SECTOR UPDATE

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Industrial Team

Youngsoo Han
Team Leader
han.youngsoo@samsung.com

Soyeon Chung
Research Associate
soyeon.chung@samsung.com

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Shipbuilding (OVERWEIGHT)

No greater impact seen from environmental regulation delay

- The IMO has agreed to delay the planned adoption of the Net-Zero Framework (containing compulsory emissions limits and greenhouse gas pricing) for one year.
- Since environmental regulatory tightening has served to push shipbuilding stocks higher, the postponement is likely to hurt investor sentiment towards the sector in the near term.
- We, however, maintain our positive outlook for the sector, noting that: 1) the delay is unlikely to sway shipowners' inclination away from eco-friendly vessels; 2) Korean shipbuilders' flagship vessel types are less affected by the delay; and 3) shipbuilders still boast earnings momentum.

WHAT'S THE STORY?

One-year postponement of IMO Net-Zero Framework... At a second extraordinary session, the IMO's Marine Environment Protection Committee (MEPC) voted to delay by one year the adoption of new requirements on greenhouse gas (GHG) fuel intensity, in combination with a pricing and reward mechanism—dubbed the Net-Zero Framework. The IMO is a United Nations organization with 176 member states. The motion to delay was narrowly passed in a vote of 57 to 49, with other nations absent or abstaining. We believe the result was affected by strong US opposition to the regulation.

...to hit investor sentiment: The news is likely to hurt investor sentiment towards shipbuilding shares in the near term, as environmental regulatory tightening has been a key catalyst behind the run-up of large Korean shipbuilding shares. The market had expected stricter regulations to raise shipbuilding market entry barriers and to trigger an increase in real-order ASPs at larger shipbuilders as shipowners increasingly placed orders for high-spec, eco-friendly vessels.

(Continued on the next page)

AT A GLANCE

HD KSOE (009540 KS, 420,500)		
Target price	KRW520,000	23.7%
BUY		
HD Hyundai Heavy Industries (329180 KS, 509,000)		
Target price	KRW630,000	23.8%
BUY		
HD Hyundai Mipo (010620 KS, 201,000)		
Target price	KRW256,000	27.4%
BUY		
Samsung Heavy Industries (010140 KS, 22,550)		
Target price	KRW27,600	22.4%
BUY		
Hanwha Ocean (042660 KS, 107,200)		
Target price	KRW120,000	11.9%
BUY		
HD Hyundai Marine Solution (443060 KS, 228,000)		
Target price	KRW264,000	15.8%
BUY		

Still positive on shipbuilding stocks: Despite the delay, we remain positive on shipbuilders for the following three reasons.

First, the delay is unlikely to sway shipowners away from their preference for eco-friendly vessels. Last week's IMO decision is not the end but simply a setback—it is part of a journey toward stricter environmental regulations. Shipowners take delivery of vessels at least three years after ordering them, and then use the vessels for over 20 years. Thus, they have to consider future environmental regulations when they place their orders.

Second, Korean shipbuilders have strength in containerships and gas carriers. A worst-case scenario is shipowners delaying orders due to uncertainty over environmental regulations. But even in this event, the impact on the containership and gas carrier segments would be weaker. Containership delivery slots are already fully booked through 2028. In other words, shipbuilders have already secured ample order backlogs. Moreover, there seems to be a widespread belief among containership owners that the global trend toward maritime decarbonization will continue—they have continued to invest heavily in eco-friendly vessels, despite intense US opposition to environmental regulations. Meanwhile, demand for gas carriers is determined by the energy demand mix, not environmental regulations. Moreover, regardless of regulations, gas carriers tend to be propelled by the gas they transport (not traditional fuels) for financial reasons.

Third, we believe strong earnings momentum at shipbuilders should more than offset any drag on sentiment arising from the delay to environmental regulations. We also see it as positive that valuations for Korea's broader industrial sector have remained elevated. While the machinery sector continues to command a valuation premium to the broader market, shipbuilders are still trading at a discount to the machinery sector average. Upward revisions to earnings forecasts, supported by both short- and long-term momentum, should enhance the sector's investment appeal. We recommend viewing any environmental regulation-related corrections as a buying opportunity.

