SECTOR
UPDATE

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Shipbuilding/Machinery Weekly

By which yardstick to assess shipbuilders' results?

- The Clarksons Newbuilding Price Index remained unchanged w-w last week at 187, though prices of LNG carriers slipped. The Secondhand Price Index also stayed flat w-w at 181.
- The ClarkSea Index (which is used to determine vessels' earnings) dropped 2% w-w last week, with figures falling across the board.
- Recent share-price corrections have led to concerns over shipbuilding earnings (though what drove such concerns differs by investor). We need a reliable yardstick for comparing shipbuilders' 2Q earnings.

WHAT'S THE STORY?

A yardstick to assess shipbuilding results

Last week, many investors raised concerns over shipbuilders' 2Q earnings, though there was little agreement on the appropriate yardstick for comparison—some focused on y-y growth, others on q-q changes, and still others on performance relative to consensus forecasts. In our view, these concerns were not driven by specific news flows but rather by last week's share-price corrections, which appear to have triggered concerns over near-term developments.

Domestic shipbuilders delivered meaningful profitability improvement in 1Q. Notably, HD Hyundai Heavy Industries and HD Hyundai Samho posted double-digit margins, with earnings comparable to levels seen during the previous industry boom. Shipbuilders' profitability has been improving in a step-wise manner of late, at intervals of 2-3 quarters. We believe it will be at least two quarters before shipbuilders see a shift in vessel mix, noting: 1) that it generally takes around 10 months to construct a commercial vessel; and 2) how shipbuilding price hikes have moved in the past. We do not believe shipbuilders saw a sharp q-q shift in their sales mix in 2Q. Moreover, the won had strengthened 8% q-q against the US dollar as of end-2Q (or 3.5% is based on quarterly averages). Meanwhile, we had no large q-q increase in number of business days, as 2Q saw a one-off holiday for the presidential election and a substitute holiday. Nor do we believe steel plate prices fell further.

(Continued on the next page)

▶ Performance

(%)	1W	3M	YTD
KSOE	-15.7	50.5	34.6
HD Hyundai Heavy	-11.8	24.0	29.4
Samsung Heavy	-2.7	14.6	39.1
Hanwha Ocean	-7.9	5.5	95.7
HD Hyundai Mipo	-13.6	48.1	28.2
HD Hyundai Electric	-11.4	42.6	13.1
HD Hyundai CE	0.3	25.1	30.9
HD Hyundai	-3.9	70.1	53.8
HD Hyundai Infracore	-7.6	46.5	68.4
Doosan Bobcat	-7.7	16.4	29.6
KAI	-7.1	9.4	54.3
LIG Nex1	-9.7	90.5	122.4
Hanwha Aerospace	-12.5	12.7	142.3
Hyosung Heavy	3.7	106.0	126.2
LS ELECTRIC	-8.1	52.8	62.9

▶ Valuation summary

(x, %)	P/B	P/E	ROE
KSOE	1.7	10.0	17.9
HD Hyundai Heavy	5.0	24.7	21.6
Samsung Heavy	3.3	28.2	12.2
Hanwha Ocean	4.1	31.5	13.7
HD Hyundai Mipo	3.1	27.7	11.6
HD Hyundai Electric	7.9	23.7	38.0
HD Hyundai CE	0.8	12.2	6.3
HD Hyundai	1.0	9.7	11.0
HD Hyundai Infracore	1.1	13.3	8.5
Doosan Bobcat	0.7	9.8	7.5
KAI	4.4	33.9	13.6
LIG Nex1	7.5	36.9	22.1
Hanwha Aerospace	4.1	28.3	19.2
Hyosung Heavy	3.7	25.5	15.8
LS ELECTRIC	3.8	25.9	15.5

Note: 2025 estimates
Source: Samsung Securities estimates

All told, if shipbuilders' 2Q results come in flat q-q—or even slightly lower—we would find their profitability impressive, as it would imply that their production efficiency continued to improve, and we would anticipate further profitability gains expected at year-end or in 2026, when their vessel mix should shift. From this perspective, we anticipate solid 2Q results for Korean shipbuilders. Among such firms, we believe Samsung Heavy Industries is likely to post q-q improvement in profitability, given its 100% currency hedging policy and one-off-cost recognition in 1Q.

