SECTOR
UPDATE

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Chemicals
(OVERWEIGHT)

(Mid-Small Cap Spotlight)

The winners that survive oil demand changes

Samsung Securities

WHY SHOULD
YOU READ THIS REPORT

In the wake of the prolonged petrochemical industry downturn, Europe has been shuttering facilities since 2024 and Korea has lately announced a large-scale facility shutdown plan. Also noteworthy is growing anticipation towards: 1) China's restructuring its refining/chemical industries (given the government's anti-involution policy); and 2) the refining/chemical industries' downturns coming to an end soon (aided by the shutdown plan in Korea).

However, contrary to market expectations, China's refining/chemical industry restructuring should have consequences different from those seen when China restructured its rechargeable battery and PV industries (domains where China has a self-sufficiency rate of more than 200%). Moreover, rather than benefiting them, the restructuring will likely pose a longer-term threat to Korean petrochemical companies. This is because while the rechargeable battery and PV industry downturn owed to 'excessive competition in the private sector' (despite China already dominating the supply chains), the refining/chemical industry downturn stems from 'structural changes in crude demand due to the hike in EV penetration' (shrinking demand for refined products triggered a hike in naphtha production, which lifted the supply of commodity products). Considering the Chinese government's stance of 'resolving the overcapacity issue via producing more specialty products (vs commodity ones),' we expect the change in transportation fuel volumes to trigger a hike in the supply of chemical products across the board (ranging from petroleum products to commodity and specialty ones).

To address the structural changes taking shape in crude demand, Korean companies need to take the following steps: 1) produce higher value-added chemicals; or 2) expand the portion of non-oil feedstocks. Against this backdrop, now looks like a good time for investors to increase exposure to mid- and small-sized players that possess company-specific strengths (vs raising exposure to traditional behemoths). We believe that KCC, Lotte Fine Chemical, SK Chemicals, and UNID fit these requirements.

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WHY SHOULD
YOU READ THIS REPORT

KCC is a silicone-based fine chemical firm that is well sheltered from shifts in oil demand. Not only is its silicone profitability improving but its coating profitability remains resilient. Moreover, the value of its asset holdings is on the rise. Lotte Fine Chemical (LFC) is a specialty firm that uses pulp to manufacture cellulose relatives. An upcoming capacity expansion for cellulose relatives should lead to higher profitability and, on another positive note, its chlorine relatives business recently moved into the black. UNID possesses a portfolio that should prove sustainable over the longer term, as evidenced by its producing inorganic chemical products (vs naphtha-based ones) and being the global leader in terms of potassium hydroxide production. SK Chemicals enjoys robust profitability thanks to its specialty chemicals product (copolyester)—the global market for which is dominated by a few global players including SK Chemicals—though the firm uses oil-based feedstocks. Its utility supply business (SK Multi Utility) is set to open a new LNG power plant in 4Q, enabling the firm to achieve portfolio diversification and stronger earnings growth.

We hope this report helps deepen your understanding of the chemical sector and make more informed investment decisions.

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3) UNID (Initiation/BUY/TP: KRW95,000)

4) Lotte Fine Chemical (BUY/TP: KRW56,000)

China's chemical restructuring and Korean firms' response

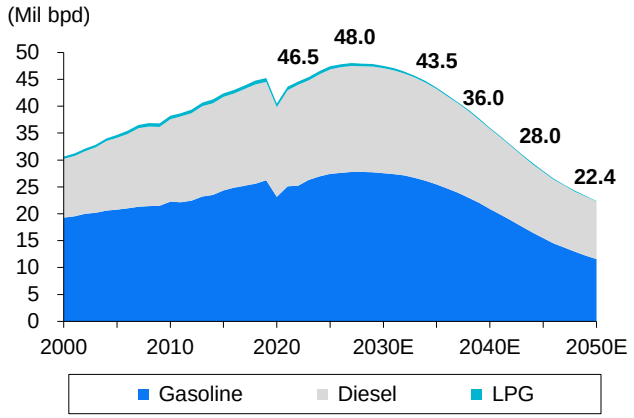
Oil demand shifting amid China's energy transition

China's fossil energy: Oil demand impacted by rising EV penetration

Rising EV penetration sparks structural changes in crude demand

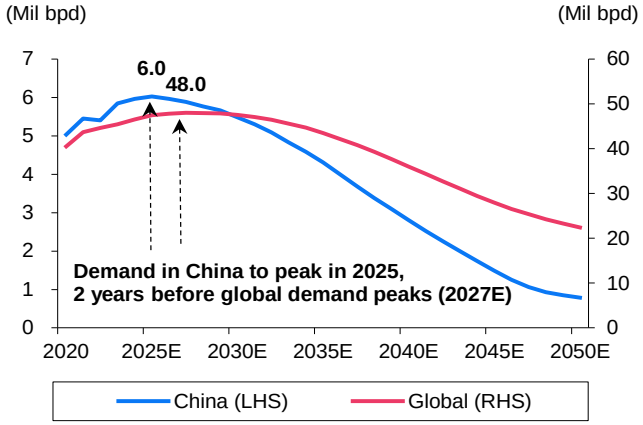
We expect the Chinese government to call for supply cuts for the refining industry and supply growth for the chemical industry, as part of its anti-involution initiative. Such actions would stem from structural changes in crude demand—not from China's internal issues—and thus the ramifications for other countries (of structural changes in in crude demand) are worth exploring.

Global transportation fuel: Demand outlook, by product



Source: Bloomberg NEF, Samsung Securities

Global transportation fuel: Peak demand—China vs the world



Source: Bloomberg NEF, Samsung Securities

With the global EV penetration rate growing rapidly, refining products (*ie*, transportation fuel) should see peak demand earlier than initially expected. In 2024, global demand for transportation fuel hit 46.5m barrels per day (bbl/day)—equating to 45% of global crude demand (102.8m bbl/day)—with demand for gasoline reaching 26.9m bbl/day and demand for diesel 19m bbl/day.

Global transportation fuel demand is set to turn down after peaking at 48m bbl/day in 2027 (vs 46.5m bbl/day in 2024), shrinking due to a falling number of internal combustion engine (ICE) autos (amid a rising EV penetration rate). The tipping point (*ie*, demand for transportation fuel turning down) will be reached earlier than expected—the pace of EV penetration has been accelerating since COVID-19. If the pace of EV penetration slows, peak demand for transportation fuel could be delayed, but not by much. In particular, in China (which has a high EV penetration), demand for transportation fuel should peak in 2025, two years prior to peak global demand for transportation fuel.

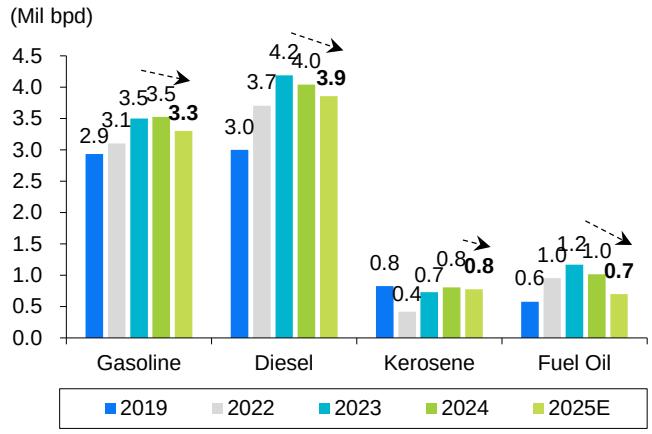
Chinese government to call for supply cuts in response to falling demand

When looking at the country's refining product demand trend over the past year, we believe that China has already recorded peak demand for almost all products. Demand started to shrink in mid-2024, and its downtrend has continued. Global gasoline and diesel demand reached a turning point in Jul 2024 and Apr 2024, respectively. Chinese demand for refining products (gasoline, diesel, kerosene, and heavy oil; excluding naphtha) started to decline in Mar 2024, and its downtrend persists (as of June).

Based on January-June figures, we forecast China's 2025: 1) gasoline demand will fall 6% from 3.52m bbl/day in 2024 to 3.3m bbl/day; 2) diesel demand will shrink 5% from 4.05m bbl/day to 3.86m bbl/day; 3) kerosene demand will contract 5% from 0.81m bbl/day to 0.78m bbl/day; and 4) heavy oil demand will plunge 31% from 1.02m bbl/day to 0.7m bbl/day. Gasoline demand started to turn down when the EV penetration hit 49%, while the fall in diesel demand stemmed from a slowdown in the manufacturing sector (caused by the US tariff war) and increasing sales of LNG-powered trucks.

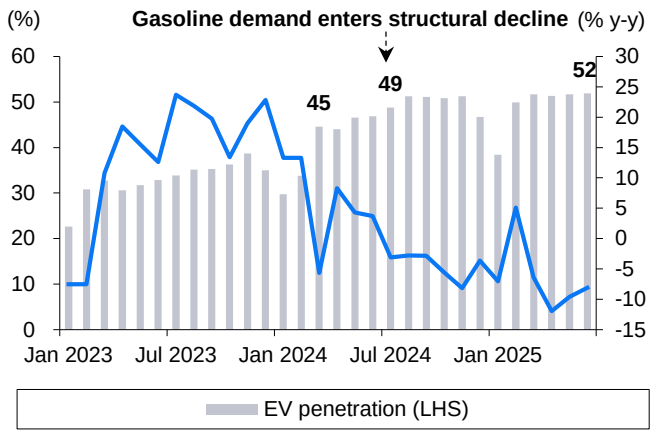
The demand slowdown caused by the US tariff war highlights the Chinese economic slowdown—the decline in demand is cyclical and not structural. However, the fall in gasoline demand is structural and not cyclical, and stems from the rising EV penetration. Thus, with the pace of electrification accelerating, demand for gasoline should naturally slide. The refining industry needs to respond to this.

China: Demand outlook, by refined product



Source: Bloomberg NEF, Samsung Securities

China: EV penetration vs gasoline demand growth

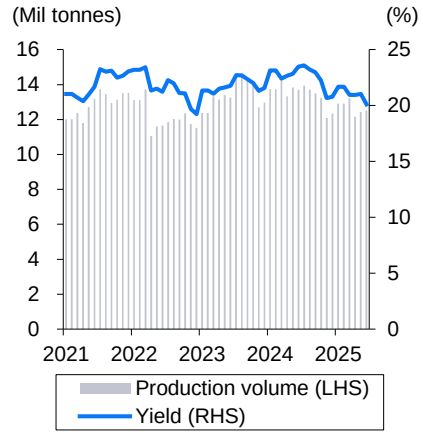


Source: Bloomberg NEF, Samsung Securities

China's refining yield movements suggests that the COTC trend is taking shape. In 2022, China processed 674m tonnes of crude, yielding gasoline (22%), diesel (28%), kerosene (4%), heavy oil (7%), naphtha (8%), and LPG (7%). Meanwhile, the figure for Jan-Jun 2025 amounted to 362m tonnes [breaking down as gasoline (21%), diesel (26%), kerosene (8%), heavy oil (6%), naphtha (11%), and LPG (7%)]—the gasoline, diesel, and heavy oil portions of production declined while the kerosene and naphtha portions sharply increased.

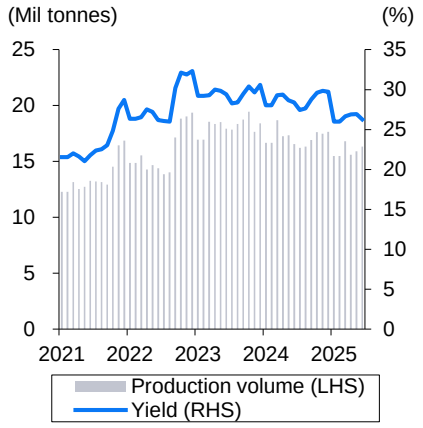
Considering that China's zero-COVID policy caused Chinese demand for jet fuel to plunge in 2022, we believe the increase in kerosene production ytd has been driven by the low base rather than by growing demand. In other words, demand-driven production expansion ytd has mainly focused on naphtha, which we attribute to the adoption of COTC technology at new, large-scale chemical facilities. Going forward, the government is likely to encourage the further adoption of COTC technology.

China: Gasoline production volume and as portion of refined products



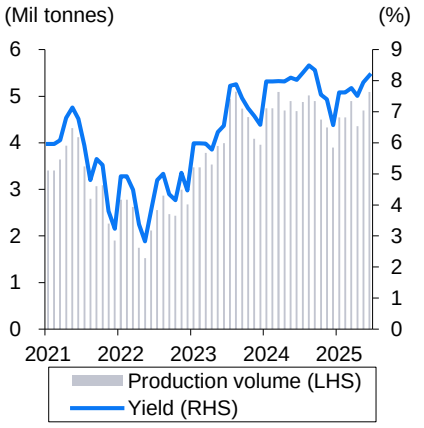
Source: Bloomberg, Samsung Securities

China: Diesel production volume and as portion of refined products



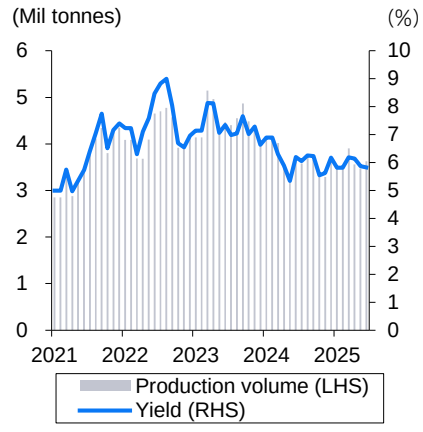
Source: Bloomberg, Samsung Securities

China: Kerosene production volume and as portion of refined products



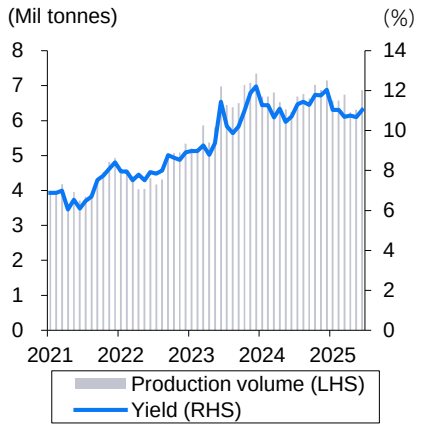
Source: Bloomberg, Samsung Securities

China: Heavy fuel oil production volume and as portion of refined products



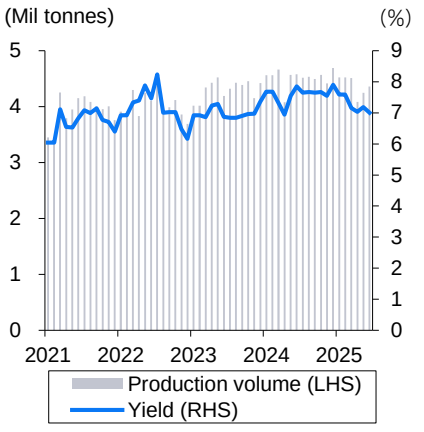
Source: Bloomberg, Samsung Securities

China: Naphtha production volume and as portion of refined products



Source: Bloomberg, Samsung Securities

China: LPG production volume and as portion of refined products



Source: Bloomberg, Samsung Securities

Chemicals: Reducing refined product output and lifting chemical production a global trend

Cutting refining capacity vs increasing chemical capacity = COTC

With demand patterns for refined petroleum products changing, the Chinese government is pursuing a duel strategy of reducing refined product output and expanding chemical production. This trend is evident—the gasoline and diesel composition of refined products over the past 2-3 years has declined whereas the naphtha portion has risen. Policy direction and real-life industry dynamics are aligned, closely reflecting the adoption of COTC technology by global energy companies. COTC essentially maximizes the naphtha composition (of refined product output) and petrochemical composition and reduces the transportation fuel composition. COTC is in line with Chinese government policy.

In the process of reducing refinery output and expanding chemical output, China's chemical production capacity has been expanding rapidly. In 2022, China had an ethylene capacity of only 45.51m tonnes. In 1H22, the forecast for 2027 was 59.47m tonnes, for a 2022-2027 CAGR of 4.9%. However, the 2027 forecast was revised up to 76.92m tonnes in 1H25, 29% higher than the earlier projection. This implies that China's ethylene capacity will expand at a CAGR of 11.1% over 2022-2027, more than double the forecast made three years earlier.

On the demand side, China's ethylene demand was expected to rise at a 6.1% CAGR over 2022-2027 (from 41.43m tonnes to 56.24m). However, the 2027 demand projection was revised up to 60.31m tonnes in 1H25 (2022-2027 CAGR of 7.8%)—7% higher than the 1H22 forecast (56.24m tonnes).

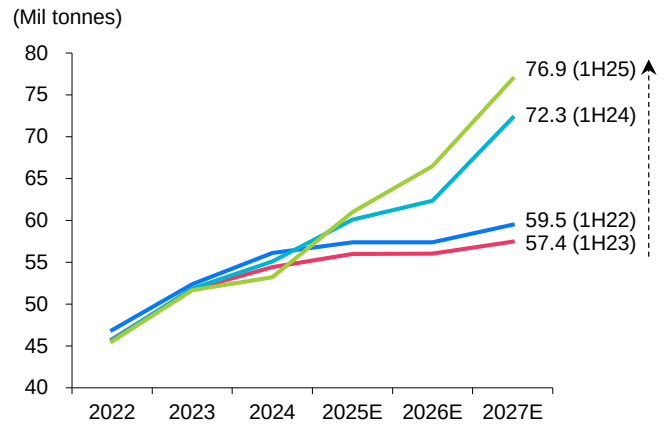
Even though the demand growth forecast was revised up (from a CAGR of 6.1% to 7.8%), it remains far below the actual pace of capacity expansion (from an expected CAGR of 4.9% over 2022-2027 to a new forecasted CAGR of 11.1%). This imbalance should result in a plunge in the country's ethylene utilization, from 91% in 2022 to 84.9% in 2025 and then to 78.4% in 2027. This would mark a notable deterioration vs that expected 3 years ago (when the utilization was expected to stand at 94.6% in 2027).

China: COTC facilities

Project	Location	Type	Refining capacity (mil tonnes)	Chemical capacity (mil tonnes)	Conversion rate	Commercial operation start date
Hengli	Dalian	New	20	Ethylene 1.5, PX 4.5	42%	2019
ZPC	Rongsheng	New	40	Ethylene 1.8, PX 4.8	45%	2021
Shenghong	Jiangsu	New	16	PX 4.0, others 6.0	64%	2022
Yulong	Shandong	New	20	Ethylene 3.0, BTX 3.0, PTA 4.6, HCO 0.3, POE 0.4	81%	2024
Huajin-Aramco	Liaoning	New	15	Ethylene 1.7, PX 2.0		2026E
CNOOC Daxie	Ningbo	Retrofit	6	Ethylene/Propylene 1.8, PP 0.9	45%	2026E
CSPC	Guangdong	Retrofit		Ethylene 1.6, LAO, PC 0.3, BPA 0.2		2026E
Sinopec Qilu	Shandong	Retrofit	10	Ethylene 1.0		2027E
Yanchang	Shaanxi	New	10	Ethylene 1.2, PX 0.8		2029E
Gulei Refining	Fujian	Expansion	16	Ethylene 1.5, PX 2.0		2030E

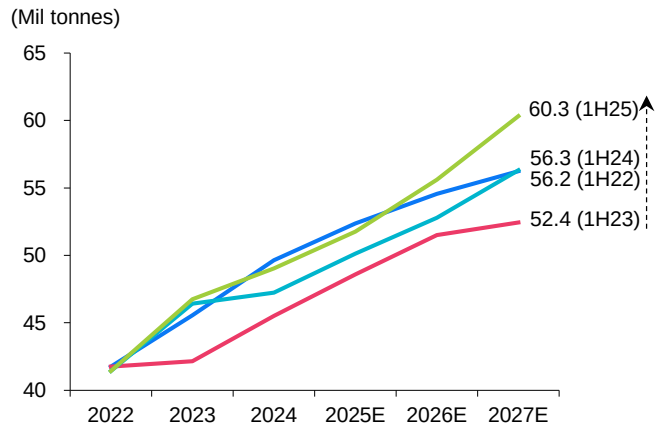
Source: Press release, Samsung Securities

China: Ethylene capacity outlook by forecast date



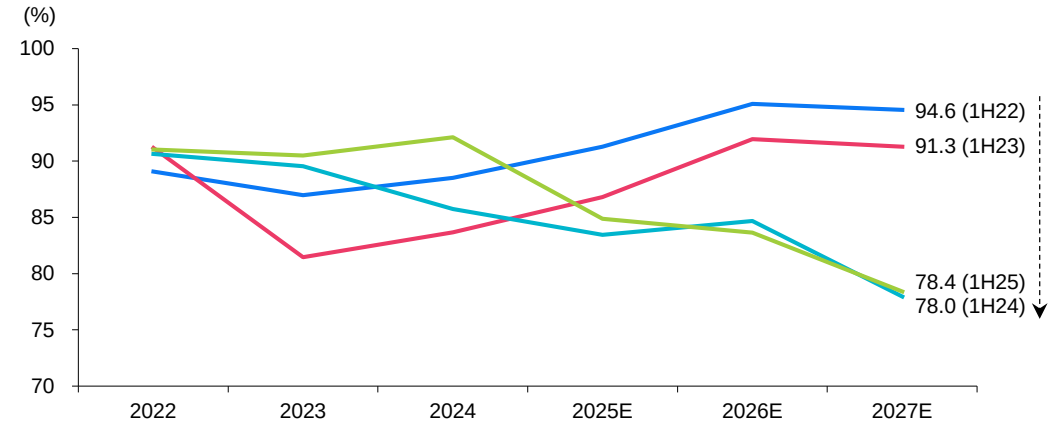
Source: S&P Global Platts, Samsung Securities

China: Ethylene demand outlook by forecast date



Source: S&P Global Platts, Samsung Securities

China: Ethylene utilization rate outlook by forecast date



Source: S&P Global Platts, Samsung Securities

Closing/retrofitting Chinese facilities older than 20 years to have limited impact on industry

In July, with the anti-involution drive gaining momentum, the Chinese government unveiled a policy to investigate (and evaluate) old petrochemical facilities. This marks the first time that the central government has directly initiated inspections of such facilities, though local authorities have in the past mandated the closure/retrofitting of old chemical plants.

The target for inspection is facilities where the main equipment has exceeded its design lifespan (or has been used for >20 years). The scope of facilities covers hazardous chemical plants, refineries, petro-chemical facilities, coal-based chemical facilities, and plants across the chlor-alkali and fertilizer sectors.

Although only investigation guidelines have been issued so far, industry watchers widely anticipate that the government will mandate the shutdown or retrofitting of outdated facilities. In this regard, it is worth analyzing how much of China's chemical production capacity consists of old plants (which have been operational for more than 20 years).

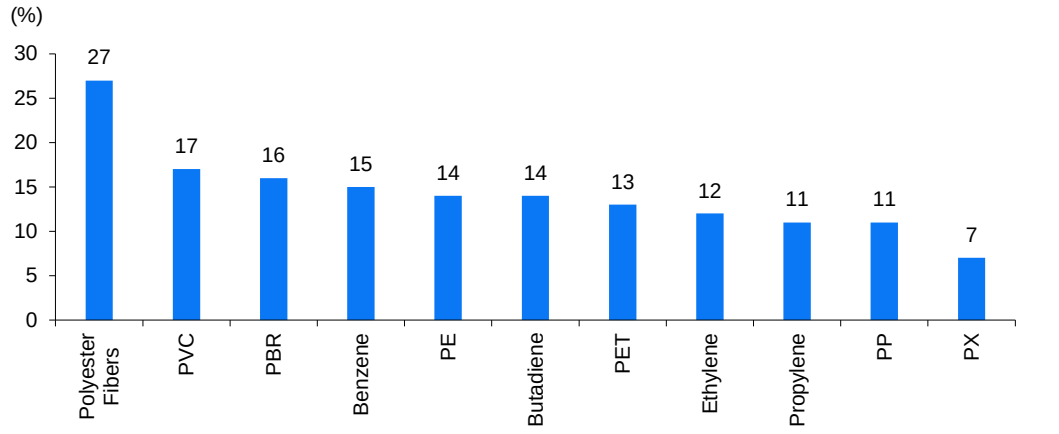
Among these old plants, polyester accounts for the greatest capacity (27%), followed by PVC (17%), PBR (16%), and benzene (15%). This reflects substantial investments made during the 1990s and early 2000s when China's textile and apparel sectors were booming. PX (an intermediate product in the textile manufacturing sector) has the lowest share of old capacity (7%), largely because the country only began to produce PX in the late 2010s. Meanwhile, ethylene's share of old capacity stands at 12% and propylene and polypropylene's (PP) share of old capacity comes in at 11%.

China: Old chemical facilities to be surveyed (Jul 2025)

Category	Details
Policy	• Implementation of petrochemical industry old facility survey and evaluation
Definition of old facilities	• Facilities where the design life of key equipment has been exceeded or where facilities have been in operation for more than 20 years
Scope of application	• Hazardous chemical facilities, and facilities in refining, petrochemical, coal chemical, chlor-alkali, and fertilizer sectors

Source: Ministry of Industry and Information Technology (MIIT), National Development and Reform Commission (NDRC), Samsung Securities

China: Chemical production capacity portion at old facilities as of 2025, by product



Source: S&P Global Platts, ICIS, Samsung Securities

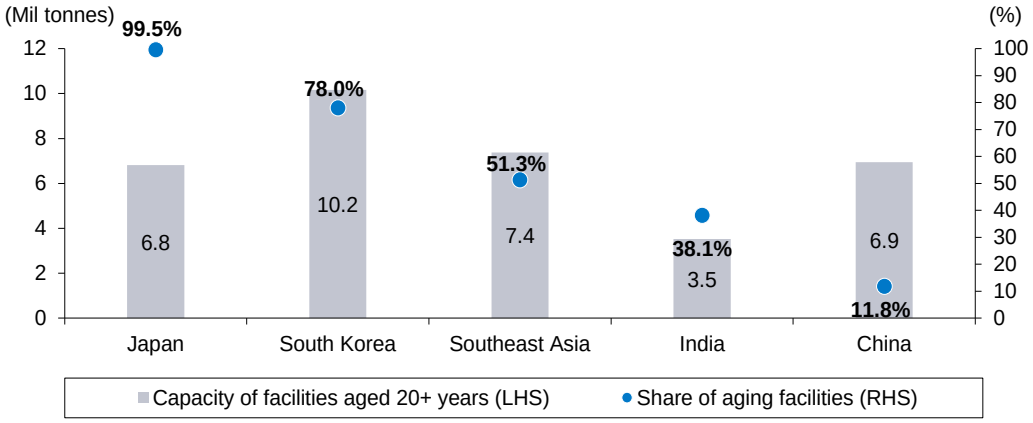
We believe the old chemical facilities are more likely to be retrofitted than closed, and even if closures do occur, the impact of this on the global chemicals market should be minimal. There are two reasons why retrofitting is most likely.

First, China has the lowest portion of ethylene production capacity (among its old facilities) globally. In Asia, the share of ethylene facilities older than 20 years is 99.5% in Japan, 78% in Korea, 51.3% in Southeast Asia, and 38.1% in India. Japan and Korea, both leading the world's petrochemical market, have the largest shares of old capacity. However, China's share is only 11.8%, the lowest in Asia and globally—the country was slow to begin petrochemical production.

Second, China's self-sufficiency rates for petrochemical products are not so high. In 2024, its self-sufficiency rate was 109% for ethylene and only 76% for polyethylene (PE), while such rates exceeded 120% only for PVC, MDI, and TDI. After planned capacity expansions are completed by end-2027, its ethylene self-sufficiency rate should climb to 128%, but its PE self-sufficiency rate should reach just 106%. Given that the industries facing strong anti-involution pressures (*eg*, PV and rechargeable batteries) have self-sufficiency rates of over 200%, China will likely center on upgrading existing facilities to produce higher value-added chemicals (instead of shutting them down).

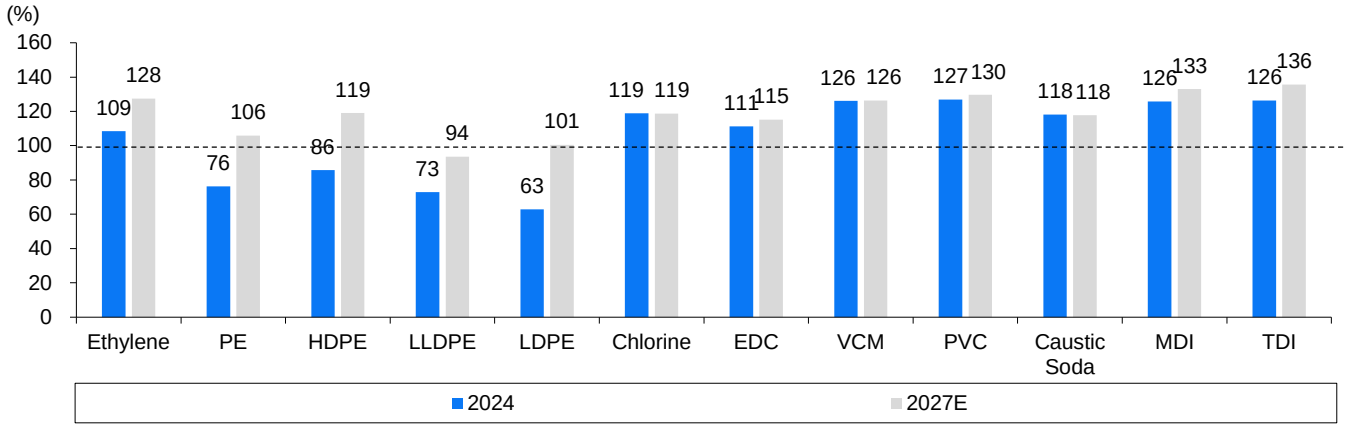
Even if these old facilities are closed, it would not meaningfully improve the global supply-demand balance. Currently, China's ethylene capacity at old plants totals around 6.94m tonnes, representing 11.8% of its total ethylene capacity. However, China's new ethylene capacity additions grew at a 2020-2023 CAGR of 17.8% (+6.21m tonnes *pa*) and should grow at a 2025-2028 CAGR of 11.6% (+7.34m tonnes *pa*). Therefore, even if all of the aged capacity (6.94m tonnes) were closed, it would represent less than one year's worth of new additions, limiting the impact on supply-demand dynamics.

