COMPANY UPDATE

2025. 11. 4

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LG Electronics (066570)

The pain of transformation

- LG Electronics (LGE) continued to engage in measures to enhance work efficiency (*eg*, labor relocations) and recognized increasing costs in its heating, ventilation, and air conditioning (HVAC) unit in 4Q—which bodes well for the firm's earnings rebound next year.
- We raise our target price for the stock to KRW110,000 based on 9x 2026 P/E, and keep the stock at BUY.

AT A GLANCE

BUY

Target price	KRW110,000	24.2%
Current price	**KRW88,600**	
Market cap	KRW14.4t/USD10.1b	
Shares (float)	162,886,387 (64.7%)	
52-week high/low	KRW94,500/KRW64,700	
Avg daily trading value (60-day)	KRW51.6b/ USD36.1m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
LG Electronics (%)	16.0	25.5	-2.4
Vs Kospi (%pts)	-2.5	-23.9	-41.2

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	110,000	95,000	15.8%
2025E EPS	8,935	8,093	10.4%
2026E EPS	12,139	11,027	10.1%

SAMSUNG vs THE STREET

No of estimates	19
Target price	104,632
Recommendation	4.0

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

WHAT'S THE STORY?

HVAC business to recognize costs necessary for growth: LG Electronics (LGE) has yet to see the tariff issue go away and consumption recover, but we believe related worries have been already reflected fully. The firm has kept enjoying solid earnings in its home appliance solution (HS) division and the vehicle component solutions (VS) division. We expect the firm's earnings to rebound next year given the firm's moves toward work efficiency across all of its divisions and cost recognition in its heating, ventilation, and air conditioning (HVAC) unit in 4Q25. Earnings rebounds shown by LG Display and LG Innotek are also boding well for LGE. Given the current bullish sentiment in the Kospi market, we see a need to become optimistic for such undervalued stocks as LGE. We estimate the firm's 2026 ROE at 9.6%, but its shares are trading at a mere 0.7x P/B. We raise our target price for the stock to KRW110,000 based on 9x 2026 P/E (we change our valuation base from 2025 to 2026 earnings estimates). We keep the stock at BUY.

(Continued on the next page)

SUMMARY FINANCIAL DATA

(KRWb)	2024	2025E	2026E	2027E
Revenue	87,728	88,302	89,463	92,401
Operating profit	3,420	2,707	3,652	4,002
Net profit (adj)	591	1,696	2,204	2,684
EPS (adj) (KRW)	2,032	8,935	12,139	14,784
EPS (adj) growth (% y-y)	-48.4	339.7	35.9	21.8
EBITDA margin (%)	7.9	7.0	7.8	7.9
ROE (%)	1.8	7.5	9.6	10.6
P/E (adj) (x)	41.1	9.9	7.3	6.0
P/B (x)	0.7	0.7	0.7	0.6
EV/EBITDA (x)	3.7	4.7	3.8	3.3
Dividend yield (%)	1.2	1.2	1.4	1.4

Source: Company data, Samsung Securities estimates

3Q review: LGE reported 3Q sales of KRW21.9t (up 5.5% q-q but down 1.4% y-y) and an operating profit of KRW688.9b (up 7.7% q-q but down 8.5 y-y). By business, the HS division and the VS division beat our forecasts, while the media entertainment solution (MS) division posted a wider loss than our expectation.

- **US tariffs to weigh:** The firm estimated about KRW600b (about 3% of its sales) in tariff-related costs. The HS division (which has the biggest sales exposure to the US) has expanded US production to meet up to 40% of US demand. In the long term, the firm plans to raise ASPs gradually as long as the hike does not hurt the firm's market share.
- **Management efficiency and labor restructuring:** The firm is engaging in making management more efficient in 3Q-4Q (including voluntary retirement)—related costs hit KRW100b in the MS division in 3Q. The firm should expand such restructuring moves further into more divisions and more workers in 4Q. In the long term, we expect the firm to enjoy benefits relating to fixed cost cuts and labor efficiency.
- **Energy solution (ES) division going through growth pains:** We believe the ES division is going through growth pains in a bid to improve its fundamentals (as the VS division did in the late 2010s). It showed falling profitability due to rising development costs (ie, labor costs) as its new orders increased 17% y-y (including orders for data center-use HVAC systems). In particular, we expect sales of chillers (used in data centers) to grow in earnest in 2027 to account for 15% of the ES division's overall sales.
- **VS competitiveness proven:** Despite the risks involving the end industry (ie, sluggish demand and shrinking EV subsidies), the firm's VS division has continued to enjoy sales and market share growth. In particular, we have seen the proofs that its competitiveness is strengthening (eg, its IVI market share within Japanese OEMs has been growing).
- **IPO in India successful:** On Oct 14, LGE's Indian subsidiary was listed on the India's stock market, being valued at KRW18t in terms of market cap. Via the IPO, it has raised KRW1.8t in proceeds (pre-tax).

