SECTOR UPDATE

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Shipbuilding (OVERWEIGHT)

HD Group to overhaul shipbuilding units—positive

- HD Hyundai Group yesterday announced plans to overhaul its shipbuilding business units, including: 1) merging HD Hyundai Heavy Industries with HD Hyundai Mipo; and 2) setting up a Singapore subsidiary to oversee overseas yard construction.
- We are positive on the move because: 1) the group has clarified its objectives; 2) market interest in its defense and North American businesses can be revived; and 3) shareholders opposing the merger will have appraisal rights.

▶ AT A GLANCE

HD Hyundai Heavy Industries (329180 KS, 521,000)		
Target price	KRW630,000	20.9%
BUY		
HD Hyundai Mipo (010620 KS, 216,000)		
Target price	KRW256,000	18.5%
BUY		
HD KSOE (009540 KS, 369,500)		
Target price	KRW460,000	24.5%
BUY		

WHAT'S THE STORY?

HD Group decides to overhaul shipbuilding business units: First, HD Hyundai Heavy Industries (HHI) will merge with HD Hyundai Mipo by issuing new shares to the latter's shareholders at a ratio of 1:0.4059146. Dissenting shareholders will be granted appraisal rights. Second, the group will establish a Singapore subsidiary to spearhead overseas shipyard investments. The shipbuilding affiliates' existing overseas subsidiaries will be consolidated under the new entity, which will also take the lead on any new overseas investments by the group, with related funding to be shared by HD KSOE and HHI.

Merger decision not driven by non-operating issues : We do not see the HHI-Mipo merger as motivated by governance or financial considerations. Both companies are financially solid with net cash positions, and the direct impact on HD Hyundai, the ultimate holding company, should be limited given HD KSOE's role as the intermediate holding company. In addition, the valuations of the two firms (as of the Aug 26 close) are also broadly aligned. Thus, the merger does not appear to confer a significant advantage or disadvantage to shareholders of either entity. We note that the market often reacts negatively when restructurings are driven by governance or financial concerns.

(Continued on the next page)

Overall, we believe the merger is based purely on establishing business synergies—namely: 1) enhancing the defense business by leveraging Mipo's docks and track record in new vessel types; and 2) enabling HHI to use Mipo's facilities without subcontracting.

Financial market implications: With both firms enjoying above-normal backlogs, the merger should have little effect on consensus forecasts of near-term earnings. That said, market implications should be positive in the short term. First, the overhaul could reignite investor interest in the group's defense and US businesses, especially given that one peer's share price has outperformed on similar momentum. Second, the valuation premium that HHI enjoys for its engine business could extend to Mipo, as the two stocks should move in tandem under the merger ratio.

We also foresee positive effects from a long-term perspective. Demand for Mipo's flagship oil tankers looks uncertain in the context of the global energy transition, so the group's focus on expanding defense and special-vessel businesses using Mipo's facilities is encouraging. Meanwhile, appraisal rights should also benefit stock supply-demand dynamics. We fine-tune our target prices for HHI and Mipo by 3-4% to reflect both the merger and recent changes in machinery sector valuations.

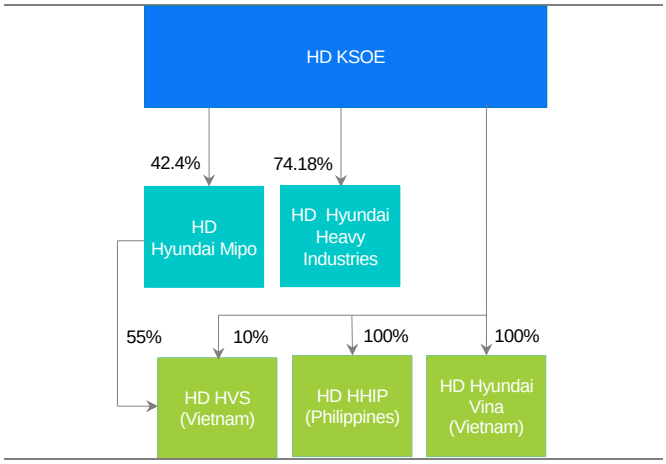
Merger overview and background

Business overhaul plans include merger between HD HHI and HD Hyundai Mipo

HD Hyundai Group yesterday announced plans to reorganize its shipbuilding units. First, HD Hyundai Heavy Industries (HHI) will merge with HD Hyundai Mipo by issuing new shares to the latter's shareholders. The merger should reduce HD KSOE's stake in HHI from 74.2% to 69.3%. This is a major decision as it entails retiring the Hyundai Mipo brand, which has been a key player in the small-size vessel market since its founding in 1975.