IMO Net-Zero Framework decision postponed for one year

During a second extraordinary session of the IMO's Marine Environment Protection Committee (MEPC), member states voted to postpone the adoption of the Net-Zero Framework on greenhouse gas (GHG) emissions reduction—including the pricing and reward mechanism—for one year. Of the 176 member states, 57 voted in favor of the delay and 49 opposed, while the rest were either absent or abstained. The framework, which was provisionally approved in April, is now scheduled to come into force in Mar 2027.

The motion to delay was proposed by Saudi Arabia. We believe the outcome was heavily influenced by strong US opposition to the carbon tax. The US warned that it would impose additional sanctions on countries that voted in favor of marine environmental regulations, and the US Secretary of State declared the delay a "huge win". In contrast, the European Commission expressed regret over the decision.

Damage to investor sentiment

We expect this decision to dampen investor sentiment for shipbuilding shares in the near term, as stricter environmental regulations have been a key driver behind the rally in large Korean shipbuilders. The market had anticipated that such regulations would raise entry barriers to the shipbuilding market and boost real-order ASPs for larger shipbuilders amid increasing demand for high-spec, eco-friendly vessels. In particular, the pricing and reward mechanism had been expected to have significant ramifications as they were the first major reinforcement measures, making the delay all the more disappointing.

Three reason we remain positive on domestic shipbuilders

Despite the disappointment surrounding the delay, we see no reason to change our positive view on domestic shipbuilders, for three reasons: 1) commitment to eco-friendly vessels should remain intact; 2) Korean shipbuilders are more heavily exposed to less-affected segments; and 3) earnings momentum is likely to offset concerns over the postponement of the Net-Zero Framework.

Shipowners to continue ordering eco-friendly vessels

First, shipowners are unlikely to reverse their commitment to eco-friendly vessels. Last week's IMO decision represents a temporary setback, not an abandonment of the path toward stricter environmental regulations.

It is also notable that global shipyards currently have order backlogs exceeding three years. Vessels ordered today will be delivered from 2H28 at the earliest. Unless maritime environmental regulations are scrapped altogether, shipowners will continue ordering eco-friendly vessels, as delivery typically occurs three years after orders are placed.

Above all, vessels have a lifespan of more than 20 years—long enough for the US energy policy landscape to shift. And with Europe maintaining firm support for environmental regulations and China showing no opposition, we believe shipowners' preference for eco-friendly vessels will remain intact.

Korean shipbuilders' strength lies in gas carriers and containerships

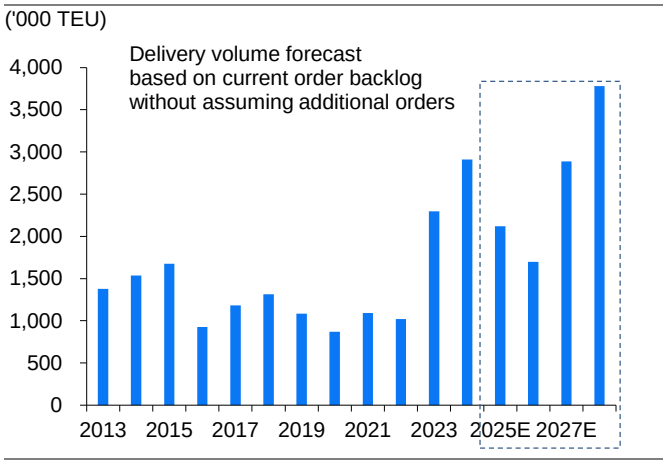
Second, the worst-case scenario from the IMO delay would be shipowners postponing purchase decisions due to uncertainty surrounding environmental regulations—not abandoning eco-friendly vessels altogether. Greater regulatory uncertainty could lead to delays in both scrapping aging vessels and ordering new ones. This underscores the need to secure additional order momentum. However, even if orders are delayed, the impact should be limited for large Korean shipbuilders given their strong focus on gas carriers and containerships.