LG Electronics: Target-price calculation

(KRW)		Notes
BVPS	12,139	2026E
Target P/B (x)	9.0	15% discount to average P/B based on 9.2% ROE
Fair price	109,251	
Target price	**110,000**	
Current price	88,600	
Upside (%)	24.2	

Source: Samsung Securities estimates

LG Electronics: 3Q results

(KRWb)	3Q25	2Q25	3Q24	Diff	
				(% q-q)	(% y-y)
Sales	**21,873.7**	20,735.1	22,176.4	5.5	-1.4
Operating profit	**688.9**	639.4	752.8	7.7	-8.5
Pre-tax profit	**568.6**	760.3	283.7	-25.2	100.4
Net profit	**465.1**	609.6	90.2	-23.7	415.5
Margins (%)					
Operating profit	**3.1**	3.1	3.4		
Pre-tax profit	**2.6**	3.7	1.3		
Net profit	**2.1**	2.9	0.4		

Source: Company data, Samsung Securities

LG Electronics: Changes to forecasts

(KRWb)	3Q25		2025E		3Q25		2025E	
	Old	New	Old	New	Diff	Diff (%)	Diff	Diff (%)
Sales	**21,875**	**21,874**	**87,883**	**88,307**	**-1.4**	**0.0**	**424.0**	**0.5**
HS	6,704	6,580	26,161	25,933	-123.5	-1.8	-227.8	-0.9
MS	4,667	4,653	19,139	19,355	-14.9	-0.3	216.2	1.1
VS	2,707	2,647	11,112	10,941	-60.2	-2.2	-171.2	-1.5
ES	2,214	2,167	9,532	9,424	-47.0	-2.1	-108.2	-1.1
Other	759	586	1,943	1,770	-173.2	-22.8	-173.2	-8.9
LG Innotek	4,910	5,369	20,424	21,353	459.4	9.4	929.2	4.5
Operating profit	**688.9**	**688.9**	**2,723.6**	**2,706.6**	**0.0**	**0.0**	**-17.1**	**-0.6**
HS	348.6	365.9	1,429.5	1,458.4	17.3	5.0	28.9	2.0
MS	-270.7	-302.6	-652.3	-634.0	-31.9	11.8	18.3	-2.8
VS	131.5	149.6	467.7	459.7	18.1	13.8	-7.9	-1.7
ES	139.9	132.9	784.9	671.0	-7.0	-5.0	-113.9	-14.5
Other	140.0	132.4	86.8	79.2	-7.6	-5.4	-7.6	-8.8
LG Innotek	190.9	203.8	590.8	658.4	12.9	6.8	67.6	11.4
Operating margin (%)	**3.1**	**3.1**	**5.5**	**5.5**	**0.0**		**0.0**	

Source: Company data, Samsung Securities

LG Electronics: Changes to full-year forecasts

(KRWb)	Old		New		Diff (%)	
	2025E	2026E	2025E	2026E	2025E	2026E
Sales	83,467	82,263	88,302	89,463	5.8	8.8
Operating profit	3,551	3,653	2,707	3,652	-23.8	-0.0
Pre-tax profit	2,351	1,871	2,119	2,828	-9.9	51.1
Net profit	1,863	1,151	1,696	2,204	-9.0	91.6

