COMPANY UPDATE

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Hanwha Aerospace (012450)

Positive takeaways from 3Q results

- Hanwha Aerospace's consolidated operating profit in 3Q met market consensus, although the parent recognized part of costs carried over from 2Q, and consolidated subsidiary Hanwha Ocean posted sluggish earnings.
- The firm's land defense division saw q-q earnings growth, despite falling deliveries of Chunmoo to Poland.
- The firm's 3Q results hint that exports of non-key products (eg, ammunition) or other projects (not involving Poland) likely saw better-than-expected profitability. We raise our earnings estimate for the firm and accordingly lift our target price.

WHAT'S THE STORY?

3Q review: Hanwha Aerospace's consolidated 3Q operating profit came out similar q-q, meeting consensus, despite partial recognition of the costs carried over from 2Q, thanks to one-off gains (KRW16b) in the aerospace division and q-q sales and operating profit growth at the land defense division. Considering that consolidated subsidiary Hanwha Ocean posted sluggish 3Q earnings due to one-off costs, we find Hanwha Aerospace's 3Q results decent.

Implications of land defense earnings: Export sales in the land defense division grew q-q, despite falling deliveries of Chunmoo multiple rocket launchers (MLRS) to Poland. Its profitability also remained solid despite a falling export portion of sales and partial recognition of the costs carried over from 2Q. This has the following implications. First, exports of the firm's non-key products (besides self-propelled howitzers and Chunmoo) likely increased and offered better-than-expected profitability.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW1,300,000	24.8%
Current price	**KRW1,042,000**	
Market cap	KRW53.7t/USD37.6b	
Shares (float)	51,563,401 (62.6%)	
52-week high/low	KRW1,107,000/KRW274,733	
Avg daily trading value (60-day)	KRW202.9b/ USD142.0m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Hanwha Aerospace (%)	-5.0	29.4	179.6
Vs Kospi (%pts)	-20.1	-21.6	68.4

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	1,300,000	1,210,000	7.4%
2025E EPS	26,370	27,563	-4.3%
2026E EPS	40,179	30,993	29.6%

SAMSUNG vs THE STREET

No of estimates	18
Target price	1,309,167
Recommendation	4.0

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

SUMMARY 3Q RESULTS

(KRWb)	3Q25	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	6,487	264.2	2.8	-0.5	-2.1
Operating profit	856	96.4	-0.9	17.1	-2.9
Pre-tax profit	812	111.4	73.0	19.9	-2.2
Net profit	487	52.8	144.0	23.7	3.5
Margins (%)					
Operating profit	13.2				
Pre-tax profit	12.5				
Net profit	7.5				

Source: Company data, Fnguide, Samsung Securities estimates

VALUATION SUMMARY

	2024	2025E	2026E
Valuation (x)			
P/E	20.7	39.5	25.9
P/B	9.5	5.5	4.7
EV/EBITDA	32.5	16.4	12.3
Div yield (%)	0.3	0.5	0.6
EPS growth (% y-y)	212.4	-47.7	52.4
ROE (%)	53.9	18.5	19.6
Per-share data (KRW)			
EPS	50,436	26,370	40,179
BVPS	109,587	188,301	222,480
DPS	3,500	5,000	6,000

Second, other projects (not involving Poland) were likely profitable. Either case, earnings volatility relating to the Poland project delivery schedule could be weaker than expected, and despite a rising new project (eg, Egypt) portion of sales, the firm could be able to maintain its robust profitability. We raise our 2026 earnings estimate for the firm.

Massive order backlog worth attention: The firm's land defense division is still sitting on the sheer size of order backlog (worth almost KRW31t). Without adding more new orders, the firm should be able to enjoy top-line growth until at least 2028. Assuming the current order backlog continues to offer solid profitability, we see the potential of further upward earnings revisions. Reflecting our valuation base change from 2025 to 2026 earnings and upward earnings revision, we lift our SOTP-based target price for the stock by 7.4% to KRW130,000 despite the recent weakening of overseas defense stock valuations.