In the containership segment, all delivery slots have already been fully booked through 2028 after an extended wave of large-scale orders. Shipowners placing new orders today would be looking at delivery beyond 2028, meaning they must factor in future environmental regulations. Moreover, there seems to be a widespread belief among containership owners that the global shift toward maritime decarbonization will continue. US opposition to environmental regulations has long been known, yet containership companies have remained aggressive in investing in eco-friendly vessels this year. Even last week, while the IMO MEPC was meeting, Korean shipping company HMM placed a massive order for eco-friendly, LNG dual-fueled containerships.

Orders for gas carriers are relatively insensitive to environmental regulations. Demand for these vessels is shaped by energy demand dynamics rather than regulation. For instance, demand for LNG carriers—the largest portion of the gas carrier market—is driven by the construction of natural gas production facilities. Thus, the expansion of US LNG exports and Europe's efforts to diversify its energy mix are more meaningful drivers. In addition, energy carriers are typically powered by the fuel they transport (for financial reasons), making eco-friendly propulsion an inherent characteristic of the segment. As a result, orders for such vessels are expected to grow regardless of regulatory developments.

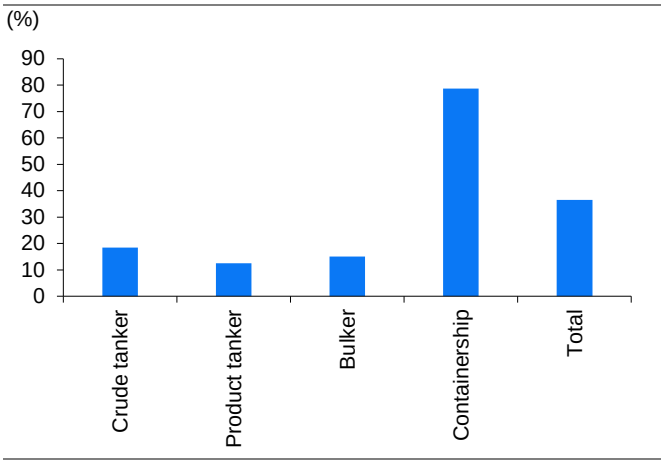
By contrast, shipowners in the bulk carrier and oil tanker segments are more likely to delay purchase decisions. These segments have smaller order backlogs than containerships—so they expect additional orders—and have seen less aggressive investment in eco-friendly vessels. If orders are delayed, the impact would likely be heavier on smaller and mid-sized Chinese shipyards, which focus on bulk carriers and oil tankers, than on Korean yards.

Containership: Deliveries and forecasts



Source: Clarksons

Dual-fuel vessel portion of orderbook, by vessel type



Note: Including 'dual-fuel ready' vessels
Source: Clarksons

Earnings momentum to offset impact of environmental regulation delay

Third, we expect any negative impact on share prices to be short-lived, as strong earnings momentum at shipbuilders should offset the deterioration in investor sentiment stemming from the IMO decision. This is supported by a rising share of high-priced orders in the sales mix, stabilization of cost factors, and improving productivity among recently hired foreign workers—all structural tailwinds. Korea's major shipbuilders delivered solid 2Q results and are set to report robust 3Q numbers. While we anticipate some one-off costs (such as those associated with wage settlements, mergers, and industrial accidents), we believe earnings will remain solid on a q-q basis once differences in business days and seasonality are factored in.

We also view market expectations for shipbuilders' earnings as undemanding. The current market consensus for 2027 operating margins stands at around 15%, above the 13% peak during the previous industry boom. If 3Q earnings exceed expectations, consensus estimates are likely rise. Currently, shipbuilders are largely recognizing revenue from contracts signed in 2022. Compared to 2022 levels, the shipbuilding price index rose 7% in 2023 and 17% in 2024 (or 8% and 24%, respectively, on a forex-adjusted basis). The share of higher-priced orders in the sales mix should continue to increase.

We also see it as positive that valuations for Korea's broader industrial sector have remained elevated. The machinery and equipment sector's valuation has risen despite macro uncertainties, while shipbuilders are not trading at a premium to the sector. With increases to earnings forecasts likely, investor preference for shipbuilders (among industrials) should remain firm. Reflecting favorable currency movements and rapid deleveraging, we raise our earnings estimates and target prices for major shipbuilders.