Source: Company data, Samsung Securities

LG Electronics: Results and forecasts, by division

(KRWb)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	2024	2025E	2026E
Sales															
Total	**21,096**	**21,695**	**22,176**	**22,723**	**22,740**	**20,740**	**21,874**	**22,953**	**22,033**	**20,682**	**22,885**	**23,864**	**87,728**	**88,302**	**89,463**
HS	6,129	6,416	6,282	5,978	6,697	6,594	6,580	6,062	6,574	6,761	6,873	6,253	24,806	25,933	26,461
MS	5,061	5,077	5,139	5,613	4,950	4,393	4,653	5,359	4,437	3,985	4,406	5,292	20,889	19,355	18,120
VS	2,662	2,692	2,611	2,655	2,843	2,849	2,647	2,601	2,731	2,841	2,759	2,743	10,621	10,941	11,074
ES	2,589	2,536	2,144	1,552	3,054	2,644	2,167	1,558	3,238	2,918	2,418	1,695	8,821	9,424	10,270
Other	490	616	506	516	365	458	586	361	402	504	557	397	2,128	1,770	1,859
LG Innotek	4,334	4,555	5,685	6,588	4,983	3,856	5,369	7,145	4,766	3,775	5,997	7,612	21,163	21,353	22,150
Operating profit															
Total	**1,335**	**1,197**	**752**	**136**	**1,259**	**639**	**689**	**119**	**1,267**	**1,012**	**985**	**388**	**3,420**	**2,707**	**3,652**
HS	587	429	355	-69	645	440	366	8	557	439	406	29	1,301	1,458	1,431
MS	181	127	11	-50	5	-192	-303	-145	67	72	44	-53	268	-634	129
VS	52	83	1	-20	125	126	150	59	134	141	169	117	116	460	561
ES	336	249	156	-66	407	251	133	-119	394	316	153	-20	675	671	843
Other	3	158	97	91	-47	-1	132	-5	-20	-20	-20	-40	349	79	-100
LG Innotek	176	152	130	248	125	11	204	318	132	60	229	350	706	658	771
Operating margin (%)															
Total	**6.3**	**5.5**	**3.4**	**0.6**	**5.5**	**3.1**	**3.1**	**0.5**	**5.8**	**4.9**	**4.3**	**1.6**	**3.9**	**3.1**	**4.1**
HS	9.6	6.7	5.6	-1.2	9.6	6.7	5.6	0.1	8.5	6.5	5.9	0.5	5.2	5.6	5.4
MS	3.6	2.5	0.2	-0.9	0.1	-4.4	-6.5	-2.7	1.5	1.8	1.0	-1.0	1.3	-3.3	0.7
VS	1.9	3.1	0.0	-0.7	4.4	4.4	5.7	2.3	4.9	4.9	6.1	4.3	1.1	4.2	5.1
ES	13.0	9.8	7.3	-4.2	13.3	9.5	6.1	-7.6	12.2	10.8	6.3	-1.2	7.7	7.1	8.2
Other	0.6	25.6	19.2	17.6	-12.9	-0.3	22.6	-1.4	-5.0	-4.0	-3.6	-10.1	16.4	4.5	-5.4
LG Innotek	4.1	3.3	2.3	3.8	2.5	0.3	3.8	4.5	2.8	1.6	3.8	4.6	3.3	3.1	3.5

