COMPANY UPDATE

2026. 4. 13

Industrial Team

Youngsoo Han
Team Leader
han.youngsoo@samsung.com

Scan to go to
Research Center report database

Hyundai Rotem (064350)

Attractively valued, by any measure

- Hyundai Rotem is the only major defense stock to have fallen since the Iran conflict started.
- The company has been sidelined from the defense sector rally, leading its valuation gap with peers to widen excessively.
- Given Rotem's strong financial position and sustained earnings growth, we expect its valuation discount to narrow.

WHAT'S THE STORY?

Sidelined from defense stock rally: Major Korean defense stocks have gained 20% since tensions with Iran escalated, as the defense sector was seen as a relative safe-haven amid geopolitical uncertainty. Hyundai Rotem, however, has been the outlier, suffering a share-price decline over this period. Three factors explain this divergence: 1) it was largely excluded from the early-year rally that was driven by a rise in US defense spending; 2) it lacks high-profile catalysts to rekindle investor interest; and 3) the nature of the Iran war—dominated by drones and missile strikes—has fueled concerns that Middle Eastern buyers will shift defense budgets away from tanks.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW292,000	39%
Current price	**KRW210,000**	
Market cap	KRW22.9t/USD15.4b	
Shares (float)	109,142,293 (66.2%)	
52-week high/low	KRW249,000/KRW99,000	
Avg daily trading value (60-day)	KRW207.2b/ USD139.8m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Hyundai Rotem (%)	1.2	-4.5	112.1
Vs Kospi (%pts)	-4.4	-41.2	-11.5

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	292,000	280,000	4.3%
2026E EPS	9,205	9,571	-3.8%
2027E EPS	12,457	12,262	1.6%

SAMSUNG vs THE STREET

No of estimates	16
Target price	302,063
Recommendation	4.0

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

SUMMARY FINANCIAL DATA

(KRWb)	2025	2026E	2027E	2028E
Revenue	5,839	7,065	8,262	8,692
Operating profit	1,006	1,293	1,689	1,979
Net profit (adj)	770	1,005	1,360	1,688
EPS (adj) (KRW)	7,055	9,205	12,457	15,470
EPS (adj) growth (% y-y)	89.2	30.5	35.3	24.2
EBITDA margin (%)	18.2	19.3	21.4	23.8
ROE (%)	30.1	28.4	29.4	28.0
P/E (adj) (x)	26.6	22.8	16.9	13.6
P/B (x)	6.7	5.7	4.4	3.4
EV/EBITDA (x)	18.1	15.8	12.0	10.3
Dividend yield (%)	0.3	0.4	0.5	0.6

Source: Company data, Samsung Securities estimates

Attractively valued, by any measure: Rotem is trading at just 23x 2026 P/E, well below the average (39x) of major Korean defense firms. But this discount must be viewed in context: the success of competitors' bids for US contracts remains unconfirmed, and the catalysts driving their rallies are still speculative. Meanwhile, most potential Middle Eastern buyers of the K2 Black Panther battle tank—excluding Iraq—have strong fiscal positions, and global air defense manufacturers are operating at full capacity, with no near-term ability to scale output. In our view, it is unlikely these nations will cut ground force budgets to fund air defense systems. Rotem remains attractive, trading below the average of major US and European defense firms (Bloomberg; 29x) and far below Korea's industrial goods sector (FnGuide; 39x).

Key factors to watch: Rotem's net cash holdings jumped 175% y-y to in 2025 to reach KRW1.2t at year-end, the most dramatic improvement among its peers. Reflecting this, we increase our target price by 4% to KRW292,000 (based on a sum-of-the-parts valuation). With sustained cash generation, the company is expected to make disciplined investments in new ventures and production capacity expansion, leading its valuation gap with peers to gradually close. Contrary to market concerns, we believe the firm will sustain its earnings momentum this year, noting that: 1) tank deliveries to Poland are unlikely to decline; and 2) forex rates are more favorable than previously assumed.

Sidelined: Major Korean defense stocks have surged 66% ytd—and 20% since US and Israeli tensions with Iran escalated—as the defense sector was view as a relative safe-haven amid geopolitical uncertainty. Rotem, however, has underperformed industry peers: it has climbed just 12% ytd and is the only Korean defense major to see a share-price decline since the Iran war began. Three key factors explain this.