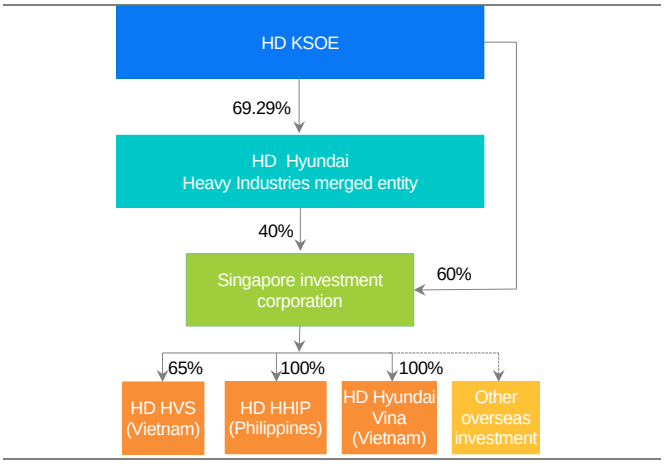
Second, the group will establish a Singapore subsidiary to oversee overseas shipyard investments, with ownership split 60% to HD KSOE and 40% to the merged HHI-Mipo entity. The new subsidiary will consolidate all existing overseas subsidiaries of the three shipbuilding units and lead future overseas investments. Funding responsibilities will be shared between HD KSOE and HHI.

HD shipbuilding group: Current business structure



Source: Company data

HD shipbuilding group: New business structure



Source: Company data

Merger details and schedule

HHI will merge with Mipo at a ratio of 1:0.4059146. The record date for the shareholder meeting is Sep 12, when approval of the merger will be put to a vote. Shareholders opposing the merger will be entitled to appraisal rights at KRW462,626 for HHI and KRW192,695 for Hyundai Mipo. If total payments to dissenting shareholders exceed KRW1.5t (combined), the merger may be canceled. The effective date is set for Dec 1, 2025. To execute the merger, HHI will issue 16m new shares that will be listed on Dec 15, 2025.

Merger ratio and appraisal rights price

(KRW)	HD HHI	HD Mipo
Merger ratio	1	0.4059146
Reference price for calculating merger ratio	470,833	191,118
Closing price (Aug 27)	521,000	216,000
Appraisal rights price	462,626	192,695
New shares to be issued ('000)	16,190	

Note: If total payments to dissenting shareholders exceed KRW1.5t (combined), the merger may be canceled

Source: Company data

Merger plan

Item		Date
Board resolution on merger		Aug 27, 2025
Record date for shareholder register		Sep 12, 2025
Period for submitting objections	Start	Oct 2, 2025
(opposing shareholders)	End	Oct 22, 2025
Shareholder meeting		Oct 23, 2025
Period for exercising appraisal rights	Start	Oct 23, 2025
	End	Nov 12, 2025
Merger registration		Dec 1, 2025
Listing date of new shares		Dec 15, 2025
Investment in overseas corporations		Dec 23, 2025

Source: Company data

Background for business overhaul

The group highlighted three main drivers for the overhaul.

First, it aims to strengthen its maritime defense business. By leveraging Mipo's docks and facilities, it aims to maximize tailwinds relating to global efforts to strengthen naval power and Korea-US shipbuilding cooperation. Under the current business structure, if Mipo were to participate in a defense project won by HHI, the two companies would need a subcontract, possibly requiring additional approval from the client. Post-merger, HHI would be able to directly use Mipo's facilities, streamlining execution. HHI aims to grow its annual defense sales from KRW1t currently to KRW7t by 2030 and KRW10t by 2035.

Second, the merger should create synergies in special vessels (*eg*, offshore support and pipelaying vessels). In addition, in the eco-friendly vessel segment, Mipo's track record in developing new vessel types should position the merged entity to capture more orders for larger vessels of the same types. Generally, clients order mid-sized versions of new vessel types first and then transition to ordering larger versions once they prove viable.

Third, the new Singapore subsidiary should be solely in charge of developing and operating overseas yards, thereby improving management efficiency and decision-making. All told, his should accelerate the group's overseas shipyard expansion. Through the overhaul, the group aims to lift merged-entity sales from KRW19t in 2024 to KRW32t in 2030 and KRW37t in 2035, implying a CAGR of 6%. For the defense business specifically, the group targets a CAGR of 21%—the highest among its businesses.

