

# Exhibit 16



The Asia Specialist

## KOREA

005930 KS Outperform

Price 29 Oct 10 Won745,000

12-month target	Won	980,000
Upside/Downside	%	31.5
Valuation	Won	980,000

- Price To Book

## GICS sector

## Semiconductors &amp; Semiconductor

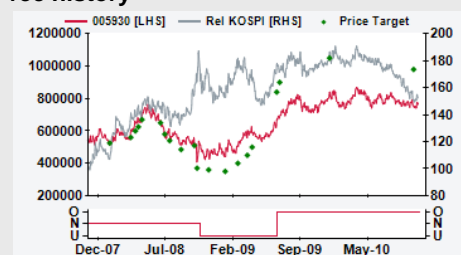
## Equipment

Market cap	Wonbn	109,739
30-day avg turnover	US\$m	254.8
Market cap	US\$m	96,253
Number shares on issue	m	147.3

## Investment fundamentals

Year end 31 Dec	2009A	2010E	2011E	2012E
Total revenue	bn 136,32	152,06	156,18	175,87
	4	6	7	5
EBIT	bn 10,925	17,208	15,385	19,328
EBIT growth	% 164.3	57.5	-10.6	25.6
Reported profit	bn 9,761	14,799	13,186	16,737
Adjusted profit	bn 9,761	14,558	12,864	16,329
EPS rep	Won 57,370	86,982	77,501	98,374
EPS rep growth	% 76.6	51.6	-10.9	26.9
EPS adj	Won 57,370	85,568	75,613	95,977
EPS adj growth	% 83.6	49.2	-11.6	26.9
PER rep	x 13.0	8.6	9.6	7.6
PER adj	x 13.0	8.7	9.9	7.8
Total DPS	Won 8,000	12,500	8,000	8,000
Total div yield	% 1.1	1.7	1.1	1.1
ROA	% 11.8	14.1	11.1	12.7
ROE	% 14.9	18.1	13.6	15.1
EV/EBITDA	x 5.0	3.7	3.7	3.2
Net debt/equity	% -15.7	-15.7	-19.2	-25.9
P/BV	x 1.7	1.4	1.3	1.1

## 005930 KS rel KOSPI performance, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, October 2010

(all figures in Won unless noted)

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29 October 2010

# Samsung Electronics

## Galaxy S phone keeps shining

## Event

- We provide a few key takeaways and implications from the 3Q10 results of Samsung Electronics (SEC).

## Impact

- 3Q10 OP in line with pre-guidance.** Without the one-off provision of Won230bn on a few patent-related issues, OP would have been Won5.10tr instead of Won4.87tr (down 3% QoQ and up 15% YoY). Management said earnings were inflated by Won200bn on a favourable forex rate. Guidance on 4Q10 is mixed – positive on handsets/TVs and negative on memory chips/LCDs. It expects 2011 to normalise with a slow 1H and strong 2H.
- Record high semiconductor earnings with OPM of 32%.** Despite rapidly falling PC DRAM prices in September, SEC's advanced tech migration to 46nm/35nm along with 25% bit growth helped to expand its DRAM margin. It is interesting to see that SEC was more cautious on the mobile DRAM market in 2011 than Hynix (000660 KS, Won23,150, UP, Won24,000). Management remains optimistic on NAND due to significant growth in the embedded NAND and SSD markets.
- Far better TFT-LCD profits than its peers.** This division's operating margin of 6.4% exceeded LG Display's (034220 KS, Won38,500, OP, TP: Won50,000) 2.7% and AUO's (2409 TT, NT\$30.55, OP, NT\$38) 0.2%. Samsung Mobile Display contributed 30% to LCD profits, thanks to booming AMOLED demand.
- Strong growth momentum confirmed in handset division.** SEC's handset business beat the 10% OPM of the entire telecom division; considering the weak network business (7% of the telecom division) in 3Q10. SEC appears confident about maintaining a 10%+ margin in 4Q10, given the continued success of the Galaxy S phone and planned launch of low-end smartphones.
- Digital Media division performance was disappointing.** Home appliance posted bigger losses due to higher input costs as well as continued investments. The TV business is estimated to command a lower margin than 3Q's margin at around 1–2%.

