SECTOR
UPDATE

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Industrial Team

Youngsoo Han
Team Leader
han.youngsoo@samsung.com

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Shipbuilding (OVERWEIGHT)

HD KSOE to issue EBs based on shares in HD HHI

- HD Korea Shipbuilding & Offshore Engineering (HD KSOE) has decided to issue exchangeable bonds (EBs) worth KRW3t, using a portion of its shares in HD Hyundai Heavy Industries (HD HHI; equivalent to 5.4% of shares outstanding in HD HHI) as the underlying asset.
- The theoretical impact on HD HHI's fundamentals: 1) should be limited, as the issuance will be at a premium; 2) should not cause an immediate increase in the number of shares outstanding; and 3) does not, in our opinion, reflect a negative outlook by the group towards the subsidiary.
- However, potential short-term negative effects in terms of investor sentiment towards HD HHI may emerge due to the absence of clear group guidance on the optimal ownership level in the subsidiary.

WHAT'S THE STORY?

HD KSOE to issue exchangeable bonds: HD Korea Shipbuilding & Offshore Engineering (HD KSOE) has decided to issue exchangeable bonds (EBs) worth USD2b (or KRW3.03t), using its shares in HD Hyundai Heavy Industries (HD HHI) as the underlying asset. The new bonds if fully exchanged will be equivalent to 5.35% of HD HHI's current total shares outstanding, and the exchange price has been set at KRW540,000 per share—a 16% premium over HD HHI's Mar 31 closing price of KRW465,000. As of end-2025, HD KSOE's stake in HD HHI stood at 69%. If both the previously issued EBs and these newly decided bonds are fully converted, HD KSOE's stake in HD HHI would decline to 63%. The final scale and terms of the issuance should be determined after bookbuilding. According to media reports, the purpose of the issuance is to proactively secure future investment funds to support strategic initiatives, including: 1) the expansion of shipyards in India, Vietnam, and the Philippines; 2) the development of future ships; and 3) the advancement of the Korea-US shipbuilding cooperation project (MASGA).

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Theoretically, impact on HD HHI's fundamentals to be limited… The theoretical impact of this EB issuance on HD HHI's fundamentals should be limited. Unlike a traditional equity issuance, EB issuances do not immediately increase the number of shares outstanding, and therefore do not dilute EPS—this reduces the incentive to revise down our target price. In terms of supply and demand, the exchange price premium limits the immediate overhang risk. Moreover, HD HHI's valuation has already been discounted following recent corrections. If HD HHI's share price rises and the bonds are converted, HD KSOE's enterprise value would benefit—from HD KSOE's perspective, the conversion of EBs would represent a transformation of assets (held in the form of a stake in an affiliate) into cash assets (*nb*, unlike stakes in affiliates, cash assets are not discounted under a SOTP valuation method).

In addition, it is difficult to interpret this bond issuance as a sign of the group's bearish outlook towards HD HHI as HD KSOE has repeatedly monetized its stake in HD HHI regardless of HD HHI's share price—*eg*, selling 1.7% in 2022, 3% in 2024, and 2% in 2025 (*nb*, all of these sales occurred in 1H).

…but to hurt short-term investor sentiment: The issuance, however, may dampen investment sentiment towards HD HHI in the near term. Most of all, the group has not given clear guidance on its optimal ownership level in HD HHI. Now, the group's shipbuilding operations sit on substantial cash reserves, and the shipbuilding sector has seen improvements in business conditions and profitability. As of end-2025, HD KSOE's parent-based net cash position stood at KRW1.7t, while HD HHI and HD Hyundai Samho's were KRW2.9t and KRW1.5t, each. These figures suggest that predicting further stake monetization efforts by the group based on financial metrics alone is difficult. We suggest monitoring the group's communication and whether it gives clear guidance on its ownership strategy.

Summary of recent exchangeable bond initiative

(KRWb)		Amount/date
Issuance size	(KRWb)	3,031
	(USDm)	2000
Exchange price	(KRW/share, A)	540,000
Closing price at issuance decision	(KRW/share, B)	465,000
Premium	(%, A/B-1)	16.1
Shares to be exchanged	('000 shares)	5,614
	(Portion of total outstanding shares)	5.4
Contract date		2026-03-31
Payment date		2026-05-04
Exchange request period	Start	2026-06-14
	End	2031-04-27