- First, Rotem was largely sidelined from the early-year rally that was driven by a rise in US defense spending. Korea Aerospace Industries (KAI) is expected to compete for contracts to supply training aircraft to the US military, Hanwha Aerospace should vie to modernize US self-propelled artillery systems, and LIG Defense & Aerospace (LIG D&A; formerly LIG Nex1) is positioned as a potential supplier of a guided rocket to American forces. Rotem, on the other hand, has no active US-related programs.
- Second, Rotem has lacked high-profile catalysts to rekindle investor interest. By contrast, peers have attracted investor attention—and capital—on the back of news such as Hanwha Group's acquisition of a stake in KAI and reports of missile shortages in the Middle East, which have drawn renewed attention to Hanwha Group's defense arms, KAI, and LIG D&A.
- Third, the nature of the Iran war—dominated by drones and missile strikes—has fueled concerns that Middle Eastern buyers may shift defense budgets away from tanks.

Attractively valued, by any measure: Rotem's relative underperformance this year has left it trading at the deepest valuation discount among Korea's defense companies—but this discount must be viewed in context. The success of competitors' bids for US contracts remains unconfirmed, and the catalysts driving their rallies are still speculative. Meanwhile, potential buyers of K2 tanks in the Middle East (excluding Iraq) generally have solid fiscal positions. There is little reason to believe they will cut ground forces budgets to fund air defense systems—especially given that global air defense manufacturers are already operating at full capacity and cannot meaningfully scale output in the near term. In other words, these Middle Eastern countries could not easily acquire additional air defense systems even if they were to reallocated funds away from ground equipment budgets. For reference, Hyundai Rotem recently unveiled a Middle East-specific variant of the K2 tank, signaling continued active engagement in the region. While it is true the company remains heavily reliant on the K2 as its primary product—marking it out from more diversified peers—the firm's valuation gap to domestic competitors currently appears excessive.

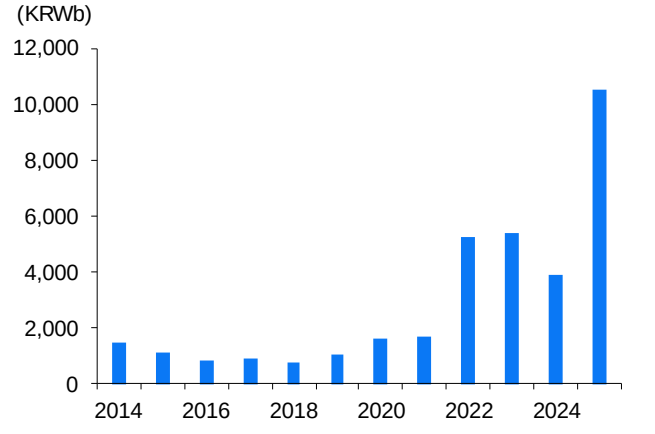
Defense: Peer valuations

		KAI	LIG D&A	Hanwha Aerospace	Hanwha Systems	Hyundai Rotem	Lockheed Martin	Raytheon	NOC	Thales	Rheinmetall	Hensoldt	Leonardo
P/E	2024	113.2	91.4	29.9	8.7	56.3	17.6	20.1	18.0	28.3	33.2	37.1	13.9
(x)	2025E	104.8	79.4	56.0	96.7	29.8	28.3	32.5	25.9	27.6	54.9	54.1	29.8
	2026E	49.7	60.8	36.8	97.7	22.8	20.6	29.5	24.0	24.4	38.1	44.8	24.4
	2027E	39.9	44.2	30.9	71.9	16.9	19.2	26.7	22.4	21.1	26.0	34.3	20.3
P/B	2024	11.4	16.7	13.8	1.7	11.2	18.0	2.6	4.4	3.8	6.6	4.6	1.7
(x)	2025E	10.7	14.5	7.9	6.8	7.4	24.4	4.2	6.1	6.4	12.7	9.2	3.3
	2026E	9.2	12.3	6.7	6.3	5.7	15.6	4.0	5.2	5.8	10.6	8.1	3.1
	2027E	7.8	10.0	5.6	5.8	4.4	14.0	3.8	4.9	5.1	8.2	7.1	2.8
EPS growth (%)	2024	-23.2	26.7	212.4	-46.8	152.7	23.1	67.7	65.9	7.6	25.3	44.0	53.4
	2025E	8.0	15.1	-46.6	49.6	89.2	-21.4	7.9	-0.1	37.1	47.0	-14.5	-18.7
	2026E	111.0	30.6	52.0	-1.1	30.5	37.5	10.2	7.6	13.3	44.1	20.6	22.0
	2027E	24.6	37.4	19.1	35.9	35.3	7.3	10.5	7.2	15.7	46.4	30.5	20.2
ROE (%)	2024	10.4	19.6	53.9	19.6	21.8	81.0	8.0	27.7	19.8	19.5	12.8	12.8
	2025E	10.5	19.5	18.7	8.3	30.1	83.8	13.2	23.9	23.8	23.6	16.3	11.4
	2026E	19.9	21.8	19.7	7.0	28.4	84.4	13.8	22.2	24.4	30.8	17.8	12.5
	2027E	21.2	24.9	19.8	8.6	29.4	72.3	14.2	21.6	24.0	34.9	21.5	13.8

