COMPANY UPDATE

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Industrial Team

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Hyosung Heavy Industries (298040)

Navigating unprecedented boom in US

- Hyosung Heavy Industries reported 1Q results, which fell short of expectations.
- The miss owed to a portion of high-margin North American revenue excluded from consolidated results due to consolidation adjustments.
- We see the miss as a one-off caused by increased quarterly earnings volatility. Our annual profit outlook remains largely unaffected. Reflecting strong order intake and rising sector valuations, we raise our target price.

WHAT'S THE STORY?

1Q earnings miss due to temporary factors: Hyosung Heavy Industries' 1Q operating profit rose significantly y-y, but missed consensus. This was primarily because a portion of highly profitable shipments — currently en route from the parent to the US — were excluded from consolidated revenue due to consolidation adjustments. As these shipments should be fully recognized in 2Q, we see the 1Q miss as temporary. The long shipping timelines in North America, which significantly influence earnings, have led to increased quarterly earnings volatility.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW4,300,000	21.1%
Current price	KRW3,552,000	
Market cap	KRW33.1t/USD22.3b	
Shares (float)	9,324,548 (55.9%)	
52-week high/low	KRW3,552,000/KRW438,500	
Avg daily trading value (60-day)	KRW145.6b/ USD98.1m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Hyosung Heavy Industries (%)	31.5	86.7	710.0
Vs Kospi (%pts)	12.8	13.6	215.5

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	4,300,000	3,030,000	41.9%
2026E EPS	83,764	83,764	0.0%
2027E EPS	117,673	117,673	0.0%

SAMSUNG vs THE STREET

No of estimates	13
Target price	3,633,077
Recommendation	4.0

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

Hyosung Heavy Industries 1Q26 review

(KRWb)	1Q26	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	1,358.2	1,743.0	-22.1	1,076.1	26.2	1,329.6	2.2	1,358.2	-0.0
Operating profit	152.2	260.5	-41.6	102.4	48.7	168.3	-9.6	152.2	-0.0
Pre-tax profit	129.1	192.7	-33.0	130.4	-1.0	164.6	-21.5	129.1	-0.0
Net profit	87.3	175.0	-50.1	102.2	-14.6	132.0	-33.9	87.3	0.0
Margins (%)									
Operating profit	11.2	14.9		9.5		12.7		11.2	
Pre-tax profit	9.5	11.1		12.1		12.4		9.5	
Net profit	6.4	10.0		9.5		9.9		6.4	

Source: Company data, Samsung Securities estimates

Valuation

(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 (%)
2024	4,895	362	224	223	23,876	92.0	16.5	729	10.4	1.9	14.9
2025	5,969	747	626	503	55,755	133.5	31.9	598	20.8	7.1	24.4
2026E	6,955	1,084	1,049	797	83,764	50.2	42.4	618	28.3	10.7	28.7
2027E	8,148	1,467	1,473	1,120	117,673	40.5	30.2	-855	20.3	8.1	30.7
2028E	9,188	1,752	1,897	1,442	151,555	28.8	23.4	-2,139	16.5	6.2	30.0

Source: Company data, Samsung Securities estimates

Focus on surging order intake: Order bookings, the key driver of future earnings, delivered a surprise performance. In 1Q, orders in the heavy industries division reached KRW4.1t — a 108% y-y increase and equivalent to 55% of the company's full-year 2025 orders. It marked the largest single-quarter order intake in company history. The quality of orders was also impressive: 77% of 1Q orders came from North America, where margins are highest. Notably, demand for high-value 765kV transformers — a segment with low competitive intensity — showed strong momentum.

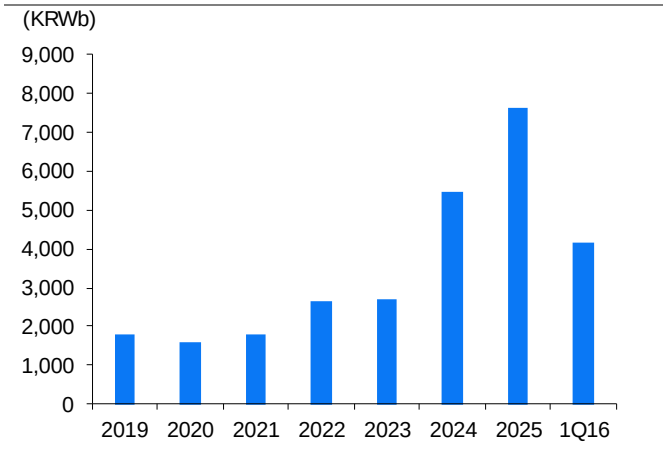
Still highly attractive: The current boom is unprecedented. For Korean industrial firms, a boom driven overwhelmingly by North American demand is unfamiliar territory. The gap between reported 1Q results and consensus, which owed to trial and error in the financial market's quarterly profit estimates, should narrow over time. In fact, any near-term correction caused by the 1Q miss can present a buying opportunity. All told, there is no justification to lower our full-year profit forecast. Given the recent surge in peer valuations across the sector, Hyosung's valuation remains compelling. Additionally, potential future reimbursement of tariff costs from customers could further boost profitability. Reflecting sector-wide multiple expansion, we raise our target price to KRW4,300,000 (based on a 2026 target P/E of 51x, derived from analysis of peer EPS growth and P/E correlations).