Note: Company sales reflect the sum of each division's sales, with internal sales between LG Electronics and LG Innotek eliminated
Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**82,263**	**87,728**	**88,302**	**89,463**	**92,401**
Cost of goods sold	62,461	66,349	67,671	67,799	69,640
Gross profit	**19,801**	**21,379**	**20,631**	**21,665**	**22,761**
Gross margin (%)	24.1	24.4	23.4	24.2	24.6
SG&A expenses	16,148	17,960	17,925	18,012	18,759
Operating profit	**3,653**	**3,420**	**2,707**	**3,652**	**4,002**
Operating margin (%)	4.4	3.9	3.1	4.1	4.3
Non-operating gains (losses)	**-1,782**	**-2,465**	**-587**	**-825**	**-558**
Financial profit	1,280	1,168	1,149	948	1,180
Financial costs	1,381	1,133	1,524	1,556	1,401
Equity-method gains (losses)	-1,045	-992	206	41	-25
Other	-636	-1,507	-418	-258	-312
Pre-tax profit	**1,871**	**955**	**2,119**	**2,828**	**3,444**
Taxes	757	463	424	624	759
Effective tax rate (%)	40.5	48.4	20.0	22.1	22.1
Profit from continuing operations	1,258	873	1,699	2,204	2,684
Profit from discontinued operations	-107	-282	-2	0	0
Net profit	**1,151**	**591**	**1,696**	**2,204**	**2,684**
Net margin (%)	1.4	0.7	1.9	2.5	2.9
Net profit (controlling interests)	713	368	1,613	2,186	2,662
Net profit (non-controlling interests)	438	224	83	18	22
EBITDA	6,870	6,954	6,154	6,985	7,261
EBITDA margin (%)	8.4	7.9	7.0	7.8	7.9
EPS (parent-based) (KRW)	3,942	2,032	8,935	12,139	14,784
EPS (consolidated) (KRW)	6,363	3,270	9,397	12,240	14,907
Adjusted EPS (KRW)*	3,942	2,032	8,935	12,139	14,784

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**30,341**	**33,924**	**32,354**	**35,743**	**39,523**
Cash & equivalents	8,488	7,573	3,995	6,259	8,935
Accounts receivable	9,265	10,536	11,914	12,387	12,850
Inventories	9,125	10,729	11,317	11,766	12,207
Other current assets	3,463	5,086	5,128	5,331	5,531
Fixed assets	**29,900**	**31,706**	**33,218**	**32,836**	**32,525**
Investment assets	4,762	4,043	4,095	4,246	4,394
Tangible assets	16,819	17,075	18,342	18,266	18,203
Intangible assets	2,868	3,519	3,429	2,972	2,576
Other long-term assets	5,451	7,069	7,352	7,352	7,352
Total assets	**60,241**	**65,630**	**65,572**	**68,579**	**72,048**
Current liabilities	**24,160**	**27,307**	**27,516**	**28,493**	**29,451**
Accounts payable	9,427	9,885	9,968	10,364	10,752
Short-term debt	708	564	667	667	667
Other current liabilities	14,025	16,858	16,881	17,462	18,033
Long-term liabilities	**12,582**	**13,110**	**12,065**	**12,109**	**12,151**
Bonds & long-term debt	10,719	11,093	10,039	10,039	10,039
Other long-term liabilities	1,863	2,017	2,026	2,069	2,112
Total liabilities	**36,742**	**40,418**	**39,581**	**40,601**	**41,603**
Owners of parent equity	**19,665**	**20,995**	**21,831**	**23,800**	**26,245**
Capital stock	904	904	904	904	904
Capital surplus	3,025	2,970	3,038	3,038	3,038
Retained earnings	16,201	16,353	17,863	19,832	22,278
Other	-466	768	25	25	25
Non-controlling interests' equity	**3,834**	**4,217**	**4,160**	**4,178**	**4,200**
Total equity	**23,499**	**25,212**	**25,991**	**27,978**	**30,445**
Net debt	6,018	6,833	9,355	7,070	4,375

