COMPANY UPDATE

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Korea Aerospace Industries

(047810)

Earnings still soft, but longer-term outlook intact

- Korea Aerospace Industries (KAI)'s 3Q sales sharply missed consensus, which dragged down its earnings.
- We attribute the miss to delivery delays of rotary-wing aircraft in the domestic market and slower-than-expected sales recognition relating to exports to Poland.
- We see these reasons as a temporary blip, caused by a change in project schedules (not a change in project size or structure). Our expectation of the firm's 2026 sales and operating profit growth remains valid. We keep the stock at BUY.

WHAT'S THE STORY?

3Q review: Korea Aerospace Industries (KAI)'s 3Q sales fell 15% q-q, missing consensus by 26%, due to: 1) some delays to LAH deliveries in domestic business; and 2) slower-than-expected progress in the Poland FA-50PL project in finished aircraft exports. Due to the sales decline, the firm's operating profit missed consensus by 17%. Reflecting disappointing 3Q results, we cut our 2025 earnings estimate by 13%.

(Continued on the next page)

KOREA AEROSPACE INDUSTRIES 3Q25 review

(KRWb)	3Q25	2Q25	Chg (% q-q)	3Q24	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	702	828	-15.2	907	-22.6	947	-25.8	1,135	-38.1
Operating profit	60	85	-29.3	76	-21.1	73	-17.1	81	-25.3
Pre-tax profit	45	69	-34.4	79	-42.6	64	-29.4	76	-40.8
Net profit	39	56	-31.2	68	-43.2	51	-24.3	59	-33.9
Margins (%)									
Operating profit	8.6	10.3		8.4		7.7		7.1	
Pre-tax profit	6.5	8.3		8.7		6.8		6.7	
Net profit	5.5	6.8		7.5		5.4		5.2	

Source: Company data, Samsung Securities estimates

Valuations

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit	EPS (KRW)	EPS growth (% y-y)	P/E (x)	Net debt	EV/EBITDA (x)	P/B (x)	ROE (%)
2023	3,819	248	269	224	2,298	89.1	43.5	-156	26.0	6.1	14.8
2024	3,634	241	197	172	1,765	-23.2	56.6	916	30.9	5.7	10.4
2025E	3,902	315	269	216	2,211	25.3	45.2	903	23.1	5.3	12.1
2026E	5,248	496	485	374	3,832	73.3	26.1	929	15.6	4.6	18.8
2027E	6,267	621	598	460	4,724	23.3	21.2	740	12.9	3.9	20.0

Source: Company data, Samsung Securities estimates

AT A GLANCE

BUY

Target price	KRW120,000	20%
Current price	**KRW100,000**	
Market cap	KRW9.7t/USD6.7b	
Shares (float)	97,475,107 (72.5%)	
52-week high/low	KRW115,000/KRW49,850	
Avg daily trading value (60-day)	KRW70.0b/ USD48.3m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Korea Aerospace Industries (%)	-5.7	17.2	69.8
Vs Kospi (%pts)	-16.4	-25.1	9.3

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	120,000	120,000	0.0%
2025E EPS	2,211	2,550	-13.3%
2026E EPS	3,832	3,957	-3.2%

SAMSUNG vs THE STREET

No of estimates	13
Target price	130,923
Recommendation	4.0

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

Growth story to become valid again in 2026: Despite our earnings estimate cut, we keep our BUY rating and target price for the stock, as our previous expectation that the firm's sales and earnings growth will gather pace from 2026 remains valid. What is behind the disappointing sales in 3Q is not a change in project size or cancellation but a change in delivery schedules. In addition, some positives are ahead for 2026, including the beginning of KF-21 deliveries, increasing LAH deliveries, and higher sales recognition of ongoing export projects. Our previous target price is based on our 2026 earnings estimate (not 2025 earnings). In addition, we note that the firm's 3Q operating margin beat consensus despite sluggish sales, as it implies that its margin would improve if current export projects beget follow-up sales.