## Earnings and target price revision

- No change in earnings and target price.

## Price catalyst

- 12-month price target: Won980,000 based on a Price to Book methodology.
- Catalyst: Memory chip and LCD prices. 2011 capex budget guidance.

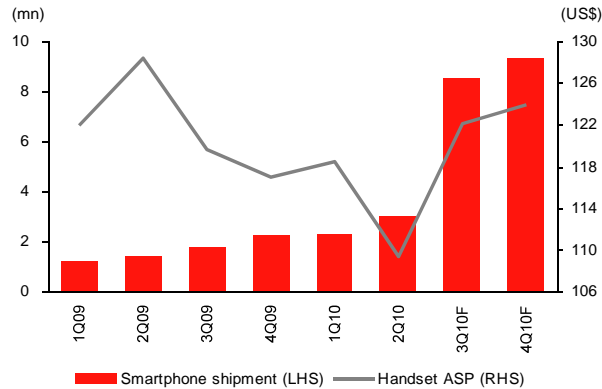
## Action and recommendation

- We are encouraged by SEC's resilient 3Q10 earnings in memory and TFT-LCDs, while the handset division should continue to surprise on the upside. Investors should take advantage of the current weak memory market to raise exposure to SEC. An industry leader in various sub-sectors, it is trading at 9x PER and 1.4x book value with 18% ROE. Outperform.

### Telecom division: success of the Galaxy S smartphone

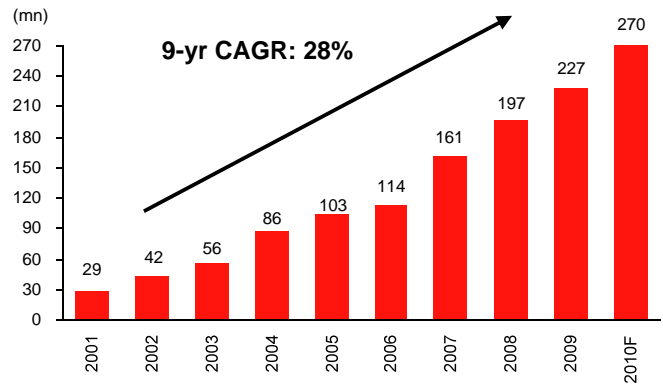
- **Strong growth momentum in handset division.** SEC's handset business registered a better than reported 10% OPM for the telecom business; considering the weak network business (7% of the telecom division) in 3Q10. SEC seems confident about maintaining a 10%+ margin in 4Q10, given the continued success of the Galaxy S phone and planned launch of low-end smartphones.
- **Galaxy S a huge hit.** Samsung's premium smartphone, Galaxy S, has sold 7m units since its introduction in June and the company targets to sell 10m units by the end of this year. We maintain that SEC is the major beneficiary of the huge success of Apple's iPhone. SEC successfully positioned itself as a major alternative to Apple's iPhone series to telecom operators as well as end customers. Ironically, SEC's bargaining power has never been higher than now against major telecom operators. Accordingly, we expect SEC to vie for the title of the world's largest handset company in revenue terms in 2011 along with Nokia and Apple.
- **Targets to sell more than 6m units of Galaxy tablet PC in 2011.** SEC plans to introduce its own tablet PC, Galaxy Tab, through major telecom operators worldwide. The estimated tablet PC market size, according to SEC, is 50m units in 2011, and the company claims that it will sell far more than 6m units.

**Fig 13 Smartphone volume and blended handset ASP**



Source: Company data, Macquarie Research, October 2010

**Fig 14 Annual handset total shipment**



Source: Company data, Macquarie Research, October 2010