COMPANY UPDATE

2026. 2. 6

Industrial Team

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Korea Aerospace Industries (047810)

Valuation already reflects many positives

- Korea Aerospace Industries' (KAI) 4Q operating profit fell short of consensus, primarily due to the recognition of one-time costs.
- Year 2026 will see a simultaneous rise in orders and earnings, as the company transitions from development to full-scale production. The company's guidance also reflects strong growth expectations.
- However, positives are already priced in the stock price and earnings forecasts. We raise our target price to KRW168,000 but the upside potential has narrowed following the recent rally. It is time to take a breather. We downgrade the stock to HOLD rating.

WHAT'S THE STORY?

4Q25 review: Korea Aerospace Industries' (KAI) 4Q sales met consensus, but operating profit fell short by 31%, primarily due to one-off warranty and maintenance costs (KRW24.5b). Without the one-off, operating profit would have missed market estimates by 9%. Apparently, market expectations for 4Q results have been somewhat high.

Everything to get better in 2026: Year 2026 will see a simultaneous rise in orders and earnings, as the company transitions from development to full-scale production. Earnings will get a boost from the mass production of KF-21 and deliveries of rotary-wing aircrafts within Korea. On the export side, the company will recognize greater sales from projects in Poland and Malaysia. As volumes deferred from last year are now being delivered, aircraft deliveries are projected to jump from 15 units last year to over 60 this year.

(Continued on the next page)

AT A GLANCE

HOLD

Target price	KRW168,000	3.7%
Current price	**KRW162,000**	
Market cap	KRW15.8t/USD10.8b	
Shares (float)	97,475,107 (72.5%)	
52-week high/low	KRW171,200/KRW49,850	
Avg daily trading value (60-day)	KRW126.9b/ USD86.4m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Korea Aerospace Industries (%)	30.2	71.2	209.8
Vs Kospi (%pts)	12.4	6.1	50.5

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	HOLD	BUY	
Target price	168,000	130,000	29.2%
2025E EPS	1,907	1,907	0.0%
2026E EPS	4,025	4,025	0.0%

SAMSUNG vs THE STREET

No of estimates	17
Target price	148,059
Recommendation	3.9

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

SUMMARY 4Q RESULTS

(KRWb)	4Q25	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	1,466.7	34.0	108.9	-0.0	4.9
Operating profit	77.0	82.8	27.9	0.0	-30.9
Pre-tax profit	52.2	776.4	15.3	0.0	-46.0
Net profit	62.0	401.3	59.1	-0.1	-5.6
Margins (%)					
Operating profit	5.2				
Pre-tax profit	3.6				
Net profit	4.2				

Source: Company data, Fnguide, Samsung Securities estimates

VALUATION SUMMARY

	2024	2025E	2026E
Valuation (x)			
P/E	31.1	60.0	40.2
P/B	3.1	6.1	7.5
EV/EBITDA	18.3	28.7	24.9
Div yield (%)	0.9	0.6	0.6
EPS growth (% y-y)	-23.2	8.0	111.0
ROE (%)	10.4	10.5	19.9
Per-share data (KRW)			
EPS	1,765	1,907	4,025
BVPS	17,500	18,705	21,730
DPS	500	700	1,000

The order momentum also looks strong. Ironically, project delays over the past three years have built a richer order pipeline for the company. There is even talk of potential initial exports of the KF-21 to Southeast Asian countries. Meanwhile, the US Navy's trainer jet program is expected to kick off formal bidding this year. Given that the KF-21 is the company's next-generation flagship product and that the market is looking for beneficiaries of increased US defense spending, a successful bid would act as a major catalyst. The company's guidance has 2026 sales and orders growing 55% and 63%, respectively. Reflecting the expansion of aircraft deliveries and positive guidance, we raise our 2026 profit forecast by 5%.

Positives priced in the market: Shares in KAI has outperformed its peers, rising 42% this year alone. Amid growing expectations for a rebound in 2026 earnings and orders, market attention has focused on the company's space business. Furthermore, media reports regarding potential KF-21 exports and the possibility of privatization accelerated the pace of the share rally.

Valuation review: Despite the surge in stock price this year, market upward revisions for 2026-2027 profit estimates have been insignificant. This is because existing market forecasts had already partially reflected positive changes in the company. For reference, the gap between existing market sales estimates for 2026 and the company's guidance is approximately 5.4%. The existing consensus had already assumed a sales increase of about 47% compared to 2024. Due to the stock price having risen faster than profit estimate revisions, the company's valuation has climbed sharply. Currently, the company is trading at 40x 2026 P/E, a premium to both domestic and overseas competitors.