Hyosung Heavy Industries 1Q26 results

(KRWb)	1Q26	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung Securities	Diff (%)
Sales	1,358	1,743	-22.1	1,076	26.2	1,330	2.2	1,440	-5.7
Operating profit	152	261	-41.5	102	48.8	168	-9.5	217	-29.9
Pre-tax profit	129	193	-33.0	130	-1.0	165	-21.5	203	-36.4
Net profit*	91	175	-47.8	102	-10.6	132	-30.8	148	-38.4
Margins (%)									
Operating profit	11.2	14.9		9.5		12.7		15.1	
Pre-tax profit	9.5	11.1		12.1		12.4		14.1	
Net profit	6.7	10.0		9.5		9.9		10.3	

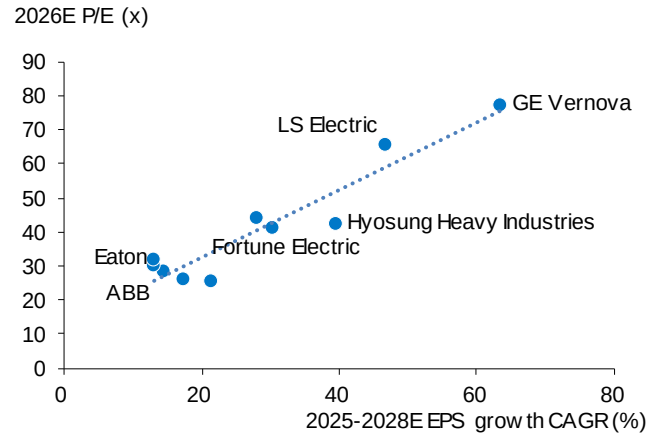
Source: FnGuide, Samsung Securities estimates

Hyosung Heavy Industries' orderbook trends



Source: Company data

Global power equipment companies: Valuation comparison



Note: Global peer data based on Bloomberg consensus
Source: Bloomberg, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**4,895**	**5,969**	**6,955**	**8,148**	**9,188**
Cost of goods sold	4,103	4,716	5,260	5,993	6,679
Gross profit	**792**	**1,253**	**1,695**	**2,155**	**2,509**
Gross margin (%)	16.2	21.0	24.4	26.5	27.3
SG&A expenses	429	506	611	688	757
Operating profit	**362**	**747**	**1,084**	**1,467**	**1,752**
Operating margin (%)	7.4	12.5	15.6	18.0	19.1
Non-operating gains (losses)	**-139**	**-121**	**-36**	**6**	**146**
Financial profit	528	474	104	215	324
Financial costs	567	553	540	737	175
Equity-method gains (losses)	-2	-3	-3	-3	-3
Other	-99	-39	404	532	0
Pre-tax profit	**224**	**626**	**1,049**	**1,473**	**1,897**
Taxes	1	123	252	354	455
Effective tax rate (%)	0.3	19.6	24.0	24.0	24.0
Profit from continuing operations	223	503	797	1,120	1,442
Profit from discontinued operations	0	0	0	0	0
Net profit	**223**	**503**	**797**	**1,120**	**1,442**
Net margin (%)	4.6	8.4	11.5	13.7	15.7
Net profit (controlling interests)	223	520	781	1,097	1,413
Net profit (non-controlling interests)	0	-17	16	22	29
EBITDA	435	833	1,198	1,592	1,887
EBITDA margin (%)	8.9	14.0	17.2	19.5	20.5
EPS (parent-based) (KRW)	23,876	55,755	83,764	117,673	151,555
EPS (consolidated) (KRW)	23,908	53,926	85,474	120,074	154,648
Adjusted EPS (KRW)*	23,876	55,755	83,764	117,673	151,555

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**3,036**	**3,738**	**4,201**	**6,126**	**7,835**
Cash & equivalents	249	217	111	1,068	2,372
Accounts receivable	969	1,297	1,512	1,771	1,997
Inventories	885	1,278	1,219	1,429	1,611
Other current assets	933	946	1,359	1,859	1,854
Fixed assets	**3,182**	**3,490**	**4,085**	**4,160**	**4,213**
Investment assets	356	376	373	369	366
Tangible assets	2,172	2,307	2,872	2,921	2,953
Intangible assets	123	122	155	184	210
Other long-term assets	532	685	685	685	685
Total assets	**6,219**	**7,228**	**8,286**	**10,286**	**12,048**
Current liabilities	**3,093**	**3,561**	**3,446**	**3,891**	**4,323**
Accounts payable	638	677	789	924	1,042
Short-term debt	332	272	350	300	300
Other current liabilities	2,123	2,613	2,307	2,667	2,981
Long-term liabilities	**1,070**	**1,177**	**1,620**	**2,180**	**2,227**
Bonds & long-term debt	563	464	364	264	164
Other long-term liabilities	507	712	1,255	1,915	2,063
Total liabilities	**4,163**	**4,738**	**5,066**	**6,071**	**6,550**
Owners of parent equity	**1,909**	**2,352**	**3,082**	**4,077**	**5,360**
Capital stock	47	47	47	47	47
Capital surplus	892	892	892	892	892
Retained earnings	353	829	1,531	2,526	3,808
Other	616	583	612	612	612
Non-controlling interests' equity	**147**	**138**	**138**	**138**	**138**
Total equity	**2,056**	**2,490**	**3,220**	**4,215**	**5,498**
Net debt	669	509	284	-1,198	-2,489

