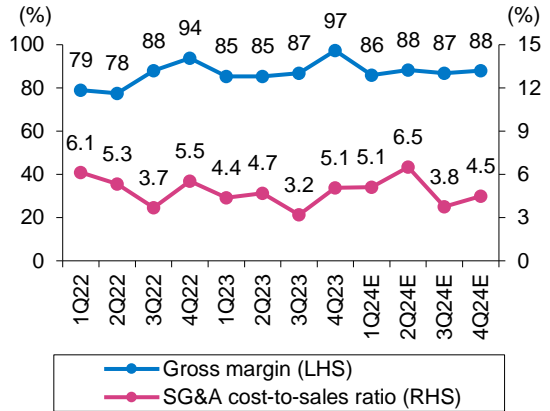
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin



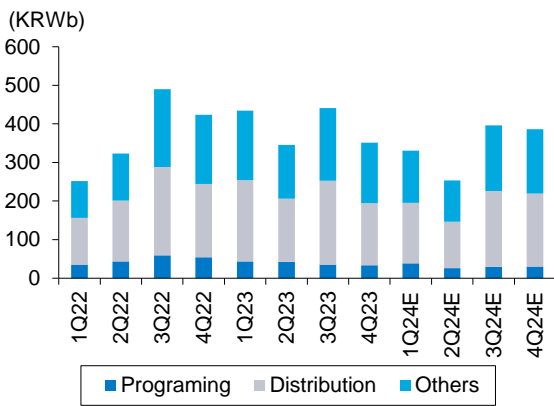
Source: Company data, Samsung Securities

Chart 2. Gross margin vs SG&A cost-to-sales ratio



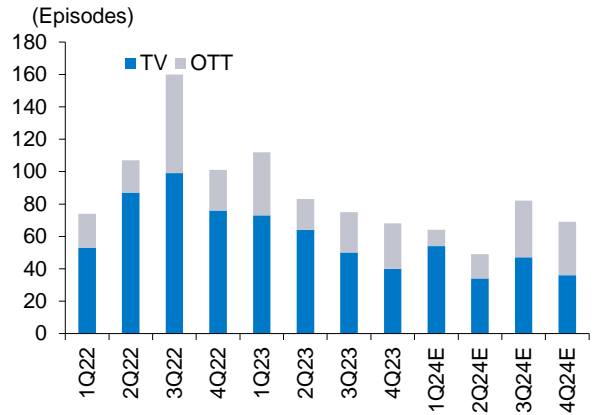
Source: Company data, Samsung Securities

Chart 3. Quarterly sales, by division



Source: Company data, Samsung Securities

Chart 4. Number of episodes supplied, by channel



Source: Company data, Samsung Securities

Chart 5. Marry My Husband (tvN; Jan 1, 2024)



Source: Company data, Samsung Securities

Chart 6. Captivating the King (tvN; Jan 21, 2024)



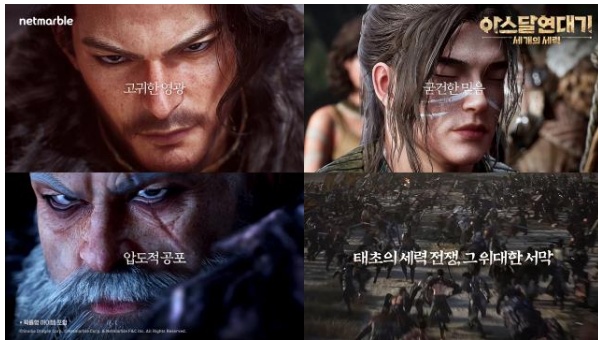
Source: Company data, Samsung Securities

Chart 7. Queen of Tears (tvN; Mar 9, 2024)



Source: Company data, Samsung Securities

Chart 8. Game 'Athdal Chronicles: Three Factions' (Apr 24)