If KAI signs an initial export contract for the KF-21 (which has not yet even been deployed domestically) or secures a large-scale trainer jet delivery to the US, it would justify an additional premium. Reflecting the order expectations, we raise our target price to KRW168,000 (based on 42x 2026 P/E, a 19% premium to the machinery industry average P/E of 35x, FnGuide). In 2018, the company also traded at a 19% premium to large-cap defense stocks due to expectations for a large-scale US trainer jet order. We, however, downgrade the stock to HOLD, believing that despite reflection of some order-related expectations, the upside potential has diminished due to the recent price surge, and that KF-21 exports and the US trainer project remain in the realm of possibilities rather than certainties. We foresee that the stock will take a breather for the time being.

To issue convertible bonds; short-term impact limited given the issuance structure: KAI decided yesterday to issue KRW500b in convertible bonds (CB). The company explained that the financing need arose from: 1) a temporary increase in working capital burdens due to a surge in production this year; and 2) investments in development projects and future businesses. Both the coupon rate and yield-to-maturity of the bonds are 0%, and the conversion price is KRW185,165 per share, a 14% premium over the current stock price. Given the premium and the conversion period (which starts in Mar 2027), there is no reason to immediately reflect the dilution effect in the valuation. Besides, interest burdens should decrease. All things considered, we believe the CB issuances will have limited impact on near-term share performance. However, if the stock price rises toward the conversion price in the future, this may weigh on investor sentiment because some investors may raise concerns over a potential overhang.

Korea Aerospace: 4Q25 review

(KRWb)	4Q25	3Q25	Chg (% q-q)	4Q24	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	1,467	702	108.9	1,095	34.0	1,398	4.9	1,672	-12.3
Operating profit	77	60	27.9	42	82.9	111	-30.9	123	-37.3
Pre-tax profit	52	45	15.5	6	771.7	97	-45.9	119	-56.2
Net profit*	61	39	56.2	12	413.6	87	-30.6	90	-32.9
Margins (%)									
Operating profit	5.2	8.6		3.8		8.0		7.3	
Pre-tax profit	3.6	6.5		0.5		6.9		7.1	
Net profit*	4.1	5.5		1.1		6.2		5.4	

Note: *Controlling

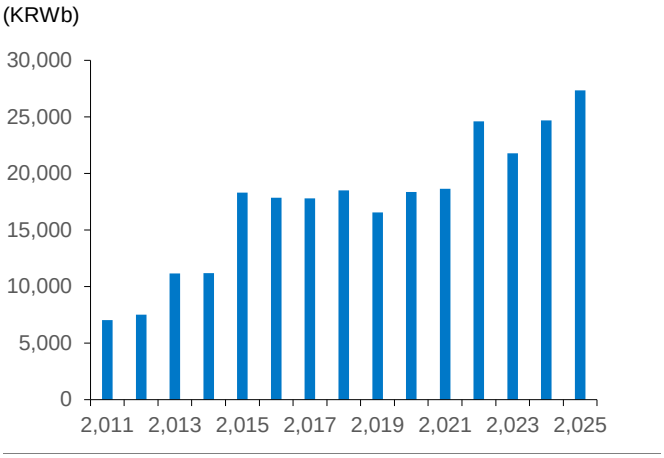
Source: Company data, FnGuide, Samsung Securities estimates

Korea Aerospace 2026 guidance

(KRWb)	Sales guidance		New order guidance	
	Guidance	Chg (% y-y)	Guidance	Chg (% y-y)
Domestic	3,291	92.3	2,440	-43.4
Export of finished aircraft	1,390	50.2	6,544	439.4
Aerostructure	1,049	6.2	1,453	66.4
Total	5,731	55.0	10,438	63.2