KAI: Sales, by division

(KRWb)	3Q25	2Q25	Chg (% q-q)	3Q24	Chg (% y-y)
Domestic	269	363	-25.9	443	-39.2
Aircraft	164	227	-27.9	243	-32.7
Aerostructure*	245	227	8.0	211	16.0
Total	702	828	-15.2	907	-22.6
Portion (%)					
Domestic	38.4	43.8		48.8	
Aircraft	23.3	27.4		26.8	
Aerostructure*	34.9	27.4		23.3	

Source: Company data

2025 guidance and achievement

(KRWb)	Sales			New order		
	Guidance	1-3Q	Achieved (%)	Guidance	1-3Q	Achieved (%)
Domestic	1,720	955	56	3,575	2,306	65
Aircraft	1,379	562	41	3,562	1,092	31
Aerostructure	989	671	68	1,322	266	20
Total	4,087	2,230	55	8,459	3,664	43

Note: *Excluding new business and consolidation adjustments
Source: Company data

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**3,819**	**3,634**	**3,902**	**5,248**	**6,267**
Cost of goods sold	3,355	3,152	3,279	4,360	5,186
Gross profit	**464**	**481**	**623**	**888**	**1,081**
Gross margin (%)	12.1	13.3	16.0	16.9	17.3
SG&A expenses	216	241	308	392	460
Operating profit	**248**	**241**	**315**	**496**	**621**
Operating margin (%)	6.5	6.6	8.1	9.4	9.9
Non-operating gains (losses)	**21**	**-44**	**-46**	**-11**	**-23**
Financial profit	112	121	144	87	44
Financial costs	88	144	152	96	65
Equity-method gains (losses)	0	-2	-2	-2	-2
Other	-4	-18	-35	-0	0
Pre-tax profit	**269**	**197**	**269**	**485**	**598**
Taxes	47	26	54	112	138
Effective tax rate (%)	17.6	13.3	20.0	23.0	23.0
Profit from continuing operations	221	171	216	374	460
Profit from discontinued operations	0	0	0	0	0
Net profit	**221**	**171**	**216**	**374**	**460**
Net margin (%)	5.8	4.7	5.5	7.1	7.3
Net profit (controlling interests)	224	172	216	374	460
Net profit (non-controlling interests)	-3	-1	0	0	0
EBITDA	369	345	461	683	813
EBITDA margin (%)	9.6	9.5	11.8	13.0	13.0
EPS (parent-based) (KRW)	2,298	1,765	2,211	3,832	4,724
EPS (consolidated) (KRW)	2,271	1,753	2,211	3,832	4,724
Adjusted EPS (KRW)*	2,298	1,765	2,211	3,832	4,724

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**4,681**	**5,439**	**5,854**	**7,857**	**9,546**
Cash & equivalents	658	115	139	164	344
Accounts receivable	347	399	374	503	601
Inventories	1,736	2,359	2,673	3,595	4,293
Other current assets	1,939	2,567	2,668	3,595	4,308
Fixed assets	**2,459**	**2,587**	**2,776**	**3,069**	**3,372**
Investment assets	89	103	101	98	96
Tangible assets	815	913	1,065	1,227	1,380
Intangible assets	804	846	886	1,018	1,171
Other long-term assets	751	725	725	725	725
Total assets	**7,140**	**8,026**	**8,630**	**10,926**	**12,917**
Current liabilities	**4,400**	**4,915**	**5,140**	**6,776**	**7,976**
Accounts payable	353	504	535	719	859
Short-term debt	21	414	400	410	380
Other current liabilities	4,026	3,997	4,206	5,647	6,737
Long-term liabilities	**1,119**	**1,384**	**1,616**	**2,000**	**2,448**
Bonds & long-term debt	208	593	623	673	713
Other long-term liabilities	911	791	993	1,327	1,735
Total liabilities	**5,520**	**6,298**	**6,756**	**8,775**	**10,424**
Owners of parent equity	**1,597**	**1,706**	**1,853**	**2,129**	**2,472**
Capital stock	487	487	487	487	487
Capital surplus	128	128	128	128	128
Retained earnings	1,003	1,111	1,258	1,534	1,878
Other	-21	-21	-21	-21	-21
Non-controlling interests' equity	**23**	**21**	**21**	**21**	**21**
Total equity	**1,620**	**1,727**	**1,874**	**2,150**	**2,494**
Net debt	-156	916	903	929	740

