SECTOR UPDATE

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Industrial Team

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▶ **AT A GLANCE**

HD Hyundai Electric (267260 KS, 500,000)		
Target price	KRW635,000	27%
BUY		
HYOSUNG HEAVY INDUSTRIES (298040 KS, 1,244,000)		
Target price	KRW1,450,000	16.6%
BUY		
LS ELECTRIC (010120 KS, 286,500)		
Target price	KRW352,000	22.9%
BUY		

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Power Equipment

No need for earnings forecast cuts

- Since the US extended tariffs on steel and aluminum to hundreds of products containing these metals (including power transformers), we have seen a surge in investor inquiries about the potential for earnings forecast cuts at domestic power equipment companies.
- We do not expect such cuts, however, given that: 1) the scope of the tariffs is narrower than feared; 2) ASP hikes have been stronger than expected; and 3) consensus forecasts are already conservative.
- In the long term, tariff-related costs should be passed on to clients and could even serve as justification for ASP hikes. Any tariff-driven share price correction should be viewed as a buying opportunity.

WHAT'S THE STORY?

Investor concern over tariff impact on earnings forecasts: A list of product categories newly added to US steel and aluminum tariffs includes power transformers. Since this news was reported, we have seen a spike in investor inquiries regarding whether the tariff issue will trigger earnings forecast downgrades for power equipment companies (since forecast cuts would lead to valuation burden). Although the expanded scope of tariffs should add unexpected costs, the chances of earnings forecast cuts currently appear insignificant.

Why we maintain our 2025 earnings forecasts: Tariffs apply only to North American sales of power equipment companies (not their overall sales), and will based only on the steel content of transformers (not based on ASPs). Many firms operate manufacturing facilities in the US, reducing effective exposure. Furthermore, with just four months left in the year, ASP hikes have already outpaced expectations. It should also be noted that current consensus forecasts are already conservative.

Taking Hyundai Electric as an example, North America accounted for 37% of its sales in 1H, but we estimate only 22% are tariff-exposed (considering its to local manufacturing). Given this, and assuming all of the firm's North American sales are related to transformers and that steel makes up 25% of transformer costs, a 50% tariff would cut 2025 operating margin by just 1.4%pts (resulting in a 6% operating profit reduction).

(Continued on the next page)

We see little chance of earnings forecast cuts, noting that: 1) domestic companies' operating margins improved q-q in 2Q despite universal tariffs; and 2) consensus has 2H margins being in line with 1H margins.

Bargaining power as key factor: We believe the likelihood of long-term earnings cuts is even lower, as companies should be able to pass on tariff costs to clients, as the US remains a seller's market. Despite tariff-related uncertainty, order flows remain steady and ASPs have been rising. Longer term, tariffs could serve as justification for further ASP hikes. We maintain a constructive stance on the power equipment sector and recommend using tariff-driven corrections as buying opportunities.

Tariff risk resurfacing—any impact on earnings forecasts?

Investor concerns focus on possibility of earnings forecast cuts

On Aug 18, the US Department of Commerce expanded 50% steel and aluminum tariffs to cover 407 additional products containing these metals, including power transformers. Shares in domestic power equipment companies fell 5% on the news and corrected for two more sessions before rebounding sharply later in the week (Thursday and Friday), though they ended the week lower w-w.

The development triggered a flurry of investor inquiries, mostly centered on the degree to which earnings forecasts could be revised downward for power equipment companies. With the valuation gap between domestic and overseas (particularly European) peers narrowing, investors appear concerned about added valuation pressure if forecasts are cut.

Market consensus unlikely to change

There is not yet enough information for us to quantify the likely effects of the tariffs. We need more information— such as whether tariffs will be calculated on the steel cost component or overall product weight, the extent of company sales exposure, and how firms will respond.

Still, even considering such uncertainties, we do not expect tariffs to prompt forecast downgrades for power equipment companies. Thus, last week's sell-off looks excessive, as tariff fears appear overstated. Meanwhile, current market consensus is already conservative relative to the pace of ASP hikes, and we see only limited impact on 2025 earnings forecasts. Beyond 2025, downside risk looks even smaller. Given the seller's market backdrop and companies' strong bargaining power, we expect cost burdens to be passed on to clients.