Source: Company data

KAI: Orderbook



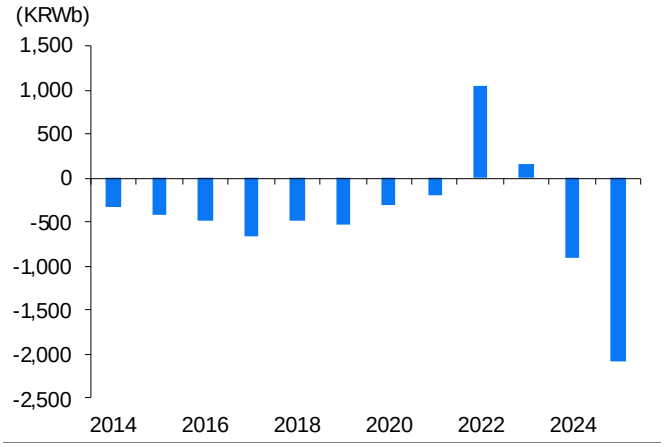
Source: Company data

Overview of convertible bond issuance

(KRWb)	
Issue amount	500
Conversion period	Mar 4, 2027 - Feb 4, 2031
Maturity date	Mar 4, 2031
Coupon rate (%)	0
Yield to maturity (%)	0
Conversion price (KRW/share, A)	185,165
Closing price as of Feb 5 (B)	162,000
Premium (%, A/B)	14.30
No. of shares to be issued from CB ('000 shares)	2,700
Current outstanding shares ('000 shares)	97,475

Source: Company data

KAI: Net cash holdings



Source: Company data

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**3,819**	**3,634**	**3,696**	**5,635**	**6,604**
Cost of goods sold	3,355	3,152	3,131	4,705	5,478
Gross profit	**464**	**481**	**566**	**930**	**1,126**
Gross margin (%)	12.1	13.3	15.3	16.5	17.1
SG&A expenses	216	241	296	416	484
Operating profit	**248**	**241**	**269**	**514**	**642**
Operating margin (%)	6.5	6.6	7.3	9.1	9.7
Non-operating gains (losses)	**21**	**-44**	**-67**	**-5**	**-7**
Financial profit	112	121	68	110	135
Financial costs	88	144	90	112	139
Equity-method gains (losses)	0	-2	-2	-2	-2
Other	-4	-18	-43	0	-0
Pre-tax profit	**269**	**197**	**202**	**510**	**635**
Taxes	47	26	15	117	146
Effective tax rate (%)	17.6	13.3	7.4	23.0	23.0
Profit from continuing operations	221	171	187	392	489
Profit from discontinued operations	0	0	0	0	0
Net profit	**221**	**171**	**187**	**392**	**489**
Net margin (%)	5.8	4.7	5.1	7.0	7.4
Net profit (controlling interests)	224	172	186	392	489
Net profit (non-controlling interests)	-3	-1	1	0	0
EBITDA	369	345	419	678	826
EBITDA margin (%)	9.6	9.5	11.3	12.0	12.5
EPS (parent-based) (KRW)	2,298	1,765	1,907	4,025	5,016
EPS (consolidated) (KRW)	2,271	1,753	1,922	4,025	5,016
Adjusted EPS (KRW)*	2,298	1,765	1,907	4,025	5,016

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**4,681**	**5,439**	**5,606**	**8,296**	**9,887**
Cash & equivalents	658	115	177	28	196
Accounts receivable	347	399	354	540	633
Inventories	1,736	2,359	2,532	3,860	4,523
Other current assets	1,939	2,567	2,542	3,868	4,534
Fixed assets	**2,459**	**2,587**	**2,771**	**3,109**	**3,453**
Investment assets	89	103	101	98	96
Tangible assets	815	913	1,065	1,262	1,449
Intangible assets	804	846	880	1,023	1,184
Other long-term assets	751	725	725	725	725
Total assets	**7,140**	**8,026**	**8,376**	**11,405**	**13,340**
Current liabilities	**4,400**	**4,915**	**4,892**	**7,243**	**8,382**
Accounts payable	353	504	506	772	905
Short-term debt	21	414	400	410	380
Other current liabilities	4,026	3,997	3,986	6,061	7,097
Long-term liabilities	**1,119**	**1,384**	**1,640**	**2,023**	**2,447**
Bonds & long-term debt	208	593	623	673	713
Other long-term liabilities	911	791	1,017	1,350	1,734
Total liabilities	**5,520**	**6,298**	**6,532**	**9,265**	**10,829**
Owners of parent equity	**1,597**	**1,706**	**1,823**	**2,118**	**2,490**
Capital stock	487	487	487	487	487
Capital surplus	128	128	128	128	128
Retained earnings	1,003	1,111	1,229	1,524	1,896
Other	-21	-21	-21	-21	-21
Non-controlling interests' equity	**23**	**21**	**21**	**21**	**21**
Total equity	**1,620**	**1,727**	**1,845**	**2,139**	**2,511**
Net debt	-133	950	851	1,056	891

