COMPANY UPDATE

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Industrial Team

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Hanwha Aerospace (012450)

From a longer-term POV, everything on track

- Hanwha Aerospace's operating profit in 4Q missed market expectations by 36% due to poor results at consolidated subsidiary Hanwha Ocean and disappointing profitability at the parent's land defense business.
- The earnings shock was not due to a structural profitability deterioration, but rather reflects reduced visibility into quarterly earnings.
- Its orders remain robust in both volume and quality, and the company is well-positioned to benefit from the defense sector momentum and rising subsidiary valuations. We raise our target price to KRW1.45m.

WHAT'S THE STORY?

4Q review: Hanwha Aerospace's consolidated operating profit in 4Q amounted to KRW752.8b, 36% short of consensus. This was ascribable to: 1) poor results at consolidated subsidiary Hanwha Ocean (hit by many one-off costs); and 2) a rising sales portion of the parent's land defense business, which offers low margins. The earnings shock is not indicative of a structural decline in profitability, but rather reflects a wide gap between market expectations for quarterly results and actual results. Paradoxically, the lack of transparency around high-margin export projects has reduced visibility into short-term earnings. This is a common challenge across the Korean defense industry. However, the long-term growth outlook remains intact.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW1,450,000	21.5%
Current price	**KRW1,193,000**	
Market cap	KRW61.5t/USD42.1b	
Shares (float)	51,563,401 (62.7%)	
52-week high/low	KRW1,330,000/KRW406,683	
Avg daily trading value (60-day)	KRW238.3b/ USD163.2m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Hanwha Aerospace (%)	-1.7	35.4	189.8
Vs Kospi (%pts)	-14.9	-18.0	38.0

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	1,450,000	1,300,000	11.5%
2025E EPS	26,918	26,370	2.1%
2026E EPS	40,892	40,179	1.8%

SAMSUNG vs THE STREET

No of estimates	16
Target price	1,479,063
Recommendation	4.0

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

SUMMARY 4Q RESULTS

(KRWb)	4Q25	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	8,326.1	72.6	28.4	-1.8	-3.7
Operating profit	752.8	-16.3	-12.1	-33.3	-35.9
Pre-tax profit	602.5	-71.6	-25.8	-45.2	-51.9
Net profit	933.7	-54.7	31.1	9.6	17.6
Margins (%)					
Operating profit	9.0				
Pre-tax profit	7.2				
Net profit	11.2				

Source: Company data, Fnguide, Samsung Securities estimates

VALUATION SUMMARY

	2024	2025E	2026E
Valuation (x)			
P/E	23.7	44.3	29.2
P/B	10.9	6.3	5.3
EV/EBITDA	36.3	20.4	13.8
Div yield (%)	0.3	0.4	0.5
EPS growth (% y-y)	212.4	-46.6	51.9
ROE (%)	53.9	18.8	19.8
Per-share data (KRW)			
EPS	50,436	26,918	40,892
BVPS	109,587	188,849	223,741
DPS	3,500	5,000	6,000

Key drivers of long-term results remain positive: Hanwha Aerospace's order backlog and new orders—two key determinants of future earnings—remain strong. The company last year signed several large export contracts in its ground defense business, including a KRW5.6t contract with Poland for the third phase of Chunmoo multiple rocket launchers (MLRS) in the year-end and a KRW440b deal to export Chunmoo MLRS to Estonia. The ground defense division's order backlog grew 15% y-y from the level in end-2024, with export projects accounting for 71% of the total. Early this year, the firm also concluded a KRW1.3t contract to export Chunmoo MLRS to Norway. These developments have significantly alleviated concerns about a potential decline in future export revenue. The fact that most of these recent contracts are for the Chunmoo system also highlights product diversification. Additionally, Hanwha Aerospace is well-positioned to benefit from the growing interest in space-related businesses and potential arms exports to the US—both factors have been major driving force behind the recent rally of the domestic defense sector. Reflecting the sector's rising valuation and the increased value of the firm's equity holdings (particularly in Hanwha Systems), we increase our SOTP-based target price to KRW1.45m.