Korean shipbuilders: 2Q25 earnings preview

(KRWb)	2Q25E	1Q25	Chg (% q-q)	2Q24	Chg (% y-y)	Consensus	Diff (%)
HD Hyundai Heavy Industries							
Sales	4,101	3,823	7.3	3,884	5.6	4,091	0.2
Operating profit	461	434	6.3	196	135.8	457	1
Pre-tax profit	447	376	18.7	202	121.1	383	16.7
Net profit (controlling)	337	284	18.7	154	118.9	301	12.1
HD Hyundai Mipo							
Sales	1,199	1,184	1.3	1,129	6.2	1,265	-5.2
Operating profit	71	68	3.9	17	308.4	81	-11.9
Pre-tax profit	65	60	7.9	36	81.3	82	-21.6
Net profit (controlling)	45	49	-7.2	27	66.2	60	-24.4
HD KSOE							
Sales	7,435	6,772	9.8	6,615	12.4	7,337	1.3
Operating profit	843	859	-1.8	376	124	896	-5.9
Pre-tax profit	909	799	13.8	456	99.5	858	6
Net profit (controlling)	552	495	11.5	292	89.1	547	1.1
Samsung Heavy							
Sales	2,773	2,494	11.2	2,532	9.5	2,716	2.1
Operating profit	187	123	52.1	131	43.2	177	5.7
Pre-tax profit	147	91	61.3	76	92.9	148	-1.1
Net profit (controlling)	109	92	18.2	77	42.2	123	-11.6
Hanwha Ocean							
Sales	3,267	3,143	3.9	2,536	28.8	3,219	1.5
Operating profit	251	259	-3.1	-10	Turned pos	253	-1
Pre-tax profit	234	217	7.7	-25	Turned pos	240	-2.4
Net profit (controlling)	173	216	-19.7	-28	Turned pos	190	-8.8

Source: FnGuide, Samsung Securities estimates

Industry news

June shipbuilding data update: Global shipbuilding orders fell 52% y-y over January-June, which we attribute to a high base and shipbuilders' selective order-taking strategies (as they are sitting on ample order backlogs). At end-June, their order backlogs were up 9.6% y-y (and down just 0.1% from their end-2024 level). Korea's share of the newbuilding market normalized to 28.5% in 1H25 (from 14% in 2024).

Hyundai Rotem signs second contract with Poland: Korea's Defense Acquisition Program Administration last week announced that Hyundai Rotem has concluded negotiations with Poland's Minister of National Defense to export additional K2 tanks. The firm made a similar public disclosure, stating that it will export a second batch of K2 tanks valued at USD6.5b. The Korean government is planning to provide around KRW7t in financial support for the export, according to press reports.

HD Hyundai CE to merge with HD Hyundai Infracore: HD Hyundai Construction Equipment announced a merger with HD Hyundai Infracore. Shareholders opposed to the deal will be entitled to appraisal rights. Post-merger, the firms' established brands—Hyundai and Develon—will continue to be used.

KCC issues exchangeable bonds based on stake in HD KSOE: KCC has decided to issue USD625m worth of exchangeable bonds (EBs) based on its stake (2.056m shares) in HD Korea Shipbuilding & Offshore Engineering. The EBs will become eligible for conversion on Aug 20 at a price of KRW413,125 (which is 34.5% above the shipbuilding company's Jul 4 market close).

HD HHI labor union votes to strike: HD Hyundai Heavy Industries' labor union reports that 66.9% of all its members participated in a strike vote conducted over Jul 2-4, with 64% voting to strike. The labor union is negotiating with the company, demanding a base-pay increase, a retirement-age extension, and an increase in longevity allowances.

Delfin FLNG construction plan with SHI: US LNG producer Delfin has announced that it has entered an early works program with Samsung Heavy Industries to refine FLNG design specifications. Delfin's CEO said delivery of the FLNG from SHI is expected in 2029. For context, Delfin is planning to order three FLNGs.

HD Hyundai Electric to provide data center power equipment to Norwegian firm: HD Hyundai Electric has signed an MOU Bulk Infrastructure—a Norwegian data and telecommunications infrastructure firm—to provide power transformers for the latter's data centers. The MOU grants the Korean firm the right to bid for power equipment contracts for Bulk Infrastructure's data center construction projects.