Background and purpose of the business restructuring

Background	Purpose	Method to achieving target
Strengthening cooperation between Korea and the US (MASGA project, *etc*)	Become global leader in K-defense and MASGA	Synergies with HD Hyundai Mipo's naval ship construction unit
Paradigm shift with environmental regulation strengthening	Promote quantitative and qualitative expansion based on integrated synergy	Integrating the companies' track records
Domestic shipyard market share weakening due to China taking a larger portion of commercial vessel orders	Accelerate overseas yard development	Enhancing investment efficiency via a Singapore investment vehicle

Source: Company data

Implications of merger—positive

Non-operating issues

We do not believe the merger decision between HD HHI and HD Hyundai Mipo was driven by financial- or governance-related factors. First, in terms of financials, both companies hold net cash positions, suggesting that the merger decision has no hidden agenda to improve one party's financial health. In addition, the merger should bring little change to the group's governance structure. HD KSOE, the group's intermediate holding company, is the largest shareholder of both HD HHI and HD Hyundai Mipo, and thus the HD HHI-HD Hyundai Mipo merger should have little direct impact on the group's holding company HD Hyundai. In addition, HD HHI and HD Hyundai Mipo do not seem to differ much in terms of valuation (based on Aug 26 closing prices). Therefore, we do not see the merger decision as significantly advantageous or disadvantageous to the shareholders of either firm.

All in all, we believe the group's merger decision is purely based on improving business synergies and management efficiency. In other words, investors should not have to factor in non-operating issues when weighing possible merger effects—uncertainty is minimal, in other words. We note that the market tends to react negatively to business overhauls that are driven by governance/financial issues.

Financial market implications

It should take a while for the business synergies (which the firms are expecting) to emerge. Since both companies are sitting on higher-than-normal order backlogs, the merger should have limited impacts on their near-term earnings consensus. However, we see the near-term financial market implications of the merger as being positive.

First, the appraisal rights should limit downside for the shares. The merger announcement sent HD HHI and HD Hyundai Mipo up a respective 11.3% d-d and 14.6% d-d to levels 12.6% and 12.1% higher than their respective appraisal prices. If the merger goes as planned, the chances are limited that the shares in either firm will fall below their respective appraisal price. In addition, in terms of stock supply-demand dynamics, investors who wish to secure appraisal rights might buy the stocks.

The strengthening defense business might allow the merged entity to trade at a premium vs its rival (which has been trading at a lofty valuation on anticipation of maritime defense business expansion and Korea-US shipbuilding cooperation). The merger decision, which is aimed at expanding the defense business, should draw market attention towards HD HHI's defense business. HD HHI has long operated a maritime defense business, and has been seeking to enter the US market via cooperating with US firms. Such efforts, however, have failed to attract much market attention so far.

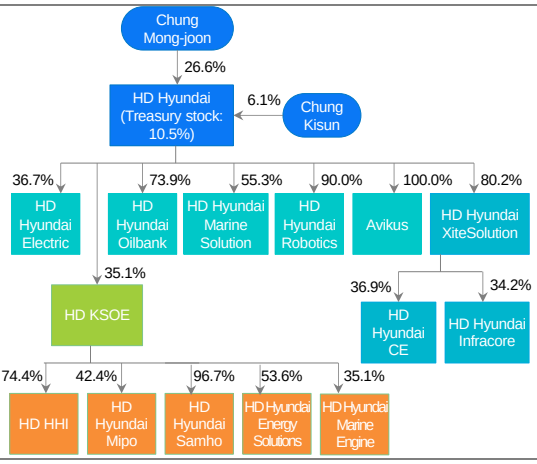
HD Hyundai Mipo should also see positive impacts on its shares. When calculating our target price for HD HHI, we apply a valuation premium (vs the industry's average) to reflect its engine business's profitability and the firm's technological prowess in building eco-friendly vessels. Such a premium should now be applied to HD Hyundai Mipo. Looking further ahead, we see the merger as being positive for HD Hyundai Mipo over the longer term as well. This is because the firm's flagship vessels are oil product carriers (PCs). Demand for oil tankers has remained as of late solid thanks to the tight supply. However, the future demand outlook does not look all that rosy, considering the global energy transition and industry woes for oil products. This is why we believe the merger will prove positive for HD Hyundai Mipo. From a technical point of view, shares in HD HHI and HD Hyundai Mipo should move together from now on (according to the merger ratio).

We also see positive effects for HD KSOE's shares. If shares in its subsidiaries rise following the merger announcement, the price increases would eventually be reflected in the value of HD KSOE's stakes in them. In addition, the overseas investment burden should be shared with HD HHI, positively impacting our current SOTP-based target price calculation for HD KSOE.