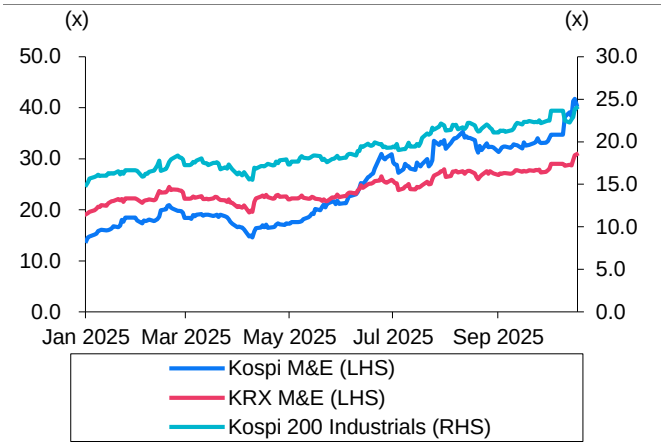
We raise our target price for HD KSOE to KRW520,000 to reflect the rising value of its stakes in subsidiaries. We also lift our target prices for SHI and Hanwha Ocean to KRW27,600 and KRW120,000, respectively, applying a target P/E multiple of 28x (the same as for HD HHI) and shifting our valuation base to 2026 earnings. Our target multiple of 28x corresponds to the average P/E at which the domestic machinery sector (KRX Machinery & Equipment Index) was trading when we previously set our target price for HD HHI. Domestic machinery sector names are currently trading at an average of 31x.

Top-5 builders: Operating margin (consensus)

	HD HHI	HD Mipo	HD Samho**	SHI	Hanwha Ocean	Avg*
1H25 operating margin	11.4	6.5	18.1	6.3	9.8	10.6
2025E consensus	12	7.5	18.4	7.7	10.5	11.3
2027E consensus	16.3	2	22.2	11.9	14.1	15.3
20-year high	16	15.2	19.1	8.3	10.8	12.7

Note: FnGuide, Samsung Securities
Source: *Summing top-5 shipbuilders' sales and operating profits;
**Excluding HD KSOE, HD HHI, and HD Hyundai Mipo

2026 P/E: KRX Industrials Index vs KRX M&E* Index



Note: *Machinery & Equipment
Source: FnGuide

Target-price changes

(KRW)	New	Old	Diff (%)	Changes
HD KSOE	520,000	460,000	13.0	Increase in value of stakes in subsidiaries
Samsung Heavy	27,600	24,000	15.0	Change in valuation base (2025 → 2026)
Hanwha Ocean	120,000	113,000	6.2	Change in valuation base (2025 → 2026)

Source: Samsung Securities

Appendix: 3Q preview, peer valuations, and weekly shipbuilding index

Shipbuilding: 3Q25 earnings preview

(KRWb)	3Q25E	2Q25	Chg (% q-q)	3Q24	Chg (% y-y)	Consensus	Diff (%)
HD HHI							
Sales	3,990	4,147	-3.8	3,609	10.6	4,013	-0.6
Operating profit	451	471	-4.2	206	119	483	-6.5
Pre-tax profit	470	280	67.7	87	439.7	461	2.0
Net profit (controlling)	362	211	71.6	78	363.8	348	4.1
HD Mipo							
Sales	1,106	1,234	-10.4	1,078	2.6	1,202	-8.0
Operating profit	87	89	-2.3	35	147.8	95	-8.1
Pre-tax profit	104	28	273.6	3.0	3,567.70	106	-2.0
Net profit (controlling)	78	22	252.2	0.0	nm	71	10.8
HD KSOE							
Sales	7,024	7,428	-5.4	6,246	12.5	7,093	-1.0
Operating profit	873	954	-8.4	398	119.2	933	-6.4
Pre-tax profit	835	546	52.9	217	284.9	839	-0.6
Net profit (controlling)	534	356	49.9	151	253.7	533	0.3
Samsung Heavy							
Sales	2,687	2,683	0.2	2,323	15.7	2,688	0.0
Operating profit	218	205	6.6	120	82.2	215	1.5
Pre-tax profit	198	215	-7.7	72	176.2	184	7.8
Net profit (controlling)	148	214	-30.9	74	99.9	163	-9.4
Hanwha Ocean							
Sales	3,200	3,294	-2.9	2,703	18.4	3,293	-2.8
Operating profit	311	372	-16.3	26	1,115.90	350	-11.2
Pre-tax profit	271	151	79.9	-73	nm	327	-17.1
Net profit (controlling)	212	148	42.5	-75	nm	267	-20.8