Ethylene: Capacity at old plants vs old plants' capacity as portion of total



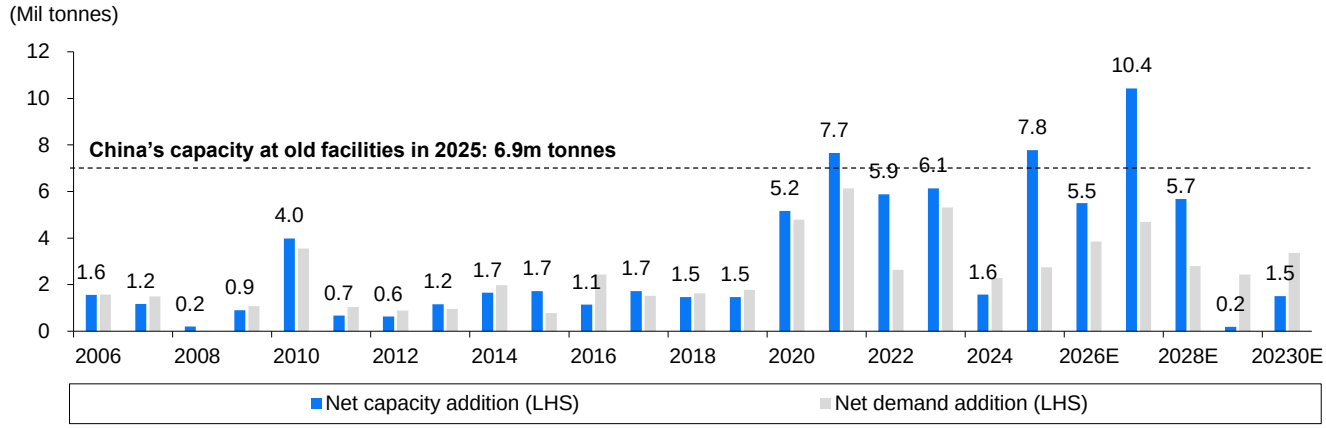
Source: S&P Global Platts, ICIS, Samsung Securities

China: Current status and outlook for self-sufficiency rates, by chemical product



Source: S&P Global Platts, Samsung Securities

China: Ethylene supply and demand outlook vs capacity at old facilities



Source: S&P Global Platts, ICIS, Samsung Securities

China's Petrochemical Stabilization Plan for 2025–2026 – Reaffirming the policy of 'Reducing Refining and Increasing Chemicals'

On Sep 26, seven ministries including the Ministry of Industry and Information Technology (MIIT) announced the 'Work Plan for the Stable Growth of the Petrochemical Industry in 2025–2026.' Through this, it can once again be confirmed that the Chinese government is encouraging the promotion of its 'Reducing Refining and Increasing Chemicals (减油增化)' policy.

The plan focuses on the renovation of outdated petrochemical facilities, the commercialization and demonstration of new technologies, and the support of projects that reduce refining output while increasing sales of chemical products ('Reducing Refining and Increasing Chemicals'). It also emphasizes capacity controls through the closure of old facilities and restricting new refinery capacity expansions. In addition, it is calling for a strengthening in the planning and deployment of major petrochemical and modern coal-chemical projects, and advocates rational determination of the scale and pace of new capacity additions for products such as ethylene and paraxylene to prevent overcapacity.

The Chinese government assessed that by 2026: 1) the added value of the petrochemical industry will grow at an average annual rate of 5%; 2) economic profitability will recover gradually; and 3) industrial technological innovation capability will be strengthened, leading chemical industrial parks to advance from standardized designs to high-quality constructions. It also proposed to strengthen the supply of high value-added products. Focusing on demand across key industrial chains such as semiconductors, new energy, and medical equipment, the Chinese government is supporting research into core products in areas including electronic chemicals, high-performance fibers, and specialty rubbers, and is encouraging the industry to shift from general-purpose to specialty products through verification and commercialization of new material production and applications.

China: Work Plan for the Stable Growth of the Petrochemical Industry (2025–2026) – Announced on Sep 26, 2025

Policy Objective	Key Measures	Expected Impact
Stable Industrial Growth	- Targeting over 5% annual growth for value-added products - Restoring profitability and ensuring stable operations	- Pursuing both cyclical defense and structural growth - Mitigating volatility in the petrochemical sector
Stable Industrial Growth	**- Focusing on core materials for semiconductors, new energy, and medical equipment - Supporting R&D in fields of electronic chemicals, high-performance polyolefins, and specialty rubber**	**- Expanding supply of high value-added specialty chemicals in China - Reducing dependence on imports and improving self-sufficiency**
Stable Fertilizer Supply	- Securing long-term contracts for key feedstocks (coal, phosphate rock, natural gas, sulfur) - Promoting development of slow-release and water-soluble fertilizers	- Enhancing agricultural stability - Expanding eco-friendly and high-efficiency fertilizer markets
Stable Fertilizer Supply	**- Restricting new refining capacity - Automating and converting outdated plants to low-risk processes - Relocating hazardous chemical plants away from urban areas by end-2025**	**- Full-scale implementation of the "Reducing Refining and Increasing Chemicals" policy - Advancing industrial structure via refinery downsizing and chemical expansion - Lowering safety risk of industrial accidents**
Digital and Green Transition	- Building large AI+petrochemical model systems - Converting to low-VOC product lines - Launching CCUS pilot projects	- Accelerating digital transformation - Strengthening alignment with carbon-neutral goals - Enhancing ESG competitiveness
Market Demand Expansion	**- Promoting long-term cooperation in resins, coatings, and tires with auto and shipbuilding sectors - Developing new energy battery materials and carbon-fiber composites - Advancing green ammonia/methanol as marine fuels**	**- Securing stable demand from traditional industries - Creating new demand in emerging sectors (battery, robotics, green fuels)**
Strengthening Industrial Clusters	- Conducting industrial park evaluations and promoting smartization - Developing specialized clusters for petroleum, coal, and chemical industries	- Enhancing agglomeration effects centered on competitive clusters - Driving regional economic growth
Deepening International Cooperation	- Leveraging RCEP and Belt & Road frameworks - Establishing joint ventures for overseas oil, gas, and potash resource development - Encouraging foreign companies to establish R&D centers in China	- Securing overseas resources - Stabilizing external trade - Expanding leadership in global standards and norms
Policy and Financial Support	- Utilizing ultra-long-term government bonds and state funds - Implementing differentiated credit policies (support + regulation) by financial institutions - Operating talent development programs for manufacturing industries	- Increasing inflow of policy-driven capital - Strengthening links between finance and industry - Building long-term competitiveness through cultivating talent
Monitoring and Alert System	- Regular publication of industry cycle indices - Operation of an early-warning system for production capacity	- Early suppression of excess capacity - Manage overheating risks for industries

Source: Ministry of Industry and Information Technology (MIIT), National Development and Reform Commission (NDRC), Samsung Securities

Specialize more, or rethink feedstocks

What direction should Korea's chemical industry take?

Implications of China's energy restructuring for Korean companies and possible responses

Implications for Korean players—neutral in short term, negative over longer term

We believe the impacts of China's chemical industry restructuring on Korean chemical firms will be neutral in the short term and negative over the longer term. This outlook differs somewhat from consensus—the market believes that Korean chemical makers will benefit from China's restructuring. The key point of divergence lies in our view that the extent of restructuring will be limited, given both China's new capacity additions and the capacity at China's old plants. Furthermore, present difficulties in the refining and chemical sectors are: 1) not unique to China but reflect global trends (*eg*, the shift to EVs); and 2) are unlikely to be touched by China's anti-involution campaign. As a result, near-term benefits for Korean chemical firms should be modest, leaving the short-term impacts (relating to China's chemical restructuring) largely neutral.

Over the longer term, the restructuring impacts are likely to be negative. More threatening to Korean players is China's reawakening under the anti-involution framework. China's shift towards naphtha, driven by changes in refinery product demand, is inevitable. Yet, the strong government directive to expand production of specialty products, rather than commodity products, poses a greater challenge. Previously, oversupply risks were mostly confined to commodity chemicals. Now, as China accelerates into specialty chemicals, even the most profitable segments risk becoming unprofitable due to rising Chinese exports. A case in point is polyolefin elastomer (POE), whose margins have declined sharply over the past two to three years as a result of the increase in the Chinese supply.

Korea needs to make higher value-added specialty chemicals and switch to non-oil feedstocks

As stated above, the challenges facing the refining and chemical industries are not exclusive to China but stem from the global trend towards vehicle electrification. China is simply confronting these issues sooner due to its higher EV penetration. The more closely integrated the value chain—exploration and production (E&P), refining, and chemicals—the greater the relative cost advantage. While Korean chemical companies can integrate refining operations, they face significant difficulties in terms of E&P integration due to the absence of domestic oilfields. Therefore, in order to sustain their current export structure, Korean firms will need to form partnerships with overseas E&P players after they have carried out vertical integration (of their refining and chemical operations). However, such measures should just mitigate longer-term losses and are unlikely to provide a fundamental breakthrough in the current market environment (which is difficult).

Korean chemical companies need to take two strategic actions to survive over the long term. First, they must upgrade their product portfolios. This means moving from profitable products (which they currently make; preempting Chinese companies' entrance) to higher value-added specialty chemicals (which generate greater margins)—such an action should allow Korean chemical companies to generate a profit for longer before Chinese players arrive.

Second, they need to build portfolios that include chemical products derived from non-oil feedstocks. As the shift to EVs is driving the crude oversupply, surpluses of naphtha and basic feedstocks appear inevitable, which should broaden the oversupply impact from commodity chemicals to specialty chemicals. Adopting alternative feedstocks (other than naphtha) should help ease some of the structural pressure currently facing the global chemical industry.

Korean chemical industry: Implications of China's restructuring and strategic responses

	Contents
Industry impact	• Given that the capacity additions in China should outweigh the scale of old facility closures, the short-term benefits for commodity products are expected to prove limited. • From a longer-term perspective, if Korean firms switch from commodity products to specialty products, the scope of competitive threats from China is expected to expand across a broader range of products.
Strategic responses	• Amid shifts in crude demand driven by vehicle electrification, China is expected to realign its chemical product portfolio from commodity to specialty products. Accordingly, Korean companies also need to upgrade their chemical product portfolios and prepare for Chinese players' potential market entry. • It is necessary to expand firms' chemical product portfolios by utilizing alternative feedstocks (other than naphtha).

Source: Samsung Securities

Winners of structural shift in crude demand?

1) Companies using non-oil feedstocks; and 2) companies producing higher value-added specialty chemicals

China's oil-refining/chemical industry restructuring is not an issue confined to China but a global one, as the restructuring is the natural consequence of global transportation fuel demand shifting from petroleum to electricity. China will have to restructure ahead of other nations because of its high EV penetration rate. In other words, we believe that the impacts of China's oil-refining/chemical industry restructuring will align with structural changes in crude demand (changes in global demand patterns for refined petroleum products). Korean petrochemical companies surviving China's restructuring should also weather structural changes in crude demand (on a rise in the EV penetration).

Winners of the structural change in crude demand can be divided in two. The first group to survive should be those using non-oil feedstocks. They should include KCC, Lotte Fine Chemical, and UNID.

KCC uses metallurgical silicon for the synthesis of organosilicone. As a global tier-1 organosilicone maker, it offers a broad range of products, including silicone oil (lubrication, water repellence, electric insulation), silicone rubber (electric/electronic, auto parts), silicone resin (coating, paint, adhesives), and sealants (building materials). Its silicone profitability slowed over 2023-2024, but began to improve again this year. For its coatings business, KCC has achieved greater profitability improvements than its domestic rivals have thanks to booming downstream industries (auto and shipbuilding).

LFC is a uniquely positioned specialty chemical firm, being Korea's only company to manufacture cellulose products with pulp. It enjoys particularly high profitability on pharmaceutical- and food-grade cellulose products, backed by a global oligopoly. Moreover, its chlorine relatives business (ECH and caustic soda) is likely to move into the black in 3Q25 (it has sustained losses for several years), as rising glycerin prices are pushing up ECH product prices, leading to better spreads.

UNID is a company that produces inorganic chemical products (such as potassium hydroxide and potassium carbonate) by using potassium chloride (non-oil feedstocks). It is thus free from structural changes in demand for refined petroleum products (as is KCC). It also faces limited threats from new entrants, having secured global leadership in the field of potassium hydroxide production.

The second group to survive should be companies capable of producing higher value-added specialty chemicals (even if they use oil-based feedstocks)—*eg*, SK Chemicals. SK Chemicals uses oil-based feedstocks—mono ethylene glycol (MEG) and purified terephthalic acid (PTA)—but manufactures copolyester (a modified polyester) and enjoys a robust operating margin (in the high teens). In addition, the firm is set to open a new LNG power plant in November, which should bolster earnings at its utility supply business. As a result, the firm should achieve portfolio diversification and enjoy stronger earnings growth momentum.

Korean mid–small cap chemical players: Key survivors of China's restructuring

Company	KCC	Lotte Fine Chemical	SK Chemicals	UNID
Differentiation Points	**- Silicone-based specialty chemicals**	**- Global oligopoly in cellulose-based products**	**- Global oligopoly in Copolyester**	**- Global leader in potassium hydroxide production**
Additional Investment Points	**- Asset value surge expected to improve financial structure**	**- Profit turnaround expected from improved chlorine-based profitability**	**- Earnings growth expected from new LNG power plant and narrowing NAV discount for stake in subsidiary**	**- Full-fledged benefits from China plant expansion expected**
Current Market Cap (KRWb)	3,306	1,192	1,029	478
Current Share Price (KRW)	372,000	46,200	56,600	70,700
Target Price (KRW)	**470,000**	**60,000**	**85,000**	**95,000**
Upside (%)	26.3	29.9	50.2	34.4

Source: Samsung Securities

COMPANY UPDATE

2025. 10. 21

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KCC Corporation (002380)

Petrochemical-independent specialty chemical company

- We initiate coverage of KCC at BUY with a 12-month target price of KRW470,000.
- As its fundamentals are improving and earnings momentum is picking up, the firm's valuation looks undemanding even after the share-price runup in 2025. We expect the stock to rerate further.

AT A GLANCE

BUY

Target price	KRW470,000	20.1%
Current price	KRW391,500	
Market cap	KRW3.5t/USD2.5b	
Shares (float)	8,886,471 (47.1%)	
52-week high/low	KRW437,500/KRW216,500	
Avg daily trading value (60-day)	KRW13.8b/ USD9.7m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
KCC Corporation (%)	-8.5	64.8	46.9
Vs Kospi (%pts)	-17.6	7.3	0.1

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	470,000	470,000	0.0%
2025E EPS	147,163	147,163	0.0%
2026E EPS	35,195	35,195	0.0%

SAMSUNG vs THE STREET

No of estimates	5
Target price	517,400
Recommendation	4.0

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

WHAT'S THE STORY?

View—Fine chemical company immune to shifts in oil demand: We initiate coverage of KCC at BUY with a 12-month target price of KRW470,000. We used a sum-of-the-parts (SOTP) valuation to calculate our target price given its diverse business portfolio, and the peer multiple we used was derived from comparable domestic and international firms. KCC not only has a portfolio insulated from possible falls in oil demand (stemming from the rising EV penetration), but it is beginning to show strength in terms of both its fundamentals (driven by the silicone business's recovery and the coatings business's solid performance) and earnings momentum (on a rise in the value of its asset holdings).

Silicone profitability enters recovery phase: Its takeover of Momentive has turned KCC into a fine chemical company that focuses on silicone. Its profitability recently began to improve thanks to: 1) a leveling-off of the price decline for metallurgical silicone; and 2) strong sales of its specialty products. We expect its silicone operating margin to improve to around 4% over 2025-2026. The start of a new plant in Thailand should help KCC meet demand in ASEAN.

SUMMARY FINANCIAL DATA

(Continued on the next page)

	2024	2025E	2026E	2027E
Revenue (KRWb)	6,659	6,746	6,923	7,251
Operating profit (KRWb)	471	479	515	543
Net profit (adj) (KRWb)	293	1,308	313	345
EPS (adj) (KRW)	34,948	147,163	35,195	38,877
EPS (adj) growth (% y-y)	46.0	321.1	-76.1	10.5
EBITDA margin (%)	13.7	14.4	14.6	14.6
ROE (%)	6.1	23.2	4.9	5.2
P/E (adj) (x)	6.7	2.7	11.1	10.1
P/B (x)	0.3	0.5	0.4	0.4
EV/EBITDA (x)	7.3	8.2	7.3	6.4
Dividend yield (%)	4.2	2.6	2.6	2.6

Source: Company data, Samsung Securities estimates

Coatings continue to offer solid profitability: KCC has shown superior profitability vs its domestic rivals thanks to its high exposure to the auto and shipbuilding sectors. The operating margin of KCC's coatings business rose from around 11% in 2024 to over 12% in 1H25. Short-term momentum stemming from Hyundai Motor Group's (HMG) increasing hybrid sales and Korean shipbuilders' elevated order backlog should offset the impact of a slowdown in the construction market.

Asset holdings to lift corporate value: Treasury shares currently represent more than 17% of its total shares outstanding. If its recently announced treasury share plan is fully implemented, its EPS could rise 12%. Meanwhile, the value of its investment assets has surged to KRW4.4t (from KRW2.8t at end-2024), with the figure now exceeding its market cap. Notably, it has recently used shares in HD Korea Shipbuilding & Offshore Engineering to issue exchangeable bonds (EBs), powering EPS improvements.

Valuation and target price

Valuation still undemanding

Initiating coverage at BUY with target price of KRW470,000

We initiate coverage of KCC at BUY with a 12-month target price of KRW470,000. We used a sum-of-the-parts (SOTP) valuation method to arrive at our target price, as the company operates across distinct business segments comprising silicon, building materials, coatings, and others.

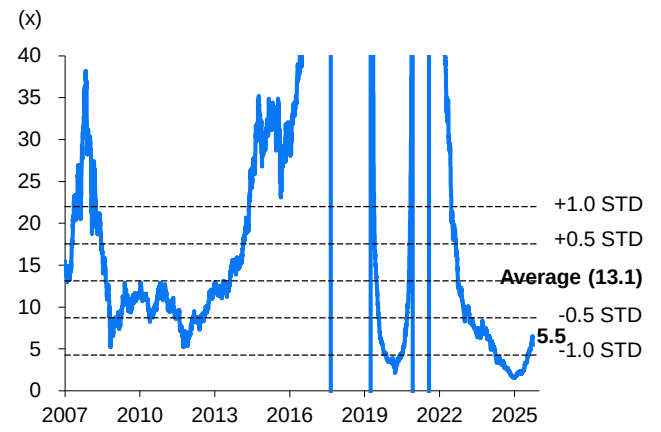
The operating value of each business has been estimated by applying EV/EBITDA multiples to our 12-month forward EBITDA forecast. We identified global players Dow, Wacker, and Shin-Etsu as its peer companies to the silicon business; global window or insulator firms LX Hausys, Nippon Sheet Glass, Saint Gobain, and Owens Corning as peer companies to the building materials business; and global coatings companies Akzo Nobel, PPG Industries, Sherwin-Williams, and Nippon Paint Holdings as peer companies to the coatings business. We excluded US coatings firm Sherwin-Williams from its peer group due to its lofty valuation.

KCC: SOTP valuation

(KRWb)	12MF EBITDA	Multiples (x)	EV	Details
Operating value (A)				
Silicone	389	8.0	3,129	Peers (Dow, Wacker, Shin-Etsu)
Building materials	166	5.7	951	Peers (LX Hausys, Nippon Sheet Glass, Saint Gobain, Owens Corning)
Coatings	246	9.6	2,374	Peers (Akzo Nobel, PPG Industries, Nippon Paint Holdings)
Others	101	7.8	790	Applying the average multiples to the silicone/building materials/coatings segment
Total	**903**	**8.0**	**7,243**	
Net Asset Value (B)			787	70%* discount on investment assets
Net debt (C)			3,890	2025E
Fair market cap (E = A + B - C)			**4,140**	
Total shares outstanding ('000)			8,886	
Fair price (KRW)			465,870	
Target price (KRW)			**470,000**	
Current price (KRW)			372,000	As of Oct 1 close
Upside (%)			26.3	
2025 implied P/E (x)			3.2	
2026 implied P/E (x)			13.4	
2025 implied P/B (x)			0.55	
2026 implied P/B (x)			0.53	

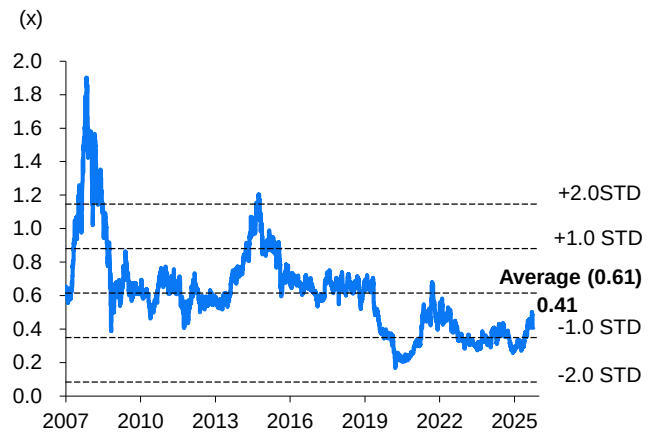
Note: * Applying a 75% NAV discount to the listed company's shares
Source: Bloomberg, Samsung Securities estimates

KCC: 12M forward P/E



Source: QuantiWise, Samsung Securities

KCC: 12M forward P/B



Source: QuantiWise, Samsung Securities

Despite its shares rallying 52% ytd, KCC is still trading at undemanding valuations. As its EPS (inherently swayed by the recognition of valuation gains/losses on its investment assets) has surged this year (shares in its investment assets have rallied), it is now trading at just 5.5x forward P/E. Based on its 2026 P/E, which excludes this year's valuation gains, it is trading at 10.1x, still below its post-2007 average of 13.1x (excluding 2018, 2019, and 2021, which are years when it posted a negative EPS that resulted in an abnormal valuation).

On a P/B basis, it is trading below its historical average. It currently trades at 0.41x forward P/B and 0.40x 2026 P/B—a very low valuation given that its P/B averaged 0.61x post-2007 and that +2 standard deviations from the average is 1.15x. Even if looking at its 2026 ROE and P/B relationship (considering this year's hefty one-off valuation gains from investment assets), its projected 2026 ROE (4.9%) is above the 2007-2024 average (4.4%) but has been paired with a 2026 P/B of 0.40x, which is below the historical average of 0.61x.

KCC: Peer valuation, by division

(x)	Currency	Share	Price performance (%)				Market cap	P/E			P/B			EV/EBITDA		
		Price	1W	1M	3M	YTD	(USDb)	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E
Silicone								**14.4**	**81.1**	**58.4**	**1.24**	**1.21**	**1.18**	**6.3**	**8.6**	**7.3**
Shin-Etsu Chemical	JPY	4,802	4.6	4.5	1.4	(9.3)	63.7	17.1	17.6	15.9	2.09	2.01	1.91	8.0	9.0	8.2
Dow	USD	23.0	(2.3)	(6.6)	(15.0)	(42.8)	16.2	11.6	n/a	134.3	0.90	0.92	0.97	5.5	9.5	7.7
Wacker	EUR	64.2	1.6	(2.1)	0.7	(8.3)	3.9	14.4	144.6	25.1	0.72	0.70	0.66	5.3	7.4	5.9
Building materials								**9.3**	**15.7**	**9.5**	**1.24**	**1.22**	**1.12**	**6.3**	**6.0**	**5.5**
Saint-Gobain	EUR	91.3	(2.6)	(2.5)	(9.7)	6.5	53.3	14.6	13.9	12.9	1.84	1.74	1.65	7.8	7.6	7.1
Owens Corning	USD	143	(1.7)	(6.1)	3.7	(16.0)	12.0	9.2	10.5	9.9	2.17	2.26	2.01	6.1	6.7	6.6
Nippon Sheet Glass	JPY	527	4.4	(1.1)	17.1	47.6	0.3	n/a	15.6	6.4	0.65	0.56	0.51	8.4	5.7	5.0
LX Hausys	KRW	28,150	(1.7)	(1.7)	(9.0)	(11.8)	0.2	4.2	23.1	8.7	0.32	0.32	0.31	2.8	3.8	3.4
Coatings								**19.1**	**18.1**	**16.3**	**7.32**	**6.42**	**5.87**	**12.9**	**12.7**	**11.7**
Sherwin-Williams	USD	341.9	(1.4)	(6.6)	(1.1)	0.6	85.2	30.3	30.2	26.9	22.08	18.81	17.09	21.0	21.0	19.2
PPG Industries	USD	103.7	(5.3)	(6.8)	(9.2)	(13.2)	23.4	12.7	13.2	12.1	3.16	3.21	3.00	9.2	10.0	9.4
Nippon Paint Holdings	JPY	1,005.0	(0.9)	(6.6)	(13.1)	(1.8)	15.9	18.4	14.1	12.8	1.72	1.46	1.35	11.6	10.2	9.2
Akzo Nobel	EUR	60.3	(1.7)	1.7	0.6	4.1	12.1	14.8	14.7	13.5	2.30	2.19	2.05	9.7	9.6	8.9

Note: Based on Bloomberg consensus as of September 26

Source: Bloomberg, Samsung Securities

KCC: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	2023	2024	2025E	2026E
KRW/USD (average)	1,453	1,399	1,385	1,340	1,320	1,310	1,300	1,285	1,306	1,365	1,394	1,304
Sales	**1,599**	**1,705**	**1,694**	**1,748**	**1,676**	**1,794**	**1,789**	**1,663**	**6,288**	**6,659**	**6,746**	**6,923**
Growth (% q-q)	-3.5	6.6	-0.7	3.2	-4.1	7.0	-0.3	-7.0				
Growth (% y-y)	0.7	-4.1	3.6	5.5	4.8	5.2	5.6	-4.8	-7.2	5.9	1.3	2.6
Silicone	774	797	781	793	797	807	817	824	2,952	2,995	3,145	3,245
Building materials	232	252	252	275	242	258	273	291	1,118	1,097	1,011	1,063
Coatings	458	518	490	497	479	570	541	390	1,657	1,944	1,962	1,980
Others	135	138	171	183	159	159	159	159	561	623	628	634
Operating profit	**103**	**140**	**129**	**107**	**118**	**147**	**143**	**107**	**313**	**471**	**479**	**515**
Growth (% q-q)	5.2	35.7	-8.2	-17.2	10.3	25.4	-3.1	-24.8				
Growth (% y-y)	-3.2	-0.1	2.8	8.4	13.7	5.0	10.9	0.8	-33.2	50.7	1.7	7.5
Silicone	21	41	37	32	33	38	39	33	-83	73	131	143
Growth (% q-q)	-20.5	98.5	-8.5	-15.1	3.1	15.7	3.2	-14.7				
Growth (% y-y)	651.3	122.2	44.5	22.7	59.1	-7.3	4.6	5.1	To turn neg	To turn pos	79.1	9.6
Building materials	24	32	29	35	25	33	33	38	193	174	120	129
Growth (% q-q)	-32.0	34.4	-7.9	17.7	-28.7	32.5	1.5	14.7				
Growth (% y-y)	-46.6	-40.3	-27.9	-0.9	4.0	2.5	13.0	10.1	61.3	-10.1	-31.1	7.6
Coatings	56	65	56	38	56	71	63	32	176	217	215	223
Growth (% q-q)	43.3	15.6	-12.9	-32.2	46.9	26.8	-11.1	-49.5				
Growth (% y-y)	2.4	-2.1	-1.2	-2.1	0.4	10.1	12.3	-16.3	191.3	23.3	-0.7	3.5
Others	-4	-1	1	-3	-1	1	2	-1	4	-12	-8	1
Growth (% q-q)	Remained neg	Remained neg	To turn pos	To turn neg	To remain neg	To turn pos	292.1	To turn neg				
Growth (% y-y)	Remained neg	Remained neg	To turn pos	To remain neg	To remain neg	To turn pos	263.3	To remain neg	-34.3	To turn neg	To remain neg	To turn pos
Consolidation adj.	8	4	5	5	5	5	5	5	23	20	21	20
Growth (% q-q)	49.2	-49.8	32.0	0.0	0.0	0.0	0.0	0.0				
Growth (% y-y)	24.6	-6.5	3.6	-1.2	-33.8	32.0	0.0	0.0	13.2	-11.5	6.7	-6.3
Pre-tax profit	**75**	**1,267**	**468**	**58**	**88**	**131**	**119**	**96**	**244**	**470**	**1,867**	**434**
Growth (% q-q)	-84.0	1,580.2	-63.1	-87.7	-95.3	48.2	-9.3	-19.6				
Growth (% y-y)	-88.1	11,449.0	To turn pos	To turn pos	17.3	-89.6	-74.6	65.8	118.3	92.2	297.4	-76.7
Net profit	**44**	**893**	**330**	**41**	**64**	**94**	**86**	**69**	**93**	**293**	**1,308**	**313**
Growth (% q-q)	To turn pos	1,927.9	-63.1	-87.7	56.7	48.2	-9.3	-19.6				
Growth (% y-y)	-90.4	To turn pos	To turn pos	To turn pos	44.7	-89.4	-74.0	69.4	222.7	217.1	345.9	-76.1
Attributable to parent	44	893	330	41	64	94	86	69	213	311	1,308	313
Margins (%)												
Operating profit	6.5	8.2	7.6	6.1	7.0	8.2	8.0	6.5	5.0	7.1	7.1	7.4
Silicone	2.7	5.1	4.8	4.0	4.1	4.7	4.8	4.1	-2.8	2.4	4.2	4.4
Building materials	10.2	12.7	11.7	12.6	10.2	12.7	12.2	13.1	17.3	15.8	11.8	12.1
Coatings	12.2	12.5	11.5	7.7	11.7	12.5	11.7	8.2	10.6	11.2	11.0	11.2
Others	-3.3	-0.7	0.3	-1.7	-0.7	0.3	1.3	-0.7	0.7	-2.0	-1.2	0.1
Pre-tax profit	4.7	74.3	27.6	3.3	5.3	7.3	6.7	5.8	3.9	7.1	27.7	6.3
Net profit	2.8	52.4	19.5	2.3	3.8	5.3	4.8	4.1	1.5	4.4	19.4	4.5

Source: KCC, Samsung Securities estimates

Investment points

Fine chemical company insulated from shifts in oil demand

Silicone profitability enters recovery phase

KCC used to focus on building materials and coatings. But its acquisition of global silicone firm Momentive significantly altered its business structure, turning it into a fine chemical company that is focused on silicone. Back in 2018 before it acquired Momentive, silicone represented just 11% of its sales (vs 39% for building materials and 37% for coatings). But the figure has jumped to 47% this year (1H25; vs 15% for building materials and 29% for coatings). By region, 39% of its silicone sales come from Asia, 31% from the US, and 30% from Europe (as of 2024).