Shipbuilding weekly indices

	This week	A week ago		Vs end-2024	
	July 4, 2025	June 27, 2025	Chg (%)	End-2024	Chg (%)
New building prices (USDm)					
Overall (indexed)	187.1	187.1	-0.0	189.2	-1.1
Bulkers (Capesize)	73.5	73.5	0.0	76.0	-3.3
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)	243.0	243.0	0.0	244.0	-0.4
Containerships (13,000 TEU)	151.0	151.0	0.0	153.0	-1.3
LNG carriers (174,000m³)	254.0	255.0	-0.4	260.0	-2.3
Secondhand prices (USDm)*					
Overall	181.0	181.0	0.0	176.0	2.9
Bulkers (Capesize)	63.0	63.0	0.0	62.0	1.6
Tankers (VLCC)	117.0	117.0	0.0	114.0	2.6
Tankers (51,000 DWT PCs)	40.0	40.0	0.0	42.0	-4.8
Daily charter rates (USD)**					
Bulkers (Capesize, eco)	19,900	17,000	17.1	18,500	7.6
Bulkers (Capesize, non-eco)	18,900	16,000	18.1	17,500	8.0
Tankers (VLCC, eco)	48,500	48,750	-0.5	41,000	18.3
Tankers (VLCC, non-eco)	42,750	45,750	-6.6	37,250	14.8
Freight rate index					
ClarkSea Index (USD/day)	24,727	25,314	-2.3	21,965	12.6
BDI	1,436	1,521	-5.6	997	44.0
WS (based on Saudi route)	53	60	-12.5	40	31.3
CCFI	1,343	1,369	-1.9	1,515	-11.4
SCFI	1,763	1,862	-5.3	2,460	-28.3
Energy prices***					
Natural gas (USD/mil BTU)	3.1	3.2	-3.7	3.4	-8.5
Oil (USD/bbl)	67.0	65.5	2.3	71.7	-6.6
MGO-HSFO (USD/tonne)	251.5	224.5	12.0	205.5	22.4
VLSFO-HSFO (USD/tonne)	107.3	86.8	23.6	87.0	23.3

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

Share performances and valuations

Shipbuilding: Share performance and valuations

(%)	Share performance				2025 valuation		
	1 week	1 month	3 months	Ytd	P/B (x)	P/E (x)	ROE
HD KSOE*	-15.7	-6.3	50.5	34.6	1.7	10.0	17.9
HD Hyundai Heavy Industries*	-11.8	-13.1	24.0	29.4	5.0	24.7	21.6
Samsung Heavy Industries*	-2.7	-6.9	14.6	39.1	3.3	28.2	12.2
Hanwha Ocean*	-7.9	-4.8	5.5	95.7	4.1	31.5	13.7
HD Hyundai Mipo*	-13.6	-14.9	48.1	28.2	3.1	27.7	11.6
CSIC	2.2	3.3	9.2	-3.7	n/a	27.2	4.5
Yangzijiang	-0.5	0.0	1.8	-26.1	1.6	6.7	25.7
CSSC Holdings	3.1	6.1	8.1	-8.8	2.5	19.4	13.4
COMEC	1.1	7.6	16.8	13.6	2.0	37.4	5.5
Keppel	2.6	11.7	14.9	11.5	1.2	14.6	8.6
Sembcorp	2.0	0.0	6.7	0.0	1.1	18.6	5.8
Mitsubishi	-6.8	-0.6	43.3	52.7	4.7	42.3	11.4
Kawasaki	-9.9	-6.6	36.6	38.9	2.4	21.1	12.3

Note: *Samsung Securities estimates
Source: Bloomberg, Samsung Securities estimates

Machinery: Share performance and valuations

(%)	Share performance				2025 valuation		
	1 week	1 month	3 months	Ytd	P/B (x)	P/E (x)	ROE
HD Hyundai Electric*	-11.4	13.1	42.6	13.1	7.9	23.7	38.0
HD Hyundai Construction Equipment*	0.3	8.7	25.1	30.9	0.8	12.2	6.3
HD Hyundai*	-3.9	1.2	70.1	53.8	1.0	9.7	11.0
HD Hyundai Infracore*	-7.6	22.6	46.5	68.4	1.1	13.3	8.5
Doosan Bobcat*	-7.7	14.1	16.4	29.6	0.7	9.8	7.5
KAI*	-7.1	-2.9	9.4	54.3	4.4	33.9	13.6
LIG Nex1*	-9.7	8.5	90.5	122.4	7.5	36.9	22.1
Hanwha Aerospace*	-12.5	-7.8	12.7	142.3	4.1	28.3	19.2
Hyosung Heavy*	3.7	37.2	106.0	126.2	3.7	25.5	15.8
LS Electric*	-8.1	2.1	52.8	62.9	3.8	25.9	15.5
Lockheed Martin	0.9	-4.1	7.0	-4.8	3.8	24.2	16.5
Raytheon	0.8	5.2	24.1	26.0	15.4	16.9	95.9
Siemens	-3.0	-0.9	16.4	14.6	3.1	24.3	12.8
Caterpillar	3.4	13.9	38.1	9.7	3.0	18.6	16.5
Komatsu	0.9	8.3	17.5	8.9	10.3	21.4	56.7
Kubota	1.5	1.5	1.1	-11.2	1.4	11.1	12.6

Note: *Samsung Securities estimates
Source: Bloomberg, Samsung Securities estimates

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