Fine-tuning target prices

Reflecting on the projected merger effects, we fine-tune our target prices for HD HHI and HD Hyundai Mipo, applying a P/E multiple of 27.6x P/E to our 2026 net profit forecasts for both firms. Our target P/E multiple was derived based on the same logic as before, only reflecting the change to our valuation base (to 2026 earnings) and the recent change to the machinery sector's valuations. For reference, our target P/E is similar to: 1) the average at which the KRX Machinery Index is currently trading; and 2) the current valuation of its rival (which is enjoying defense-related momentum). By dividing the target market caps by the estimated number of shares post-merger, we set our target price for HD HHI at KRW630,000 (3.3% higher than our previous target). We set our target price for HD Hyundai Mipo at KRW256,000 (4.5% higher) by applying the merger ratio to HD HHI's new target price. We may raise our 12-month target prices later if the merger goes as planned and if details about Korea-US shipbuilding cooperation are unveiled (as it could lift the sector's valuations).

HD Hyundai: Shareholding structure



Source: Samsung Securities

Valuation

Category		Price
2026E net profit*	(A)	2,396
Applied P/E**	(B, x)	27.7
Target price	(C = A x B)	66,357
Applied shares	(D, '000)	104,963
HD Hyundai Heavy target price	(E=C/D, KRW)	630,000
Chg	(%)	3.3
Merger ratio	(F)	0.4059146
HD Hyundai Mipo target price	(G=ExF, KRW)	256,000
Chg	(%)	4.5

Note: *Sum of HD HHI and HD Mipo's 2026E net profit
**KRX Machinery & Equipment Index P/E

Source: Samsung Securities estimates, FnGuide

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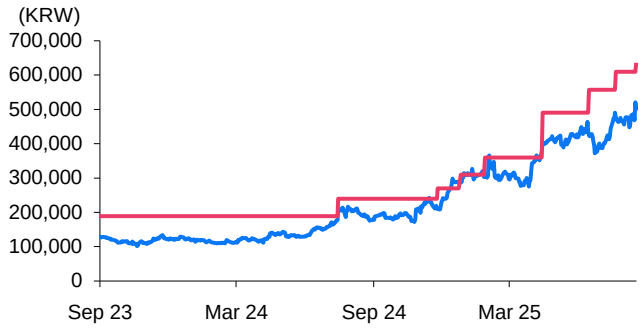
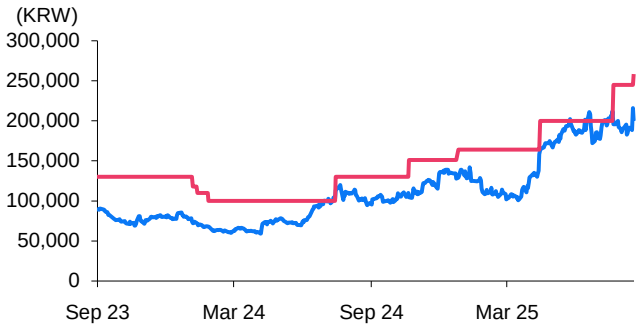
Target price changes in past two years

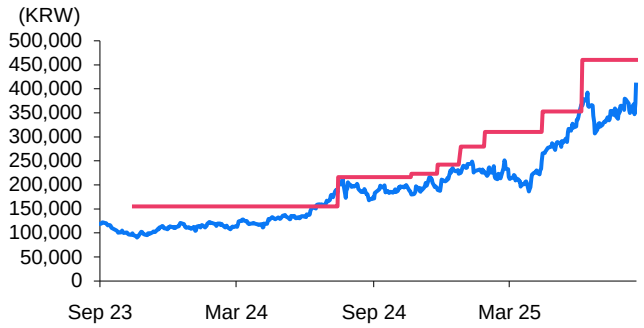
HD Hyundai Heavy Industries



HD Hyundai Mipo



HD KSOE



Rating changes over past two years (adjusted share prices)

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	

HDKSOE									
Date	2023/7/13	2024/7/13	2024/7/26	11/1	12/6	2025/1/6	2/7	4/25	6/17
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	155000	155000	216000	223000	242000	280000	310000	353000	460000
Gap* (average)	-22.90	16.60	-11.83	-11.64	-10.75	-15.81	-29.33	-14.91	
(max or min)**	7.81	22.39	-1.39	-2.91	-2.69	-11.25	-19.03	4.11	

HD Hyundai				
Date	2023/9/8	9/18	2024/8/9	2025/7/2
Recommendation	BUY	BUY	BUY	BUY
Target price (KRW)	74400	88000	110000	175000
Gap* (average)	-5.13	-23.39	-24.23	
(max or min)**	-4.44	-4.66	24.18	

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

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
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Percentage of ratings in 12 months prior to 2025.06.30

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