Hanwha Aerospace: 3Q25 review

(KRWb)	3Q25	2Q25	Chg (% q-q)	3Q24	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	6,487	6,311	2.8	2,631	146.5	6,623	-2.1	6,522	-0.5
Operating profit	856	865	-0.9	477	79.5	882	-2.9	731	17.1
Pre-tax profit	812	470	72.9	377	115.4	830	-2.2	677	19.9
Net profit*	487	199	144.0	318	52.8	470	3.5	393	23.7
Margins (%)									
Operating profit	13.2	13.7		18.1		13.3		11.2	
Pre-tax profit	12.5	7.4		14.3		12.5		10.4	
Net profit*	7.5	3.2		12.1		7.1		6.0	

Note: *Controlling
Source: Company data, FnGuide, Samsung Securities estimates

Hanwha Aerospace: Earnings, by division

(KRWb)	3Q25	2Q25	Chg (% q-q)	3Q24	Chg (% y-y)
Sales					
Aerospace	604	649	-6.9	478	26.4
Land Systems	2,110	1,773	19.0	1,656	27.4
Hanwha Systems	808	768	5.1	639	26.4
Hanwha Ocean*	3,023	3,294	-8.2	2,703	11.8
Operating profit					
Aerospace	3	-12	nm	-6	nm
Land Systems	573	554	3.3	440	30.2
Hanwha Systems	23	34	-32.8	57	-60.5
Hanwha Ocean*	290	372	-22.0	26	nm
OPM (%)					
Aerospace	0.5	-1.8		-1.3	
Land Systems	27.1	31.3		26.6	
Hanwha Systems	2.8	4.4		8.9	
Hanwha Ocean*	9.6	11.3		0.9	

Note: *Recognized since 1Q25
Source: Company data

Hanwha Aerospace: SOTP valuation

(KRWb)		
Aero/defense value	(A=axb)	54,570
2026E EBITDA*	(a)	2,649
Applied EV/EBITDA**	(b)	20.6
Value of subsidiaries (As of Nov 3)	(C=(d+e+f+g)x60%)	11,647
Hanwha Ocean	(d)	12,947
Hanwha Systems	(e)	5,244
Satrec Initiative	(f)	221
Other subsidiaries	(g)	1,000
Net debt estimates***	(H)	254
EV	(I=A+C-H)	65,963
Outstanding shares	(J, 주)	51,563
Target price	(I/J, 주)	1,300,000

Note: * Aerospace and defense divisions only; **Average multiple among domestic and European defense companies; ***Recognizing capital increase to parents net debt in 2Q25
Source: Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**9,359**	**11,240**	**26,764**	**30,133**	**32,556**
Cost of goods sold	7,221	8,370	21,354	23,507	25,232
Gross profit	**2,138**	**2,870**	**5,411**	**6,626**	**7,324**
Gross margin (%)	22.8	25.5	20.2	22.0	22.5
SG&A expenses	1,447	1,138	2,001	2,227	2,407
Operating profit	**691**	**1,732**	**3,410**	**4,399**	**4,916**
Operating margin (%)	7.4	15.4	12.7	14.6	15.1
Non-operating gains (losses)	**524**	**966**	**-768**	**-260**	**-155**
Financial profit	1,145	374	914	552	351
Financial costs	398	495	1,280	770	494
Equity-method gains (losses)	16	105	0	0	0
Other	-239	982	-402	-41	-12
Pre-tax profit	**1,215**	**2,697**	**2,641**	**4,139**	**4,762**
Taxes	238	158	581	952	1,095
Effective tax rate (%)	19.6	5.8	22.0	23.0	23.0
Profit from continuing operations	977	2,511	2,060	3,187	3,666
Profit from discontinued operations	0	29	0	0	0
Net profit	**977**	**2,540**	**2,060**	**3,187**	**3,666**
Net margin (%)	10.4	22.6	7.7	10.6	11.3
Net profit (controlling interests)	818	2,299	1,360	2,072	2,383
Net profit (non-controlling interests)	159	241	700	1,116	1,283
EBITDA	1,030	2,063	3,875	4,907	5,452
EBITDA margin (%)	11.0	18.4	14.5	16.3	16.7
EPS (parent-based) (KRW)	16,147	50,436	26,370	40,179	46,219
EPS (consolidated) (KRW)	19,295	55,722	39,954	61,814	71,105
Adjusted EPS (KRW)*	16,147	50,436	26,370	40,179	46,219