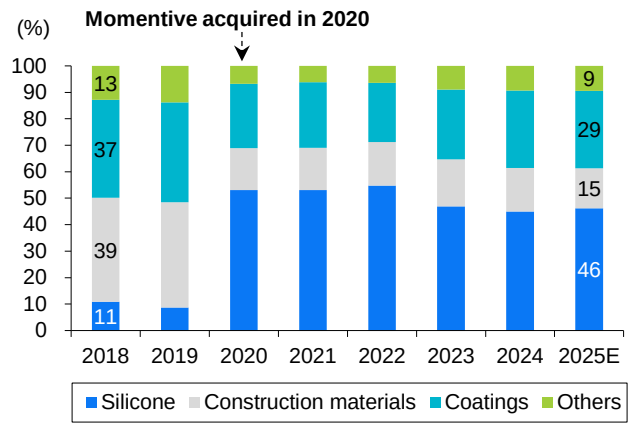
Its silicone business chiefly produces organosilicone. For the synthesis of organosilicone, it purchases dimethylcylcosiloxane (DMC). A type of siloxane, DMC is typically made with metallurgical silicon (MG-Si). The company offers a broad range of organosilicone products, including silicone oil (lubrication, water repellence, electric insulation), silicone rubber (electric/electronic, auto parts), silicone resin (paint, coatings, adhesives), and sealants (building materials).

Its silicone profitability recently began to recover after a two-year slump. Prices of metallurgical silicone, a raw material of organosilicone, surged in 2021 on China's dual control of energy. The Chinese policy sought to curb both 'total energy consumption' and 'energy intensity' (energy use per unit of GDP), setting energy saving targets at the province level. Provinces that missed their energy targets were forced to curtail production. China's restriction of energy supplies resulted in less production and higher prices of metallurgical silicone—a market where China accounted for over 70% of the global supply. The raw material price hikes ignited a rally in product prices, lifting KCC's profitability (operating margin) to 7-9% over 2021-2022.

But after 2022, China gradually eased energy regulations to counteract an economic slowdown. China's metallurgical silicone capacity utilization recovered, causing prices to fall through 2024. Having to recognize negative lag effects (stemming from falling raw material prices), KCC saw silicone profitability (operating margin) slow from 7% in 2022 to -2.8% in 2023 and 2.4% in 2024.

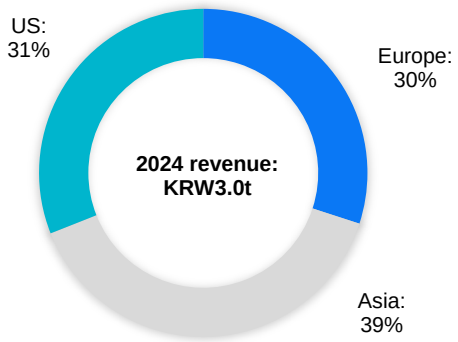
Its profitability recently began to improve thanks to a leveling-off of the price decline in metallurgical silicone and strong sales of its specialty products. After recovering from 0-2% in 1H24 to 3.6% in 3Q24 and 3.5% in 4Q24, its profitability rose to 5.1% in 2Q25. While the ongoing global tariff war has cast uncertainty over the global economy, its profitability should keep improving thanks to the US tariffs; moreover, the addition of a new plant in Thailand should help it meet demand in Southeast Asia. We expect its operating margin to improve from -2.8% in 2023 and 2.4% in 2024 to 4.2% in 2025 and 4.4% in 2026.

KCC: Sales portion, by division



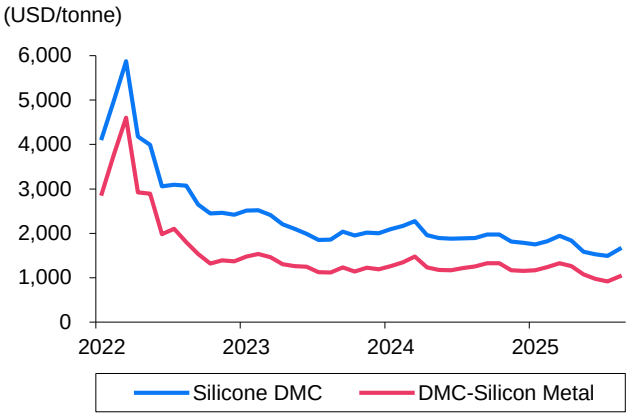
Source: KCC, Samsung Securities

KCC Silicone division: Sales portion, by region



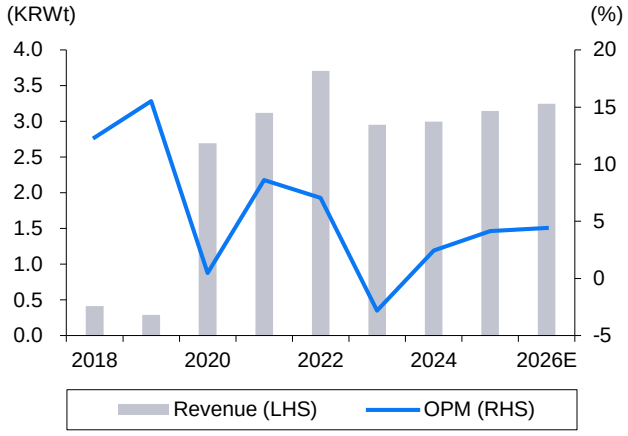
Source: KCC, Samsung Securities

DMC: Product prices and spread



Source: Shanghai Metals Market, Samsung Securities

KCC: Silicone division's results and forecasts



Source: KCC, Samsung Securities

Coatings division continues to generate solid profitability

Another pillar supporting KCC's fundamentals is its coatings business, which division consistently logs solid profitability. Coatings, such as paint, are liquid substances that are applied in a thin film to the surface of an object to provide protection and improve its aesthetics.

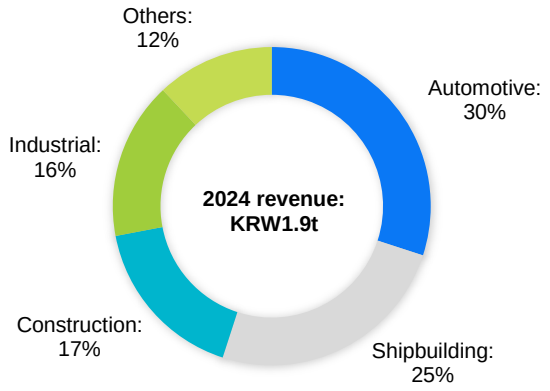
KCC offers a diverse lineup of coatings: Architectural coatings, ship coatings, plant coatings, powder coatings, general industrial coatings, PCM coatings, automotive coatings, plastic coatings, and more. Their applications can be grouped into five categories: Auto, shipbuilding, architecture, industrial, and others. KCC's coatings business is most exposed to the auto sector (30% of sales), followed by shipbuilding (25%), architecture (17%), industrial (16%), and others (12%). Its domestic rivals' (Noroo Paint, Samhwa Paint, and Chokwang Paint) have high sales exposure to architectural products.

Encouragingly, KCC has shown superior profitability to its rivals over the past 2-3 years amid a domestic construction slump—the nation's auto and shipbuilding sectors have continued to boom. The profitability (operating margin) of KCC's coating business stood at a mere 2-4% over 2020-2022, but leapt to 10.6% in 2023 and 11.2% in 2024. The figure climbed further to 12.4% in 1H25. Growing sales of lucrative auto and shipbuilding coatings appear to have improved the division's profitability mix, thereby offsetting the impact of a slowdown in the architecture market.

None of its domestic rivals have seen their margins improve as much KCC. Noroo Paint posted a profitability (operating margin) of 3-5% over 2020-2022, 5.5% in 2023, 5.5% in 2024, and 4.7% in 1H25. Samhwa Paint's profitability slid from 2.7% in 2020 to as low as 0.1% in 2021 before holding steady around 3-4% over 2022-2024 before slowing again to 1.5% in 1H25. Chokwang Paint, with the smallest sales among KCC's domestic peers, suffered from negative profitability (operating margin) of -1 to - 4% over 2020-2022. The figure turned positive (+1%) over 2023-2024 but plunged to -7.5% in 2025. We attribute the sharp profitability contraction to its high dependence on architectural product sales and small economies of scale—with sales less than half of KCC's, it possesses weaker bargaining power in terms of procuring raw materials.

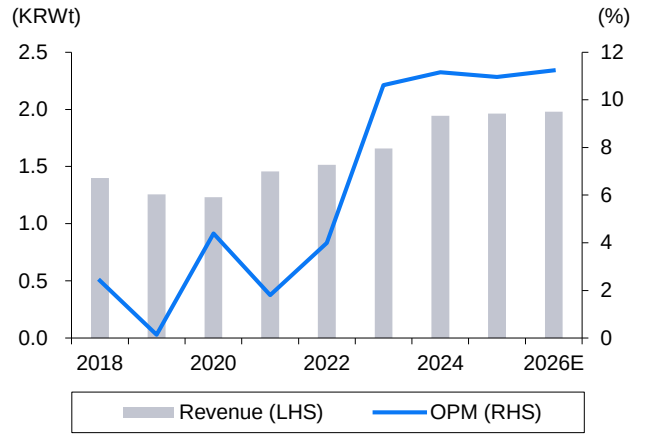
KCC's sales to its auto and shipbuilding clients, pivotal to its strong profitability, should be sustained thanks to favorable market conditions for both sectors. Hyundai Motor Group (HMG) is dealing with the EV slump by increasing its hybrid sales, which action has brightened the short-term sales growth prospects for automotive coatings. Also, Korean shipbuilders have an elevated order backlog that will translate to sales over time, which should keep KCC's coatings business highly profitable.

KCC: Coating division's sales portion, by client



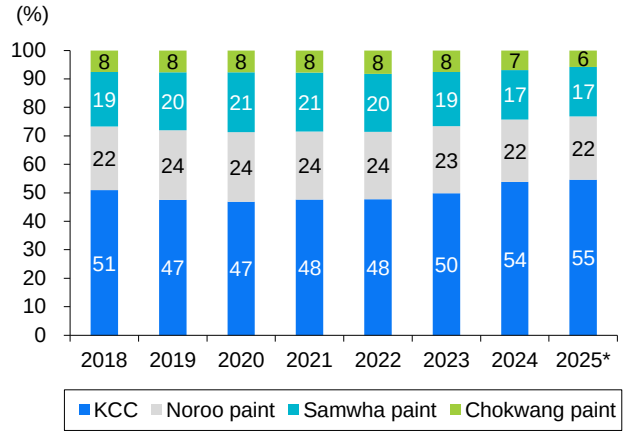
Source: KCC, Samsung Securities estimates

KCC: Coating division's results and forecasts



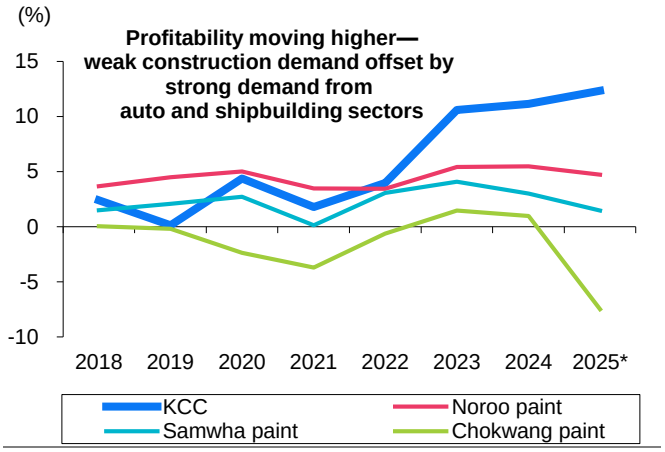
Source: KCC, Samsung Securities

Domestic coating companies: Market share changes



Note: * Based on 1H25 results
Market share based on each company's sales (KCC limited to coating sales only)
Source: Samsung Securities estimates

Domestic coating companies: OPM trends



Note: * Based on 1H25 results
KCC OPM is based on coating division
Source: KCC, Samsung Securities

Asset holdings boosting corporate value

In addition to the healthy fundamentals of its silicon and coatings businesses, KCC's asset holdings are rising in value or are being highlighted by the market—a positive development in terms of corporate value. Its asset holdings consist of treasury shares and financial assets measured at fair value through profit or loss (FVPL).

Treasury shares currently represent 17.2% of its total shares outstanding—one of the highest percentages in the sector. Its treasury share portion was 6.8% until 2020. But in Sep 2020, KCC decided to buy back KRW100b worth of shares (6.9% of total shares outstanding) to enhance shareholder value in the process of separating it silicon business. The figure rose to 13.8% by Dec 2020.

KCC decided to buy back another KRW100b worth of shares (3.4% of its total) to further enhance shareholder value in Feb 2022 after it sold a portion of its stake in HD Korea Shipbuilding & Offshore Engineering (HD KSOE; 2.7%) for KRW165.6b. This lifted its treasury share portion to 17.2%. In sum, over the past five years, the company has spent KRW200b in cash to buy a 10.3% stake in itself, which value has risen 92% to KRW383.2b (based on its current share price). Theoretically, cancelling the treasury shares in their entirety would boost its EPS and BVPS by around 21%.

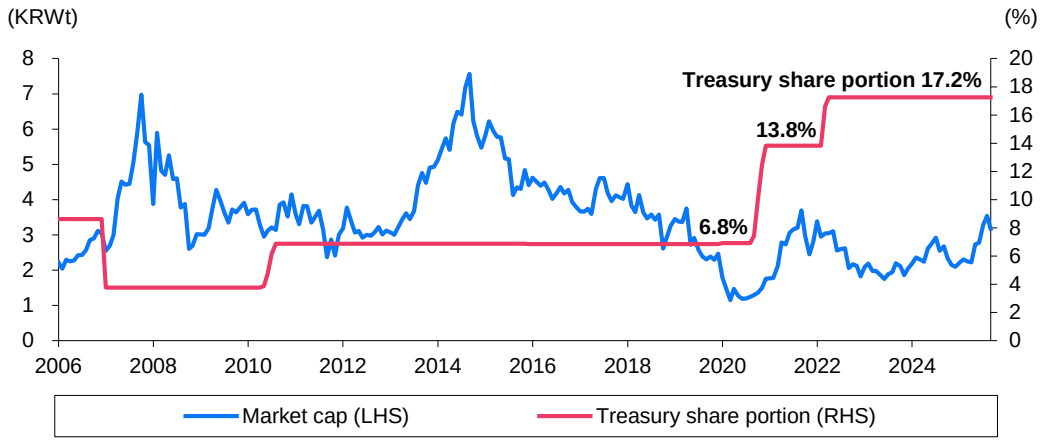
On Sep 24, KCC announced how it intended to utilize its treasury shares, a day after the domestic media reported on the possibility of KCC issuing exchangeable bonds (EBs) that give the bondholder the right to exchange the bonds for its treasury shares. According to its plan for its treasury shares (17.2% of total shares outstanding), 3.9% will be cancelled, 9.9% will be used as underlying assets for EBs, and 3.4% will be allocated to an employee welfare fund. The shares tumbled 14% over the next three days, reflecting investor disappointment. However, this remains only a plan—final actions will be confirmed through disclosure at a later time. Even if the EBs are issued to refinance borrowings (with rates of up to 8%), its EPS would still improve. If the plan is fully implemented, the treasury share cancellation would raise its EPS 4.1% and its debt repayment through EB issuance by another 8.1%, for a total EPS increase of 12%. Considering that canceling 100% of its treasury shares would boost its EPS 21%, the 14% decline in share price following the plan's announcement seems excessive.

Meanwhile, KCC's investment assets, classified as financial assets measured at FVPL, have been gaining value amid sector strength and a bullish Korean stock market. It currently owns shares in nine listed firms, with valuation gains/losses on these holdings, measured at fair value at the end of every reporting period, recognized as a non-operating profit/loss. (Dividend and interest income are also reflected in net profit.) This explains why its net profit fluctuates more widely than its operating profit.

The value of KCC's investment assets moderated slightly from KRW2.84t at end-2023 to KRW2.78t at end-2024. Since the end of last year, the value has surged 41% to KRW3.91t (as of end-2Q25), supported by a strong stock market and favorable business conditions for the companies, and has since risen an additional 13% to stand at KRW4.42t (as of Sep 26). As these investment assets exceed its market cap, their liquidation could dramatically enhance its corporate value.

After selling a 2.7% stake in HD KSOE (KRW165.6b) in Feb 2022, KCC took no major action on its remaining 3.91% stake for three years. In Jul 2025, it issued KRW882.8b (USD650m) in EBs backed by a 2.9% stake in HD KSOE. While it still holds the underlying shares for the EBs, having raised KRW882.8b in proceeds, it may be preparing to gradually divest its stake. The EBs carry a low interest rate of 1.75%, and proceeds were used to repay debt related to the Momentive acquisition (which debt bore a 6.8% interest rate). As such, we believe KCC's net interest cost peaked at KRW311.8b in 2024 and will fall to KRW253.4b in 2025 and to KRW161.8b in 2026, driving EPS improvements.

KCC: Market cap vs treasury share portion



Source: QuantiWise, Samsung Securities

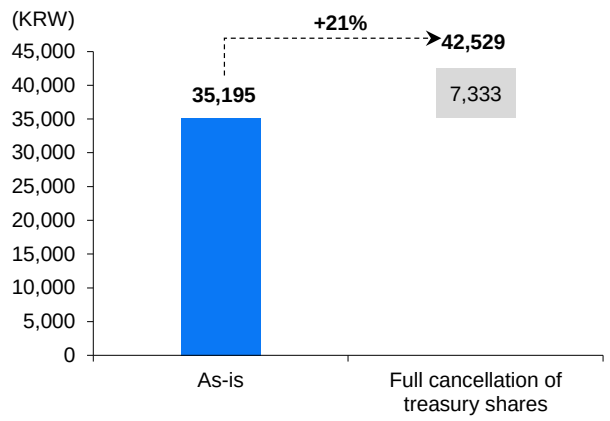
KCC: Treasury share utilization plan—announced Sep 24 but withdrawn Sep 30

	Shares	Ownership (%)	Amount* (KRWb)	Expected timing	Fundamental impact
Treasury share cancellation	350,000	3.9	125	4Q25E-1Q26E	EPS & BVPS to improve 4.1%**
Exchangeable bond issuance	882,300	9.9	315	4Q25E	EPS to improve 8.1%***
Contribution to Employee Welfare Fund	300,000	3.4	107	4Q25E-1Q26E	

Note: *Based on current share price of KRW357,000
**Assuming only the direct impact of share count reduction
***Assuming repayment of the company's most expensive debt (8.1%)

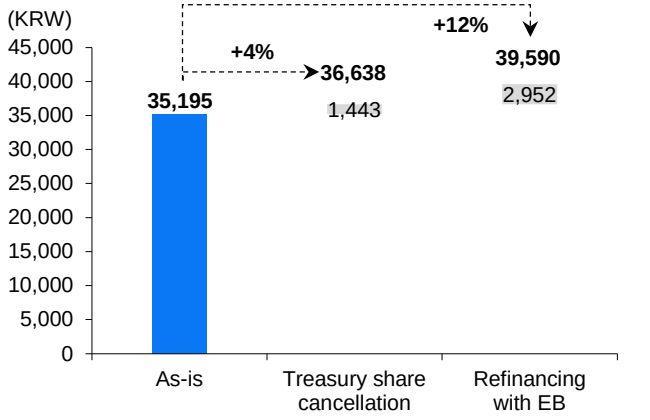
Source: KCC, Samsung Securities

KCC: EPS impact in 2026 assuming full cancellation of treasury shares



Source: KCC, Samsung Securities

KCC: EPS impact in 2026 based on the announced treasury share utilization plan



Note: Exchangeable bond coupon assumed at 0%, refinancing assumed as repayment of the remaining 8% borrowing / Source: KCC, Samsung Securities

KCC: Status of financial assets measured at fair value through profit or loss (FVTPL)

(KRWb)	Ownership (%)	Acquisition cost	Fair value			
			End-2023	End-2024	End-2Q25	Now*
Samsung C&T	10.01	1,081.1	2,405.8	2,043.0	2,745.3	3,197.1
HD Hyundai Heavy Industries	3.91	173.0	334.6	630.9	1,011.6	1,100.0
Hyundai Mobis	0.001	0.0	0.2	0.2	0.3	0.3
HDC	1.79	5.6	7.4	12.7	25.1	19.1
HDC Hyundai Development Company	2.37	18.3	22.8	28.2	35.1	31.6
Hyundai Corporation	12.00	31.1	30.0	30.3	46.0	33.6
Hyundai Corporation Holdings	12.00	25.4	11.7	11.2	14.2	13.4
HL D&I	9.78	50.0	7.6	8.2	9.9	8.7
HL Holdings	4.59	27.2	15.5	15.5	17.5	17.0
Total		**1,411.7**	**2,835.6**	**2,780.4**	**3,905.0**	**4,420.7**

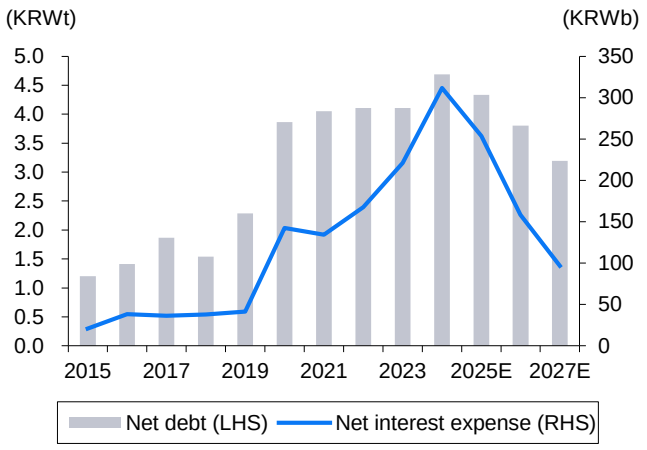
Note: * As of Sep 26 close / Source: KCC, Samsung Securities

KCC: Details of exchangeable bond issuance backed by HD Hyundai Heavy Industries shares

(KRWb)	Details
Issuance amount (USD mn)	650.0
Issuance amount (KRW bn)	882.8
Exchange price (KRW)	429,650
Exchange vs share price at issuance (%)	130%
Number of shares subject to exchange (ownership %)	2,054,614 (2.90%)
Ratio vs existing shareholding (%)	74%
Remaining shares after exchange	709,348 (1.00%)
Coupon rate	1.75%
Maturity	Jul 10, 2030
Use of proceeds	Repayment of debt through capital injection into Momentive

Source: KCC, Samsung Securities

KCC: Net debt and net interest expense trends and outlook



Source: KCC, Samsung Securities estimates

Appendix

Company overview

Company overview

KCC emerged from Kumgang Slate Industry (a building materials business; founded in 1958). Kumgang Slate Industry established Korea Chemical (coatings business) in 1974 to expand into a new business area. The two companies (Kumgang Slate Industry and Korea Chemical) merged in 2000 under the name Kumgang Korea Chemical, establishing KCC's current business model. Kumgang Korea Chemical expanded into the silicone business by acquiring overseas silicone firms Basildon and Momentive in 2011 and 2018, respectively.

Notably, its Momentive takeover altered its primary business. Back in 2017, KCC generated 41% of its sales from building materials, 37% from coatings, and 10% from silicone. But its sales now break down as 47% silicon, 29% coatings, and 15% building materials (as of 2025).

Its silicone business chiefly produces organosilicone. For the synthesis of organosilicone, it purchases dimethylcylcosiloxane (DMC). A type of siloxane, DMC is typically made with metallurgical silicon (MG-Si). The company offers a broad range of organosilicone products, including silicone oil (lubrication, water repellence, electric insulation), silicone rubber (electric/electronic, auto parts), silicone resin (coating, paint, adhesives), and sealants (building materials).

The building materials business is KCC's legacy business that manufactures and sells interior materials, ceiling materials, and insulation products. Its: 1) interior materials include gypsum board; 2) ceiling materials include Mitone (acoustic ceiling board made from natural mineral wool) and Gypsum Tex (gypsum board, maximizing sound absorption); and 3) insulation materials include mineral wool, glass wool, and ceramic fiber. With the extensive lineup, it can meet various consumer needs for use across construction, industrial, vessel, panel, and more projects.

KCC is involved in coatings, which are used not only in industrial settings (architecture, autos, ships) but also for homes. The company used to mass produce uniform products, but recently shifted to a multi-product manufacturing system to meet a variety of needs. Core applications are gravitating towards high value added, technology intensive products such as specialty marine coatings. The company's key products range from architectural coatings to heavy duty coatings, powder coatings, general industrial coatings, PCM coatings, automotive coatings, and plastic coatings.

The 'others' business offers alumina metalizing (A/M), direct copper bonding (DCB), and glass fiber products. A/M products, consisting of metalized ceramics (ceramics and metal are bonded for enhanced insulation performance) and brazed ceramics, are a core material of electric/electronic insulation components. DCB is used in ceramic substrates that dissipate heat generated by high-power

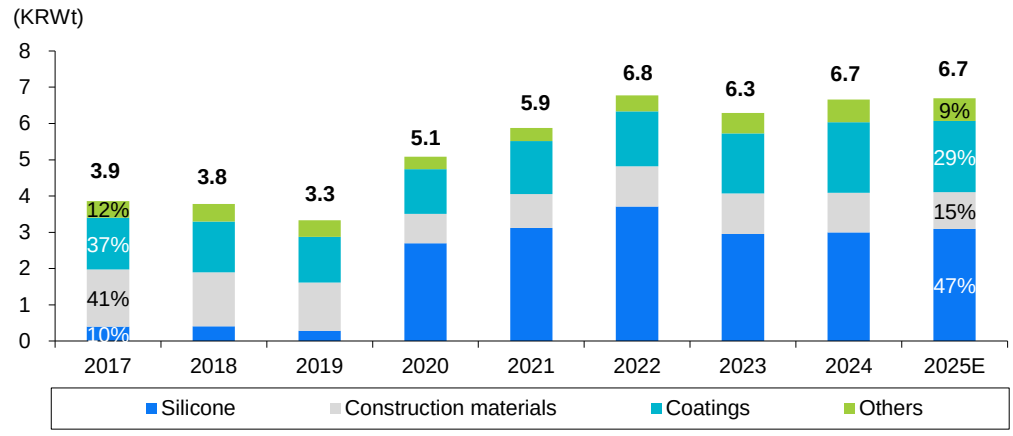
power modules. Glass fiber, which exhibits excellent chemical resistance, strength, electric insulation, heat insulation, and durability, is used as a composite material across electric, electronic, automotive, and aircraft component industries.