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**-700**	**-728**	**251**	**228**	**433**
Net profit	221	171	216	374	460
Non-cash profit and expenses	296	267	177	197	232
Depreciation	91	82	91	100	110
Amortization	30	22	59	62	71
Other	175	163	27	35	51
Changes in A/L from operating activities	-1,218	-1,166	-142	-343	-260
Cash flow from investments	**-108**	**-189**	**-243**	**-263**	**-263**
Change in tangible assets	-78	-161	-243	-263	-263
Change in financial assets	40	102	0	0	0
Other	-71	-130	0	0	0
Cash flow from financing	**-546**	**369**	**16**	**60**	**10**
Change in debt	-516	436	16	60	10
Change in equity	0	0	0	0	0
Dividends	-24	-49	-68	-97	-117
Other	-6	-18	68	97	117
Change in cash	-1,366	-543	24	25	180
Cash at beginning of year	2,024	658	115	139	164
Cash at end of year	658	115	139	164	344
Gross cash flow	**517**	**438**	**393**	**571**	**693**
Free cash flow	**-778**	**-889**	**8**	**-36**	**170**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	37.0	-4.9	7.4	34.5	19.4
Operating profit	74.8	-2.7	30.9	57.4	25.2
Net profit	91.0	-22.8	26.1	73.3	23.3
Adjusted EPS**	89.1	-23.2	25.3	73.3	23.3
Per-share data (KRW)					
EPS (parent-based)	2,298	1,765	2,211	3,832	4,724
EPS (consolidated)	2,271	1,753	2,211	3,832	4,724
Adjusted EPS**	2,298	1,765	2,211	3,832	4,724
BVPS	16,388	17,500	19,009	21,841	25,365
DPS (common)	500	500	700	1,000	1,200
Valuations (x)					
P/E***	43.5	56.6	45.2	26.1	21.2
P/B***	6.1	5.7	5.3	4.6	3.9
EV/EBITDA	26.0	30.9	23.1	15.6	12.9
Ratios (%)					
ROE	14.8	10.4	12.1	18.8	20.0
ROA	3.0	2.3	2.6	3.8	3.9
ROIC	15.1	8.2	7.9	10.4	11.2
Payout ratio	21.8	28.3	31.7	26.1	25.4
Dividend yield (common)	0.5	0.5	0.7	1.0	1.2
Net debt to equity	-9.6	53.0	48.2	43.2	29.7
Interest coverage (x)	8.5	7.2	6.6	11.5	13.9

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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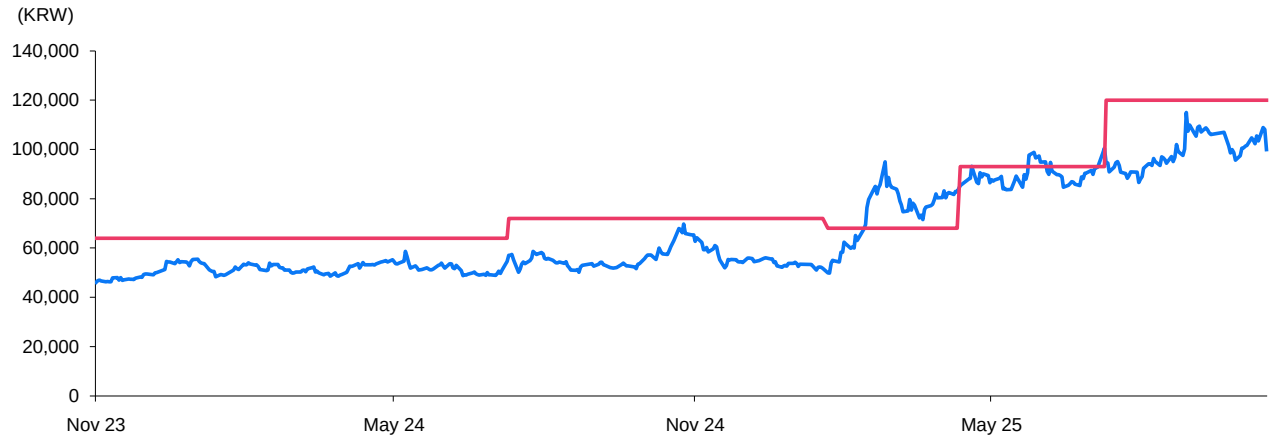
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2023/11/8	2024/7/30	2025/2/10	5/2	7/30
Recommendation	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	64000	72000	68000	93000	120000
Gap* (average)	-20.28	-22.50	9.65	-3.39	
(max or min)**	-8.44	-3.19	39.71	8.06	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Industry

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* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

Percentage of ratings in 12 months prior to 2025.09.30

BUY (83.5%)·HOLD (16.5%)·SELL (0%)

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