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**9,192**	**22,868**	**26,669**	**31,234**	**36,388**
Cash & equivalents	1,806	2,968	3,995	6,384	9,530
Accounts receivable	2,034	8,509	4,033	4,541	4,906
Inventories	2,869	6,290	7,333	8,256	8,919
Other current assets	2,483	5,101	11,308	12,054	13,033
Fixed assets	**10,351**	**20,469**	**22,513**	**23,899**	**24,736**
Investment assets	3,942	2,416	2,534	2,548	2,561
Tangible assets	3,410	8,320	9,915	10,967	11,481
Intangible assets	2,203	7,744	8,075	8,396	8,706
Other long-term assets	795	1,988	1,988	1,988	1,988
Total assets	**19,543**	**43,337**	**49,183**	**55,133**	**61,124**
Current liabilities	**12,077**	**25,516**	**24,765**	**26,962**	**28,544**
Accounts payable	919	1,708	1,833	2,064	2,230
Short-term debt	1,374	5,153	3,200	3,000	2,800
Other current liabilities	9,784	18,655	19,732	21,898	23,514
Long-term liabilities	**2,782**	**6,456**	**8,339**	**10,330**	**12,691**
Bonds & long-term debt	1,401	4,165	3,975	3,715	3,715
Other long-term liabilities	1,381	2,292	4,364	6,615	8,976
Total liabilities	**14,859**	**31,973**	**33,104**	**37,292**	**41,235**
Owners of parent equity	**3,528**	**4,995**	**9,709**	**11,472**	**13,520**
Capital stock	266	240	270	270	270
Capital surplus	192	207	3,796	3,796	3,796
Retained earnings	2,627	4,747	5,848	7,611	9,659
Other	443	-198	-205	-205	-205
Non-controlling interests' equity	**1,156**	**6,369**	**6,369**	**6,369**	**6,369**
Total equity	**4,684**	**11,364**	**16,079**	**17,841**	**19,889**
Net debt	2,038	6,957	3,503	344	-3,155