Hanwha Aerospace: 4Q25 review

(KRWb)	4Q25	3Q25	Chg (% q-q)	4Q24	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	8,326	6,487	28.4	4,825	72.6	8,648	-3.7	8,482	-1.8
Operating profit	753	856	-12.1	900	-16.3	1,175	-35.9	1,128	-33.3
Pre-tax profit	602	812	-25.8	2,119	-71.6	1,252	-51.9	1,099	-45.2
Net profit*	616	487	26.5	1,847	-66.7	679	-9.3	587	4.8
Margins (%)									
Operating profit	9.0	13.2		18.6		13.6		13.3	
Pre-tax profit	7.2	12.5		43.9		14.5		13.0	
Net profit*	7.4	7.5		38.3		7.8		6.9	

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

Hanwha Aerospace: Earnings, by division

(KRWb)	4Q25	3Q25	Chg (% q-q)	4Q24	Chg (% y-y)
Sales					
Aerospace	729	604	20.8	595	22.5
Land Systems	3,093	2,110	46.6	3,365	-8.1
Hanwha Systems	1,398	808	73.1	934	49.8
Hanwha Ocean*	3,228	3,023	6.8	3,253	-0.8
Operating profit					
Aerospace	8	3	nm	-46	nm
Land Systems	616	573	7.6	870	-29.2
Hanwha Systems	9	23	-58.2	29	-67.7
Hanwha Ocean*	189	290	-34.8	169	nm
OPM (%)					
Aerospace	1.0	0.5		-7.7	
Land Systems	19.9	27.1		25.9	
Hanwha Systems	0.7	2.8		3.1	
Hanwha Ocean*	5.9	9.6		5.2	

Note: *Recognized since 1Q25
Source: Company data

Hanwha Aerospace: SOTP valuation

(KRWb)		
Aero/defense value	(A=axb)	61,583
2026E EBITDA*	(a)	2,678
Applied EV/EBITDA**	(b)	23.0
Value of subsidiaries (As of Feb 9)	(C=(d+e+f+g)x60%)	14,160
Hanwha Ocean	(d)	12,425
Hanwha Systems	(e)	9,217
Satrec Initiative	(f)	744
Other subsidiaries	(g)	1,214
Net debt estimates* **	(H)	960
EV	(I=A+C-H)	74,783
Outstanding shares	(J, Shares)	51,563
Target price	(I/J, Shares)	1,450,000

Note: * Aerospace and defense divisions only; **Average multiple among domestic large defense companies; *** Standalone basis as of 3Q25
Source: Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**9,192**	**11,240**	**26,608**	**30,329**	**33,500**
Cost of goods sold	1,806	8,370	21,581	23,653	25,895
Gross profit	**2,034**	**2,870**	**5,027**	**6,676**	**7,605**
Gross margin (%)	2,869	25.5	18.9	22.0	22.7
SG&A expenses	2,483	1,138	1,993	2,237	2,457
Operating profit	**10,351**	**1,732**	**3,035**	**4,439**	**5,148**
Operating margin (%)	3,942	15.4	11.4	14.6	15.4
Non-operating gains (losses)	**3,410**	**966**	**-889**	**-226**	**-131**
Financial profit	2,203	374	911	558	361
Financial costs	795	495	1,276	757	485
Equity-method gains (losses)	19,543	105	0	0	0
Other	12,077	982	-525	-27	-7
Pre-tax profit	**919**	**2,697**	**2,145**	**4,213**	**5,017**
Taxes	1,374	158	3	969	1,154
Effective tax rate (%)	9,784	5.8	0.2	23.0	23.0
Profit from continuing operations	2,782	2,511	2,142	3,244	3,863
Profit from discontinued operations	1,401	29	0	0	0
Net profit	**1,381**	**2,540**	**2,142**	**3,244**	**3,863**
Net margin (%)	14,859	22.6	8.0	10.7	11.5
Net profit (controlling interests)	3,528	2,299	1,388	2,109	2,511
Net profit (non-controlling interests)	266	241	754	1,135	1,352
EBITDA	192	2,063	3,500	4,947	5,684
EBITDA margin (%)	2,627	18.4	13.2	16.3	17.0
EPS (parent-based) (KRW)	443	50,436	26,918	40,892	48,694
EPS (consolidated) (KRW)	1,156	55,722	41,535	62,911	74,915
Adjusted EPS (KRW)*	4,684	50,436	26,918	40,892	48,694

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**9,192**	**22,868**	**26,702**	**31,565**	**37,470**
Cash & equivalents	1,806	2,968	4,085	6,496	9,810
Accounts receivable	2,034	8,509	4,009	4,570	5,048
Inventories	2,869	6,290	7,290	8,309	9,178
Other current assets	2,483	5,101	11,319	12,189	13,434
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**	**49,216**	**55,464**	**62,206**
Current liabilities	**12,077**	**25,516**	**24,647**	**27,111**	**29,258**
Accounts payable	919	1,708	1,822	2,077	2,295
Short-term debt	1,374	5,153	3,200	3,000	2,800
Other current liabilities	9,784	18,655	19,624	22,033	24,164
Long-term liabilities	**2,782**	**6,456**	**8,462**	**10,448**	**12,866**
Bonds & long-term debt	1,401	4,165	3,975	3,715	3,715
Other long-term liabilities	1,381	2,292	4,487	6,733	9,151
Total liabilities	**14,859**	**31,973**	**33,109**	**37,558**	**42,124**
Owners of parent equity	**3,528**	**4,995**	**9,738**	**11,537**	**13,713**
Capital stock	266	240	270	270	270
Capital surplus	192	207	3,796	3,796	3,796
Retained earnings	2,627	4,747	5,877	7,676	9,852
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**	**16,107**	**17,906**	**20,082**
Net debt	2,038	6,957	3,344	167	-3,494