KCC: Major milestones

Year	Detail	Year	Detail
1958.09	Established Kumgang Slate Industry (building materials)	2005.02	Changed company name from Kumgang-Korea Chemical to KCC
1974.07	Established Korea Chemical (paints & coatings)	2011.04	Acquired UK-based silicone manufacturer Basildon
1976.03	Renamed Kumgang Slate Industry to Kumgang	2018.09	Signed merger and acquisition agreement with global silicone producer Momentive
1989.01	Established Kumgang Construction (KCC Construction) and Kumgang Leisure	2020.09	Spun off existing silicone business and established new entity KCC Silicone
2000.04	Merged Kumgang and Korea Chemical, renamed Kumgang - Korea Chemical	2021.01	Sold KCC Silicone to Momentive, integrating the global silicone business

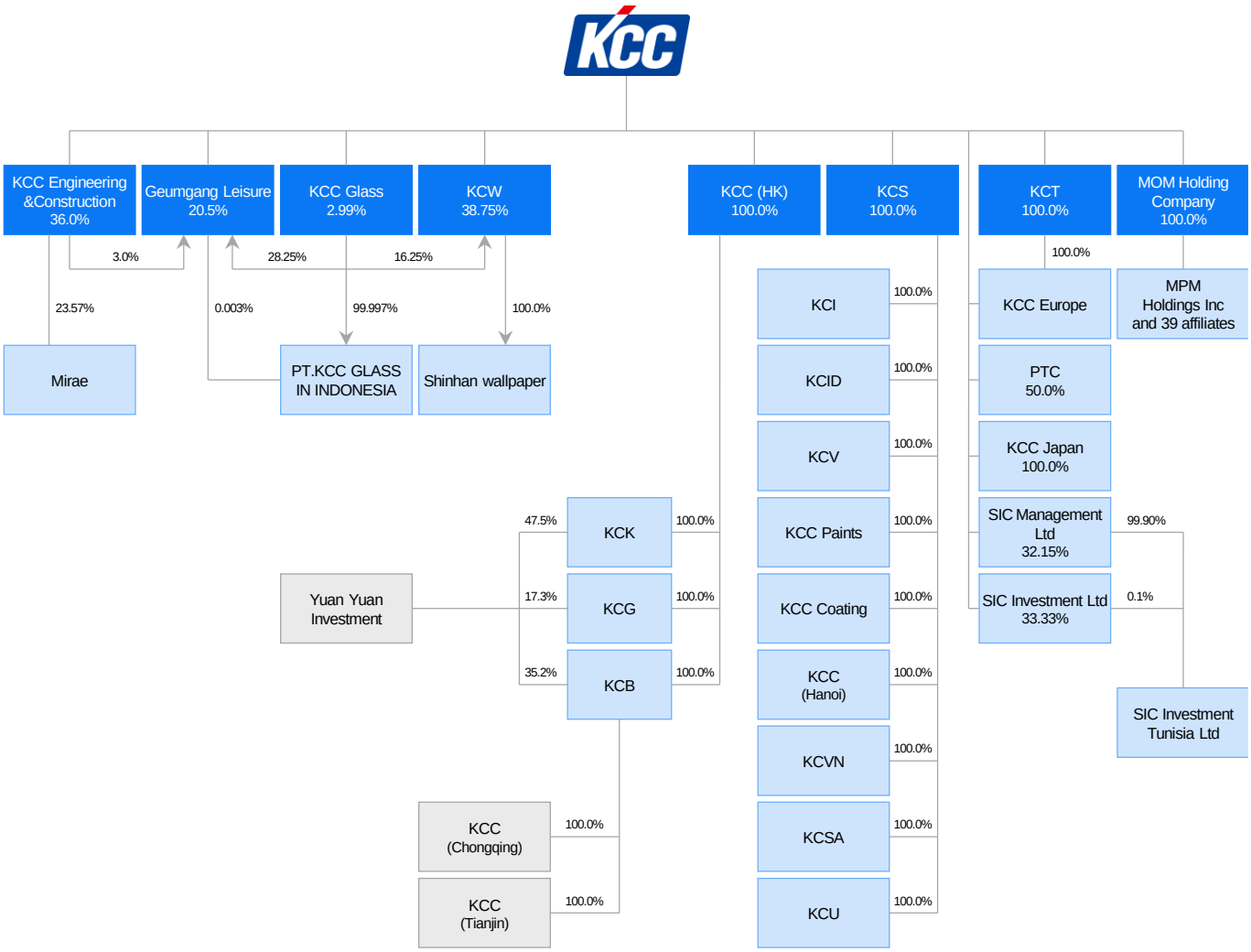
Source: KCC, Samsung Securities

KCC: Sales, by division



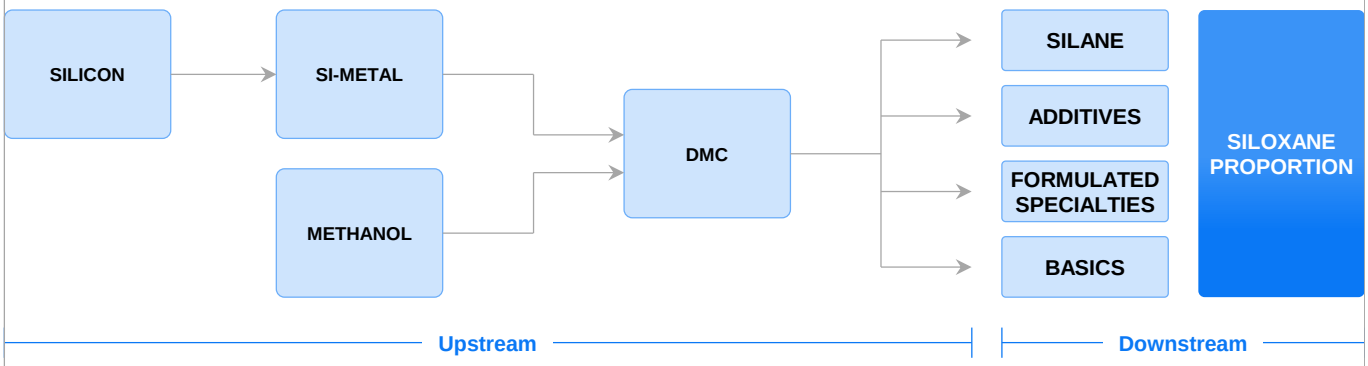
Source: KCC, Samsung Securities

KCC: Ownership structure



Source: KCC, Samsung Securities

Silicone value chain



SILICON	This is a chemical element widely used as a raw material for producing chemical substances related to the electronics and silicon industries. Due to its importance in the technology and energy sectors, demand for it has remained steady.
SI-METAL	It is a raw material used in the production of aluminum-silicon alloys and silicon-based chemicals. In addition to its use in organosilicon compounds, it is an essential raw material for semiconductors and solar panels. More than 60% of global production takes place in China.
METHANOL	Methyl chloride (CH_3Cl) is produced by reacting hydrogen chloride (HCl) with methanol (CH_3OH), and it is used in the synthesis of the silicon monomer MCS (methylchlorosilane). Production is concentrated mainly in North America and Southeast Asia.
DMC	It is a chemical intermediate mainly used as a solvent in polymers, pharmaceuticals, coatings, and adhesives. The production cost is largely composed of raw material, electricity, and labor expenses, and China is the primary producer.

Source: KCC, Samsung Securities

KCC Silicone: Key global production sites

Country	Region	Key Milestones & Main Products
Korea	Daejuk	• 2007: Completed construction of the Daejuk Silicone Plant → First in Korea to produce both silicone raw materials and downstream products • Produces Basics and Formulated Specialties (e.g., Elastomers)
	Jeonju	• 2003: Completed construction of the Jeonju Silicone Plant • Produces Basics, Formulated Specialties (e.g., EM, Release Coatings), and Performance Additives (e.g., Personal Care materials)
United States	Waterfold	• 1947: Began silicone production (GE Silicones) • Produces Formulated Specialties (Elastomers, EM, Hard-Coatings, Sealants, etc.) and Performance Additives (Silanes and other additives)
	Sisterville	• 2004: Integrated into GE Silicones (formerly Union Carbide) • Produces Performance Additives (Silanes and other additives)
Japan	Ohta	• 1974: Began silicone production (GE Toshiba Silicone) • Produces Basics, Formulated Specialties (Sealant, EM, Elastomer, etc.) and Performance Additives (Silane, Personal Care, etc.)
China	Nantong	• Produces Formulated Specialties (Elastomers, EM, Release Coatings, etc.)
Thailand	Rayong	• Produces Formulated Specialties (Elastomers, Hard-Coating, etc.) • Produces Performance Additives (Tire, Silane, etc.)
Germany	Leverkusen	• Produces Formulated Specialties (Elastomers, Hard-Coating, etc.) • Produces Performance Additives (Tire, Silane, etc.)
United Kingdom	Abingdon	• Produces Performance Additives (Personal Care and other additives)
Italy	Termoli	• Produces Performance Additives (Silanes and other additives)

Source: KCC, Samsung Securities

KCC Silicone: Products, by industry

End use	Application	Product Types
Personal care	Skin and hair care products, skin-adhesive patches, color cosmetics, sun care, etc.	Cosmetic raw materials such as Silicone Emulsion and Silicone Oil
Automotive	Electric and internal combustion vehicles — electronic components, tires, airbag coatings, interior and exterior materials	Silane, High Consistency Rubber (HCE), Liquid Silicone Rubber (LSR)
Construction	Thermal insulation, water repellents for buildings, sealants for windows, waterproofing, and general construction use	Sealants, Silicone Emulsion, etc.
Consumer	Bedding polyurethane foam, kitchenware, baby products, etc.	High Consistency Rubber (HCE), Room Temperature Vulcanizing Silicone Rubber (RTV), Liquid Silicone Rubber (LSR), Pressure-Sensitive Adhesives, Release Agents, etc.
Industrial	Paint additives, sports goods, industrial adhesives, and coatings	Silicone Emulsion, Room Temperature Vulcanizing Silicone Rubber (RTV), Silane
Others	Semiconductors, aerospace, agriculture, food, medical devices, and electronic materials (EM)	High Consistency Rubber (HCE), Room Temperature Vulcanizing Silicone Rubber (RTV), Liquid Silicone Rubber (LSR), Silane

Source: KCC, Samsung Securities

KCC Silicone: Products, by type

Type	Name	Characteristics	Major Applications
HCE (High Consistency Elastomer)	High-temperature-cured silicone rubber	• Solid silicone rubber cured at high temperatures • Can be molded using various methods • Superior to organic rubber in heat and chemical resistance; used across diverse industries	Automotive: Keypads, hoses, etc. Industrial: Mobile devices, watch bands, etc. Electronic Materials: Electric cables, remote-control keypads, etc. Consumer & Others: Medical and dairy hoses, swimming gear, etc.
LSR (Liquid Silicone Rubber)	Liquid silicone rubber	• Liquid-form, high-temperature-cured silicone rubber • Low viscosity and high fluidity enable automated injection molding • Used in products that come into contact with skin or food	Electronic: High-voltage insulators, home appliances Automotive: Airbag coatings Consumer & Others: Baby products, medical components
RTV (Room Temperature Vulcanization)	Room-temperature-cured silicone rubber	• (RTV-1) Excellent adhesion; bonds to most substrates • (RTV-2) Excellent electric properties, heat/weather/frost resistance, and impact absorption	Electronic Materials: Thermal interface materials, wire coatings, sealants, LEDs Industrial: Industrial adhesives, thermal-insulation protective coatings Personal Care: Skin-adhesive patches
Emulsion / Silicone Oil	Silicone emulsion and oil	• Stable dispersion created by uniformly mixing oil and water • Used for defoaming, release, water repellency, lubrication, and anti-blocking	Automotive: Tire polishes, release agents Construction: Insulation, water repellents Industrial: Road additives, tack-preventive agents, defoamers Personal Care: Skin and hair-care products
PSA / RLC (Pressure Sensitive Adhesives, Release Coatings)	Pressure-sensitive adhesives and release coatings	• PSA: Functional adhesives maintaining tack at both high and low temperatures • RLC: Used as release and coating materials for tapes, labels, and films	Electronic Materials: LCD protection, process protection films Consumer / Industrial: Labels (release liners), films
Silane / Resin	Silane / Resin	• Organosilicon compounds in gaseous or liquid form • Used to enhance the thermal properties of end products in tire, semiconductor, and petrochemical industries	Automotive: Coupling agents for tires (e.g., NXT) Electronic Materials: Front-end semiconductor materials, manufacturing equipment Industrial: Additives for road construction and petrochemical processes
Sealant	Sealant	• Material used to fill joints or gaps to maintain water and air tightness • Improves building durability through excellent adhesion and elasticity	Construction: General-purpose silicone, window glazing, waterproofing, civil engineering, and road construction applications

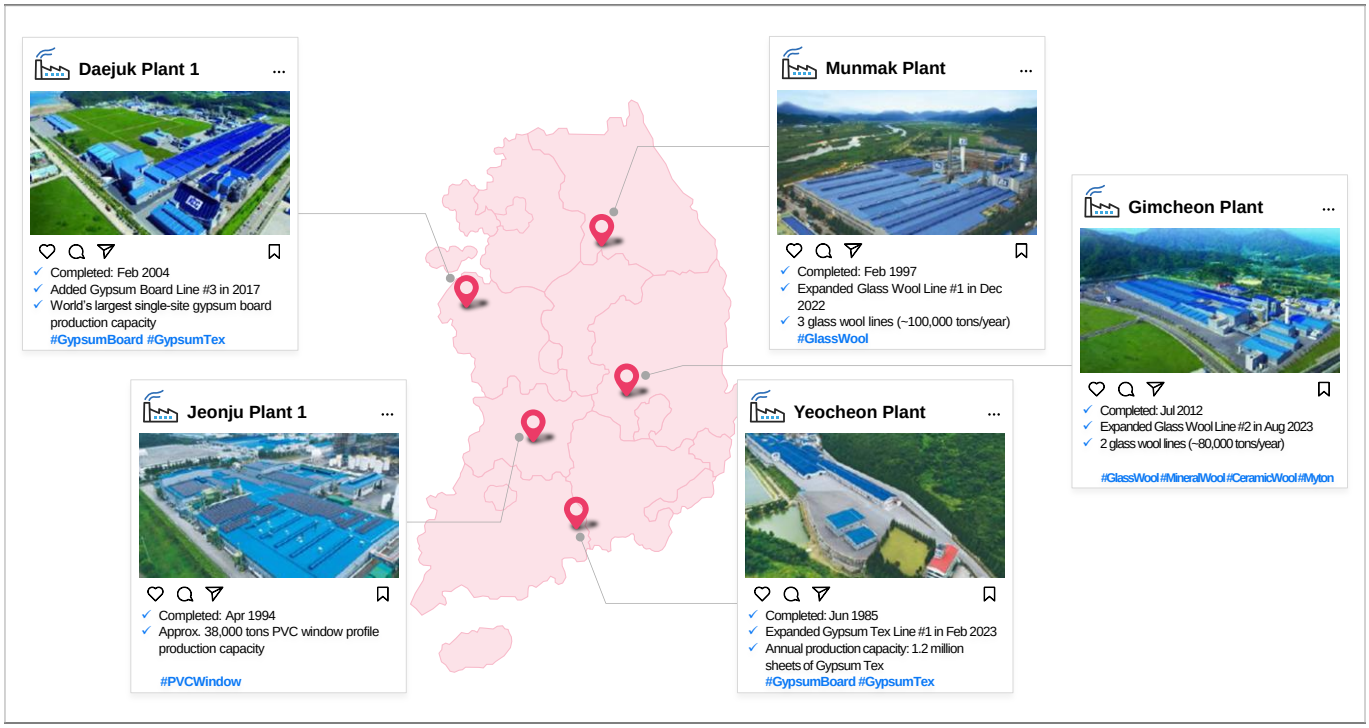
Note: This information is categorized by KCC Silicone according to the type of silicone processing method
Source: KCC, Samsung Securities

KCC Building materials division: Product overview

Product	Applications	Major products
Gypsum Board	Apartment complexes, factories, hospitals, hotels, etc.	Perforated sound-absorbing gypsum boards, fire-resistant / waterproof / anti-fungal gypsum boards, high-strength gypsum boards, fully waterproof gypsum boards
Ceiling Board	Offices, schools, hospitals, shopping malls, etc.	GypsumTex PLUS, Myton, Mytex, Claudia, Sahara, etc.
PVC Window	Residential buildings (apartments, balconies, etc.)	Standard windows, balcony windows, system windows, Klenze series
Glass Wool	Architectural and commercial use (sandwich panels, piping insulation)	Nature, WaterSafe (for external insulation)
Mineral Wool	Building exteriors and roofs, fire doors, industrial plants	Blanket-type, loose wool, HighWool
Ceramic Fiber	Industrial plants, steelworks, shipbuilding	Bulk fiber, hardboard, paper-type ceramic fiber

Source: KCC, Samsung Securities

KCC Building materials division: Production sites



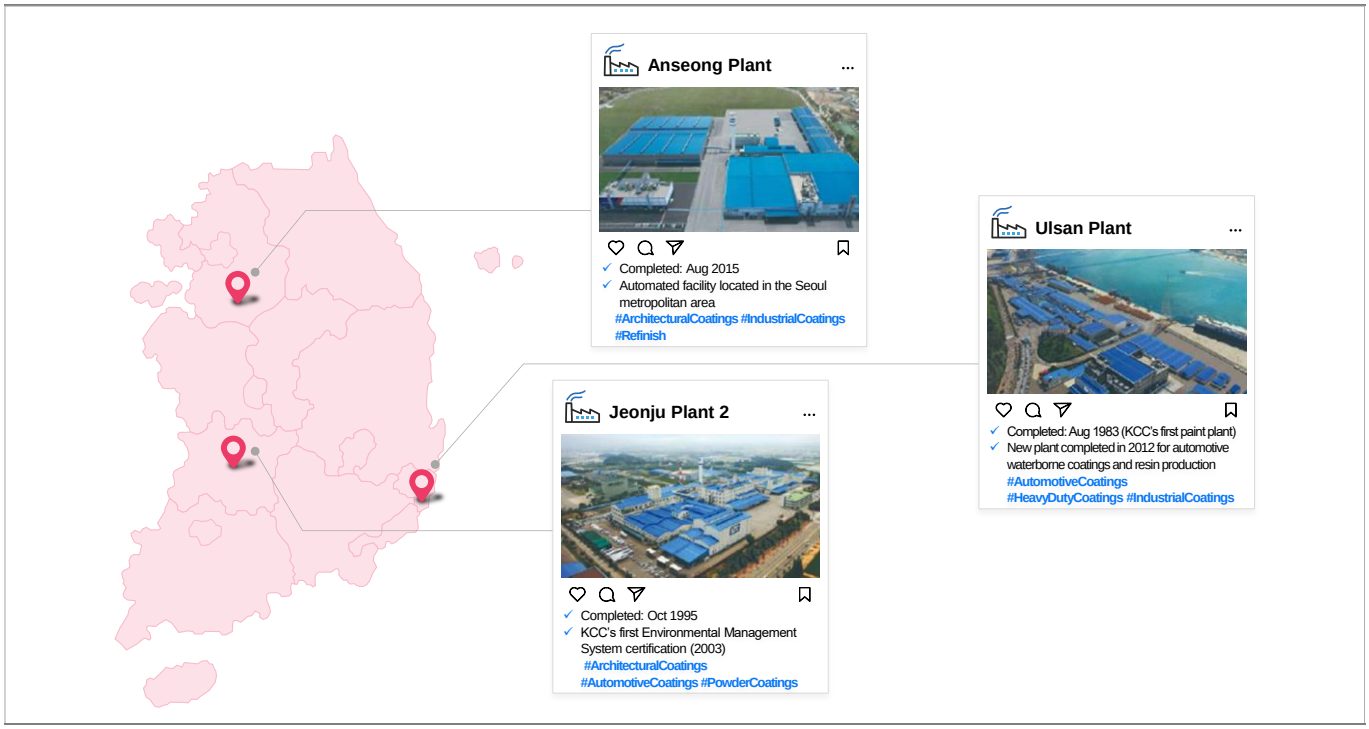
Source: KCC, Samsung Securities

KCC Paints Division: Product overview

Product	Application	Major products
Automotive, OEM	Electrodeposition, primer, top coat, refinish, plastics, etc.	Edion (electrodeposition), Koster Surfacer (primer), Kovacryl Topcoat (top coat), etc.
Marine	Anti-corrosion and anti-fouling coatings for ships	MetaCruise NS, Egis ELF II, etc.
Architectural	Exterior and interior construction, fireproofing, waterproofing	Supro, Unipoxy, Spotan, Firemask, etc.
Industrial, PCM	Machine tools, aircraft, railway, defense industry, pre-coated metal (PCM)	K-Tan, Koflux, etc.
Plant	Industrial facilities, steel bridges, steel structures, power plants	Corepox, Ceracare, etc.
Powder	Electronics, home appliances, electric devices, automotive, plant facilities, steel pipes	Gaurumel, etc.

Source: KCC, Samsung Securities

KCC paint division: Production sites (domestic)



Source: KCC, Samsung Securities

KCC paint division: Production sites (overseas)

(KRWb)		Key Milestones & Characteristics	Main Products	Total assets	Sales
China	KCK	• Established in June 2000 • Core production base in the global marine coatings network	Container, marine, plant, automotive, and industrial coatings	318.8	308.8
	KCG	• Established in August 2005 • Focused on developing and improving coatings to meet local market needs	Container, marine, industrial, and PCM coatings	101.5	80.5
	KCTJ	• Established in February 2003 • Targets local automobile manufacturers with localized coating development and marketing	Automotive, industrial, and PCM coatings	81.7	78.7
Singapore	KCS	• Established in May 1992 (KCC's first overseas subsidiary) • Serves as the strategic base for Southeast Asia (sales subsidiary)	Marine and industrial coatings	383.8	9.5
Malaysia	KCM	• Established in June 1997 (sales subsidiary) • Develops and markets coatings optimized for local conditions	Architectural coatings	28.4	22.2
Vietnam	KCV	• Established in June 2007 • Focused on eco-friendly products through localization strategy	Architectural, marine, automotive, industrial, and PCM coatings	75.8	92.3
	KCH	• Established in Oct 2014 • Major production base in Southeast Asia (mobile and plastic coatings)	Automotive and plastic coatings	48.7	34.1
India	KCI	• Established in September 2006 • Supplies coatings to local auto parts manufacturers across India	Automotive, industrial, PCM, and architectural coatings	48.5	75.8
Indonesia	KCID	• Established in June 2010 • Sales subsidiary targeting India and Indonesia markets	Architectural and plant coatings	3.2	2.9
Saudi Arabia	KCSA	• Established in September 2011 • Specialized powder coating production base for Middle East market	Powder coatings	46.5	44.3
Turkey	KCT	• Established in September 2006 • Production base targeting Turkey, Europe, Middle East, and Russia	Automotive, marine, PCM, and powder coatings	59.9	71.2

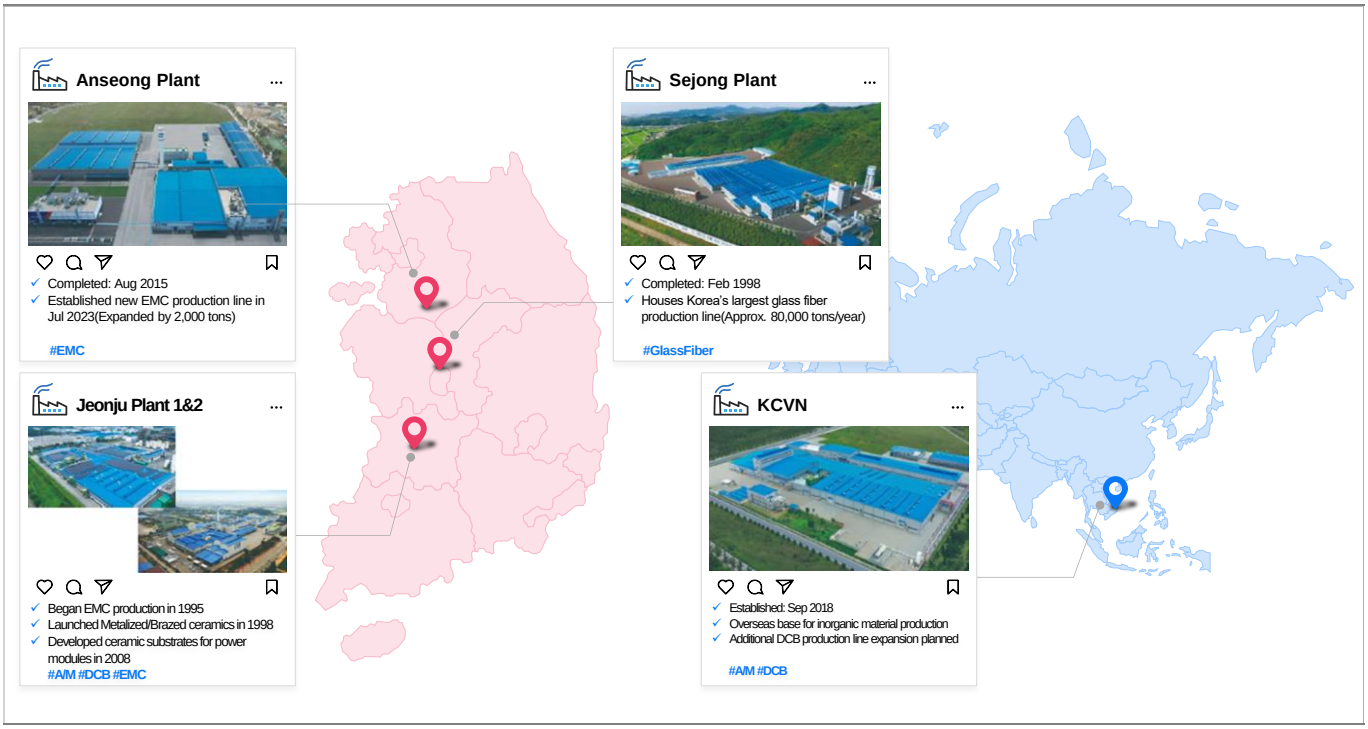
Note: Total assets and sales figures are based on the disclosures in the 2024 year-end business report footnotes.
Source: KCC, Samsung Securities

KCC Materials Business Division: Product Overview

Category		Sales Region	Major Competing Countries	Characteristics	Representative Applications	Major Product Names
Inorganic Materials	A/M (Alumina Metalizing)	Europe, China, Japan, etc.	India, Japan, etc.	Ceramic materials for high-voltage electronic components requiring high-temperature durability and insulation	• Ceramics for VI: Vacuum interrupters used in power transmission/distribution equipment for construction, chemical, and plant industries • Power Tube: High-power beam radiators and X-rays for industrial and medical use • Brazed Ceramic: High-voltage silicon rectifiers used in automotive, aerospace, and defense industries	VI Ceramic, Power Tube Ceramic, Brazed Ceramic
	Ceramic Substrates (DCB, AMB)	Korea, Europe, China, etc	U.S., Germany, etc.	Power module semiconductor substrates made by bonding copper to various ceramic materials	• Automotive power modules: EV, HEV • Industrial power modules: General industry, renewable energy • Home appliance power modules: Air conditioners, refrigerators, TVs, etc.	DCB: Al2O3, ZTA, etc. AMB: Si3N4, etc.
Organic Materials	EMC (Epoxy Molding Compound)	Korea, China, Southeast Asia, etc.	Japan, China, etc.	Epoxy encapsulants that protect semiconductor chips from external environments	• Automotive semiconductors/power modules: EV, HEV • Industrial semiconductors/power modules: General industry, renewable energy • Home appliance semiconductors/power modules: Smartphones, refrigerators, TVs, etc.	KTMC 1000G, 3000G, 4000G, 5000G Series
Composite Materials	Glass Fiber	Korea, etc.	US, China, etc.	Products made by melting mixed inorganic raw materials at extremely high temperatures and drawing them into fine micro-sized filaments	• Automotive electric components • Electrical/electronic components, interior/exterior construction materials	Chopped Strand, Chopped Strand Mat, etc.

Note: The “major competing countries” refer to the nations where key competitors’ headquarters are located.
Source: KCC, Samsung Securities

KCC materials business divisions: Production sites (domestic and overseas)



Source: KCC, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**6,288**	**6,659**	**6,746**	**6,923**	**7,251**
Cost of goods sold	4,960	5,028	5,105	5,209	5,456
Gross profit	**1,328**	**1,631**	**1,641**	**1,714**	**1,795**
Gross margin (%)	21.1	24.5	24.3	24.8	24.8
SG&A expenses	1,016	1,160	1,162	1,199	1,252
Operating profit	**313**	**471**	**479**	**515**	**543**
Operating margin (%)	5.0	7.1	7.1	7.4	7.5
Non-operating gains (losses)	**-68**	**-1**	**1,388**	**-81**	**-64**
Financial profit	723	709	1,675	222	241
Financial costs	554	770	346	347	348
Equity-method gains (losses)	-200	72	32	32	32
Other	-37	-13	26	12	11
Pre-tax profit	**244**	**470**	**1,867**	**434**	**480**
Taxes	152	177	560	121	134
Effective tax rate (%)	62.2	37.6	30.0	28.0	28.0
Profit from continuing operations	93	293	1,308	313	345
Profit from discontinued operations	0	0	0	0	0
Net profit	**93**	**293**	**1,308**	**313**	**345**
Net margin (%)	1.5	4.4	19.4	4.5	4.8
Net profit (controlling interests)	213	311	1,308	313	345
Net profit (non-controlling interests)	-120	-17	0	0	0
EBITDA	756	913	969	1,012	1,058
EBITDA margin (%)	12.0	13.7	14.4	14.6	14.6
EPS (parent-based) (KRW)	23,931	34,948	147,163	35,195	38,877
EPS (consolidated) (KRW)	10,409	33,005	147,163	35,195	38,877
Adjusted EPS (KRW)*	23,931	34,948	147,163	35,195	38,877

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**4,178**	**3,994**	**3,984**	**4,598**	**5,353**
Cash & equivalents	1,045	501	805	1,336	1,935
Accounts receivable	1,040	1,213	1,144	1,174	1,230
Inventories	1,399	1,583	1,493	1,532	1,605
Other current assets	694	696	542	556	582
Fixed assets	**9,175**	**9,114**	**10,397**	**10,095**	**9,748**
Investment assets	3,440	3,114	4,277	4,286	4,303
Tangible assets	3,447	3,525	3,309	3,036	2,706
Intangible assets	1,282	1,407	1,364	1,326	1,292
Other long-term assets	1,007	1,068	1,448	1,448	1,448
Total assets	**13,353**	**13,109**	**14,381**	**14,693**	**15,101**
Current liabilities	**3,836**	**3,231**	**2,785**	**2,834**	**2,926**
Accounts payable	647	770	780	801	839
Short-term debt	1,217	910	910	910	910
Other current liabilities	1,972	1,550	1,095	1,123	1,177
Long-term liabilities	**4,069**	**4,838**	**5,350**	**5,374**	**5,419**
Bonds & long-term debt	3,010	3,807	4,307	4,307	4,307
Other long-term liabilities	1,059	1,031	1,043	1,067	1,112
Total liabilities	**7,906**	**8,069**	**8,135**	**8,208**	**8,344**
Owners of parent equity	**5,177**	**5,039**	**6,246**	**6,485**	**6,757**
Capital stock	48	48	48	48	48
Capital surplus	553	350	350	350	350
Retained earnings	4,902	5,166	6,400	6,639	6,911
Other	-326	-525	-552	-552	-552
Non-controlling interests' equity	**270**	**0**	**0**	**0**	**0**
Total equity	**5,448**	**5,039**	**6,246**	**6,485**	**6,757**
Net debt	4,081	4,537	4,424	3,890	3,285

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**788**	**597**	**519**	**949**	**978**
Net profit	93	293	1,308	313	345
Non-cash profit and expenses	760	783	-419	765	780
Depreciation	397	393	447	459	480
Amortization	47	48	43	38	34
Other	316	341	-909	268	266
Changes in A/L from operating activities	87	-346	190	-7	-13
Cash flow from investments	**-355**	**282**	**-288**	**-21**	**21**
Change in tangible assets	-344	-251	-230	-186	-151
Change in financial assets	-31	21	156	-10	-19
Other	19	511	-214	175	191
Cash flow from financing	**-162**	**-1,454**	**-386**	**-413**	**-408**
Change in debt	390	-98	34	7	13
Change in equity	0	-203	0	0	0
Dividends	-59	-59	-74	-74	-74
Other	-493	-1,094	-346	-347	-348
Change in cash	268	-544	303	531	600
Cash at beginning of year	777	1,045	501	805	1,336
Cash at end of year	1,045	501	805	1,336	1,935
Gross cash flow	**852**	**1,076**	**889**	**1,078**	**1,126**
Free cash flow	**409**	**339**	**249**	**723**	**788**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	-7.2	5.9	1.3	2.6	4.7
Operating profit	-33.2	50.7	1.7	7.5	5.4
Net profit	222.7	217.1	345.9	-76.1	10.5
Adjusted EPS**	528.0	46.0	321.1	-76.1	10.5
Per-share data (KRW)					
EPS (parent-based)	23,931	34,948	147,163	35,195	38,877
EPS (consolidated)	10,409	33,005	147,163	35,195	38,877
Adjusted EPS**	23,931	34,948	147,163	35,195	38,877
BVPS	704,004	685,232	849,272	881,801	918,777
DPS (common)	8,000	10,000	10,000	10,000	10,000
Valuations (x)					
P/E***	9.5	6.7	2.7	11.1	10.1
P/B***	0.3	0.3	0.5	0.4	0.4
EV/EBITDA	8.4	7.3	8.2	7.3	6.4
Ratios (%)					
ROE	4.1	6.1	23.2	4.9	5.2
ROA	0.7	2.2	9.5	2.2	2.3
ROIC	1.8	4.5	5.2	6.1	6.7
Payout ratio	27.7	23.7	5.6	23.5	21.3
Dividend yield (common)	3.5	4.2	2.6	2.6	2.6
Net debt to equity	74.9	90.0	70.8	60.0	48.6
Interest coverage (x)	1.2	1.4	1.4	1.5	1.6

Note: *Excluding one-off items
**Fully diluted, excluding one-off items
***From companies subject to equity-method valuation
Source: Company data, Samsung Securities estimates

COMPANY UPDATE

2025. 10. 21

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SK CHEMICALS (285130)

Collaboration between two businesses

- We initiate coverage of SK Chemicals at BUY with a 12-month target price of KRW85,000.
- The firm should continue to enjoy solid profitability growth thanks to its specialty chemical business, and unlock its hidden value via its utility supply business and via the utilization of its stake in a subsidiary.