Why earnings forecasts do not need to be revised

Impacts on 2025 earnings estimates: Risk overblown; existing consensus conservative

Neither the market nor companies expected additional steel-related tariffs. Nevertheless, investor concerns appear overblown. First, the tariffs will apply to North American sales, not global sales. Second, levies are likely to be based on steel content, not ASPs. For context, steel plates are believed to account for 20-30% of transformer manufacturing costs. Third, companies operate US manufacturing facilities, reducing exposure, and only four months remain in the year. Fourth, consensus forecasts for 2H earnings are not aggressive considering the pace of export ASP hikes.

Case study

With the highest North American exposure among domestic peers, HD Hyundai Electric derived 37% of 1H sales from the region—or 22% if excluding its US manufacturing subsidiary. While the subsidiary imports Korean steel products, those imports have already been subject to tariffs. Thus, the impact of the new tariffs should already be reflected in consensus forecasts.

Assuming a 25% steel portion of transformer manufacturing costs and a 50% additional tariff, we estimate related costs will amount to roughly 13% of North American sales. Given HD Hyundai Electric's 22% sales exposure to North America and assuming tariffs apply throughout 2H, we calculate the additional tariffs would erode 2025 operating margin forecasts by 1.4%pts, equivalent to about a 6% cut in operating profit forecasts.

Moreover, consensus already appears conservative and ASP hikes have been stronger than expected. In 2Q, domestic companies' power equipment operating margin rose 1.2%pts q-q despite universal tariffs on their North American sales—evidence that ASP hikes were stronger than expected and more than offset cost pressures. Current market forecasts remain cautious, with consensus putting operating margin for the top three Korean companies at 13.5% in 2H (a figure we derive by adjusting current market consensus for their 2025 operating profit by their actual 1H figures), little changed from their 1H level of 13.2%.

Korean power equipment companies: North American sales

(KRWb)		HD Hyundai Electric	Hyosung Heavy	LS Electric
1H25 sales	(A)	1,921	2,601	2,225
North American sales	(B)	707	566	917
Portion (%)	(C=B/A)	36.8	21.8	30.7
Local production sales	(D)	280	173	nm
As portion of North American sales (%)	(E=D/B)	39.6	30.6	nm
As portion of total sales (%)	(F=D/A)	14.6	6.7	nm
Korean export portion of North American sales (estimated) (%)	(C-F)	22.2	15.1	nm

Source: Samsung Securities

Korean power equipment companies: Consensus 2H OPM

(%)	HD Hyundai Electric	Hyosung Heavy	LS Electric	Total*
Power equipment OPM				
1H25	21.5	12.3	12.8	16.4
2H25	23.1	15.9	13.4	17.6
Chg (%pts)	1.6	3.6	0.6	1.2
Total OPM consensus				
2025 annul OPM	22.5	10.6	9	13.4
1H25 OPM	22.2	10.3	8.8	13.2
2H25 OPM**	22.7	11	9.1	13.5

Note: *Calculated by summing sales and operating profits of HD Hyundai Electric, Hyosung Heavy Industries, and LS Electric;
**Estimated by excluding 1H25 figures from 2025 annual figures
Source: Company data, FnGuide, Samsung Securities estimates

Impacts on post-2025 earnings forecasts: Tariff burden likely to be passed on to clients

We expect even smaller impacts beyond 2025, as North America remains a seller's market where tariff-related costs can be passed on to clients. Supporting this view, we note the following two things: First, ASPs continue to rise. Korea's transformer export ASPs (per kg) increased 9.8% over January-July versus the 2024 average, while ultra-high-voltage transformer ASPs—where steel cost sensitivity is highest—were up 25%. Second, despite tariff-related uncertainty, order performances have remained strong. Given that power equipment companies are sitting on sizeable order backlogs and thus are not incentivized to take new orders amid uncertainties, the consistent order inflows in spite of uncertainties suggests clients are willing to shoulder the added costs. In most markets, uncertainty delays purchasing decisions; the fact that orders are being signed indicates end-market supply tightness.