Note: Samsung Securities estimates for KAI, LIG D&A, Hanwha Aerospace, and Hyundai Rotem;
Bloomberg consensus for others
Source: Bloomberg, Samsung Securities estimates

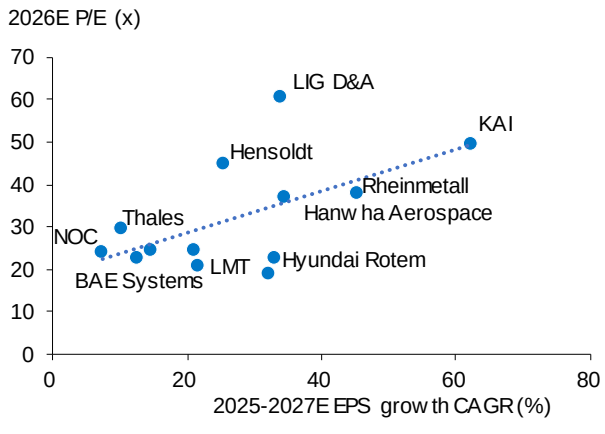
Even against global peers, Rotem looks compelling. It is trading at just 23x 2026 P/E, well below the average for North American and European defense firms (29x). When factoring in its strong order backlog, multiple active bidding opportunities, clear longer-term growth visibility, and the broader premium assigned to Korean defense names, this discount appears disproportionate. Rotem is also fairly attractive compared to the broader Korean industrial goods sector, which is trading at around 39x P/E.

Hyundai Rotem: Defense division order backlog



Source: Company data

Major defense peers: EPS growth vs P/E multiple



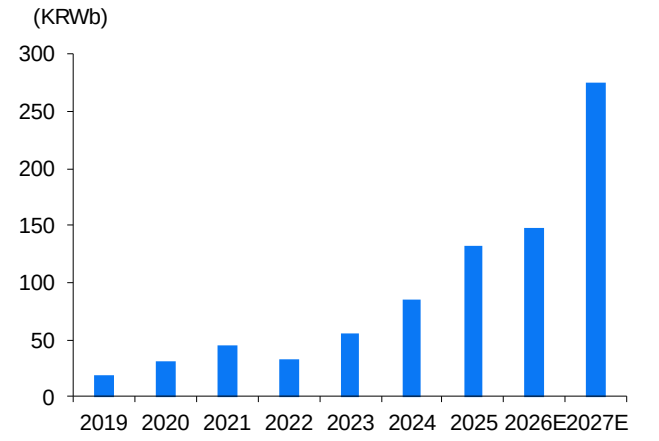
Source: Samsung Securities estimates, Bloomberg

Key factors to watch: Hyundai Rotem's fundamentals are improving meaningfully. First, its net cash holding jumped 175% y-y from KRW420b at end-2024 to KRW1.2t at end-2025, leaving the firm with the best financials among Korea's defense peers. This financial headroom opens real options for future investment, even as investors have historically questioned the clarity of growth drivers beyond the firm's core armored vehicle business. Importantly, tangible

improvements in earnings and financial health only began in 2022. Before this, cash flow constraints limited aggressive expansion or new initiatives. Now, amid sustained cash generation, the company is increasingly likely to enter a phase of disciplined investment in new ventures and production capacity. Capex has accelerated sharply since 2024. This financial turnaround may support share-price upside. Given faster-than-expected cash flow growth and rising multiples across global and domestic defense peers, we raise our target price by 4% to KRW292,000 (based on a sum-of-the-parts valuation).