WHAT'S THE STORY?

Unlocking hidden value: We initiate coverage of SK Chemicals at BUY with a 12-month target price of KRW85,000. We use a sum-of-the-parts (SOTP) valuation to calculate our target price, as the firm has a complex business structure. For each business unit, we use the multiples of its domestic and overseas peers to calculate its value. For the firm's stake in SK Bioscience, we apply a 90% discount to its NAV. We believe the hidden value in the firm will be unlocked via: 1) its utility supply subsidiary's opening a new power plant in 4Q25; and 2) expectations for a narrowing of the NAV discount applied to its stake in SK Bioscience (as the firm should utilize its stake in the pharma subsidiary to issue EBs as underlying assets).

Korea's most profitable specialty chemical company: The Green Chemicals division runs a copolyester/monomer business, which area is dominated by a few global players (including Green Chemicals). In particular, thanks to the firm's increasing exposure to high value-added applications (cosmetics/home appliances), its operating margin should rise to 17.3% in 2025. The firm's main rival Eastman (US) is having difficulty selling its products in China, which may create an opportunity for SK Chemicals to expand its market share there.

(Continued on the next page)

SUMMARY FINANCIAL DATA

	2024	2025E	2026E	2027E
Revenue (KRWb)	1,737	2,280	2,559	2,603
Operating profit (KRWb)	-45	35	110	181
Net profit (adj) (KRWb)	-4	40	95	134
EPS (adj) (KRW)	456	2,813	5,518	7,455
EPS (adj) growth (% y-y)	-77.8	516.5	96.1	35.1
EBITDA margin (%)	5.2	9.7	13.3	16.3
ROE (%)	0.4	2.5	4.7	6.1
P/E (adj) (x)	97.1	21.7	11.1	8.2
P/B (x)	0.4	0.5	0.5	0.5
EV/EBITDA (x)	21.1	11.7	7.9	6.6
Dividend yield (%)	2.6	1.7	2.9	4.1

Source: Company data, Samsung Securities estimates

AT A GLANCE

BUY

Target price	KRW85,000	39.1%
Current price	KRW61,100	
Market cap	KRW1.1t/USD0.8b	
Shares (float)	17,253,783 (57.1%)	
52-week high/low	KRW76,700/KRW33,800	
Avg daily trading value (60-day)	KRW3.1b/ USD2.2m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
SKCHEMICALS (%)	-5.9	65.6	19.6
Vs Kospi (%pts)	-15.0	7.8	-18.7

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	85,000	85,000	0.0%
2025E EPS	2,813	2,813	0.0%
2026E EPS	5,518	5,518	0.0%

SAMSUNG vs THE STREET

No of estimates	3
Target price	89,333
Recommendation	4.0

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

Full-blown expansion of utility supply business: SK Multi Utility—SK Chemicals' utility supply subsidiary—is converting its existing coal-fired power generation facilities (steam production capacity of 490 tonnes/hr and electricity production capacity of 27 MW) into LNG/LPG-powered combined cycle power facilities (steam production capacity of 240 tonnes/hr and electricity production capacity of 300 MW). The new facilities should come online in November. Upon their launch, the electricity portion of the subsidiary's total sales should rise from 3% now to more than 80%. We forecast the subsidiary's 2026 sales and operating margin at KRW343b (up 155%) and 9.9% (up 12.9%pts), respectively, and expect it to make a notable contribution to SK Chemicals' earnings.

Utilization of stake in subsidiary: SK Chemicals issued KRW220b in exchangeable bonds (EBs), using a 4.9% stake in subsidiary SK Bioscience (3.82m common shares). Although the EB exchange for SK Bioscience shares requires monitoring, with the exchange price staying higher than SK Bioscience's current share price, the move marks SK Chemicals' attempt to efficiently utilize its stake in a subsidiary. SK Chemicals would have another 43% upside from our target price (which we derived based on a NAV discount of 90%) if its NAV discount falls to 65%.

Valuation and target price calculation

Unlocking hidden value

Initiating coverage at BUY with KRW85,000 target price

We initiate coverage of SK Chemicals at BUY with a 12-month target price of KRW85,000. We calculate our target based on a sum-of-the-parts (SOTP) valuation to reflect its complex business structure—consisting of Green Chemicals, Life Science, and SK Multi Utility (which runs a utility supply business).

In calculating the value of each business, we apply target EV/EBITDA multiples for each division to our 12-month forward EBITDA forecasts. Our target EV/EBITDA multiples are based on its peer valuations—we select: 1) Eastman Chemical for the Green Chemicals division; 2) Daewoong Pharmaceutical for the Life Science division; and 3) SK Gas for the utility supply business (SK Gas operates an LPG/LNG-powered combined heat & power (CHP) plant in Ulsan).

Meanwhile, we apply a 90% discount to the NAV for the firm's stake in SK Bioscience (vs the usual 60-70% discount for holding companies) as the two companies are listed as business entities, creating dual listing risk.

We believe SK Chemicals' hidden value will gradually be unlocked. First, the firm's stake in SK Bioscience has started to be utilized (they are being used as the underlying assets for the exchange bonds (EBs) that the firm recently issued), which should narrow the NAV discount we apply to the biotech subsidiary. Second, SK Multi Utility should open several CHP plants, bolstering its sales and profitability. Thus, the enterprise value of SK Multi Utility—which we estimate at KRW495b (equating to 21% of our enterprise value estimate for SK Chemicals)—should draw attention.

KCC: Peer valuation, by division

(x)	Currency	Share	Price performance (%)				Market cap	P/E			P/B			EV/EBITDA		
		Price	1W	1M	3M	YTD	(USDb)	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E
Green Chemicals								**8.3**	**10.7**	**9.0**	**1.29**	**1.22**	**1.16**	**6.6**	**7.5**	**6.7**
Eastman Chemical	USD	62.7	(3.7)	(8.0)	(17.7)	(31.3)	7.2	8.3	10.7	9.0	1.29	1.22	1.16	6.6	7.5	6.7
Pharma								**27.6**	**11.2**	**9.8**	**1.83**	**1.66**	**1.43**	**10.8**	**9.3**	**8.5**
Daewoong Pharmaceutical	KRW	132,900	(6.1)	(3.3)	(7.3)	5.1	1.1	27.6	11.2	9.8	1.83	1.66	1.43	10.8	9.3	8.5
Power generation								**12.9**	**8.0**	**7.2**	**0.82**	**0.74**	**0.68**	**10.9**	**6.3**	**6.3**
SK Gas	KRW	227,000	(5.0)	(7.2)	(8.7)	9.7	1.5	12.9	8.0	7.2	0.82	0.74	0.68	10.9	6.3	6.3

Note: Based on Bloomberg consensus of Sep 26

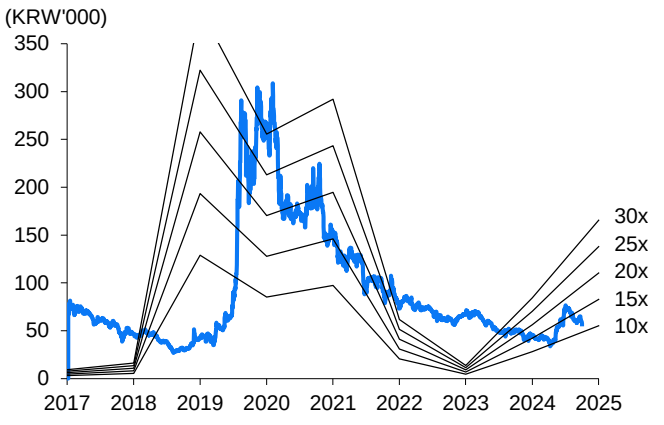
Source: Bloomberg, Samsung Securities

SK Chemical: SOTP valuation

(KRWb)	12MF EBITDA	Multiples (x)	EV	Details
Operating value (A)				
Green Chemicals	220	6.0	1,325	Peers (Eastman): 10% discount applied
Life Science - Pharma	39	8.5	330	Peers (Daewoong Pharmaceutical)
Life Science – SK Bioscience			256	Equity stake (66.4% holding): 90% discount applied*
SK Multi Utility	80	6.2	495	Peers (SK Gas)
Total	**339**	**7.1**	**2,405**	
Asset value (B)			50	Investment assets: 50% discount applied
Net debt (C)			938	Based on our 2025 year-end estimates; SK Bioscience net debt excluded**
Preferred shares market cap (D)			52	As of Oct 1 close
Fair market capitalization (E = A + B – C -D)			**1,465**	
Shares outstanding ('000)			17,254	
Fair price (KRW)			84,921	
Fair market value per share (KRW)			**85,000**	
Current price (KRW)			56,600	As of Oct 1 close
Upside (%)			50.2	
2025 implied P/E (x)			30.2	
2026 implied P/E (x)			15.4	
2025 implied P/B (x)			0.73	
2026 implied P/B (x)			0.70	

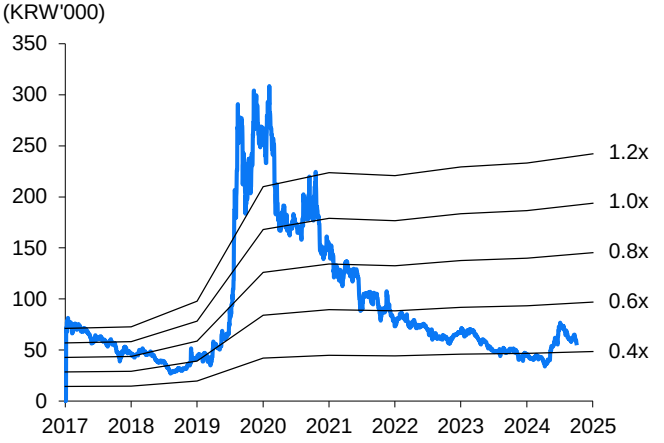
Note: * NAV discount rate of 90% applied to listed company shares
** No need for additional deduction of liabilities since enterprise value was calculated based on SK Bioscience's equity value (market capitalization)
Source: Bloomberg, Samsung Securities estimates

SK Chemical: 12M forward P/E



Source: QuantiWise, Samsung Securities

SK Chemical: 12M forward P/B



Source: QuantiWise, Samsung Securities

SK Chemicals: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	2023	2024	2025E	2026E
KRW/USD (average)	1,453	1,399	1,385	1,340	1,320	1,310	1,300	1,285	1,306	1,365	1,394	1,304
Sales	**537**	**597**	**564**	**582**	**618**	**637**	**632**	**680**	**1,749**	**1,737**	**2,280**	**2,559**
Chg (% q-q)	4.1	11.2	-5.4	3.1	6.1	3.1	-0.7	7.7				
Chg (% y-y)	40.9	44.2	32.4	12.9	15.1	6.7	12.0	16.9	-4.4	-0.7	31.3	12.2
1. Green Chemicals	257	270	265	281	276	270	269	266	904	995	1,074	1,081
1-1. Copolyester/Monomer	232	242	241	256	250	241	244	240	809	910	971	975
1-2. Others	25	28	24	25	26	29	25	26	95	85	102	107
2. Life Science	252	289	265	260	266	280	272	319	746	625	1,066	1,129
2-1. Pharma	97	127	107	101	101	113	105	122	376	357	433	433
2-2. SK Bioscience	155	162	157	159	165	167	167	197	370	268	633	696
3. SK Multi Utility	34	30	34	37	74	86	90	94	136	127	134	343
EBITDA	**69**	**44**	**50**	**58**	**82**	**84**	**89**	**86**	**196**	**90**	**220**	**341**
Chg (% q-q)	348.0	-36.1	14.6	15.0	42.9	1.7	6.6	-3.9				
Chg (% y-y)	204.7	11.7	273.9	277.1	20.3	91.6	78.2	48.8	-39.1	-53.9	143.5	55.1
1. Green Chemicals	52	43	46	49	57	53	56	54	137	163	191	220
1-1. Copolyester/Monomer	64	58	58	61	67	65	65	64	159	186	241	262
1-2. Others	-12	-15	-12	-12	-10	-11	-10	-10	-22	-24	-50	-41
2. Life Science	-10	-29	-22	-22	-14	-14	-14	-17	20	-119	-83	-58
2-1. Pharma	5	8	7	7	6	7	7	8	32	19	27	28
2-2. SK Bioscience	-15	-37	-28	-29	-20	-21	-21	-24	-12	-138	-110	-86
3. SK Multi Utility	-1	-3	-2	1	3	8	11	12	3	-3	-4	34
Operating profit	**24**	**-1**	**4**	**8**	**24**	**26**	**31**	**28**	**83**	**-45**	**35**	**110**
Chg (% q-q)	Turned pos	Turned neg	To turn pos	128.1	191.9	9.0	19.7	-10.1				
Chg (% y-y)	Turned pos	Turned neg	To turn pos	To turn pos	-0.7	To turn pos	768.9	242.6	-63.9	Turned neg	To turn pos	213.0
1. Green Chemicals	32	23	27	28	33	30	33	32	70	89	110	128
1-1. Copolyester/Monomer	46	40	40	42	46	44	45	44	99	119	168	178
1-2. Others	-14	-17	-13	-14	-12	-14	-12	-12	-29	-30	-58	-50
2. Life Science	-10	-29	-22	-22	-14	-14	-14	-17	20	-119	-83	-58
2-1. Pharma	5	8	7	7	6	7	7	8	32	19	27	28
2-2. SK Bioscience	-15	-37	-28	-29	-20	-21	-21	-24	-12	-138	-110	-86
3. SK Multi Utility	-1	-3	-2	1	3	8	11	12	3	-3	-4	34
Pre-tax profit	20	-4	17	-2	21	27	35	21	52	-27	31	104
Net profit	**21**	**8**	**12**	**-2**	**19**	**25**	**32**	**19**	**48**	**-4**	**40**	**95**
Attrib. to parent company	20	14	17	3	22	28	35	22	40	9	54	107
Margins (%)												
EBITDA	12.8	7.3	8.9	9.9	13.3	13.2	14.1	12.6	11.2	5.2	9.7	13.3
Operating profit	4.5	-0.2	0.6	1.4	3.9	4.1	5.0	4.2	4.8	-2.6	1.5	4.3
1. Green Chemicals	12.4	8.4	10.0	10.1	12.1	11.2	12.2	12.0	7.7	8.9	10.2	11.9
1-1. Copolyester/Monomer	19.6	16.5	16.5	16.5	18.3	18.3	18.3	18.3	12.2	13.1	17.3	18.3
1-2. Others	-54.6	-60.6	-55.6	-55.6	-46.7	-46.7	-46.7	-46.7	-31.1	-35.2	-56.7	-46.7
2. Life Science	-38.7	-10.1	-8.1	-8.6	-5.3	-4.9	-5.2	-5.2	2.6	-19.1	-7.8	-5.2
2-1. Pharma	5.6	6.5	6.5	6.5	6.3	6.3	6.3	6.3	8.4	5.4	6.3	6.4
2-2. SK Bioscience	-9.8	-23.1	-18.1	-18.1	-12.4	-12.4	-12.4	-12.4	-3.2	-51.7	-17.4	-12.4
3. SK Multi Utility	-2.2	-8.6	-4.6	2.4	4.4	9.4	12.4	12.4	2.4	-2.1	-3.0	9.9
Pre-tax profit	3.6	-0.7	3.1	-0.4	3.4	4.2	5.6	3.0	3.0	-1.6	1.3	4.0
Net profit	3.9	1.4	2.1	-0.3	3.1	3.9	5.1	2.8	2.7	-0.3	1.7	3.7

Source: SK Chemical, Samsung Securities estimates

Investment points

Collaboration between special chemicals and utility supply business

Specialty chemical business posting highest profitability in sector

SK Chemicals runs a specialty chemical business that generates the highest profitability in the domestic chemical sector, and its profitability has kept improving as of late amid an increasing high value-added portion of its sales. The firm's chemical business (Green Chemicals) focuses on copolyester and monomer (a raw material for copolyester).

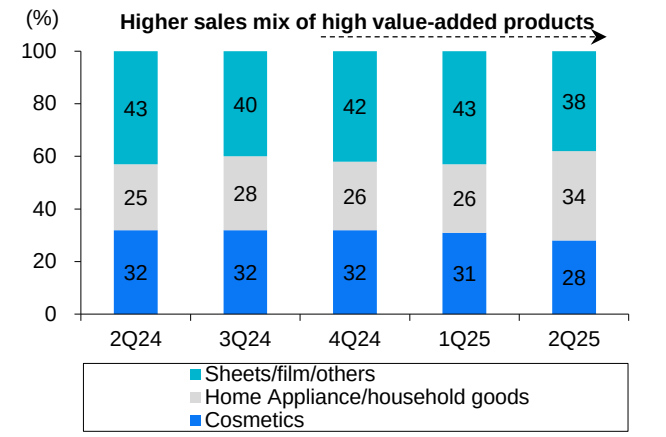
Copolyester is produced by modifying the structure of a standard polymer such as polyethylene terephthalate (PET)—its components (monomers) are linked by ester groups with third glycols. Polyethylene terephthalate glycol-modified (PETG) is a key copolyester product and its industry-specific derivatives include poly cyclohexylenedimethylene terephthalate glycol-modified (PCTG), poly cyclohexylenedimethylene terephthalate (PCT), and poly cyclohexylenedimethylene terephthalate acid (PCTA). Focusing on PETG, SK Chemicals became one of a few players to enter the global copolyester market, which used to be dominated by Eastman Chemical (US). The firm also sells monomers (a key raw material for PETG)—*ie*, DMT and cyclohexanedimethanol (CHDM)—to external clients.

Since SK Chemicals is one of only a few copolyester manufacturers across the globe, the firm has enjoyed robust profitability. Recently, its profitability has been improving further thanks to its increasing exposure to high value-added products. The copolyester/monomer business at the Green Chemicals division has seen its operating margin top 10% since 2020. We expect the copolyester/monomer business's operating margin to improve from 12.2% in 2023 and 13.1% in 2024 to 17.3% in 2025 (vs 18% in 1H25).

The y-y improvement in the firm's profitability is attributable to growing sales (following a monomer capacity expansion in 2024), sales mix improvements, and rising demand amid stricter regulations (relating to the environment and toxicity). In particular, since US specialty chemical company Eastman (the firm's rival) has had difficulty selling its products to Chinese clients due to the US-China tariff wars, SK Chemicals has been expanding its market share in China.

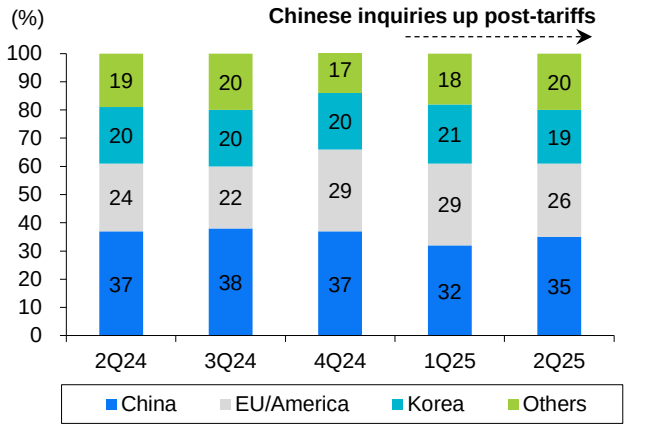
The business's improving profitability can be confirmed by changes in its sales mix (by application). Its copolyester is used in cosmetics, consumer electronics/household goods, and sheets/films/others. Products used in cosmetics and consumer electronics/household goods are high value-added ones, and those used in sheets/films/others are considered low-value added. The cosmetics and consumer electronics/household goods portion of the firm's sales increased from 57% in 2Q24 to 62% in 2Q25, while the sheets/films/others portion declined from 43% to 38% over the same period.

SK Chemicals' copolyester: Sales portion, by application



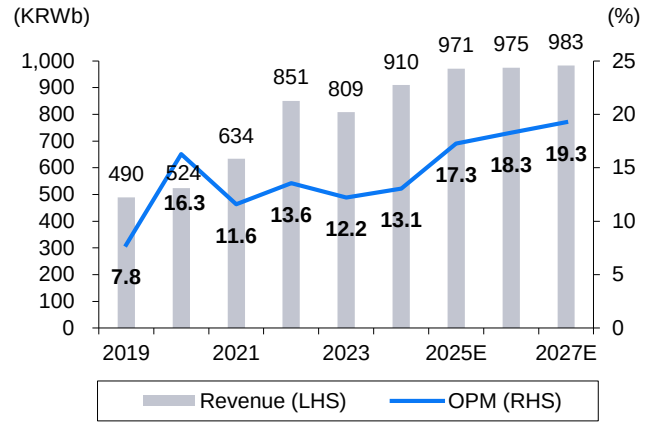
Source: SK Chemical, Samsung Securities

SK Chemicals' copolyester: Sales portion, by region



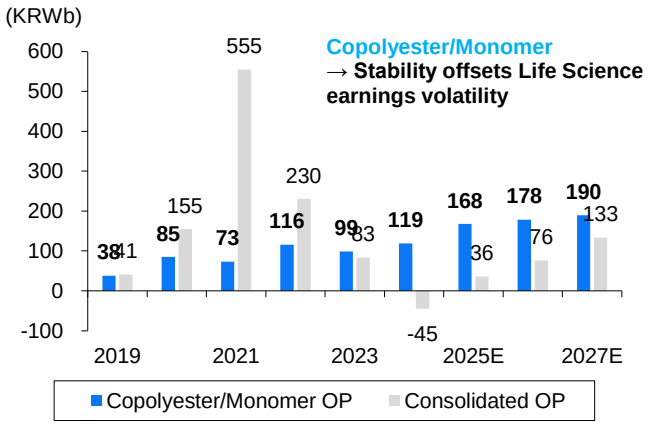
Source: SK Chemical, Samsung Securities

SK Chemicals' copolyester/monomer: Results and forecasts



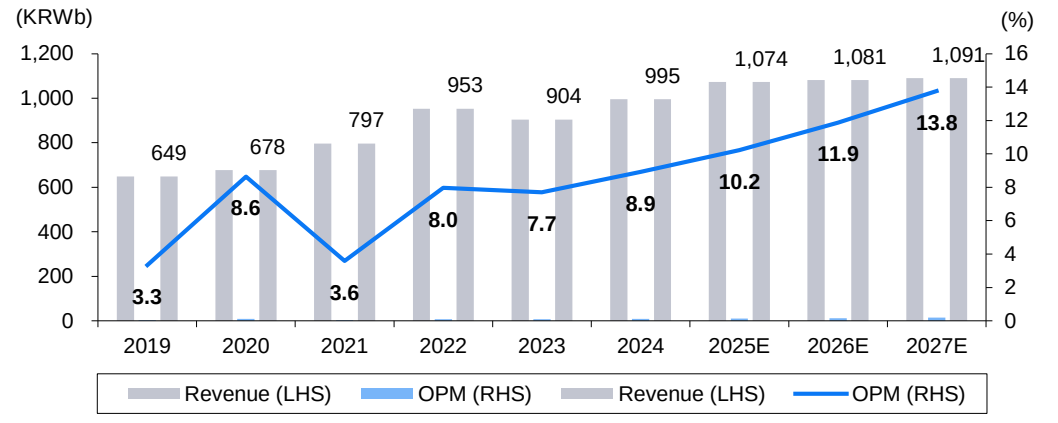
Source: SK Chemical, Samsung Securities

SK Chemicals' copolyester/monomer: Operating profit contribution



Source: SK Chemical, Samsung Securities

SK Chemicals' Green Chemicals division: Results and forecasts



Source: SK Chemical, Samsung Securities

Full-blown expansion of utility supply business

The company's second investment point is the likely expansion of its utility supply business upon the launch of its new facilities (*eg*, an eco-friendly LNG-powered CHP plant) in November. The business currently makes an insignificant contribution to SK Chemicals' earnings, but this should change upon the plant's commercial launch.

The company has thus far operated coal-powered power generation facilities to meet electricity and steam demand from the Ulsan industrial complex (steam production capacity of 490 tonnes/hr, electricity production capacity of 27 MW). When it made the coal-powered plant investment, coal was relatively cheap and easy to get, and carbon emission-related costs were low due to lack of environmental regulations. Back then, it was economical to run coal-powered plants.

The business environment, however, began changing in 2020, prompting the company to make investments in new facilities. Amid the global push for carbon neutrality and the Korean government's commitment to a carbon neutrality target, the company—to avoid carbon emission-related cost hikes—joined the global trend towards phasing out coal. The firm split its utility supply business into a new entity (*ie*, SK Multi Utility) in 2021 and decided to convert SK Multi Utility's existing coal-fired power generation facilities (producing steam and electricity) into LNG/LPG-fired CHP plants.

The LNG/LPG-fired CHP plants, which involve a total investment of KRW672.6b, have the capacity of generating 240 tonnes of steam per hour and 300 MW of electricity (vs 490 tonnes of steam per hour and 27 MW of electricity at its existing coal-powered plants). While the existing coal-fired plants focus on steam generation (although electricity was generated from high-pressure steam via a small turbine), the LNG/LPG-fired CHP plants will focus on electricity generation.

We forecast SK Multi Utility's earnings will surge following the commercial launch of the new facilities. Over 2022-2025, SK Multi Utility reported sales of KRW130b *pa* and an operating margin of -2% to +2%, with steam and electricity accounting for 97-100% and 0-3% of its total sales, respectively. But from November, when its LNG/LPG-fired CHP plants come online, the electricity portion of its total sales should hit 80%, shrinking its steam sales portion to 20% or below. Backed by the 11x hike in electricity production capacity, its sales should surpass KRW300b *pa*. We forecast SK Multi Utility's 2026 and 2027 sales at KRW343b (up 155%) and KRW377b (up 10%), respectively, and its 2026 and 2027 operating margin at 9.9% (up 12.9%pts) and 12.7% (up 2.7%pts), respectively.

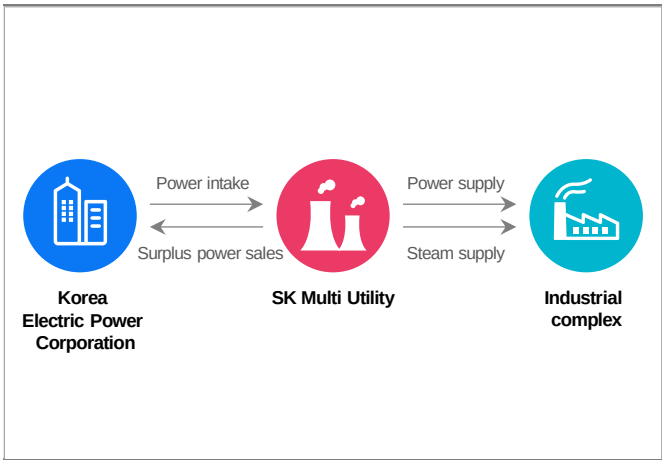
Looking at earnings at affiliate SK Gas confirms our bullish stance on SK Multi Utility's profitability. SK Gas' LNG/LPG-powered CHP plant in Ulsan (Ulsan GPS; electricity generation capacity of 1,227 MW) began operating in earnest in 2H24. The plant is about 4x larger than SK Multi Utility's in terms of capacity, but operates the same business model. Following the launch of the plant, SK Gas posted 2H24 sales of KRW177.3b and an operating profit of KRW27.8b (OPM of 15.7%), and 1H25 sales of KRW327.2b and an operating profit of KRW54.3b (OPM of 16.6%). All told, we believe our 2026 and 2027 operating margin targets for SK Multi Utility (9.9% and 12.7%, respectively) are easily achievable.