Total power transformer exports and ASP

	Value (USDm)	Volume (Mil kg)	ASP (USD/kg)
2010	1,186	106	11.2
2011	971	124	7.9
2012	1,073	145	7.4
2013	886	106	8.4
2014	885	98	9.1
2015	868	99	8.8
2016	822	98	8.4
2017	716	87	8.2
2018	439	58	7.6
2019	474	62	7.6
2020	428	57	7.5
2021	388	51	7.6
2022	583	66	8.8
2023	1,184	103	11.5
2024	1,888	152	12.4
Jan 1-Aug 10, 2025	924	67	13.6

Source: TRASS

Ultra-high-power transformer exports and ASP

	Value (USDm)	Volume (Mil kg)	ASP (USD/kg)
2010	1,138	99	11.5
2011	913	114	8
2012	971	130	7.5
2013	803	93	8.7
2014	808	86	9.4
2015	800	88	9.1
2016	769	90	8.6
2017	656	76	8.6
2018	376	45	8.3
2019	406	50	8.2
2020	356	43	8.2
2021	284	32	8.9
2022	384	37	10.3
2023	686	50	13.6
2024	949	59	16.1
Jan 1-Aug 10, 2025	756	37	25.4

Source: TRASS

Conclusion: Focus on bargaining power, not tariffs

We view any tariff-driven share price correction as a buying opportunity. For power equipment companies, earnings are primarily determined by bargaining power, not tariff risk. With sufficient bargaining power, companies can pass on added costs, and rising costs during an industry boom can even justify further ASP hikes. Notably, earnings improvements at industrial companies (including power equipment firms) were mostly triggered by ASP hikes during the global supply chain disruptions.

Among domestic names, we favor HD Hyundai Electric, which is trading at an attractive valuation—discounted to peers due to accounting rule changes. Tariff concerns have weighed more heavily on the stock given its high North American exposure, but we see this as an attractive entry point.

Power equipment: Peer valuation

(USDm)	HD Hyundai Electric	LS Electric	Hyosung Heavy	Schneider Electric	ABB	Siemens Energy	Eaton	Fortune Electric	GE Vernova
Market cap	17,663	6,096	8,071	145,420	124,396	86,868	135,325	6,168	165,259
P/E (x)	68.2	41.0	96.4	25.4	21.9	nm	28.9	33.1	nm
	35.2	35.4	50.2	31.7	25.3	24.1	33.3	37.7	54.2
	26.4	27.8	28.9	24.4	26.0	61.4	28.8	35.7	76.9
	22.6	22.1	23.3	21.6	24.0	30.5	25.3	28.2	47.5
P/B (x)	16.9	4.9	10.3	3.9	6.1	1.1	5.1	14.2	nm
	11.8	4.6	5.9	4.5	6.9	2.9	7.1	18.6	9.5
	9.0	4.1	4.9	4.0	7.8	7.5	6.9	18.3	15.1
	7.0	3.6	4.1	3.7	6.7	6.1	6.4	12.8	12.3
EPS growth (%)	59.5	nm	nm	1.3	25.6	nm	27.6	445.7	nm
	93.5	15.9	92.0	9.9	4.0	nm	19.6	68.0	nm
	33.2	27.4	73.7	12.6	12.5	nm	21.2	24.1	30.1
	17.2	25.7	24.2	13.0	8.4	101.3	13.5	22.0	61.8
ROE (%)	27.7	12.6	11.3	15.4	28.6	-35.4	17.8	50.7	-4.8
	39.3	13.4	14.9	15.0	28.2	13.5	20.2	58.3	18.3
	38.5	15.6	18.5	16.3	30.3	12.7	23.7	50.4	21.3
	34.7	17.4	19.3	17.5	29.1	22.0	25.3	48.6	28.1
EV/EBITDA (x)	49.5	20.6	35.5	15.4	15.2	-5.7	20.7	27.8	nm
	23.6	17.7	27.2	18.5	17.4	16.7	23.9	nm	50.9
	17.6	14.7	17.1	16.1	18.3	19.3	22.4	28.7	46.4
	15.0	12.2	13.2	14.6	16.9	13.0	19.9	21.0	30.6