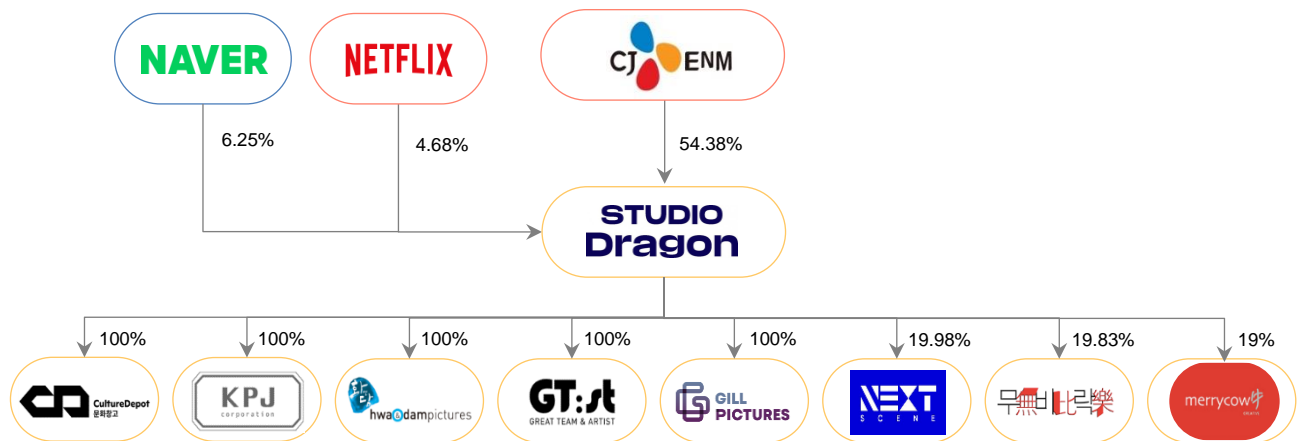
Source: Company data, Samsung Securities

Chart 9. Japanese local drama 'Like Asura'



Source: Company data, Samsung Securities

Chart 10. Ownership structure



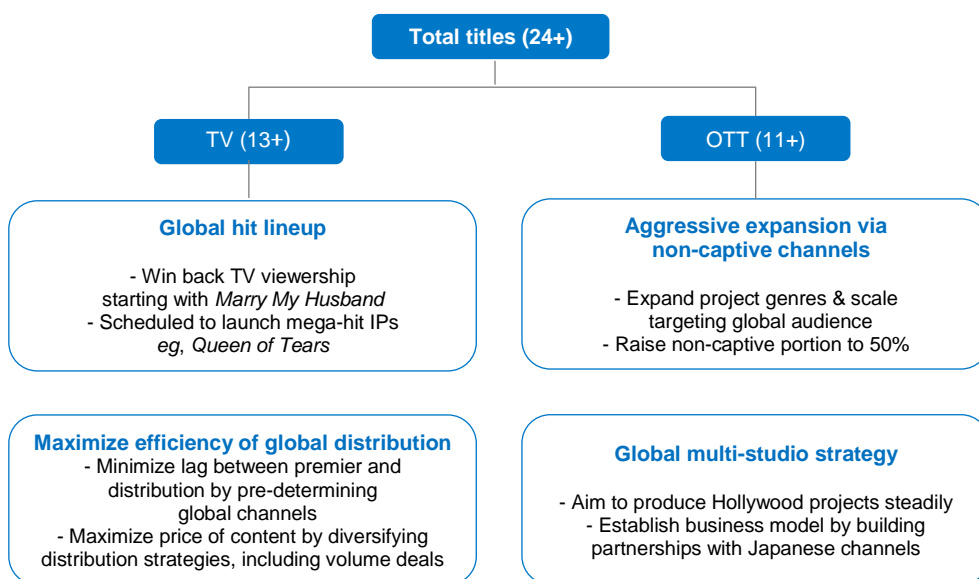
Note: As of 4Q23

Source: Company data, Samsung Securities

Table 4. 2024 strategies to facilitate transition to major global studio

	2017-2023	2024-
Non-captive portion of projects	13%	50%-
In-house portion of production	26%	50%-
Major strategies for platforms	Volume deals	More volume deals
Programming strategies	Mainly programming/distribution; a smaller portion of IP development	Equal parts programming/distribution and IP development

Source: Company data, Samsung Securities

Chart 11. 2024 strategies: Strategic turning point

Source: Company data, Samsung Securities

Table 5. Changes to full-year forecasts

(KRWb)	2024E			2025E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Sales	828.4	663.4	-19.9	941.6	778.2	-17.4
Operating profit	80.5	53.2	-33.9	92.0	64.5	-29.9
OPM (% , %pts)	9.7	8.0	-1.7	9.8	8.3	-1.5
Pre-tax profit	79.9	50.1	-37.2	94.5	59.7	-36.8
NP (controlling)	62.0	39.1	-36.9	73.3	46.6	-36.5