SK Multi Utility: LNG/LPG Combined Heat & Power Plant

(KRWb)	Details
Business overview	- Conversion of aging coal-fired power facilities to LNG/LPG combined power generation facilities and establishment of an eco-friendly district energy system - Secure competitiveness in stable supply of industrial power and steam within the district
Total investment (KRWb)	672.6
Expected effects	- Eco-friendly energy transition reflecting carbon neutrality policy - Stable revenue generation through direct electricity/steam sales to demand sources as a district energy operator
Production capacity (existing)*	Steam: 490 tonnes/hour, electricity: 27 MW
Production capacity (new)	Steam: 240 tonnes/hour, electricity: 300 MW
Timeline	
Dec 2021	Establishment of SK Multi Utility through physical spin-off from SK Chemicals
Jun 2022	EPC contract for LNG combined heat & power plant
Oct 2024	Start of trial run
Nov 2025	Commencement of full commercial operation

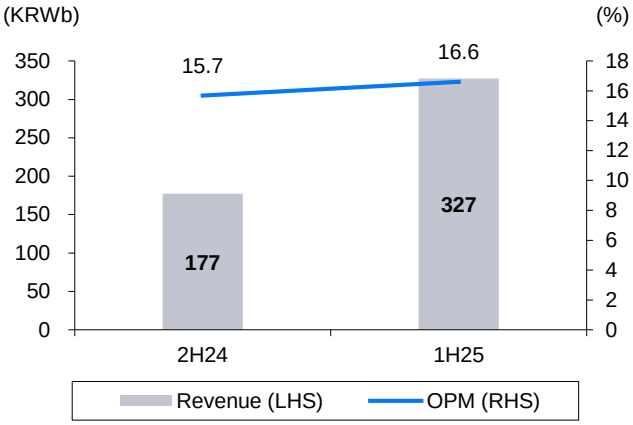
Note: * Existing facilities will be gradually decommissioned following the operation of the new facilities
Source: SK Chemical, Samsung Securities

SK Multi Utility: District Energy Business Overview



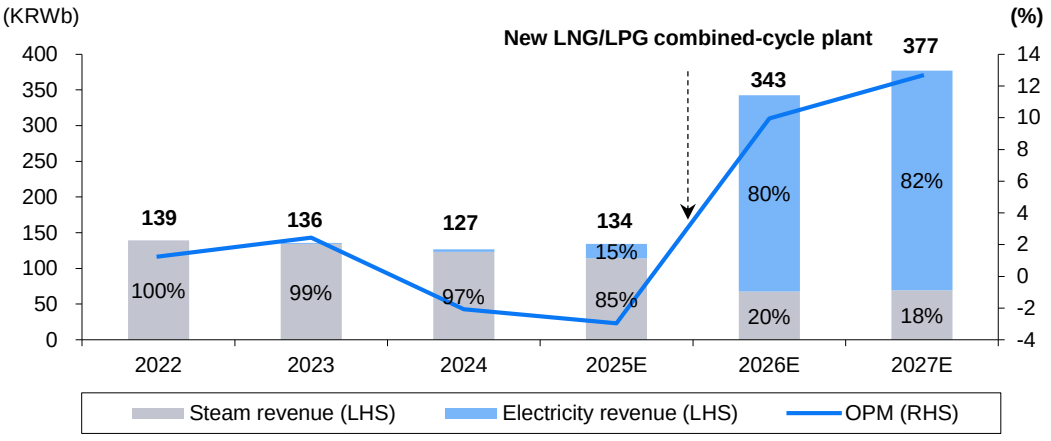
Source: SK Multi Utility, Samsung Securities

SK Gas LNG/LPG power plants: Results and forecasts



Source: SK Gas, Samsung Securities

SK Multi Utility: Results and forecasts



Source: SK Chemical, Samsung Securities

Utilizing stake in subsidiary

The company's third investment point is its move of utilizing its stake in a subsidiary. In Jul 2018, the company split its vaccine business into a new entity (SK Bioscience). SK Bioscience went public in Mar 2021 amid high interest in vaccine companies. The outbreak of COVID-19 in 2020 drew attention to its vaccine business, and the company signed CMO agreements with global pharmas, such as AstraZeneca and Novavax, to produce the latter's COVID-19 vaccines.

SK Bioscience's IPO price was set at KRW65,000/share for a market cap of KRW5.1t. In a block deal in Sep 2021, SK Chemicals sold 7.65m shares of SK Bioscience for KRW497.3b in cash. Since then, the firm has not sold any of its SK Bioscience stake, though activist funds, in a bid to enhance shareholder value, have urged SK Chemicals to sell more of its stake. Instead, SK Chemicals has responded to such pressure by conducting a bonus issue and announcing a new dividend policy. This has caused the NAV discount (for the value of SK Chemicals' stake in SK Bioscience) to narrow.

Things have begun changing as of late. A key example is SK Chemicals' issuance of exchangeable bonds (EBs) in Sep 2025, using its stake in subsidiary SK Bioscience to secure financing. SK Chemicals issued KRW220b in EBs, using a 4.9% stake in SK Bioscience (3.82m common shares) as the underlying asset, with the exchange period spanning Nov 20, 2025-Oct 20, 2028. Since the exchange price (KRW57,555 per share) is 23% higher than SK Bioscience's current price (KRW46,800), the EB exchange should require SK Bioscience's stock price to rise to the exchange price. We see the move (albeit falling short of an outright stake sale) as meaningful as it marks SK Chemicals' attempt to efficiently utilize its stake in a subsidiary (asset monetization). When valuing SK Chemicals, we conservatively calculate the value of its stake in SK Bioscience by applying a 90% discount to NAV. If the NAV discount narrows to 65% upon the successful sale of the stake, SK Chemicals would have an additional 43% upside from our target price.

SK Chemicals: Details of EBs backed by stake in SK Bioscience

(KRWb)	Details
Total amount of exchangeable bonds	220
Coupon rate	0%
Maturity date	Oct 20, 2030
Exchange price	KRW57,555
Total outstanding shares of SK Bioscience (ownership)	78,369,145 (100%)
SK Chemicals' existing holdings in SK Bioscience (ownership)	52,059,724 (66.4%)
Shares subject to exchange (ownership)	3,822,430 (4.9%)
Exchange request period start date	Nov 20, 2025
Exchange request period end date	Sep 20, 2030

Source: SK Chemicals, Samsung Securities

SK Chemicals: Impact of changes in NAV discount on corporate valuation of stake in SK Bioscience

NAV Discount Rate	Value of SK Bioscience stake (KRWb)	Fair market cap (KRWb)	Fair price (KRW)	vs Our Target Price
90%	256	1,479	**85,723**	0%
85%	385	1,608	**93,173**	8%
80%	514	1,736	**100,642**	17%
75%	643	1,865	**108,115**	26%
70%	772	1,995	**115,620**	34%
65%	903	2,125	**123,170**	43%

Source: SK Chemicals, Samsung Securities estimates

Appendix

Company overview

Company overview

SK Chemicals started out in the polyester fiber business in 1969 under the name Sunkyong Fibers, and acquired Samshin Pharmaceutical in 1987 to enter the pharmaceutical business. It changed its name to SK Chemicals in 1998 and spun off its polyester fiber business in 2000 (to set up a JV with Samyang) as it suffered from profitability deterioration due to the growing supply from China.

As the flagship textile business saw weakening competitiveness, the firm overhauled its business structure—*ie*, restructuring the textile business, and upgrading its fine chemicals and life science businesses. In the fine chemicals segment, driven by a need to create a new business with technological competitiveness, the firm eyed the polyethylene terephthalate glycol (PETG) market, which was dominated by Eastman (US)—PETG is derived from PET by incorporating CHDM (1.4-cyclohexanedimethanol). The PETG market was growing robustly (showing an annual growth rate of over 10%) and needed a second manufacturer to compete with Eastman.

PETG, a high-performance copolyester plastic material, is an amorphous resin produced by adding CHDM as a comonomer. This makes it suitable for thick transparent sheets and containers that are difficult to manufacture with conventional PET. It can produce transparent products of any thickness without crystallization-induced whitening. Its outstanding transparency and chemical resistance make it ideal for a wide range of applications, including high-end cosmetic containers, building materials, advertising, and home appliance components.

SK Chemicals decided in 1999 to construct its first PETG plant in Ulsan to enter the copolyester market, and opened the plant in 2001. The firm opened a second plant in 2012 and a third plant in 2017, thus further consolidating its presence in the specialty chemical market.

The firm's businesses consist of Green Chemicals, Life Science, and SK Multi Utility (the utility supply business). The Green Chemicals division runs the copolyester/monomer business and other businesses (*eg*, biopolyol and chemically recycled plastic materials), and the Life Science division has the pharma business and SK Bioscience. SK Bioscience (listed) and SK Multi Utility (unlisted) are separate subsidiaries.

SK Chemicals: Major milestones

Year	Details	Year	Details
1969	Established Sunkyung Synthetic Fibers	2010	Divested SK Keris (Indonesia PET resin plant) and SK Eurochem (Poland PET resin plant)
1987	Acquired Samsin Pharmaceutical	2012	Completed Andong L House (vaccine facility); commenced operation of PETG Plant No.2
1998	Renamed company SK Chemicals	2013	Established Initz (PPS joint venture with Teijin, Japan)
1999	Developed Sunpla (3rd-generation platinum-based anticancer drug), world's first	2017	Transitioned to holding company structure (SK Discovery as holding company, SK Chemicals as operating entity); commenced PETG Plant No.3
2000	Spun off polyester fiber division and formed JV Huvis with Samyang Corporation	2018	Spun off vaccine business (SK Bioscience)
2001	Began operation of PETG Plant No.1	2019	Merged Initz (PPS business)
2002	Launched Joins (osteoarthritis treatment)	2020	Divested bioenergy business
2005	Carved out petrochemical business (SK Petrochemical; DMT business) and merged SK Pharmaceutical	2021	Divested PPS business; resumed operation of PETG Plant No.3
2006	Merged Dongsin Pharmaceutical (vaccines, plasma products); developed biodiesel production technology	2023	Established Shuye-SK Circular Materials (Shantou)
2009	Launched Ecozen, world's first eco-friendly, heat-resistant copolyester		

Source: SK Chemicals, Samsung Securities

The Green Chemicals division runs the copolyester/monomer business and other businesses. For the copolyester/monomer business, the firm uses PTA MEG and CHDM as raw materials to manufacture copolyester, and manufactures monomers for in-house consumption and sells them to external clients. Copolyester products include PETG and PCTG (named Skygreen), and monomer products include DMT (SKYDMT) and CHDM (SKYCHDM). Other businesses consist of PO3G (ECOTRION, a 100% bio-based polyol derived from plants), chemically recycled PET (SKYPET CR), a polyester resin for coating and adhesive purposes (SKYBON), and a thermoplastic polyester elastomer (SKYPEL).

The pharma business in the Life Science division manufactures and sells natural and synthetic drug products (*eg*, arthritis treatments and drugs to improve blood circulation). JOINS, launched in 2002, is the first natural product-based new drug approved in Korea for the treatment of arthritis. Ginexin-F is SK Chemicals' flagship brand and the market leader in the blood circulation improvement segment. Manufactured using patented technology that extracts active ingredients such as ginkgolides from ginkgo biloba leaves, Ginexin-F helps lower blood viscosity and dilate blood vessels. Other products include Trast (a patch-type treatment for knee osteoarthritis) and Wondron Patch (Korea's first patch-type dementia treatment). SK Bioscience (66.4% owned by SK Chemicals)—another key business in the Life Science division—was spun off from SK Chemicals in 2018 and listed on the Kospi in Mar 2021. SK Bioscience's sales and profitability jumped during the COVID-19 era on surging vaccine CMO orders, but a post-COVID plunge in vaccine demand hurt the firm's earnings. In Oct 2024, it acquired IDT Biologika GmbH, purchasing a 60% stake in the German CDMO firm for KRW356.4b, which helped boost its top-line growth. It has been struggling to overcome its weakness as a CMO.

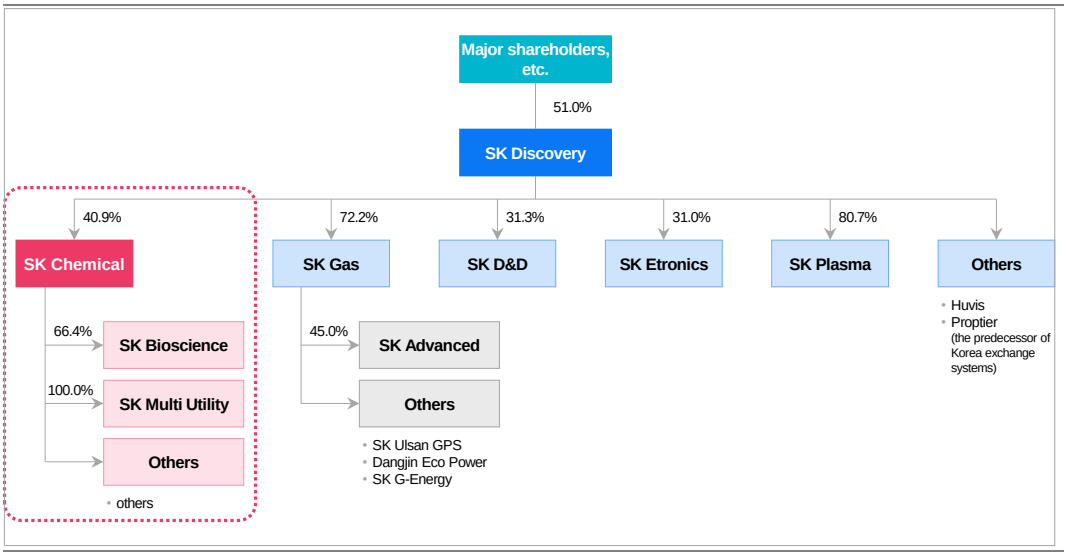
SK Multi Utility was spun off from SK Chemicals in Dec 2021 to manage its utility supply business. The company generated steam and electricity at its coal-fired power generation facilities (490 tonnes of steam/hr, 27 WM of electricity), and its new eco-friendly facilities (the LNG/LPG CHP; investment of KRW672.7b; 240 tonnes of steam/hr, 300 MW of electricity) should come online in November. The new facilities should see a hike in the electricity portion of sales. The commercial launch of the new facilities should help SK Discovery Group complete its LNG value chain. While SK Gas remains in charge of LNG unloading, storage, and send-outs (via the construction of Korea Energy Terminal, a JV with Korea National Oil Corporation), SK Gas and SK Multi Utility should be in charge of LNG power generation/sales by running LPG/LNG-powered CHP plant (1.2 GW & 0.3 GW capacity, respectively).

SK Chemicals: Revenue and outlook by major business

Business division	Products	Sales					Sales portion (%)				
		2023	2024	2025E	2026E	2027E	2023	2024	2025E	2026E	2027E
Green Chemicals		**904**	**995**	**1,074**	**1,081**	**1,091**	**50.6**	**57.0**	**47.2**	**42.4**	**42.0**
Copolyester/Monomer	PETG, PCTG, DMT, CHDM	809	910	971	975	983	45.3	52.1	42.7	38.2	37.9
Others	Bio polyols, chemically recycled PET, high-molecular polyester resins, thermoplastic elastomers	95	85	102	107	107	5.3	4.9	4.5	4.2	4.1
Life Science		**746**	**625**	**1,066**	**1,129**	**1,129**	**41.8**	**35.8**	**46.9**	**44.2**	**43.5**
Pharma	Osteoarthritis treatments, blood circulation enhancers, patch-type arthritis and dementia drugs	376	357	433	433	433	21.1	20.5	19.0	17.0	16.7
SK Bioscience (listed; 66% stake)	Vaccines, CMO, CDMO (60% stake in IDT Biologika)	370	268	633	696	696	20.7	15.3	27.8	27.3	26.8
Power Generation		**136**	**127**	**134**	**343**	**377**	**7.6**	**7.2**	**5.9**	**13.4**	**14.5**
SK Multi Utility (unlisted; 100% stake)	LPG/LNG-powered CHP plant	136	127	134	343	377	7.6	7.2	5.9	13.4	14.5

Source: SK Chemicals, Samsung Securities estimates

SK Discovery: Corporate governance structure



Source: SK Discovery, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**1,749**	**1,737**	**2,280**	**2,559**	**2,603**
Cost of goods sold	1,276	1,341	1,667	1,800	1,762
Gross profit	**473**	**396**	**613**	**759**	**841**
Gross margin (%)	27.0	22.8	26.9	29.7	32.3
SG&A expenses	390	441	577	649	660
Operating profit	**83**	**-45**	**35**	**110**	**181**
Operating margin (%)	4.8	-2.6	1.5	4.3	7.0
Non-operating gains (losses)	**-31**	**18**	**-4**	**-7**	**-10**
Financial profit	129	98	41	33	33
Financial costs	125	92	54	40	43
Equity-method gains (losses)	-3	-1	-1	-1	-1
Other	-32	13	10	1	1
Pre-tax profit	**52**	**-27**	**31**	**104**	**171**
Taxes	5	-23	-9	9	37
Effective tax rate (%)	8.7	84.1	-29.5	8.7	21.4
Profit from continuing operations	48	-4	40	95	134
Profit from discontinued operations	0	0	0	0	0
Net profit	**48**	**-4**	**40**	**95**	**134**
Net margin (%)	2.7	-0.3	1.7	3.7	5.2
Net profit (controlling interests)	40	9	54	107	144
Net profit (non-controlling interests)	8	-13	-15	-12	-10
EBITDA	196	90	220	341	424
EBITDA margin (%)	11.2	5.2	9.7	13.3	16.3
EPS (parent-based) (KRW)	2,058	456	2,813	5,518	7,455
EPS (consolidated) (KRW)	2,470	-225	2,052	4,881	6,935
Adjusted EPS (KRW)*	2,058	456	2,813	5,518	7,455

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**2,204**	**2,386**	**2,663**	**2,885**	**3,031**
Cash & equivalents	396	542	243	169	269
Accounts receivable	154	258	338	379	386
Inventories	377	565	742	833	847
Other current assets	1,278	1,020	1,340	1,504	1,529
Fixed assets	**1,954**	**2,981**	**3,272**	**3,455**	**3,623**
Investment assets	119	105	111	114	115
Tangible assets	1,602	2,459	2,681	2,837	2,982
Intangible assets	54	163	186	209	232
Other long-term assets	179	254	294	294	294
Total assets	**4,159**	**5,367**	**5,935**	**6,340**	**6,654**
Current liabilities	**830**	**983**	**1,328**	**1,478**	**1,528**
Accounts payable	113	118	155	174	177
Short-term debt	264	303	453	483	513
Other current liabilities	454	562	721	821	838
Long-term liabilities	**653**	**1,351**	**1,552**	**1,733**	**1,896**
Bonds & long-term debt	637	1,203	1,363	1,523	1,683
Other long-term liabilities	16	148	189	210	213
Total liabilities	**1,483**	**2,334**	**2,880**	**3,211**	**3,424**
Owners of parent equity	**2,119**	**2,201**	**2,237**	**2,324**	**2,435**
Capital stock	99	99	99	99	99
Capital surplus	1,212	1,240	1,240	1,240	1,240
Retained earnings	867	861	893	980	1,091
Other	-59	1	5	5	5
Non-controlling interests' equity	**557**	**832**	**818**	**805**	**795**
Total equity	**2,676**	**3,033**	**3,055**	**3,129**	**3,230**
Net debt	-491	270	640	799	875

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**146**	**-89**	**126**	**270**	**368**
Net profit	48	-4	40	95	134
Non-cash profit and expenses	185	23	177	235	277
Depreciation	100	119	168	214	226
Amortization	13	17	17	17	17
Other	72	-112	-8	4	35
Changes in A/L from operating activities	-22	-70	-101	-52	-8
Cash flow from investments	**-510**	**-157**	**-741**	**-544**	**-430**
Change in tangible assets	-389	-405	-390	-371	-371
Change in financial assets	-1,193	349	-269	-138	-22
Other	1,072	-102	-81	-35	-38
Cash flow from financing	**356**	**380**	**314**	**203**	**163**
Change in debt	383	554	337	223	197
Change in equity	13	28	0	0	0
Dividends	-30	-18	-22	-20	-34
Other	-11	-184	-0	-0	0
Change in cash	-11	138	-300	-74	100
Cash at beginning of year	407	404	542	243	169
Cash at end of year	396	542	243	169	269
Gross cash flow	**232**	**19**	**217**	**329**	**412**
Free cash flow	**-243**	**-511**	**-264**	**-101**	**-2**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	-4.4	-0.7	31.3	12.2	1.7
Operating profit	-63.9	nm	nm	213.0	64.4
Net profit	-79.3	nm	nm	137.8	42.1
Adjusted EPS**	-78.9	-77.8	516.5	96.1	35.1
Per-share data (KRW)					
EPS (parent-based)	2,058	456	2,813	5,518	7,455
EPS (consolidated)	2,470	-225	2,052	4,881	6,935
Adjusted EPS**	2,058	456	2,813	5,518	7,455
BVPS	110,405	114,678	116,588	121,103	126,873
DPS (common)	650	1,150	1,050	1,750	2,500
Valuations (x)					
P/E***	32.7	97.1	21.7	11.1	8.2
P/B***	0.6	0.4	0.5	0.5	0.5
EV/EBITDA	6.6	21.1	11.7	7.9	6.6
Ratios (%)					
ROE	1.9	0.4	2.5	4.7	6.1
ROA	1.2	-0.1	0.7	1.5	2.1
ROIC	4.2	-0.3	1.3	2.7	3.6
Payout ratio	28.1	224.1	33.2	28.2	29.8
Dividend yield (common)	1.0	2.6	1.7	2.9	4.1
Net debt to equity	-18.3	8.9	20.9	25.5	27.1
Interest coverage (x)	2.6	-1.1	n/a	n/a	n/a

Note: *Excluding one-off items
**Fully diluted, excluding one-off items
***From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

COMPANY UPDATE

2025. 10. 21

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UNID (014830)

Standing out from peers with two key strengths

- We initiate coverage of UNID at BUY with a 12-month target price of KRW95,000.
- The company has two fundamental advantages over its domestic peers: 1) its inorganic chemical business; and 2) its global leadership in potassium hydroxide production. In addition, capacity expansion in China should act as a catalyst for higher ROE and rerating.

WHAT'S THE STORY?

View—ROE improvement to drive rerating: We initiate coverage of UNID with a BUY rating and 12-month target price of KRW95,000. We value the stock using an ROE-PB valuation approach to capture both the cyclical nature of the chemical industry and the strong correlation between ROE and valuation. The company has secured two structural advantages that its peers can only pursue over the long term: production of inorganic chemical products and global leadership in potassium hydroxide production. We believe its valuation does not yet reflect the ROE upside potential from the firm's capacity expansion in China. Once ROE visibly improves, rerating is likely.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW95,000	27%
Current price	KRW74,800	
Market cap	KRW506.22b/USD356.69m	
Shares (float)	6,767,600 (52.4%)	
52-week high/low	KRW97,600/KRW59,000	
Avg daily trading value (60-day)	KRW1.8b/ USD1.3m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
UNID (%)	-2.0	-6.3	7.0
Vs Kospi (%pts)	-11.5	-39.0	-27.2

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	95,000	95,000	0.0%
2025E EPS	11,697	n/a	n/a
2026E EPS	15,155	n/a	n/a

SAMSUNG vs THE STREET

No of estimates	8
Target price	108,875
Recommendation	4.0

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

SUMMARY FINANCIAL DATA

	2024	2025E	2026E	2027E
Revenue (KRWb)	1,112	1,311	1,396	1,535
Operating profit (KRWb)	95	107	128	143
Net profit (adj) (KRWb)	76	79	103	114
EPS (adj) (KRW)	11,265	11,697	15,155	16,795
EPS (adj) growth (% y-y)	368.7	3.8	29.6	10.8
EBITDA margin (%)	13.4	13.0	14.9	16.0
ROE (%)	8.0	7.7	9.3	9.5
P/E (adj) (x)	6.4	6.4	4.9	4.5
P/B (x)	0.5	0.5	0.4	0.4
EV/EBITDA (x)	4.2	3.9	2.7	1.9
Dividend yield (%)	2.5	2.8	3.5	3.6

Source: Company data, Samsung Securities estimates

Investment point—Inorganic chemicals and global leadership in potassium hydroxide: UNID produces inorganic chemicals—such as potassium hydroxide and potassium carbonate—using potassium chloride as a feedstock, rather than naphtha derived from crude oil or natural gas. This confers two key advantages: 1) the company is insulated from structural shifts in petroleum demand and potential oversupply of commodity organic chemicals as EV adoption accelerates; and 2) it enjoys margin stability regardless of industry cycles. UNID is also the world's top potassium hydroxide producer, commanding 33% of the global market, vs 15% for Occidental (US) and 10% for Ineos (US). Its dominant market position should deter new entrants and support sustained profitability.

Investment point—Capacity expansion momentum in China: In January, UNID completed phase I of its new UHC plant in Yichang, Hubei Province, adding 90,000 tonnes of potassium hydroxide capacity. Phase II, scheduled for completion by end-2027, will add another 90,000 tonnes. This will increase UNID's global potassium hydroxide capacity to 900,000 tonnes (from 720,000 tonnes in 2024). The expansion should enable the company to capture more market share in China, particularly in central and western regions, while reducing logistics costs.

Valuation and target price calculation

ROE improvement to drive rerating

Initiating coverage at BUY with target price of KRW95,000

We initiate coverage of UNID with a BUY rating and 12-month target price of KRW95,000. We derive our target using an ROE-PB valuation approach, as we believe applying a P/B multiple proportional to ROE is appropriate given the cyclical nature of the chemical industry. (The correlation coefficient between ROE and forward P/B for 2021-2025 is 0.78.)

The company's ROE, which bottomed at 1.8% in 2023, recovered to 8% in 2024 and is expected to ease slightly to 7.7% in 2025. We expect ROE to improve to 9.3% in 2026, driven by incremental contributions from its new capacity in China. Based on the historical correlation between ROE and forward P/B (2021-2025), the target P/B multiple that corresponds to our 2026 ROE estimate is 0.56x. Applying this multiple to our forward BVPS forecast of KRW169,045 yields an implied fair value of KRW95,000 per share.

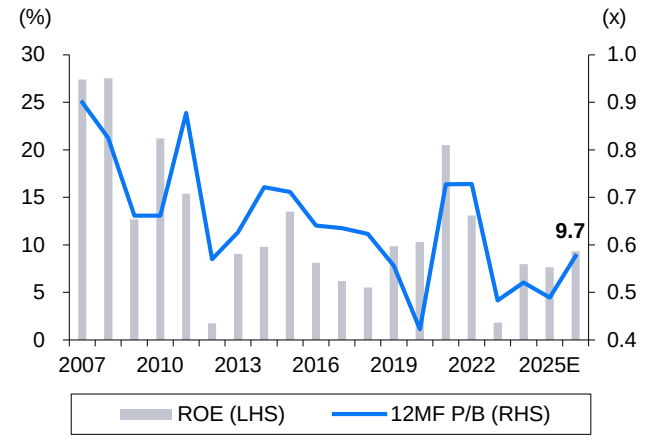
Despite its expected ROE improvement in 2026, UNID's valuation remains well below peers', suggesting meaningful rerating potential. The company's key products—caustic potash (KOH) and potassium carbonate (K_2CO_3)—face competition from Occidental and Olin (US), Evonik (Europe), and Tosoh and AGC (Japan). These competitors have potassium-related revenue exposure of 30-60%, making their business portfolios not directly comparable to UNID's. Still, the average correlation coefficient between ROE and P/B for the five competitors (excluding UNID) is 0.76, versus 0.40 when including UNID (six companies in total). According to Bloomberg consensus, UNID's 2026 ROE is expected to reach 9.2%, second only to Olin (12.4%), yet its 2026 P/B of 0.42x remains the lowest among the six peers. As ROE improves, we believe rerating potential will emerge accordingly.