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**5,914**	**3,843**	**3,090**	**5,436**	**5,901**
Net profit	1,151	591	1,696	2,204	2,684
Non-cash profit and expenses	7,119	8,141	4,701	4,192	4,172
Depreciation	2,704	2,993	2,924	2,876	2,863
Amortization	513	541	523	457	396
Other	3,902	4,607	1,254	859	913
Changes in A/L from operating activities	-1,218	-3,797	-2,559	-84	-83
Cash flow from investments	**-5,290**	**-4,212**	**-5,739**	**-2,876**	**-2,874**
Change in tangible assets	-3,223	-2,315	-4,599	-2,800	-2,800
Change in financial assets	-993	-275	-35	-76	-74
Other	-1,074	-1,622	-1,105	0	-0
Cash flow from financing	**1,503**	**-705**	**-1,249**	**-201**	**-202**
Change in debt	2,414	727	-1,049	16	15
Change in equity	-23	-55	68	0	0
Dividends	-241	-317	-266	-217	-217
Other	-646	-1,060	-1	0	0
Change in cash	2,165	-915	-3,578	2,264	2,676
Cash at beginning of year	6,322	8,488	7,573	3,995	6,259
Cash at end of year	8,488	7,573	3,995	6,259	8,935
Gross cash flow	**8,270**	**8,732**	**6,398**	**6,396**	**6,857**
Free cash flow	**2,644**	**1,486**	**-1,571**	**2,636**	**3,101**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	-1.4	6.6	0.7	1.3	3.3
Operating profit	2.9	-6.4	-20.9	35.0	9.6
Net profit	-38.2	-48.6	186.8	29.9	21.8
Adjusted EPS**	-40.4	-48.4	339.7	35.9	21.8
Per-share data (KRW)					
EPS (parent-based)	3,942	2,032	8,935	12,139	14,784
EPS (consolidated)	6,363	3,270	9,397	12,240	14,907
Adjusted EPS**	3,942	2,032	8,935	12,139	14,784
BVPS	109,209	116,595	121,239	132,174	145,753
DPS (common)	800	1,000	1,100	1,200	1,200
Valuations (x)					
P/E***	25.8	41.1	9.9	7.3	6.0
P/B***	0.9	0.7	0.7	0.7	0.6
EV/EBITDA	4.0	3.7	4.7	3.8	3.3
Ratios (%)					
ROE	3.7	1.8	7.5	9.6	10.6
ROA	2.0	0.9	2.6	3.3	3.8
ROIC	9.9	9.0	7.6	9.4	10.4
Payout ratio	18.3	44.3	11.1	8.9	7.3
Dividend yield (common)	0.8	1.2	1.2	1.4	1.4
Net debt to equity	25.6	27.1	36.0	25.3	14.4
Interest coverage (x)	6.8	6.0	4.6	6.4	7.0

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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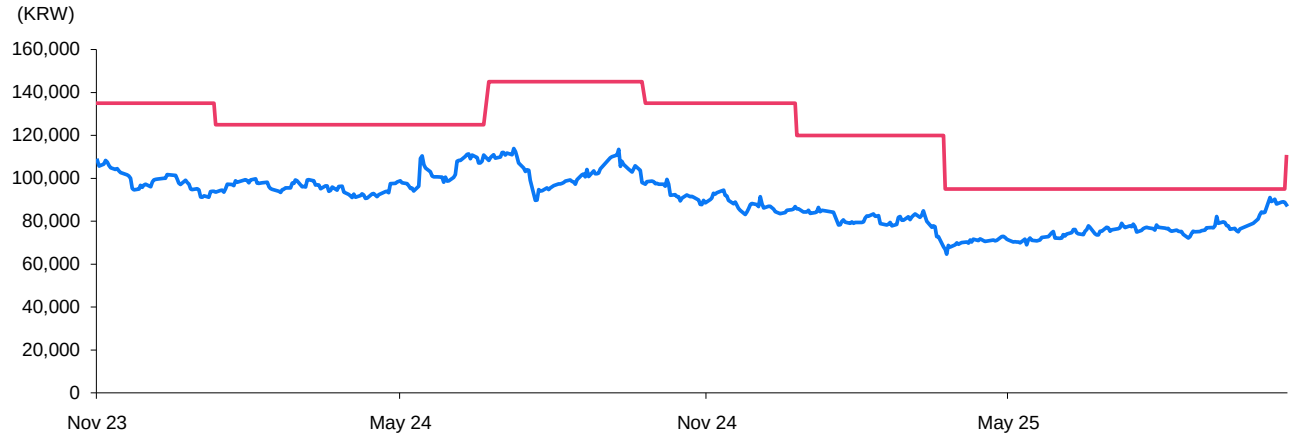
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2023/10/11	2024/1/26	7/8	10/10	2025/1/9	4/8	11/3
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	135000	125000	145000	135000	120000	95000	110000
Gap* (average)	-25.41	-21.37	-28.78	-33.09	-32.58	-20.31	
(max or min)**	-19.63	-10.88	-21.45	-26.30	-28.00	-4.21	

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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Company

BUY	Expected to increase in value by 15% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 15% within 12 months
SELL	Expected to decrease in value by 15% or more within 12 months

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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