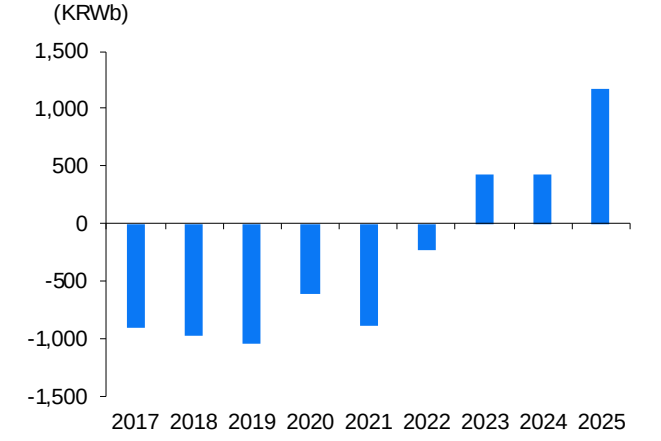
We also expect Rotem to sustain its earnings momentum this year. Contrary to market concerns, we expect K2 tank deliveries to Poland to remain on track in 2026. Poland has no incentive to delay or reduce early deliveries and operational deployment. Earnings should further pick up momentum as: 1) Rotem should recognize sales from the Polish contract, which carries a higher ASP in the second batch than in the first batch; and 2) forex rates are more favorable than previously assumed. Meanwhile, the rail business is gaining structural momentum, backed by increasing international orders.

Hyundai Rotem: Capex



Source: Company data, Samsung Securities estimates

Hyundai Rotem: Net cash



Source: Company data, Samsung Securities estimates

Hyundai Rotem: 1Q preview

(KRWb)	1Q26E	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)	Consensus	Diff (%)
Sales	1,496	1,626	-8.0	1,176	27.2	1,410	6.1
Operating profit	243	267	-9.2	203	19.7	222	9.2
Pre-tax profit	246	288	-14.5	203	21.4	231	6.6
Net profit*	187	222	-15.9	158	18.1	178	5.1
Margins (%)							
Operating profit	16.2	16.5		17.2		15.8	
Pre-tax profit	16.4	17.7		17.2		16.4	
Net profit	12.5	13.7		13.5		12.6	

Source: Samsung Securities, FnGuide

Hyundai Rotem: Valuation breakdown

(KRWb)	2026E EBITDA	Multiple (x)	EV
Revenue (A)	1,338		30,665
Defense	1,242	24.1	29,927
Rail	75	8.3	620
Plant	22	5.4	118
Net debt (end-2025) (B)			1,167
EV (C=A-B)			31,832
Float ('000) (D)			109,142
Target price (KRW) (C/D)			292,000

Note: Multiples used are domestic and global peer aver for the defense division, Chinese peer average for the rail division, and Korean manufacturing average for the plant division

Source: Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**4,377**	**5,839**	**7,065**	**8,262**	**8,692**
Cost of goods sold	3,548	4,447	5,335	6,087	6,204
Gross profit	**829**	**1,392**	**1,729**	**2,175**	**2,489**
Gross margin (%)	18.9	23.8	24.5	26.3	28.6
SG&A expenses	372	386	436	486	509
Operating profit	**457**	**1,006**	**1,293**	**1,689**	**1,979**
Operating margin (%)	10.4	17.2	18.3	20.4	22.8
Non-operating gains (losses)	**53**	**-1**	**29**	**100**	**242**
Financial profit	75	95	104	160	382
Financial costs	52	57	61	40	92
Equity-method gains (losses)	-0	-0	-0	-0	-0
Other	30	-38	-14	-20	-47
Pre-tax profit	**510**	**1,004**	**1,322**	**1,789**	**2,222**
Taxes	104	234	317	429	533
Effective tax rate (%)	20.5	23.3	24.0	24.0	24.0
Profit from continuing operations	405	770	1,005	1,360	1,688
Profit from discontinued operations	0	0	0	0	0
Net profit	**405**	**770**	**1,005**	**1,360**	**1,688**
Net margin (%)	9.3	13.2	14.2	16.5	19.4
Net profit (controlling interests)	407	770	1,005	1,360	1,688
Net profit (non-controlling interests)	-2	1	0	0	0
EBITDA	504	1,065	1,360	1,771	2,072
EBITDA margin (%)	11.5	18.2	19.3	21.4	23.8
EPS (parent-based) (KRW)	3,728	7,055	9,205	12,457	15,470
EPS (consolidated) (KRW)	3,713	7,060	9,205	12,457	15,470
Adjusted EPS (KRW)*	3,728	7,055	9,205	12,457	15,470