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**1,390**	**1,393**	**1,470**	**4,410**	**4,292**
Net profit	977	2,540	2,060	3,187	3,666
Non-cash profit and expenses	-49	-244	703	692	700
Depreciation	261	259	311	347	368
Amortization	78	72	154	161	167
Other	-388	-575	238	184	164
Changes in A/L from operating activities	462	-903	-1,294	531	-74
Cash flow from investments	**-3,029**	**-1,367**	**-1,919**	**-1,412**	**-895**
Change in tangible assets	-450	-577	-1,906	-1,398	-882
Change in financial assets	35	-897	-13	-14	-13
Other	-2,614	106	0	-0	0
Cash flow from financing	**368**	**1,066**	**1,476**	**-610**	**-250**
Change in debt	538	6,928	-2,143	-610	-250
Change in equity	-25	-10	3,619	0	0
Dividends	-51	-120	-258	-309	-335
Other	-94	-5,732	258	309	335
Change in cash	-1,263	1,161	1,027	2,389	3,147
Cash at beginning of year	3,070	1,806	2,968	3,995	6,384
Cash at end of year	1,806	2,968	3,995	6,384	9,530
Gross cash flow	**928**	**2,296**	**2,763**	**3,879**	**4,366**
Free cash flow	**937**	**815**	**-438**	**3,010**	**3,408**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	32.6	20.1	138.1	12.6	8.0
Operating profit	72.6	150.6	96.9	29.0	11.8
Net profit	566.6	160.0	-18.9	54.7	15.0
Adjusted EPS**	318.5	212.4	-47.7	52.4	15.0
Per-share data (KRW)					
EPS (parent-based)	16,147	50,436	26,370	40,179	46,219
EPS (consolidated)	19,295	55,722	39,954	61,814	71,105
Adjusted EPS**	16,147	50,436	26,370	40,179	46,219
BVPS	69,689	109,587	188,301	222,480	262,198
DPS (common)	1,800	3,500	5,000	6,000	6,500
Valuations (x)					
P/E***	64.5	20.7	39.5	25.9	22.5
P/B***	15.0	9.5	5.5	4.7	4.0
EV/EBITDA	55.3	32.5	16.4	12.3	10.4
Ratios (%)					
ROE	25.6	53.9	18.5	19.6	19.1
ROA	4.7	7.3	2.9	4.0	4.1
ROIC	12.9	15.0	13.5	15.3	16.4
Payout ratio	11.1	6.9	19.0	14.9	14.1
Dividend yield (common)	0.2	0.3	0.5	0.6	0.6
Net debt to equity	43.5	61.2	21.8	1.9	-15.9
Interest coverage (x)	4.1	7.1	7.4	12.5	14.8

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

Source: Company data, Samsung Securities estimates

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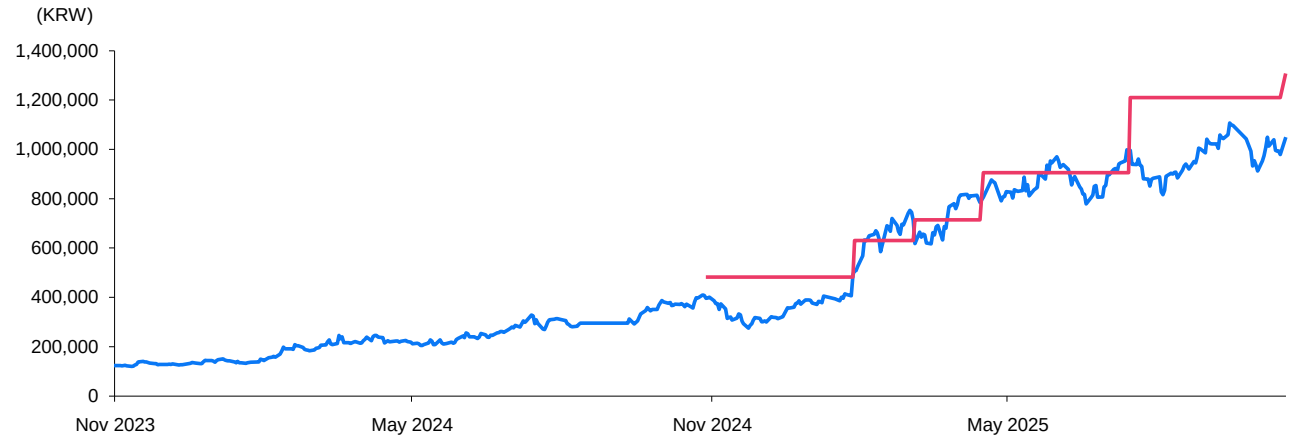

Rating changes over past two years (adjusted share prices)

Date	2024/11/14	2025/2/12	3/21	5/2	5/23	7/31	11/4
Recommendation	BUY	BUY	HOLD	BUY	BUY	BUY	BUY
Target price (KRW)	482506	630212	713912	905929	905929	1210000	1300000
Gap* (average)	-26.78	4.57	2.22	-8.44	-2.38	-20.34	
(max or min)**	1.63	19.37	14.48	-3.26	10.16	-8.51	

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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Percentage of ratings in 12 months prior to 2025.09.30

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