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2022	2023	2024E	2025E	2026E
Sales	698	753	663	778	884
Cost of goods sold	598	665	578	680	770
Gross profit	100	88	85	99	114
Gross margin (%)	14.3	11.7	12.8	12.7	12.9
SG&A expenses	35	32	32	34	37
Operating profit	65	56	53	65	78
Operating margin (%)	9.3	7.4	8.0	8.3	8.8
Non-operating gains (losses)	-7	-19	-3	-5	-8
Financial profit	21	15	10	10	11
Financial costs	19	18	8	6	4
Equity-method gains (losses)	0	0	0	0	0
Other	-9	-16	-5	-10	-15
Pre-tax profit	59	37	50	60	70
Taxes	8	7	11	13	15
Effective tax rate (%)	13.7	19.2	22.0	22.0	22.0
Profit from continuing operations	51	30	39	47	55
Profit from discontinued operations	0	0	0	0	0
Net profit	51	30	39	47	55
Net margin (%)	7.2	4.0	5.9	6.0	6.2
Net profit (controlling interests)	51	30	39	47	55
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	219	242	187	189	210
EBITDA margin (%)	31.3	32.1	28.2	24.3	23.7
EPS (parent-based) (KRW)	1,684	1,001	1,301	1,549	1,820
EPS (consolidated) (KRW)	1,684	1,001	1,301	1,549	1,820
Adjusted EPS (KRW)*	1,684	1,001	1,301	1,549	1,820

Cash flow statement

Year-end Dec 31 (KRWb)	2022	2023	2024E	2025E	2026E
Cash flow from operations	-63	45	189	172	207
Net profit	51	30	39	47	55
Non-cash profit and expenses	176	216	146	137	146
Depreciation	3	3	2	2	1
Amortization	150	183	132	123	131
Other	23	30	12	13	14
Changes in A/L from operating activities	-280	-179	15	1	22
Cash flow from investments	-43	-1	-75	-144	-143
Change in tangible assets	-4	-3	0	0	0
Change in financial assets	0	-4	2	-1	0
Other	-39	6	-77	-143	-144
Cash flow from financing	165	-9	-11	-9	-9
Change in debt	172	-1	-2	0	0
Change in equity	3	0	0	0	0
Dividends	0	0	0	0	0
Other	-9	-8	-9	-9	-9
Change in cash	59	35	80	15	50
Cash at beginning of year	65	124	158	238	253
Cash at end of year	124	158	238	253	304
Gross cash flow	226	246	185	184	201
Free cash flow	-67	42	189	172	207

Note: * Excluding one-off items

** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2022	2023	2024E	2025E	2026E
Current assets	400	405	437	450	503
Cash & equivalents	124	158	238	253	304
Accounts receivable	142	149	115	118	117
Inventories	0	0	0	0	0
Other current assets	135	97	84	80	82
Fixed assets	691	688	637	670	696
Investment assets	150	175	174	179	183
Tangible assets	11	12	10	9	7
Intangible assets	378	359	318	337	359
Other long-term assets	152	141	135	146	146
Total assets	1,091	1,092	1,074	1,120	1,199
Current liabilities	416	368	338	336	359
Accounts payable	16	11	14	15	17
Short-term debt	170	170	170	170	170
Other current liabilities	230	187	154	151	172
Long-term liabilities	14	16	16	16	17
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	14	16	16	16	17
Total liabilities	430	384	353	353	376
Owners of parent equity	661	708	721	767	822
Capital stock	15	15	15	15	15
Capital surplus	473	473	473	473	473
Retained earnings	213	242	281	328	382
Other	-40	-23	-49	-49	-49
Non-controlling interests' equity	0	0	0	0	0
Total equity	661	708	721	767	822
Net debt	59	23	-58	-73	-124