UNID: P/B vs ROE valuation

(KRW)		Note
Target P/B (x)	0.56	Derived from relationship between ROE and forward P/B observed over 2021-2025
Forward BVPS	169,045	
Fair value per share	**95,128**	
Target price	**95,000**	
Current price	70,700	As of Sep 26, 2025
Upside (%)	34.4	
2025 implied P/E (x)	8.1	
2026 implied P/E (x)	6.3	

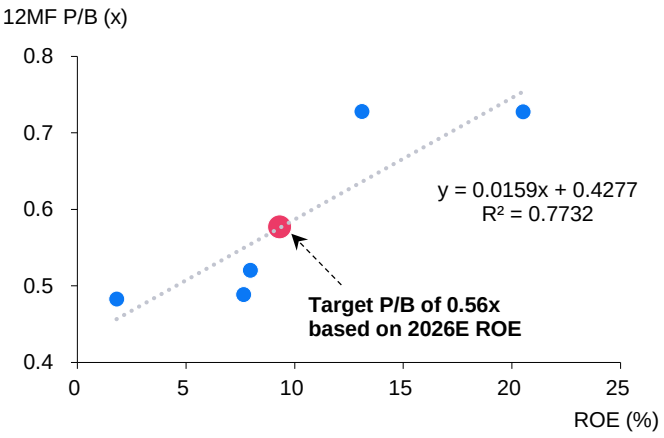
Source: Samsung Securities estimates

UNID: ROE vs forward P/B



Source: Company data, Samsung Securities

UNID: Correlation between ROE and forward P/B



Source: Company data, Samsung Securities

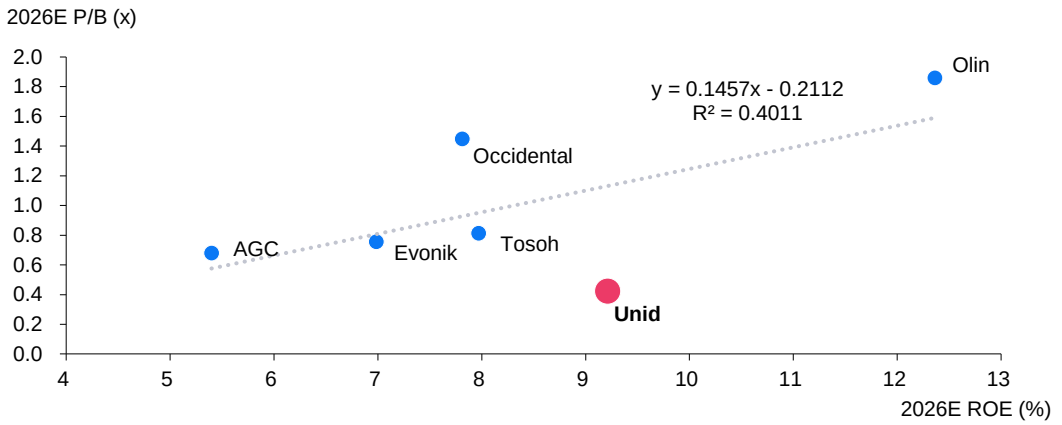
UNID: Peer valuations

	Currency	Share price	Price performance (%) 1W	1M	3M	YTD	Market cap (USDb)	P/E (x) 2024	2025E	2026E	P/B (x) 2024	2025E	2026E	EV/EBITDA (x) 2024	2025E	2026E
UNID	**KRW**	**71,800**	**(5.9)**	**(6.4)**	**(18.1)**	**(0.7)**	**0.4**	**5.8**	**5.3**	**4.7**	**0.49**	**0.45**	**0.42**	**3.5**	**3.0**	**2.8**
Potassium hydroxide (KOH)								**74.0**	**17.3**	**13.0**	**1.29**	**1.27**	**1.37**	**6.4**	**5.9**	**5.3**
Occidental	USD	47	3.0	(0.1)	11.4	(3.9)	46.5	13.8	20.6	17.5	1.52	1.54	1.45	5.8	5.7	5.2
Tosoh	JPY	2,280	(2.0)	(2.3)	8.5	7.7	5.1	11.7	12.3	10.5	0.88	0.85	0.81	5.8	5.9	5.4
Olin	USD	24.0	(0.8)	4.8	17.3	(29.1)	2.9	196.4	18.9	11.0	1.47	1.40	1.86	7.5	6.0	5.2
Potassium carbonate (K_2CO_3)								**9.5**	**15.0**	**11.5**	**0.75**	**0.73**	**0.72**	**5.5**	**5.6**	**5.0**
Evonik	EUR	14.7	(5.5)	(11.5)	(19.9)	(12.2)	8.8	9.5	11.6	10.5	0.77	0.76	0.76	5.1	5.5	5.2
AGC	JPY	4,846	1.5	4.6	15.0	4.8	7.0	n/a	18.3	12.5	0.73	0.70	0.68	5.9	5.6	4.7

Note: Based on Bloomberg consensus as of Sep 26

Source: Bloomberg, Samsung Securities

Global potash producers: 2026E P/B vs ROE



Source: Bloomberg, Samsung Securities

UNID: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	2023	2024	2025E	2026E
KRW/USD (average)	1,453	1,399	1,385	1,340	1,320	1,310	1,300	1,285	1,306	1,365	1,394	1,304
Sales	**323**	**341**	**353**	**295**	**334**	**357**	**372**	**334**	**1,134**	**1,112**	**1,311**	**1,396**
Chg (% q-q)	17.1	5.7	3.5	-16.3	13.1	6.8	4.4	-10.4				
Chg (% y-y)	26.6	16.9	21.7	7.1	3.5	4.6	5.6	13.0	-19.3	-1.9	18.0	6.5
Domestic	154	163	158	120	148	160	149	116	646	609	595	573
China	172	183	200	180	191	202	228	222	527	522	735	843
EBITDA	**44**	**48**	**44**	**34**	**48**	**55**	**57**	**48**	**81**	**149**	**170**	**208**
Chg (% q-q)	66.4	9.8	-8.8	-23.5	42.2	14.3	3.7	-14.9				
Chg (% y-y)	9.5	0.4	29.2	27.4	9.0	13.4	29.0	43.5	-58.4	84.4	14.3	22.3
Domestic	26	28	24	16	25	30	26	17	57	89	93	98
Chg (% q-q)	100.5	5.4	-14.9	-32.4	58.7	18.2	-13.0	-32.7				
Chg (% y-y)	8.8	-5.3	5.6	21.6	-3.7	7.9	10.4	9.9	-52.8	55.0	5.2	5.6
China	17	20	21	17	22	24	30	29	21	60	74	105
Chg (% q-q)	32.2	16.6	2.9	-18.3	31.3	10.2	23.8	-5.0				
Chg (% y-y)	6.2	5.1	65.9	29.6	28.6	21.6	46.3	70.1	-70.0	187.6	23.1	41.0
Operating profit	**29**	**33**	**28**	**17**	**30**	**35**	**36**	**27**	**32**	**95**	**107**	**128**
Chg (% q-q)	130.1	14.5	-14.6	-38.2	70.4	19.0	3.3	-26.7				
Chg (% y-y)	4.2	-6.3	36.9	39.0	3.0	7.0	29.5	53.6	-78.3	197.6	11.9	19.4
Domestic	19	20	16	8	17	21	17	9	29	60	64	64
Chg (% q-q)	237.2	7.6	-19.2	-47.9	98.2	23.3	-15.8	-48.3				
Chg (% y-y)	10.4	-8.7	9.5	52.9	-10.1	3.0	7.3	6.3	-69.3	101.7	7.1	0.7
China	9	12	12	9	12	14	18	17	0	36	42	62
Chg (% q-q)	41.5	29.9	-1.4	-24.6	39.0	13.7	31.7	-6.7				
Chg (% y-y)	-12.9	-7.9	91.7	36.5	34.1	17.4	56.8	94.2	-99.6	16,467.0	15.5	48.5
Pre-tax profit	**28**	**34**	**28**	**16**	**30**	**35**	**37**	**29**	**23**	**87**	**107**	**131**
Chg (% q-q)	-67.3	20.0	-16.7	-42.8	-72.3	16.7	7.9	-22.4				
Chg (% y-y)	4.5	-2.2	69.3	102.2	4.5	1.6	31.6	78.6	-55.8	48.9	166.7	RB
Net profit	**22**	**24**	**21**	**12**	**23**	**27**	**29**	**23**	**16**	**76**	**79**	**103**
Chg (% q-q)	-70.7	6.6	-11.5	-42.8	-70.6	16.7	7.9	-22.4				
Chg (% y-y)	3.0	-12.4	6.1	58.5	4.5	14.3	39.3	89.1	-87.2	368.7	3.8	29.6
Attrib. to parent company	22	24	21	12	23	27	29	23	16	76	79	103
Margins (%)												
EBITDA	13.7	14.2	12.5	11.4	14.4	15.4	15.3	14.5	7.1	13.4	13.0	14.9
Domestic	17.0	17.0	14.9	13.3	17.0	18.7	17.4	15.1	8.8	14.5	15.7	17.2
China	9.9	10.9	10.3	9.3	11.6	12.0	13.2	12.8	4.0	11.6	10.1	12.4
Operating profit	8.9	9.6	7.9	5.9	8.8	9.9	9.7	8.0	2.8	8.6	8.1	9.1
Domestic	12.2	12.4	10.3	7.1	11.4	13.0	11.7	7.8	4.6	9.8	10.7	11.2
China	5.3	6.5	5.9	4.9	6.5	7.0	8.1	7.7	0.0	6.9	5.7	7.4
Pre-tax profit	8.8	10.0	8.0	5.5	8.9	9.7	10.0	8.7	2.0	7.8	8.2	9.4
Net profit	6.9	7.0	6.0	4.1	7.0	7.6	7.9	6.8	1.4	6.9	6.0	7.3

Source: Company data, Samsung Securities estimates

Investment points

Two core advantages: Inorganic chemicals + global leadership in potassium hydroxide

Two fundamental strengths that Korean peers can only pursue over long term

UNID has already secured two key advantages that its Korean industry peers can only pursue over the longer term: 1) production of inorganic chemical products; and 2) global leadership in potassium hydroxide production. These advantages should continue to attract investor attention.

We expect global naphtha and ethylene capacity to rise as EV adoption accelerates, triggering a structural change in petrochemical demand. Already, specialty chemical production (led by Chinese companies) has visibly increased, leading to oversupply of commodity petrochemical derivatives such as ethylene (C_2), propylene (C_3), and butadiene (C_4). In other words, as EV demand grows, organic chemical products—*ie*, carbon atoms bonded to other elements, particularly hydrogen—are likely to face structural oversupply across the petrochemical, commodity, and specialty chemical value chains.

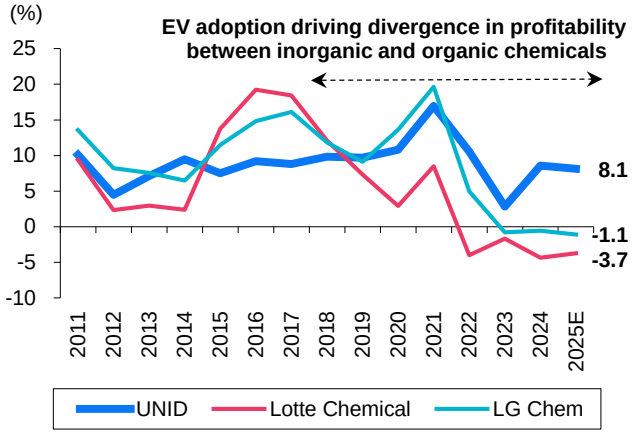
Against this backdrop, UNID's inorganic chemical business stands out as a key differentiator. Inorganic chemicals are produced without carbon-hydrogen bonds and do not rely on naphtha, a hydrocarbon feedstock derived from crude oil or natural gas. This makes UNID structurally insulated from EV-driven demand shifts that pressure traditional petrochemical producers. In short, the company has an edge over traditional Korean petrochemical players who have been hit hard by structural changes in energy demand.

Comparison: Organic vs. Inorganic chemistry

	Organic chemistry	Inorganic chemistry
Principal elements	Carbon (C), Hydrogen (H), Nitrogen (N), Oxygen (O), Sulfur (S)	Metals, nonmetals, metalloids
Bonding characteristics	Predominantly covalent bonding; complex molecular structures	Mixture of ionic, metallic, and covalent bonding
Example substances	Petrochemicals, plastics, proteins, pharmaceuticals	Sodium chloride, sulfuric acid, metal oxides, catalysts, ceramics
Applications	Pharmaceuticals, biotechnology, petrochemicals, polymers	Catalysts, batteries, semiconductors, metallic materials, inorganic materials
Research focus	Structure/reactivity of carbon frameworks	Properties/bonding of metals and inorganic compounds

Source: Samsung Securities

Profitability trends: Inorganic chemicals (UNID) vs. Organic chemicals (NCC players)

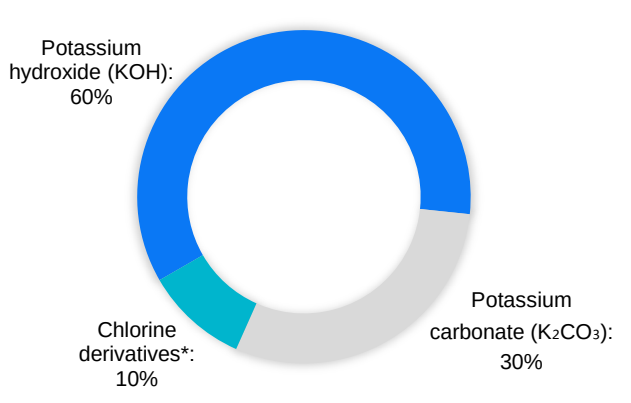


Source: Company data, Samsung Securities

The company's second core strength lies in its global leadership in potassium hydroxide production. A global leader is typically defined as a top-three player by capacity. UNID ranks first globally, commanding 33% of total potassium hydroxide capacity, compared with 15% for Occidental (the second-largest). This dominant position makes UNID the undisputed No. 1 player in the industry and limits competitive threats from new entrants.

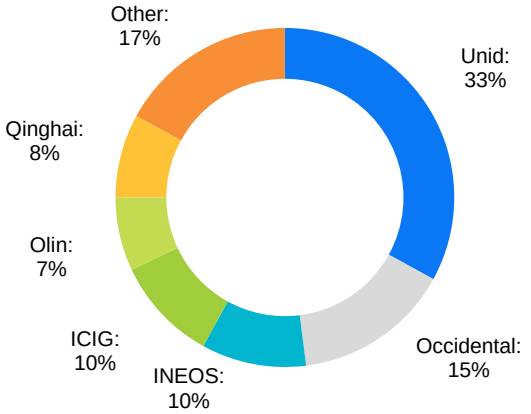
Meanwhile, Korean commodity chemical producers are under mounting pressure from new entrants in the crude oil-to-chemicals (COTC) sector (currently dominated by Chinese players and S-Oil), while specialty chemical makers (still profitable) face intensifying competition from China. In contrast, UNID's two core advantages—inorganic chemical production and leadership in potassium hydroxide—should allow it to sustain solid margins over the long term.

UNID: Sales breakdown, by product



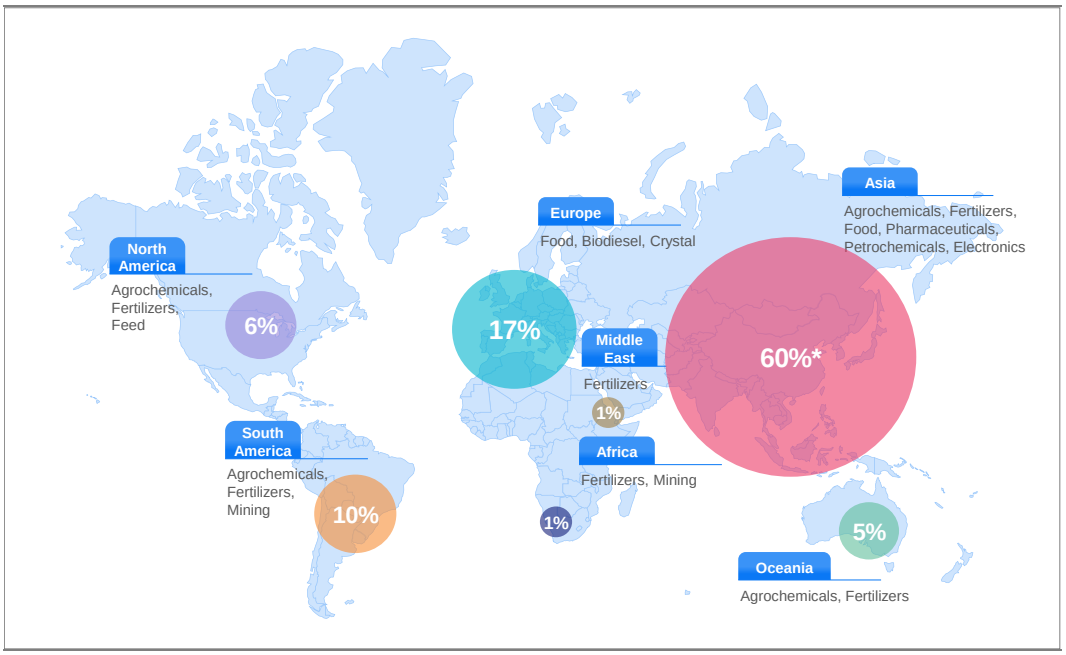
Note: *Chlorine and HCl
Source: Company data, Samsung Securities

KOH: Global market shares, by capacity



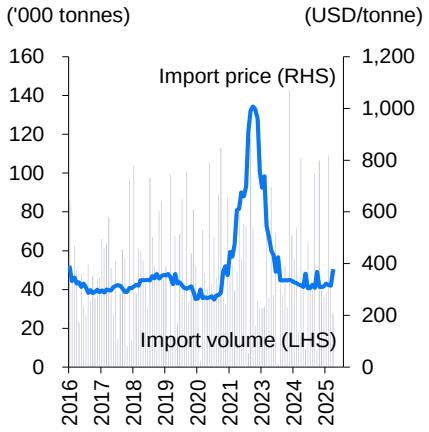
Source: UNID, Samsung Securities

UNID: Sales breakdown, by region



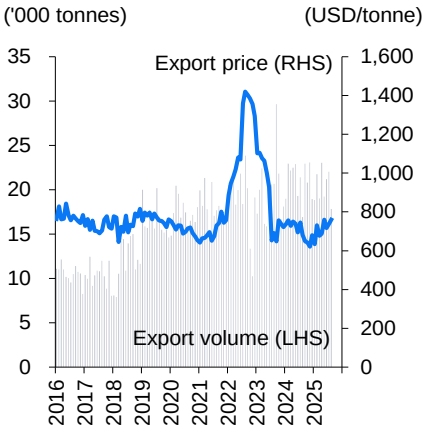
Source: Company data, Samsung Securities

Potassium chloride (KCl): Korean imports



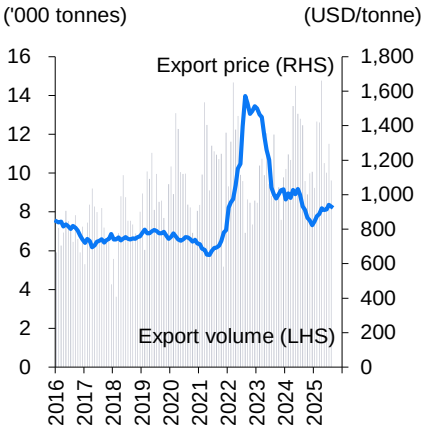
Source: KITA, Samsung Securities

Potassium hydroxide (KOH): Korean exports



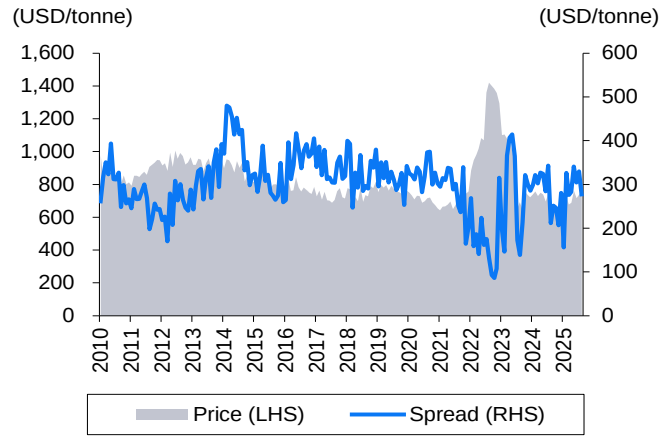
Source: KITA, Samsung Securities

Potassium carbonate (K_2CO_3): Korea exports



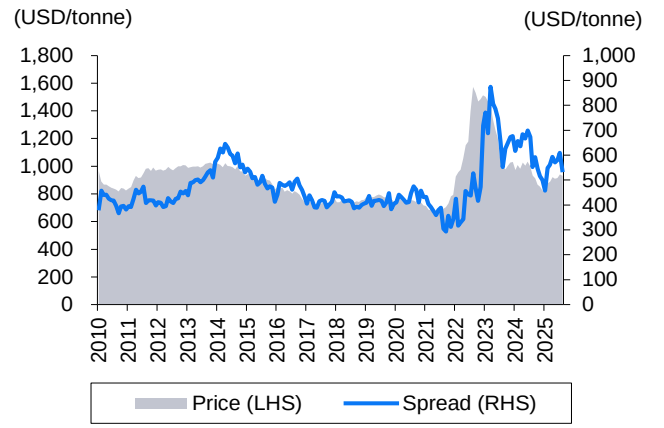
Source: KITA, Samsung Securities

Potassium hydroxide (KOH): Price and spread



Note: KOH-K_2CO_3 spread
Source: KITA, Samsung Securities

Potassium carbonate (K_2CO_3): Price and spread



Note: K_2CO_3 - KCl spread
Source: KITA, Samsung Securities

Capacity expansion momentum in China

UNID boasts another fundamental strength: capacity expansion momentum in China. Not only does it command the highest potassium hydroxide market share globally, but it is also the biggest player in China's potassium hydroxide market. As of 2024, its 720,000 tonnes of capacity was split between China (320,000 tonnes) and Korea (400,000 tonnes). Recently it has built and brought online a new production subsidiary in China: UNID Hubei New Materials (UHC).

Before this, UNID's production in China was centered on UNID Jiangsu Chemical (UJC; 200,000 tonnes of capacity) and Jiangsu OCI Chemical (OJC; 120,000 tonnes). As both are located in Jiangsu (eastern China), UNID had difficulty penetrating the Chinese inland market—which helps explain why it set up UHC in Yichang, Hubei Province.

UNID plans to invest KRW230b in UHC to secure a 180,000 tonnes of potassium hydroxide capacity. Phase I (90,000 tonnes), began operations in January, and efforts are also underway to bring the plant's 50,000-tonne potassium carbonate capacity online. Phase II is scheduled to add another 90,000 tonnes of potassium hydroxide capacity by end-2027. When UHC ramps up fully: 1) its potassium hydroxide capacity should be similar to UJC's (200,000 tonnes); and 2) UNID's potassium hydroxide capacity in China should reach 500,000 tonnes—exceeding even its capacity in Korea (400,000 tonnes), and lifting its global capacity to 900,000 tonnes.

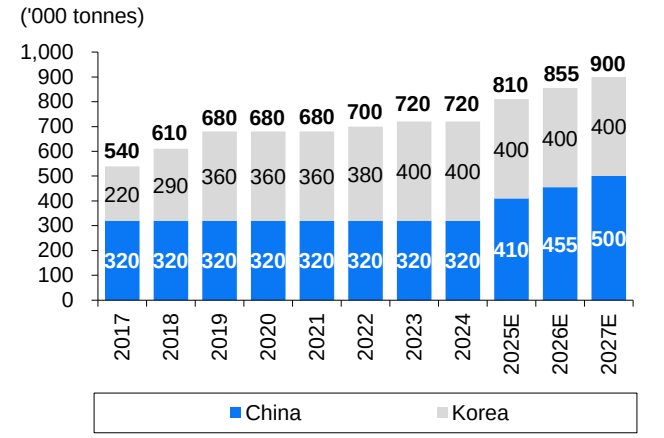
With the UHC project, UNID should be able to raise its market share in China by meeting demand in the central and western regions (*eg*, Guangdong, Chongqing, Sichuan, and Jiangxi), cutting logistics costs, and expanding productivity. As its production capacity in China should rise by 56% from 320,000 tonnes in 2024 to 500,000 tonnes in 2027, UNID should enjoy increased sales and earnings.

China UHC*(Yichang entity): Capacity addition plans

Phase	Product	Capacity ('000 tonnes)	Online
Phase 1	Potassium hydroxide (KOH)	88	2025
	Liquid chlorine (L-Cl_2)	56	2025
	Low-sodium potassium hydroxide (Low-Na KOH)	10	2025
	Light potassium carbonate (Light K_2CO_3)	52	2025E
Phase 2	Potassium hydroxide (KOH)	88	2026~2027E
	Liquid chlorine (L-Cl_2)	56	2026~2027E

Note: *UNID Hubei New Materials
Source: Company data, Samsung Securities

UNID: KOH capacity trends and forecasts



Source: Company data, Samsung Securities

Appendix

Company overview

Company overview

UNID was established in May 1980 under the name Korea Kali Chemical, a joint venture between Diamond Shamrock and Oriental Chemical Industries, with the goal of localizing potassium-based chemical products that relied on imports at that time. The firm acquired Diamond Shamrock's stake in Jun 1987 and Cheonggu's MDF business in 1992. In Jun 1995, it was renamed UNID.

The company's main products are potassium hydroxide (KOH) and potassium carbonate (K_2CO_3), produced through three key processes: brine purification, electrolysis, and evaporation/heating. The raw material, potassium chloride (KCl), is dissolved in water to create an aqueous brine solution

In the first step, brine purification, impurities are removed.

The second step is electrolysis, in which the aqueous KCl solution is electrolyzed to yield potassium (K+), chlorine (Cl_2), and hydrogen (H_2). The potassium then passes through a membrane and reacts with hydroxide ions to produce potassium hydroxide (KOH). The chlorine and hydrogen generated during this process are then used as mediators to produce additional hydrochloric acid (HCl), liquid chlorine (L-CI_2), and sodium hypochlorite (NaOCl).

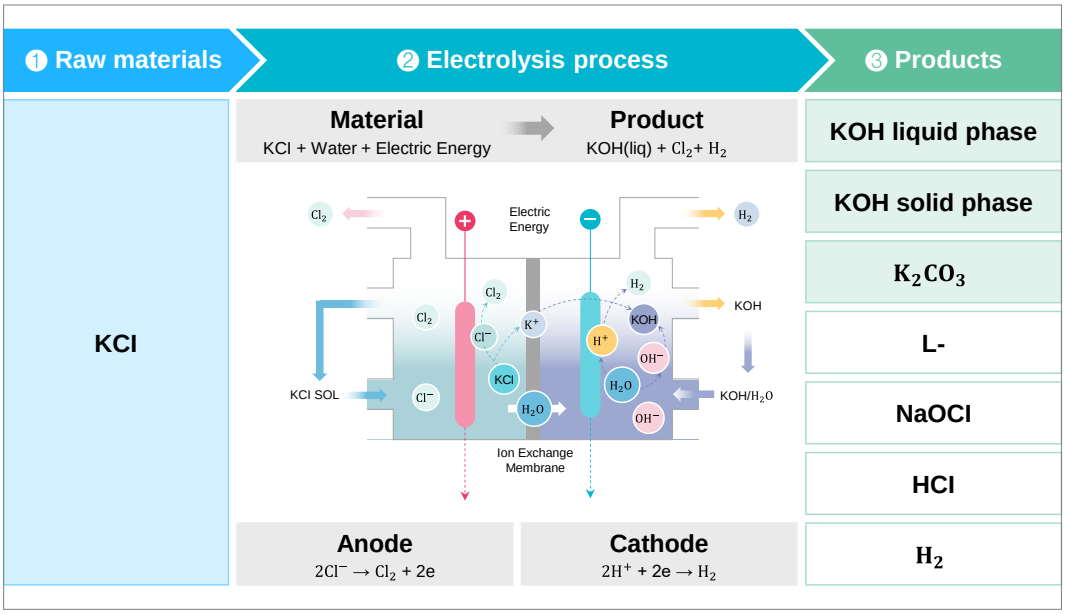
In the third step—evaporation/heating—the KOH (typically at 30% concentration) is evaporated to produce liquid KOH (45% and 48%). This can be further evaporated to produce solid KOH (85%, 90%, and 95%). The resulting potassium hydroxide is then reacted with carbon dioxide (CO_2) to produce potassium carbonate (K_2CO_3).

UNID: Major milestones

Year	Detail	Year	Detail
May 1980	Established Korea Kali Chemical	Nov 2016	Acquired assets of Hanwha Solutions' Ulsan CA plant
Jun 1987	Acquired equity stake in Diamond Shamrock (US)	Jan 2018	Relocated to Ulsan and completed 1st expansion of CA plant (capacity: 290,000 tonnes/year)
Jan 1992	Acquired Cheonggu Trading's MDF business	May 2019	Completed 2nd expansion of Ulsan CA plant (capacity: 360,000 tonnes/year)
Sep 1994	Merged with Cheonggu Trading	Nov 2022	Completed corporate spin-off of board business division (UNID btplus)
Aug 1995	Changed name to UNID	Jun 2023	Completed additional CA plant expansion (capacity: 400,000 tonnes/year)
Jun 2002	Established Chinese subsidiary UJC	Apr 2024	Commenced operations at Chinese subsidiary's CPs* plant
Jan 2008	Established Chinese subsidiary OJC	Jan 2025	Commencement operations at UHC plant (capacity: 90,000 tonnes/year)

Note: *Chlorinated paraffin wax
Source: Company data, Samsung Securities

UNID: Product process flow

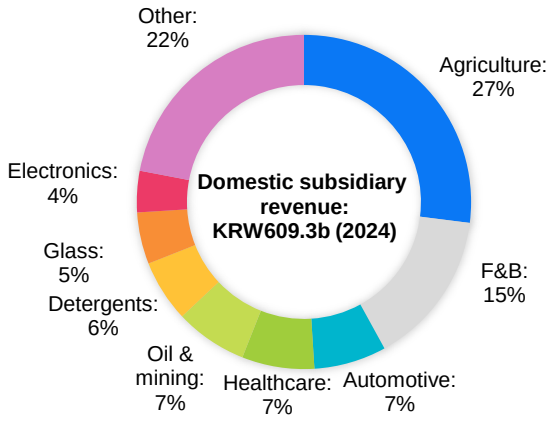


Source: Company data, Samsung Securities

As UNID operates potassium plants in both Korea and China, earnings are derived from domestic operations and Chinese subsidiaries. Both businesses produce potassium hydroxide, potassium carbonate, chlorine, hydrochloric acid, and hydrogen. Potassium hydroxide production capacity stands at 400,000 tonnes at the domestic plant, 200,000 tonnes at UNID Jiangsu Chemical (UJC), 120,000 tonnes at Jiangsu OCI Chemical (OJC), and 90,000 tonnes at UNID Hubei New Materials (UHC)—for a total of 810,000 tonnes. Capacity is expected to increase to 900,000 tonnes upon completion of the second expansion phase at UHC.

Meanwhile, UNID's Chinese subsidiaries also manufacture chlorinated paraffin wax (CPs) and operate steam/power generation facilities. CPs are produced by combining paraffin wax with chlorine (Cl_2). To address rising processing costs for potassium chloride, driven by environmental regulations, UJC launched the CP business in 2024. OJC currently operates a power plant for in-house consumption but plans to shut it down by end-2026, in compliance with China's new energy policy. UNID plans to partner with Jinying (Singapore) and Taiheung City Port Group to build a new power plant, with ownership stakes of 24%, 51%, and 25%, respectively.