Source: Company data, FnGuide, Samsung Securities estimates

Shipbuilding: Peer valuation

(KRWb)		HD KSOE	HD HHI	Samsung Heavy	Hanwha Ocean	HD Mipo
Sales	2024	25,539	14,486	9,903	10,776	4,630
	2025E	29,001	16,246	10,658	13,232	4,896
	2026E	32,822	18,338	12,522	14,788	5,783
	2027E	36,933	22,115	13,984	15,749	6,004
Operating profit	2024	1,434	705	503	238	89
	2025E	3,574	1,890	791	1,305	344
	2026E	4,757	2,578	1,271	1,723	565
	2027E	6,198	3,844	1,580	1,900	619
P/E (x)	2024	25.4	72.7	310.7	62.2	76.1
	2025E	14.1	34.7	33.2	36.1	30.4
	2026E	10.0	22.9	22.9	25.7	19.1
	2027E	7.7	15.2	17.5	22.6	17.1
P/B (x)	2024	2.7	7.9	5.2	6.8	3.9
	2025E	2.3	6.8	4.6	5.8	3.6
	2026E	2.0	5.6	4.0	4.7	3.1
	2027E	1.6	4.4	3.4	3.9	2.8
EPS growth (%)	2024	428.8	2,417.7	-143.1	230.3	nm
	2025E	79.4	109.8	836.8	72.1	150.2
	2026E	41.4	51.5	45.0	40.8	59.1
	2027E	30.2	50.4	30.7	13.3	11.6
ROE (%)	2024	11.0	11.4	1.8	11.5	5.3
	2025E	17.3	21.1	14.7	17.2	12.3
	2026E	22.2	26.9	18.6	20.2	17.5

Source: Samsung Securities estimates

Shipbuilding weekly indices

	This week	A week ago		Vs end-2024	
	Oct 17, 2025	Oct 10, 2025	Chg (%)	End-2024	Chg (%)
New building prices (USDm)					
Overall (indexed)	185.3	185.3	0.0	189.2	-2.0
Bulkers (Capesize)	73.0	73.0	0.0	76.0	-3.9
Tankers (VLCC)	126.0	126.0	0.0	129.0	-2.3
Tankers (51,000 DWT PCs)	48.5	48.5	0.0	52.0	-6.7
Containerships (22,000 TEU)	238.0	239.0	-0.4	244.0	-2.5
Containerships (13,000 TEU)	148.0	148.0	0.0	153.0	-3.3
LNG carriers (174,000m³)	249.0	249.0	0.0	260.0	-4.2
Secondhand prices (USDm)*					
Overall	188.0	187.0	0.5	176.0	6.8
Bulkers (Capesize)	65.0	65.0	0.0	62.0	4.8
Tankers (VLCC)	118.0	118.0	0.0	114.0	3.5
Tankers (51,000 DWT PCs)	43.0	43.0	0.0	42.0	2.4
Daily charter rates (USD)**					
Bulkers (Capesize, eco)	24,950	24,400	2.3	18,500	34.9
Bulkers (Capesize, non-eco)	23,950	23,400	2.4	17,500	36.9
Tankers (VLCC, eco)	54,250	52,000	4.3	41,000	32.3
Tankers (VLCC, non-eco)	49,750	49,000	1.5	37,250	33.6
Freight rate index					
ClarkSea Index (USD/day)	30,461	28,977	5.1	21,965	38.7
BDI	2,069	1,936	6.9	997	107.5
WS (based on Saudi route)	98	93	5.4	40	143.8
CCFI	973	1,015	-4.1	1,515	-35.8
SCFI	1,310	1,160	12.9	2,460	-46.7
Energy prices***					
Natural gas (USD/mil BTU)	2.7	2.9	-8.6	3.4	-22.1
Oil (USD/bbl)	57.5	58.9	-2.3	71.7	-19.8
MGO-HSFO (USD/tonne)	275.0	274.8	0.1	205.5	33.8
VLSFO-HSFO (USD/tonne)	67.0	72.5	-7.6	87.0	-23.0