Source: HD KSOE

HD KSOE's lightening of its stake in HD HHI

Type	Decision Date	Amount	Selling/ exchange price	Premium/ discount	Vs outstanding Shares
		(KRWb)	(KRW/share)	(%)	(%)
Block deal	2022-05-17	182	120,650	-5.0	1.7
Block deal	2024-05-17	350	131,300	-6.5	3.0
EBs	2025-02-25	600	346,705	12.6	2.0
EBs	2026-03-31	3,031	540,000	16.1	5.4

Source: HD KSOE

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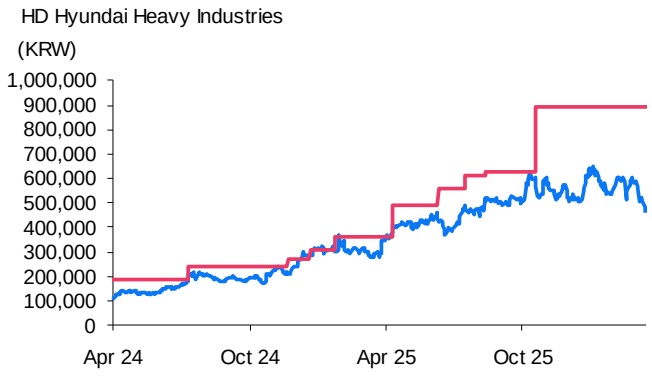
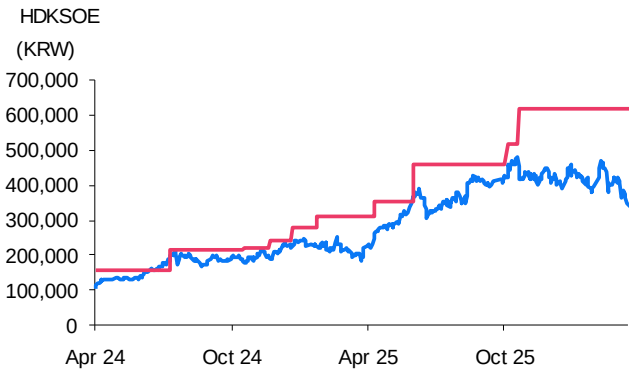
Target price changes in past two years





Rating changes over past two years (adjusted share prices)

HD Hyundai Heavy Industries											
Date	2023/7/13	2024/7/13	2024/7/26	12/6	2025/1/6	2/7	4/25	6/26	8/1	8/28	11/4
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	189000	189000	240000	270000	310000	360000	490000	557000	610000	630000	890000
Gap* (average)	-33.76	-10.04	-16.98	-5.02	-0.44	-12.25	-14.73	-25.30	-22.82	-16.24	
(max or min)**	-16.61	-6.08	0.83	10.37	5.48	4.44	-5.41	-11.94	-14.59	-0.95	

HD KSOE											
Date	2023/7/13	2024/7/13	2024/7/26	11/1	12/6	2025/1/6	2/7	4/25	6/17	10/20	11/4
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	155000	155000	216000	223000	242000	280000	310000	353000	460000	520000	620000
Gap* (average)											
(max or min)**											

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

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
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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 2026.03.31

BUY (85.2%)·HOLD (14.8%)·SELL (0%)

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SAMSUNG SECURITIES

Samsung Electronics Bldg., 11, 74-gil,
Seochodae-ro, Seocho-gu, Seoul, Korea 06620
Tel: 02 2020 8000 / www.samsungpop.com

Family Center: 1588 2323

Voice Of Customer: 080 911 0900

For more information,
please call our sales representatives:

LONDON

Samsung Securities Europe Limited
1st Floor, 30 Gresham Street, London EC2V 7PG UK
Tel. 44-207-776-4311
Fax. 44-203-837-9219

NEW YORK

Samsung Securities America Limited
1330 Avenue of the Americas. 10th Floor. New York,
NY 10019
Tel: 1-212-972-2454
Fax: 1-212-972-2704

HONG KONG

Samsung Securities (Asia) Limited
Suite 4511, Two International Finance Center,
8 Finance Street, Central, Hong Kong
Tel: 852-3411-3608
Fax: 852-2114-0290

BEIJING

Samsung Securities Beijing Representative Office
Rm. 910, The Exchange Building No 118 JianGuo Lu, Chao Yang District, Beijing, China
Tel: 86-10-6522-1855 (extension 7891)
Fax: 86-10-6522-1855 (extension 7889)

TOKYO

Samsung Securities Tokyo Representative Office
#106-8532 19F, Roppongi T-Cube 3-1-1,
Roppongi Minato-ku Tokyo, Japan
Tel: 81-3-6333-2952
Fax: 81-3-6333-2953

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