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**1,390**	**1,393**	**1,559**	**4,434**	**4,459**
Net profit	977	2,540	2,142	3,244	3,863
Non-cash profit and expenses	-49	-244	703	673	693
Depreciation	261	259	311	347	368
Amortization	78	72	154	161	167
Other	-388	-575	237	165	157
Changes in A/L from operating activities	462	-903	-1,285	517	-97
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	1,117	2,412	3,314
Cash at beginning of year	3,070	1,806	2,968	4,085	6,496
Cash at end of year	1,806	2,968	4,085	6,496	9,810
Gross cash flow	**928**	**2,296**	**2,844**	**3,917**	**4,556**
Free cash flow	**937**	**815**	**-349**	**3,034**	**3,575**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	32.6	20.1	136.7	14.0	10.5
Operating profit	72.6	150.6	75.2	46.3	16.0
Net profit	566.6	160.0	-15.7	51.5	19.1
Adjusted EPS**	318.5	212.4	-46.6	51.9	19.1
Per-share data (KRW)					
EPS (parent-based)	16,147	50,436	26,918	40,892	48,694
EPS (consolidated)	19,295	55,722	41,535	62,911	74,915
Adjusted EPS**	16,147	50,436	26,918	40,892	48,694
BVPS	69,689	109,587	188,849	223,741	265,936
DPS (common)	1,800	3,500	5,000	6,000	6,500
Valuations (x)					
P/E***	73.9	23.7	44.3	29.2	24.5
P/B***	17.1	10.9	6.3	5.3	4.5
EV/EBITDA	62.8	36.3	20.4	13.8	11.3
Ratios (%)					
ROE	25.6	53.9	18.8	19.8	19.9
ROA	4.7	7.3	3.0	4.0	4.3
ROIC	12.9	15.0	15.4	15.4	17.2
Payout ratio	11.1	6.9	18.6	14.7	13.3
Dividend yield (common)	0.2	0.3	0.4	0.5	0.5
Net debt to equity	43.5	61.2	20.8	0.9	-17.4
Interest coverage (x)	4.1	7.1	6.6	12.6	15.5

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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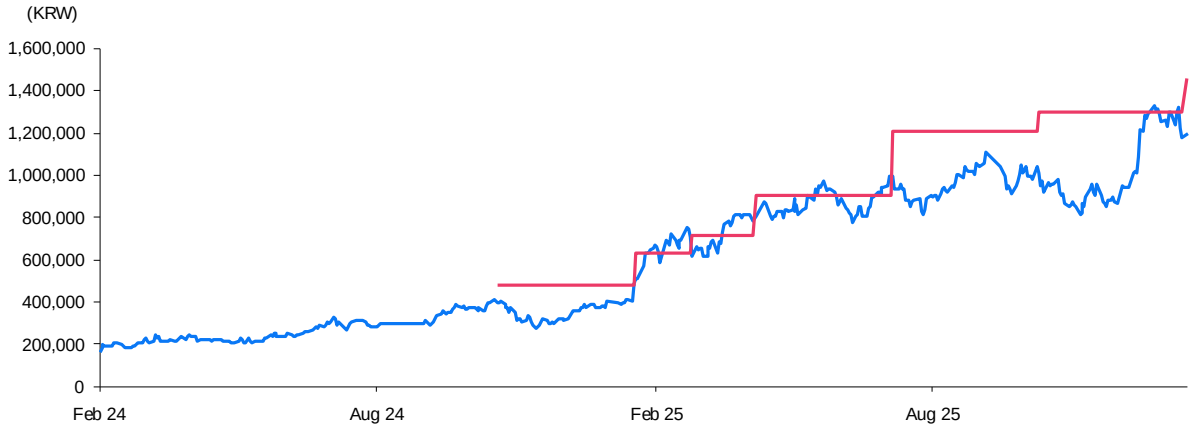
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/11/14	2025/2/12	3/21	5/2	5/23	7/31	11/4	2026/2/10
Recommendation	BUY	BUY	HOLD	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	482506	630212	713912	905929	905929	1210000	1300000	1450000
Gap* (average)	-26.78	4.57	2.22	-8.44	-2.38	-20.34	-20.45	
(max or min)**	1.63	19.37	14.48	-3.26	10.16	-8.51	2.31	

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

BUY(85.8%)·HOLD(14.2%)·SELL(0%)

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