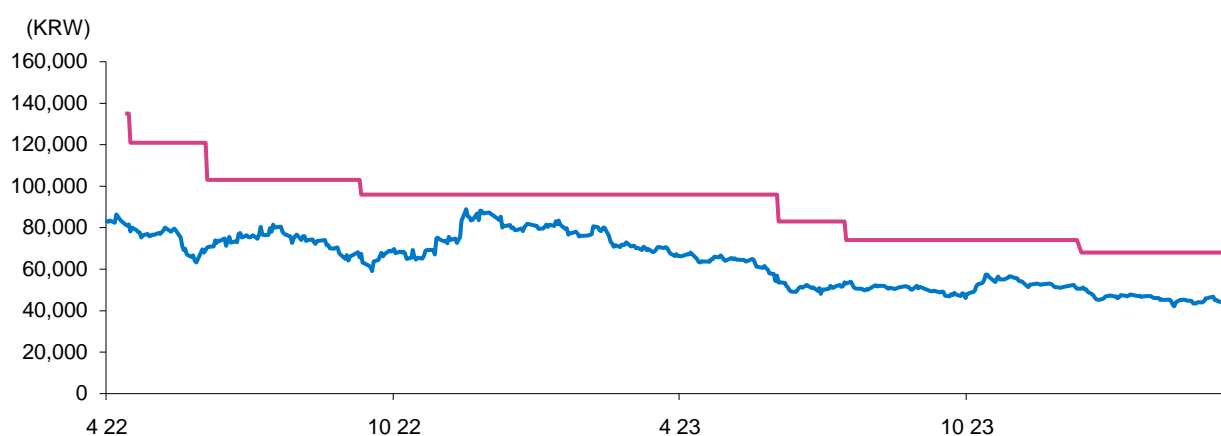
Financial ratios

Year-end Dec 31	2022	2023	2024E	2025E	2026E
Growth (%)					
Sales	43.3	7.9	-11.9	17.3	13.6
Operating profit	24.0	-14.3	-4.8	21.4	20.5
Net profit	29.5	-40.5	30.0	19.1	17.5
Adjusted EPS**	29.4	-40.6	30.0	19.1	17.5
Per-share data (KRW)					
EPS (parent-based)	1,684	1,001	1,301	1,549	1,820
EPS (consolidated)	1,684	1,001	1,301	1,549	1,820
Adjusted EPS**	1,684	1,001	1,301	1,549	1,820
BVPS	21,982	23,546	23,984	25,533	27,353
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	51.1	51.5	32.3	27.1	23.1
P/B***	3.9	2.2	1.8	1.6	1.5
EV/EBITDA	12.1	6.5	6.4	6.3	5.4
Ratios (%)					
ROE	7.5	4.4	5.5	6.3	6.9
ROA	5.1	2.8	3.6	4.2	4.7
ROIC	12.1	8.5	8.3	10.5	12.4
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	8.9	3.3	-8.1	-9.6	-15.1
Interest coverage (x)	13.2	6.4	6.1	7.5	9.0

Compliance notice

- As of 4/12 2024, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
- As of 4/12 2024, Samsung Securities' holdings of shares and debt instruments convertible into shares of each company covered in this report would not, if such debt instruments were converted, exceed 1% of each company's outstanding shares.
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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2021/5/7	2022/5/7	2022/5/12	6/30	10/6	2023/6/29	8/11	2024/1/8	4/15
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	135000	135000	121000	103000	96000	83000	74000	68000	55000
Gap* (average)	-33.60	-39.75	-39.04	-28.47	-24.88	-38.39	-30.14	-32.59	
(max or min)**	-25.78	-39.56	-33.88	-20.87	-7.40	-35.30	-22.57	-24.71	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

Samsung Securities uses the following investment ratings*

Company	Industry
BUY Expected to increase in value by 15% or more within 12 months and is highly attractive within sector	OVERWEIGHT Expected to outperform market by 5% or more within 12 months
HOLD Expected to increase/decrease in value by less than 15% within 12 months	NEUTRAL Expected to outperform/underperform market by less than 5% within 12 months
SELL Expected to decrease in value by 15% or more within 12 months	UNDERWEIGHT Expected to underperform market by 5% or more within 12 months

* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

Percentage of ratings in 12 months prior to 2024.03.31

BUY(77.6%)·HOLD(22.4%)·SELL(0%)

Global Disclosures & Disclaimers

General

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Samsung Securities

SAMSUNG SECURITIES

Samsung Electronics Bldg., 11, 74-gil,
Seochodaero-ro, Seocho-gu, Seoul, Korea 06620
Tel: 02 2020 8000 / www.samsungpop.com

Family Center: 1588 2323

Voice Of Customer: 080 911 0900

**For more information,
please call our sales representatives:**

LONDON

Samsung Securities Europe Limited

1st Floor, 30 Gresham Street, London EC2V 7PG UK
Tel. 44-207-776-4311
Fax. 44-203-837-9219

NEW YORK

Samsung Securities America Limited

1330 Avenue of the Americas. 10th Floor. New York,
NY 10019
Tel: 1-212-972-2454
Fax: 1-212-972-2704

HONG KONG

Samsung Securities (Asia) Limited

Suite 4511, Two International Finance Center,
8 Finance Street, Central, Hong Kong
Tel: 852-3411-3608
Fax: 852-2114-0290

BEIJING

Samsung Securities Beijing Representative Office

Rm. 910, The Exchange Building No 118 JianGuo Lu, Chao
Yang District, Beijing, China
Tel: 86-10-6522-1855 (extension 7891)
Fax: 86-10-6522-1855 (extension 7889)

TOKYO

Samsung Securities Tokyo Representative Office

#106-8532 19F, Roppongi T-Cube 3-1-1,
Roppongi Minato-ku Tokyo, Japan
Tel: 81-3-6333-2952
Fax: 81-3-6333-2953



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