Note: *Based on 5-year-old vessels
**1-year charters
***based on WTI spot (oil) and Henry Hub (natural gas) prices
Source: Clarksons, Bloomberg, Samsung Securities

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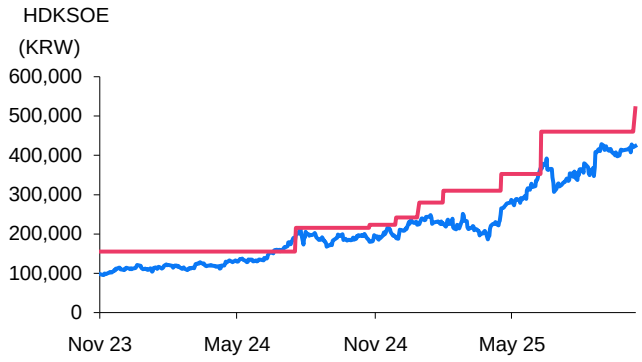
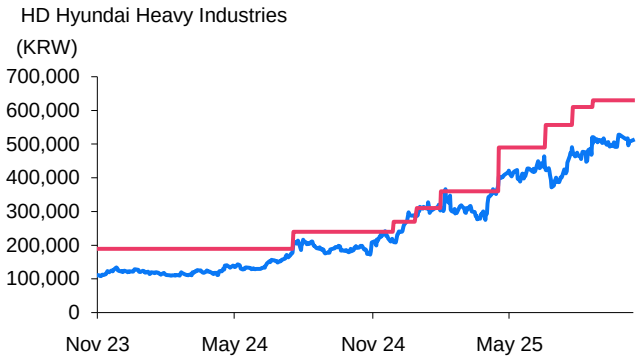
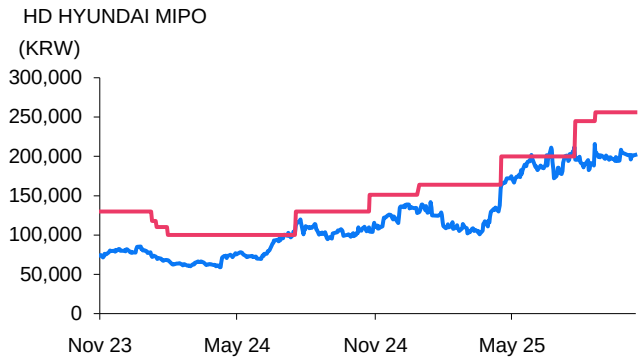
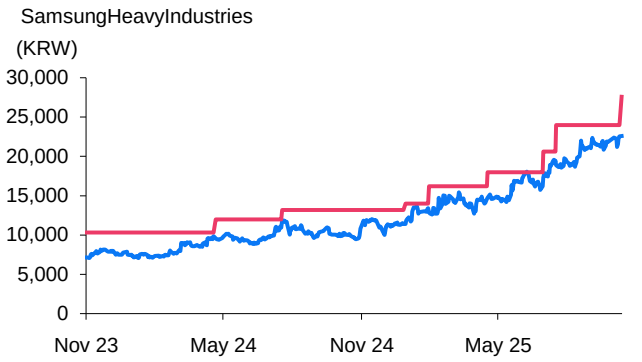
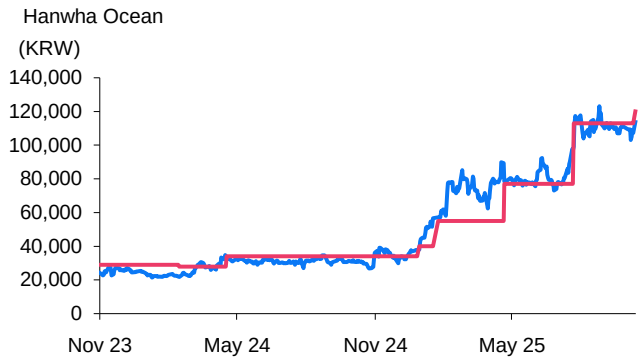
Target price changes in past two years