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**3,686**	**7,163**	**9,307**	**10,886**	**11,336**
Cash & equivalents	472	908	1,215	1,538	1,734
Accounts receivable	909	3,392	4,645	5,433	5,715
Inventories	316	503	445	521	548
Other current assets	1,989	2,360	3,001	3,395	3,339
Fixed assets	**1,599**	**2,155**	**2,275**	**2,508**	**2,642**
Investment assets	55	77	77	77	77
Tangible assets	1,292	1,820	1,922	2,141	2,263
Intangible assets	104	111	129	143	155
Other long-term assets	148	147	147	147	147
Total assets	**5,285**	**9,318**	**11,582**	**13,394**	**13,978**
Current liabilities	**3,020**	**5,776**	**6,995**	**7,536**	**6,849**
Accounts payable	432	689	834	975	976
Short-term debt	60	49	50	40	20
Other current liabilities	2,527	5,038	6,111	6,521	5,853
Long-term liabilities	**256**	**500**	**625**	**646**	**359**
Bonds & long-term debt	3	61	68	78	38
Other long-term liabilities	254	440	558	568	321
Total liabilities	**3,276**	**6,277**	**7,620**	**8,182**	**7,208**
Owners of parent equity	**2,045**	**3,079**	**3,999**	**5,250**	**6,807**
Capital stock	546	546	546	546	546
Capital surplus	520	520	520	520	520
Retained earnings	689	1,434	2,352	3,602	5,160
Other	291	579	582	582	582
Non-controlling interests' equity	**-36**	**-38**	**-38**	**-38**	**-38**
Total equity	**2,009**	**3,041**	**3,962**	**5,212**	**6,770**
Net debt	-419	-1,145	-1,410	-1,619	-1,644

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**142**	**904**	**433**	**589**	**433**
Net profit	405	770	1,005	1,360	1,688
Non-cash profit and expenses	282	369	101	49	-104
Depreciation	33	40	46	57	65
Amortization	14	20	21	25	27
Other	235	310	34	-33	-196
Changes in A/L from operating activities	-541	-120	-673	-820	-1,152
Cash flow from investments	**233**	**-232**	**-148**	**-276**	**-187**
Change in tangible assets	-81	-129	-148	-276	-187
Change in financial assets	314	-89	0	0	0
Other	-1	-14	0	0	0
Cash flow from financing	**-300**	**-237**	**23**	**10**	**-50**
Change in debt	-244	-219	23	10	-50
Change in equity	0	0	0	0	0
Dividends	-11	-22	0	0	0
Other	-45	3	0	0	0
Change in cash	76	436	307	323	196
Cash at beginning of year	396	472	908	1,215	1,538
Cash at end of year	472	908	1,215	1,538	1,734
Gross cash flow	**687**	**1,140**	**1,106**	**1,408**	**1,585**
Free cash flow	**61**	**775**	**284**	**313**	**245**

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	22.0	33.4	21.0	17.0	5.2
Operating profit	117.4	120.3	28.6	30.6	17.2
Net profit	158.5	90.1	30.4	35.3	24.2
Adjusted EPS**	152.7	89.2	30.5	35.3	24.2
Per-share data (KRW)					
EPS (parent-based)	3,728	7,055	9,205	12,457	15,470
EPS (consolidated)	3,713	7,060	9,205	12,457	15,470
Adjusted EPS**	3,728	7,055	9,205	12,457	15,470
BVPS	18,737	28,211	36,644	48,101	62,371
DPS (common)	200	600	800	1,000	1,200
Valuations (x)					
P/E***	13.3	26.6	22.8	16.9	13.6
P/B***	2.7	6.7	5.7	4.4	3.4
EV/EBITDA	9.9	18.1	15.8	12.0	10.3
Ratios (%)					
ROE	21.8	30.1	28.4	29.4	28.0
ROA	7.7	10.6	9.6	10.9	12.3
ROIC	22.7	37.3	36.8	36.1	31.8
Payout ratio	5.4	8.5	8.7	8.0	7.8
Dividend yield (common)	0.4	0.3	0.4	0.5	0.6
Net debt to equity	-20.9	-37.6	-35.6	-31.1	-24.3
Interest coverage (x)	27.5	127.7	294.3	338.6	464.1

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

Source: Company data, Samsung Securities estimates