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**-700**	**-728**	**289**	**90**	**458**
Net profit	221	171	187	392	489
Non-cash profit and expenses	271	271	191	192	216
Depreciation	91	82	91	102	113
Amortization	30	22	59	62	72
Other	150	167	41	28	31
Changes in A/L from operating activities	-1,218	-1,166	-89	-494	-247
Cash flow from investments	**-108**	**-189**	**-243**	**-299**	**-299**
Change in tangible assets	-78	-161	-243	-299	-299
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	62	-149	169
Cash at beginning of year	2,024	658	115	177	28
Cash at end of year	658	115	177	28	196
Gross cash flow	**492**	**442**	**379**	**584**	**705**
Free cash flow	**-778**	**-889**	**46**	**-210**	**158**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	37.0	-4.9	1.7	52.4	17.2
Operating profit	74.8	-2.7	11.8	91.1	24.7
Net profit	91.0	-22.8	9.6	109.5	24.6
Adjusted EPS**	89.1	-23.2	8.0	111.0	24.6
Per-share data (KRW)					
EPS (parent-based)	2,298	1,765	1,907	4,025	5,016
EPS (consolidated)	2,271	1,753	1,922	4,025	5,016
Adjusted EPS**	2,298	1,765	1,907	4,025	5,016
BVPS	16,388	17,500	18,705	21,730	25,546
DPS (common)	500	500	700	1,000	1,200
Valuations (x)					
P/E***	21.8	31.1	60.0	40.2	32.3
P/B***	3.1	3.1	6.1	7.5	6.3
EV/EBITDA	12.9	18.3	28.7	24.9	20.2
Ratios (%)					
ROE	14.8	10.4	10.5	19.9	21.2
ROA	3.0	2.3	2.3	4.0	4.0
ROIC	15.1	8.2	7.9	10.7	11.2
Payout ratio	21.8	28.3	36.7	24.8	23.9
Dividend yield (common)	1.0	0.9	0.6	0.6	0.7
Net debt to equity	-8.2	55.0	46.1	49.3	35.5
Interest coverage (x)	8.5	7.2	5.6	11.9	14.4

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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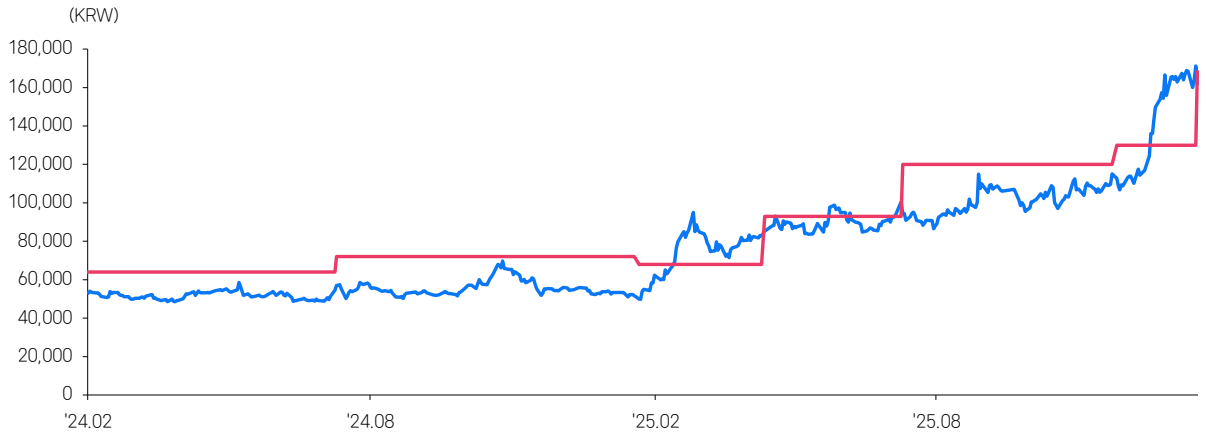
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2023/11/8	2024/7/30	2025/2/10	5/2	7/30	12/15	2026/2/6
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	HOLD
Target price (KRW)	64000	72000	68000	93000	120000	130000	168000
Gap* (average)	-20.28	-22.50	9.65	-3.39	-15.63	10.47	
(max or min)**	-8.44	-3.19	39.71	8.06	-4.08	31.69	

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 2025.12.31

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