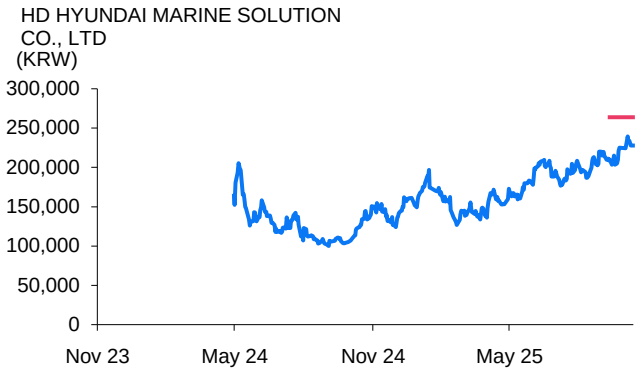












Rating changes over past two years (adjusted share prices)

HDKSOE										
Date	2023/7/13	2024/7/13	2024/7/26	11/1	12/6	2025/1/6	2/7	4/25	6/17	10/20
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	155000	155000	216000	223000	242000	280000	310000	353000	460000	520000
Gap* (average)										
(max or min)**										

HD Hyundai Heavy Industries										
Date	2023/7/13	2024/7/13	2024/7/26	12/6	2025/1/6	2/7	4/25	6/26	8/1	8/28
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	189000	189000	240000	270000	310000	360000	490000	557000	610000	630000
Gap* (average)	-33.76	-10.04	-16.98	-5.02	-0.44	-12.25	-14.73	-25.30	-22.82	
(max or min)**	-16.61	-6.08	0.83	10.37	5.48	4.44	-5.41	-11.94	-14.59	

HD HYUNDAI MIPO										
Date	2023/7/13	2024/1/17	1/23	2/7	7/26	11/1	2025/1/6	4/25	8/1	8/28
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	130000	118000	110000	100000	130000	151000	164000	200000	245000	256000
Gap* (average)	-36.65	-38.22	-37.45	-25.70	-18.97	-18.15	-27.70	-6.61	-21.32	
(max or min)**	-27.54	-37.37	-35.91	4.20	-7.69	-8.01	-3.35	6.00	-11.84	

SamsungHeavyIndustries									
Date	2023/7/13	2024/4/29	7/26	2025/1/6	2/6	4/25	7/8	7/25	10/20
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	10300	12000	13200	14000	16200	18000	20600	24000	27600
Gap* (average)	-22.09	-19.43	-18.76	-8.59	-13.15	-11.28	-10.26	-13.95	
(max or min)**	-4.37	-7.58	-8.86	-2.36	-4.69	0.39	-5.00	-6.04	

Hanwha Ocean									
Date	2023/8/24	10/26	2024/2/22	4/25	2025/1/6	1/31	4/29	7/30	10/20
Recommendation	HOLD	HOLD	BUY	HOLD	HOLD	HOLD	HOLD	BUY	BUY
Target price (KRW)	28429	29000	28000	34000	40000	55000	77000	113000	120000
Gap* (average)	5.59	-16.52	-2.39	-5.92	23.37	33.92	5.22	-1.68	
(max or min)**	-14.17	-4.83	24.11	15.29	41.75	3.82	-5.06	9.03	

HD HYUNDAI MARINE SOLUTION CO., LTD	
Date	2025/9/19
Recommendation	BUY
Target price (KRW)	264000
Gap* (average)	
(max or min)**	

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

BUY	Expected to increase in value by 15% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 15% within 12 months
SELL	Expected to decrease in value by 15% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% 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 2025.09.30

BUY(83.5%)·HOLD(16.5%)·SELL(0%)

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Samsung Securities

SAMSUNG SECURITIES

Samsung Electronics Bldg., 11, 74-gil,
Seochodae-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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SAMSUNG SECURITIES

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

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**For more information,
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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
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