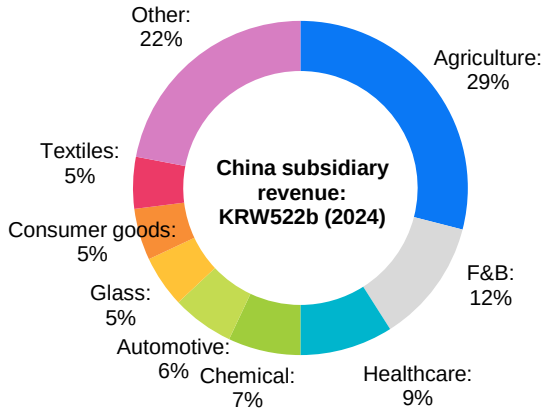
UNID: Sales breakdown, by end-use industry (domestic subsidiary)



Export-oriented	• Primarily export-oriented, supplying products to diverse global end-markets • High sales contribution from agriculture (fertilizers, agrochemicals) and food (cocoa, food additives) Larger proportion of petroleum/mining, automotive, pharmaceuticals, and detergents compared with China • Recent growth observed in demand from the petroleum, mining, and pharmaceutical sectors

Source: Company data, Samsung Securities

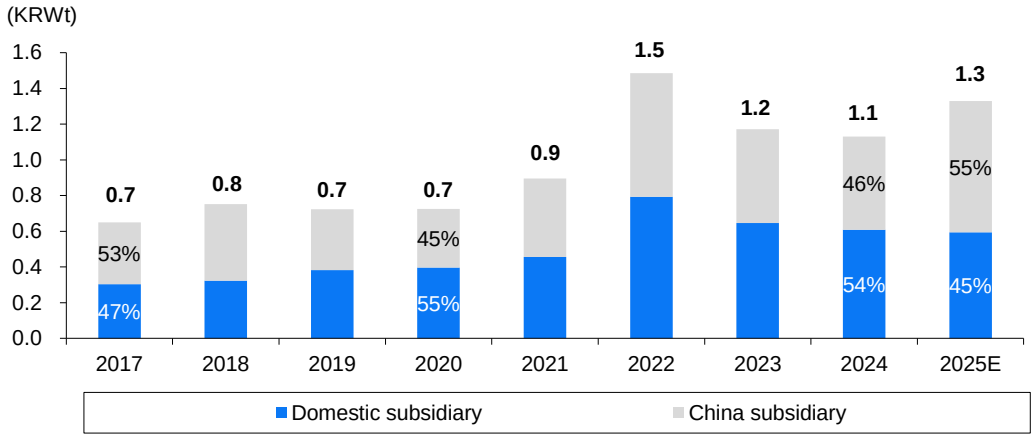
UNID: Sales breakdown, by end-use industry (Chinese subsidiary)



Domestic-oriented	• Primarily domestic-market oriented, supplying for various applications • High sales contribution from agriculture (fertilizers, agrochemicals) and food (food additives) • Higher proportion of pharmaceuticals, machinery, textiles, and other consumer goods compared with the global market • Recent growth trend in demand excluding automotive, including EV-related sectors

Source: Company data, Samsung Securities

UNID: Sales, by subsidiary



Note: Excludes revenue from other (non-core) business segments
Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**1,134**	**1,112**	**1,311**	**1,396**	**1,535**
Cost of goods sold	977	876	1,056	1,099	1,193
Gross profit	**157**	**235**	**255**	**297**	**342**
Gross margin (%)	13.8	21.2	19.5	21.3	22.3
SG&A expenses	125	140	148	169	199
Operating profit	**32**	**95**	**107**	**128**	**143**
Operating margin (%)	2.8	8.6	8.1	9.1	9.3
Non-operating gains (losses)	**-9**	**-9**	**0**	**3**	**2**
Financial profit	17	21	22	19	21
Financial costs	34	23	30	24	27
Equity-method gains (losses)	-4	-17	-3	-3	-3
Other	12	10	12	12	12
Pre-tax profit	**23**	**87**	**107**	**131**	**145**
Taxes	7	11	28	28	31
Effective tax rate (%)	28.6	12.2	26.1	21.5	21.5
Profit from continuing operations	16	76	79	103	114
Profit from discontinued operations	0	0	0	0	0
Net profit	**16**	**76**	**79**	**103**	**114**
Net margin (%)	1.4	6.9	6.0	7.3	7.4
Net profit (controlling interests)	16	76	79	103	114
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	81	149	170	208	246
EBITDA margin (%)	7.1	13.4	13.0	14.9	16.0
EPS (parent-based) (KRW)	2,403	11,265	11,697	15,155	16,795
EPS (consolidated) (KRW)	2,403	11,265	11,697	15,155	16,795
Adjusted EPS (KRW)*	2,403	11,265	11,697	15,155	16,795

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**570**	**562**	**607**	**737**	**892**
Cash & equivalents	146	71	34	130	227
Accounts receivable	251	258	304	324	356
Inventories	137	138	163	174	191
Other current assets	35	95	105	110	117
Fixed assets	**689**	**802**	**812**	**780**	**738**
Investment assets	113	120	128	132	137
Tangible assets	501	613	617	583	537
Intangible assets	12	12	10	8	6
Other long-term assets	63	58	58	58	58
Total assets	**1,259**	**1,365**	**1,419**	**1,518**	**1,630**
Current liabilities	**308**	**218**	**226**	**235**	**250**
Accounts payable	88	54	63	67	74
Short-term debt	166	87	87	87	87
Other current liabilities	54	77	76	81	89
Long-term liabilities	**48**	**135**	**136**	**137**	**138**
Bonds & long-term debt	26	120	120	120	120
Other long-term liabilities	22	15	17	17	19
Total liabilities	**356**	**353**	**362**	**372**	**388**
Owners of parent equity	**903**	**1,012**	**1,057**	**1,146**	**1,242**
Capital stock	34	34	34	34	34
Capital surplus	3	4	4	4	4
Retained earnings	1,036	1,102	1,169	1,258	1,354
Other	-170	-127	-150	-150	-150
Non-controlling interests' equity	**0**	**0**	**0**	**0**	**0**
Total equity	**903**	**1,012**	**1,057**	**1,146**	**1,242**
Net debt	63	138	159	62	-38

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**335**	**117**	**91**	**161**	**181**
Net profit	16	76	79	103	114
Non-cash profit and expenses	73	87	99	113	138
Depreciation	47	52	62	79	101
Amortization	2	2	2	2	2
Other	25	34	35	32	35
Changes in A/L from operating activities	259	-36	-56	-24	-39
Cash flow from investments	**-90**	**-185**	**-70**	**-45**	**-57**
Change in tangible assets	-90	-120	-65	-45	-55
Change in financial assets	4	-12	-4	-2	-3
Other	-4	-53	-1	2	0
Cash flow from financing	**-233**	**-12**	**-25**	**-14**	**-17**
Change in debt	-218	12	-13	0	0
Change in equity	0	1	0	0	0
Dividends	-13	-11	-12	-14	-17
Other	-2	-15	0	0	0
Change in cash	11	-75	-37	96	98
Cash at beginning of year	135	146	71	34	130
Cash at end of year	146	71	34	130	227
Gross cash flow	**90**	**164**	**178**	**216**	**252**
Free cash flow	**238**	**-5**	**26**	**116**	**126**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	-19.3	-1.9	18.0	6.5	9.9
Operating profit	-78.3	197.6	11.9	19.4	11.8
Net profit	-87.2	368.7	3.8	29.6	10.8
Adjusted EPS**	-83.5	368.7	3.8	29.6	10.8
Per-share data (KRW)					
EPS (parent-based)	2,403	11,265	11,697	15,155	16,795
EPS (consolidated)	2,403	11,265	11,697	15,155	16,795
Adjusted EPS**	2,403	11,265	11,697	15,155	16,795
BVPS	136,033	152,473	159,207	172,556	187,076
DPS (common)	1,600	1,800	2,100	2,600	2,700
Valuations (x)					
P/E***	28.2	6.4	6.4	4.9	4.5
P/B***	0.5	0.5	0.5	0.4	0.4
EV/EBITDA	6.5	4.2	3.9	2.7	1.9
Ratios (%)					
ROE	1.8	8.0	7.7	9.3	9.5
ROA	1.2	5.8	5.7	7.0	7.2
ROIC	2.4	9.2	7.8	9.7	11.0
Payout ratio	65.3	15.7	17.6	16.8	15.8
Dividend yield (common)	2.4	2.5	2.8	3.5	3.6
Net debt to equity	6.9	13.6	15.0	5.4	-3.1
Interest coverage (x)	2.1	11.6	13.0	16.0	17.8

Note: *Excluding one-off items;
**Fully diluted, excluding one-off items;
***From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

COMPANY UPDATE

2025. 10. 21

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Lotte Fine Chemical (004000)

3Q preview: To post first chlorine profit in two years

- Cellulose relatives, a key business for Lotte Fine Chemical, are manufactured through chemical substitution of pulp. The company can therefore be viewed as a non-petroleum fine chemical player, insulated from shifts in oil demand.
- We expect its 3Q results to beat consensus, led by the chlorine relatives business returning to profitability for the first time in two years. We raise our target price from KRW56,000 to KRW60,000 and reiterate our BUY rating.

WHAT'S THE STORY?

Increasing share of non-petroleum-based specialty products: Lotte Fine Chemical's (LFC) cellulose relatives and chlorine relatives are manufactured using pulp and salt, rather than petroleum (naphtha)-based feedstock. Thus, the business is not affected by a potential oversupply of petroleum-naphtha-commodity chemicals stemming from rising EV penetration. Notably, LFC is planning a capacity expansion (from 12,000 to 18,000 tonnes) for pharmaceutical- and food-grade cellulose, which has triple the operating margin of its industrial-grade counterpart. We expect LFC's cellulose relatives business to see sales-mix and profitability improvements over 2026-2027.

(Published on Oct 1,2025)

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW60,000	29.6%
Current price	**KRW46,300**	
Market cap	KRW1.2t/USD0.9b	
Shares (float)	25,800,000 (55.2%)	
52-week high/low	KRW49,900/KRW30,700	
Avg daily trading value (60-day)	KRW2.7b/ USD1.9m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Lotte Fine Chemical (%)	11.0	18.9	-3.5
Vs Kospi (%pts)	3.3	-11.2	-27.0

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	60,000	56,000	7.1%
2025E EPS	4,729	4,729	0.0%
2026E EPS	7,424	7,424	0.0%

SAMSUNG vs THE STREET

No of estimates	10
Target price	56,800
Recommendation	4.0

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

SUMMARY FINANCIAL DATA

(KRWb)	2024	2025E	2026E	2027E
Revenue	1,671	1,777	1,812	1,911
Operating profit	50	82	156	199
Net profit (adj)	36	122	192	220
EPS (adj) (KRW)	1,410	4,729	7,424	8,510
EPS (adj) growth (% y-y)	-80.0	235.3	57.0	14.6
EBITDA margin (%)	12.6	13.0	16.6	17.8
ROE (%)	1.5	5.1	7.6	8.2
P/E (adj) (x)	27.9	9.8	6.2	5.4
P/B (x)	0.4	0.5	0.5	0.4
EV/EBITDA (x)	4.4	4.6	3.0	2.3
Dividend yield (%)	3.6	3.7	4.8	5.4

Source: Company data, Samsung Securities estimates

3Q preview—results to beat: We expect LFC's 3Q results to show operating profit up 199% q-q to KRW26.1b (beating FnGuide consensus of KRW23.3b by 12%), with an ECH rebound driving the firm's chlorine relatives unit back to its first operating profit in two years (KRW1.2b; up KRW7.6b q-q). In 3Q, the ECH-propylene spread widened 46% q-q from USD681/tonne to USD992/tonne. We estimate that operating profit at the cellulose relatives business expanded 97% q-q to KRW13.7b, led by volume growth following the end of scheduled maintenance work. At the ammonia relatives business, we believe operating profit rose 14% q-q to KRW13.5b, thanks to a recovery in trading gains.

View—ROE to remain on uptrend through end-2026: Reflecting a robust recovery in ECH, we nudge up our 2026 ROE estimate from 7.4% to 7.6% and lift our target P/B multiple from 0.55x to 0.59x (the post-2022 average). This leads us to raise our target price by 7% from KRW56,000 to KRW60,000. ROE is highly likely to improve further in 2026 as: 1) the recognition of valuation losses on investment assets (namely, shares in Solus Advanced Materials) appears to have run its course; 2) ECH spreads are improving; and 3) the firm has a capacity expansion in cellulose relatives coming up. We maintain our BUY rating on the stock.

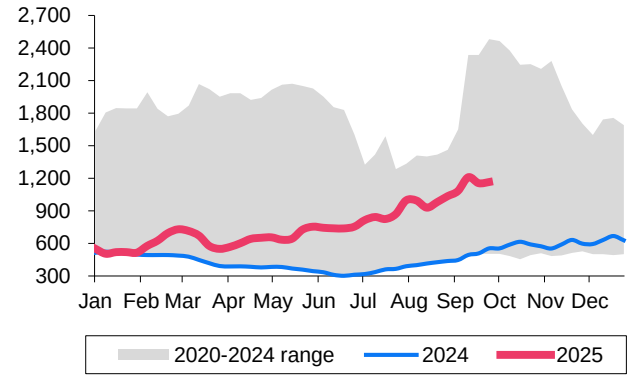
Lotte Fine Chemical: P/B valuation

(KRW)	Old	New	Note
Target P/B (x)	0.54	0.59	Post-2022 average
Forward BVPS	101,992	102,288	Revised up 0.3%
Fair price per share	**55,551**	**59,928**	
Target price	**56,000**	**60,000**	**Revised up 7.1%**
Current price		46,850	As of Sep 29 close
Upside (%)		28.1	
2025 implied P/E (x)	10.2	11.0	
2026 implied P/E (x)	7.6	8.1	

Source: Samsung Securities estimates

ECH-propylene spread (Lotte Fine Chemical)

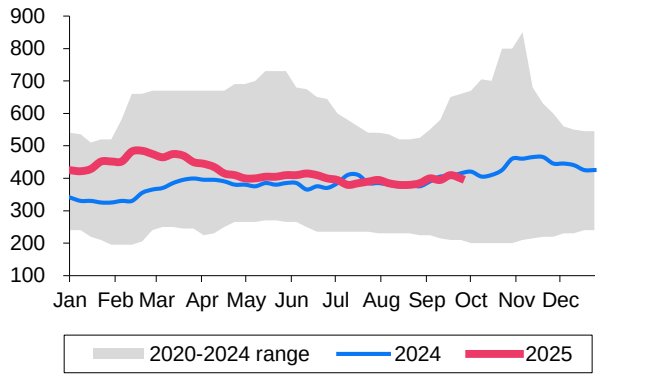
(USD/tonne)



Source: Cischem, S&P Global Platts, Samsung Securities

Caustic soda prices (LG Chem/Hanwha Solutions/LFC)

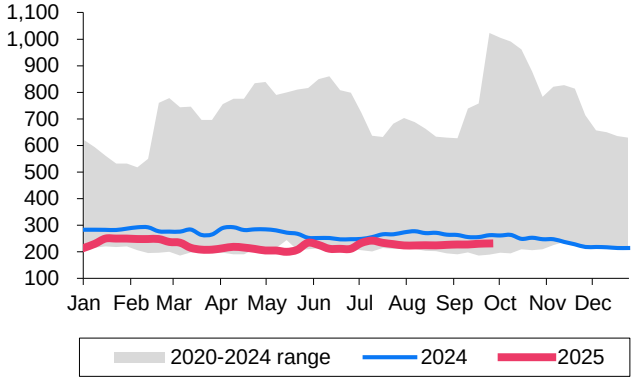
(USD/tonne)



Source: Cischem, S&P Global Platts, Samsung Securities

AA-methanol spread (Lotte Fine Chemical)

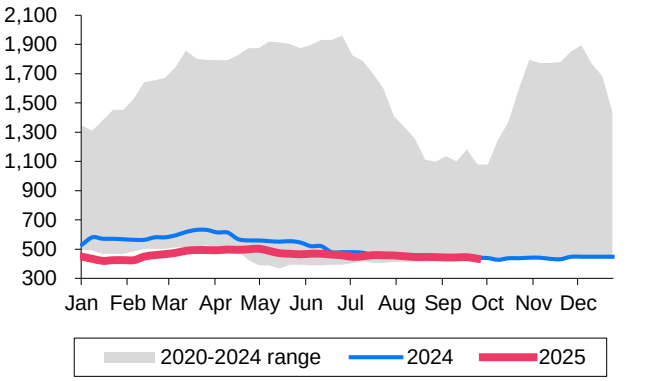
(USD/tonne)



Source: Cischem, S&P Global Platts, Samsung Securities

VAM-AA spread (Lotte Fine Chemical)

(USD/tonne)



Source: Cischem, S&P Global Platts, Samsung Securities

Lotte Fine Chemical: Quarterly results

(KRWb)	3Q25E	2Q25	2Q24	Consensus	Diff (%)		
					(% q-q)	(% y-y)	Consensus
Sales	449	425	422	441	5.8	6.5	1.8
Operating profit	26	9	17	23	199.5	52.5	12.2
Pre-tax profit	42	18	55	35	127.4	-24.6	18.1
Net profit	35	16	43	31	127.4	-18.4	13.0
Attributable to parent	35	16	43	29	127.4	-18.4	22.6
Margins (%)							
Operating profit	5.8	2.1	4.1	5.3			
Pre-tax profit	9.2	4.3	13.1	8.0			
Net profit	7.9	3.7	10.3	7.1			
Attributable to parent	7.9	3.7	10.3	6.5			

Source: Company data, FnGuide, Samsung Securities estimates

Lotte Fine Chemical: 3Q preview, by division

(KRWb)	3Q25E	2Q25	3Q24	Chg (% q-q)	Chg (% y-y)
Sales	**449**	**425**	**422**	**5.8**	**6.5**
Chlorine	151	140	130	8.1	16.6
Cellulose	162	137	140	18.0	15.7
Ammonia trading	127	138	142	-8.3	-10.8
Electronic materials	9	9	10	1.5	-9.5
Operating profit	**26**	**9**	**17**	**199.5**	**52.5**
Chlorine	1	-6	-10	To turn pos	To turn pos
Cellulose	14	7	15	96.7	-10.2
Ammonia trading	14	12	11	14.4	24.0
Electronic materials	-2	-4	1	To remain neg	To turn neg
Pre-tax profit	42	18	55	127.4	-24.6
Net profit	**35**	**16**	**43**	**127.4**	**-18.4**
Margins (%)					
Operating profit	5.8	2.1	4.1		
Chlorine	0.8	-4.6	-7.5		
Cellulose	8.4	5.1	10.9		
Ammonia trading	10.7	8.5	7.7		
Electronic materials	-25.0	-39.9	6.7		
Pre-tax profit	9.2	4.3	13.1		
Net profit	7.9	3.7	10.3		

Note: Divisional operating profit figures are our estimates
Source: Company data, Samsung Securities estimates

Lotte Fine Chemical: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	2023	2024	2025E	2026E
KRW/USD (average)	1,453	1,399	1,387	1,345	1,325	1,315	1,300	1,285	1,306	1,365	1,396	1,306
Sales	**446**	**425**	**449**	**457**	**439**	**449**	**440**	**484**	**1,769**	**1,671**	**1,777**	**1,812**
Growth (% q-q)	4.0	-4.7	5.8	1.8	-4.0	2.2	-2.0	9.9				
Growth (% y-y)	11.6	0.6	6.9	6.7	-1.4	5.7	-2.1	5.8	-28.2	-5.5	6.4	2.0
Chlorine	150	140	151	155	144	143	143	156	569	545	597	586
Cellulose	127	137	162	159	153	163	162	176	498	529	586	654
Ammonia trading	160	138	127	126	134	134	126	132	661	556	551	525
Electronic materials	9	9	9	17	9	9	9	20	42	41	44	47
Operating profit	**19**	**9**	**26**	**28**	**32**	**37**	**46**	**41**	**155**	**50**	**82**	**156**
Growth (% q-q)	54.4	-53.6	199.5	7.6	14.5	14.0	25.7	-10.0				
Growth (% y-y)	74.3	-49.1	152.6	130.8	71.2	320.5	76.6	47.7	-61.7	-67.5	62.1	91.4
Chlorine	-6	-6	1	6	8	9	17	18	1	-55	-5	51
Growth (% q-q)	Remained neg	Remained neg	To turn pos	400.2	34.0	7.7	91.2	5.1				
Growth (% y-y)	Remained neg	Remained neg	To turn pos	To turn pos	To turn pos	To turn pos	1,280.6	190.2	-99.4	Turned neg	To remain neg	To turn pos
Cellulose	12	7	14	13	15	18	20	14	100	57	45	67
Growth (% q-q)	6.4	-42.5	96.7	-7.9	17.6	21.5	11.9	-30.7				
Growth (% y-y)	3.4	-54.4	-25.4	10.9	22.5	159.0	47.3	10.8	14.6	-43.5	-20.0	47.7
Ammonia trading	14	12	13	12	10	10	9	10	44	45	51	39
Growth (% q-q)	7.7	-14.8	14.4	-9.1	-18.9	3.3	-10.5	9.0				
Growth (% y-y)	-4.3	8.4	89.7	-4.6	-28.1	-12.8	-31.8	-18.2	-29.7	3.5	13.4	-23.2
Electronic materials	-1	-4	-2	-3	-1	-0	-0	-0	9	3	-10	-2
Growth (% q-q)	Turned neg	Remained neg	To remain neg	To remain neg	To remain neg	To remain neg	To remain neg	To remain neg				
Growth (% y-y)	Turned neg	Turned neg	To turn neg	To turn neg	To remain neg	To remain neg	To remain neg	To remain neg	-30.9	-64.8	To turn neg	To remain neg
Pre-tax profit	34	18	42	51	50	51	60	66	253	26	144	226
Growth (% q-q)	30.1	-46.0	127.4	21.8	-65.3	1.0	18.0	10.0				
Growth (% y-y)	-68.0	-66.8	To turn pos	To turn pos	47.9	177.0	43.8	29.9	57.9	-89.7	454.1	56.7
Net profit	**28**	**16**	**35**	**43**	**42**	**43**	**51**	**56**	**182**	**36**	**122**	**192**
Growth (% q-q)	-22.0	-45.3	127.4	21.2	-65.3	1.3	18.0	9.9				
Growth (% y-y)	-66.0	-64.1	To turn pos	To turn pos	49.3	176.4	43.4	30.0	24.5	-80.0	235.3	57.0
Attributable to parent	28	16	35	43	42	43	51	56	182	36	122	192
Margins (%)												
Operating profit	4.2	2.1	5.8	6.1	7.3	8.2	10.5	8.6	8.8	3.0	4.6	8.6
Chlorine	-4.1	-4.6	0.8	3.9	5.7	6.1	11.8	11.3	0.2	-10.1	-0.9	8.8
Cellulose	9.5	5.1	8.4	7.9	9.7	11.1	12.4	7.9	20.2	10.7	7.7	10.2
Ammonia trading	8.6	8.5	10.7	9.7	7.4	7.7	7.3	7.6	6.6	8.1	9.3	7.5
Electronic materials	-12.4	-39.9	-25.0	-17.0	-9.0	-5.0	-1.0	-1.0	22.1	7.9	-22.5	-3.2
Pre-tax profit	7.6	4.3	9.2	11.1	11.4	11.3	13.6	13.6	14.3	1.6	8.1	12.5
Net profit	6.4	3.7	7.9	9.4	9.6	9.6	11.5	11.5	10.3	2.2	6.9	10.6

Note: Divisional operating profit figures are our estimates
Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**1,769**	**1,671**	**1,777**	**1,812**	**1,911**
Cost of goods sold	1,486	1,491	1,561	1,517	1,567
Gross profit	**283**	**179**	**216**	**295**	**344**
Gross margin (%)	16.0	10.7	12.2	16.3	18.0
SG&A expenses	128	129	135	138	145
Operating profit	**155**	**50**	**82**	**156**	**199**
Operating margin (%)	8.8	3.0	4.6	8.6	10.4
Non-operating gains (losses)	**98**	**-24**	**63**	**70**	**61**
Financial profit	58	46	28	37	27
Financial costs	43	102	0	0	0
Equity-method gains (losses)	45	19	19	19	19
Other	37	13	15	14	15
Pre-tax profit	**253**	**26**	**144**	**226**	**259**
Taxes	71	-10	22	35	40
Effective tax rate (%)	28.0	-39.6	15.5	15.4	15.3
Profit from continuing operations	182	36	122	192	220
Profit from discontinued operations	0	0	0	0	0
Net profit	**182**	**36**	**122**	**192**	**220**
Net margin (%)	10.3	2.2	6.9	10.6	11.5
Net profit (controlling interests)	182	36	122	192	220
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	293	210	230	301	339
EBITDA margin (%)	16.6	12.6	13.0	16.6	17.8
EPS (parent-based) (KRW)	7,055	1,410	4,729	7,424	8,510
EPS (consolidated) (KRW)	7,055	1,410	4,729	7,424	8,510
Adjusted EPS (KRW)*	7,055	1,410	4,729	7,424	8,510

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**1,347**	**1,046**	**1,123**	**1,287**	**1,450**
Cash & equivalents	461	298	337	489	617
Accounts receivable	247	261	278	283	298
Inventories	306	304	324	330	348
Other current assets	332	182	184	184	186
Fixed assets	**1,336**	**1,668**	**1,674**	**1,662**	**1,673**
Investment assets	433	527	559	570	600
Tangible assets	784	848	824	804	788
Intangible assets	21	23	19	17	14
Other long-term assets	99	271	271	271	271
Total assets	**2,683**	**2,714**	**2,796**	**2,949**	**3,123**
Current liabilities	**282**	**178**	**189**	**193**	**203**
Accounts payable	105	48	51	52	55
Short-term debt	1	1	1	1	1
Other current liabilities	177	129	137	140	147
Long-term liabilities	**18**	**167**	**168**	**168**	**169**
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	18	167	168	168	169
Total liabilities	**300**	**345**	**357**	**361**	**372**
Owners of parent equity	**2,383**	**2,369**	**2,439**	**2,588**	**2,751**
Capital stock	129	129	129	129	129
Capital surplus	331	331	331	331	331
Retained earnings	1,952	1,933	2,019	2,168	2,331
Other	-29	-25	-40	-40	-40
Non-controlling interests' equity	**0**	**0**	**0**	**0**	**0**
Total equity	**2,383**	**2,369**	**2,439**	**2,588**	**2,751**
Net debt	-736	-100	-137	-288	-414

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**224**	**160**	**219**	**305**	**312**
Net profit	182	36	122	192	220
Non-cash profit and expenses	126	206	111	121	121
Depreciation	135	156	146	142	139
Amortization	3	4	3	3	2
Other	-12	47	-37	-24	-19
Changes in A/L from operating activities	-55	-83	-28	-9	-26
Cash flow from investments	**-233**	**-244**	**-131**	**-123**	**-130**
Change in tangible assets	-65	-198	-122	-122	-122
Change in financial assets	-300	100	-13	-4	-12
Other	133	-146	4	3	4
Cash flow from financing	**-109**	**-79**	**-33**	**-42**	**-54**
Change in debt	-1	173	3	1	2
Change in equity	0	0	0	0	0
Dividends	-89	-51	-36	-43	-56
Other	-18	-202	0	0	0
Change in cash	-117	-162	39	152	128
Cash at beginning of year	578	461	298	337	489
Cash at end of year	461	298	337	489	617
Gross cash flow	**308**	**243**	**233**	**312**	**341**
Free cash flow	**124**	**-38**	**97**	**183**	**190**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	-28.2	-5.5	6.4	2.0	5.4
Operating profit	-61.7	-67.5	62.1	91.4	27.0
Net profit	24.5	-80.0	235.3	57.0	14.6
Adjusted EPS**	24.5	-80.0	235.3	57.0	14.6
Per-share data (KRW)					
EPS (parent-based)	7,055	1,410	4,729	7,424	8,510
EPS (consolidated)	7,055	1,410	4,729	7,424	8,510
Adjusted EPS**	7,055	1,410	4,729	7,424	8,510
BVPS	93,569	92,999	95,771	101,591	108,011
DPS (common)	2,000	1,400	1,700	2,200	2,500
Valuations (x)					
P/E***	8.2	27.9	9.8	6.2	5.4
P/B***	0.6	0.4	0.5	0.5	0.4
EV/EBITDA	2.6	4.4	4.6	3.0	2.3
Ratios (%)					
ROE	7.8	1.5	5.1	7.6	8.2
ROA	6.8	1.3	4.4	6.7	7.2
ROIC	9.9	5.2	4.5	8.7	11.1
Payout ratio	28.0	98.0	35.5	29.3	29.0
Dividend yield (common)	3.4	3.6	3.7	4.8	5.4
Net debt to equity	-30.9	-4.2	-5.6	-11.1	-15.0
Interest coverage (x)	184.9	7.1	n/a	n/a	n/a

Note: *Excluding one-off items;
**Fully diluted, excluding one-off items;
***From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

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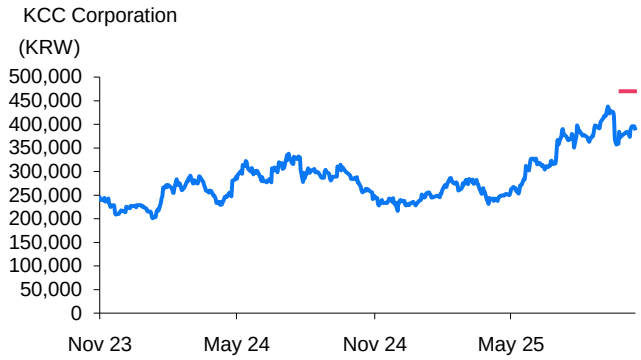
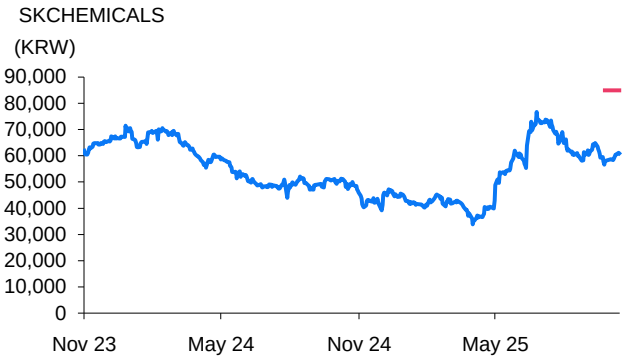
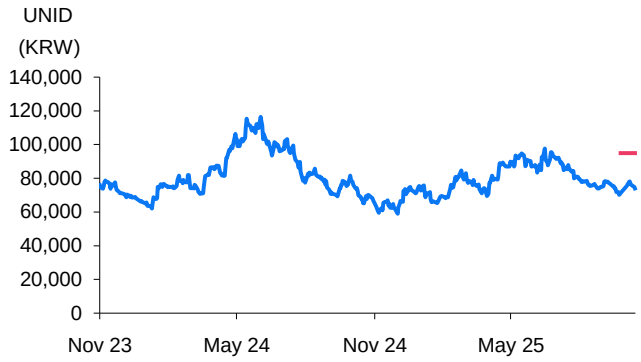
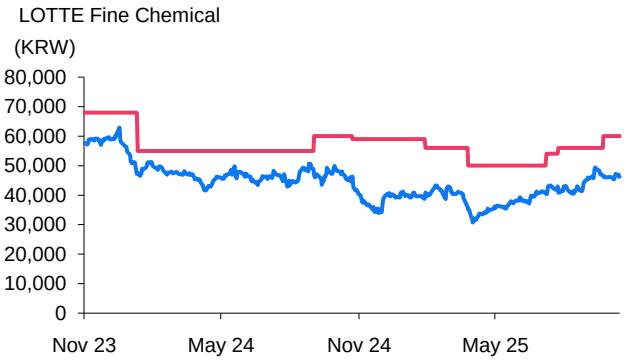
Target price changes in past two years









Rating changes over past two years (adjusted share prices)

KCC Corporation										
Date	2025/10/2									
Recommendation	BUY									
Target price (KRW)	470000									
Gap* (average)										
(max or min)**										

SKCHEMICALS										
Date	2025/10/2									
Recommendation	BUY									
Target price (KRW)	85000									
Gap* (average)										
(max or min)**										

UNID										
Date	2025/10/2									
Recommendation	BUY									
Target price (KRW)	95000									
Gap* (average)										
(max or min)**										

LOTTE Fine Chemical										
Date	2023/10/12	2024/1/19	6/28	9/10	10/31	2025/2/5	4/3	7/16	8/1	9/30
Recommendation	HOLD	HOLD	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	68000	55000	55000	60000	59000	56000	50000	54000	56000	60000
Gap* (average)	-16.25	-14.95	-15.25	-22.06	-34.41	-27.10	-26.49	-21.44	-21.38	
(max or min)**	-7.50	-6.91	-8.00	-16.83	-27.71	-22.68	-17.30	-19.81	-11.79	

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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HOLD	Expected to increase/decrease in value by less than 15% within 12 months
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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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