Note: As of Aug 22, 2025
Source: Bloomberg, Samsung Securities

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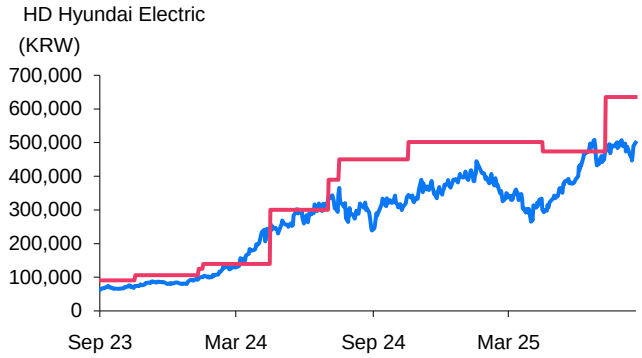

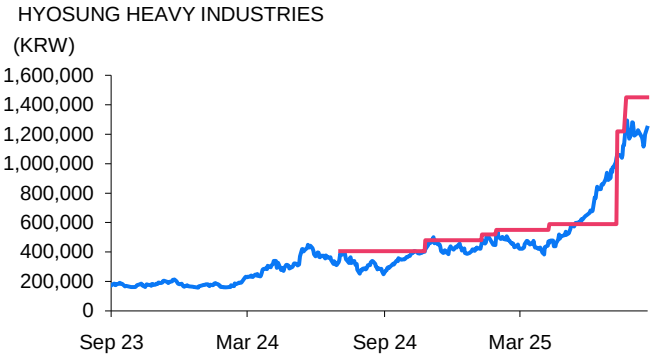

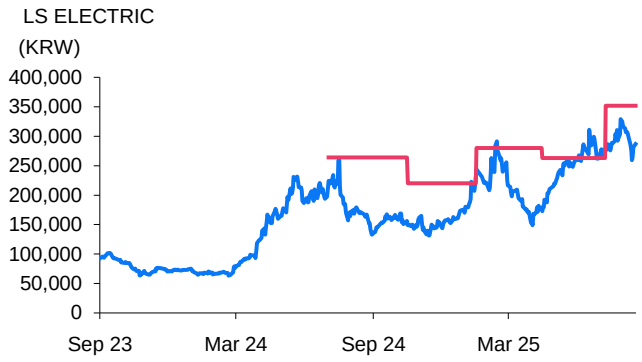

Rating changes over past two years (adjusted share prices)

HD Hyundai Electric										
Date	2023/7/26	10/25	2024/1/18	1/24	4/23	7/10	7/24	10/25	2025/4/23	7/16
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	91000	106000	125000	140000	300000	390000	450000	502000	474000	635000
Gap* (average)	-23.06	-20.95	-20.19	8.86	-6.68	-16.61	-32.58	-28.52	-14.10	
(max or min)**	-16.26	-9.81	-19.52	74.29	8.83	-11.28	-23.89	-11.35	7.17	

HYOSUNG HEAVY INDUSTRIES							
Date	2024/7/10	11/1	2025/1/16	2/4	4/16	7/16	7/28
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	405000	480000	520000	550000	590000	1220000	1450000
Gap* (average)	-17.28	-10.31	-8.50	-17.26	16.20	-12.00	
(max or min)**	0.37	4.17	-2.31	-3.09	75.42	-7.79	

LS ELECTRIC					
Date	2024/7/10	10/24	2025/1/24	4/22	7/16
Recommendation	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	264000	220000	280000	263000	352000
Gap* (average)	-34.42	-27.05	-24.72	-3.63	
(max or min)**	-1.52	5.45	4.11	18.25	

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

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Industry

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* 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 2025.06.30

BUY(81.8%)·HOLD(18.2%)·SELL(0%)

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