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**412**	**493**	**565**	**1,266**	**1,554**
Net profit	223	503	797	1,120	1,442
Non-cash profit and expenses	145	271	228	254	205
Depreciation	59	69	102	110	118
Amortization	14	17	12	15	18
Other	73	185	114	129	69
Changes in A/L from operating activities	44	-281	-460	-107	-93
Cash flow from investments	**-215**	**-213**	**-649**	**-159**	**-149**
Change in tangible assets	-82	-162	-649	-159	-149
Change in financial assets	-203	18	0	0	0
Other	71	-69	0	0	0
Cash flow from financing	**-228**	**-313**	**-22**	**-150**	**-100**
Change in debt	-47	-177	-22	-150	-100
Change in equity	0	0	0	0	0
Dividends	-23	-70	-79	-103	-131
Other	-158	-66	79	103	131
Change in cash	-29	-32	-106	957	1,304
Cash at beginning of year	278	249	217	111	1,068
Cash at end of year	249	217	111	1,068	2,372
Gross cash flow	**368**	**774**	**1,025**	**1,373**	**1,647**
Free cash flow	**328**	**330**	**-85**	**1,106**	**1,404**

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	13.8	21.9	16.5	17.2	12.8
Operating profit	40.6	106.1	45.1	35.3	19.4
Net profit	69.0	125.6	58.5	40.5	28.8
Adjusted EPS**	92.0	133.5	50.2	40.5	28.8
Per-share data (KRW)					
EPS (parent-based)	23,876	55,755	83,764	117,673	151,555
EPS (consolidated)	23,908	53,926	85,474	120,074	154,648
Adjusted EPS**	23,876	55,755	83,764	117,673	151,555
BVPS	204,677	252,208	330,566	437,238	574,792
DPS (common)	5,000	7,500	8,500	11,000	14,000
Valuations (x)					
P/E***	148.8	63.7	42.4	30.2	23.4
P/B***	17.4	14.1	10.7	8.1	6.2
EV/EBITDA	78.0	40.5	28.0	20.1	16.3
Ratios (%)					
ROE	14.9	24.4	28.7	30.7	30.0
ROA	4.1	7.7	10.1	11.8	12.7
ROIC	17.4	22.9	22.5	23.9	27.5
Payout ratio	20.9	13.5	10.1	9.3	9.2
Dividend yield (common)	0.1	0.2	0.2	0.3	0.4
Net debt to equity	32.5	20.5	8.8	-28.4	-45.3
Interest coverage (x)	4.1	12.7	34.2	52.0	75.4

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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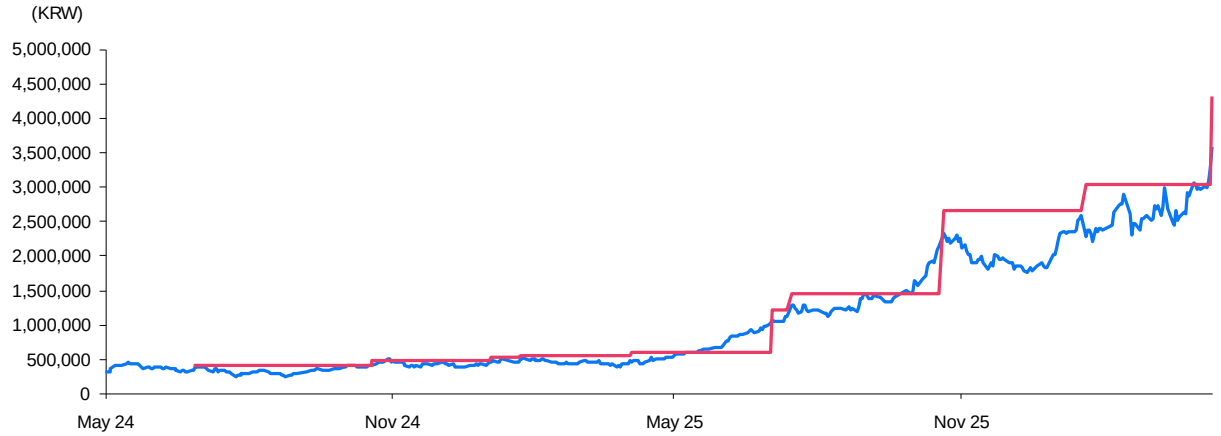
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/7/10	11/1	2025/1/16	2/4	4/16	7/16	7/28	11/3	2026/2/2	4/27
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	405000	480000	520000	550000	590000	1220000	1450000	2660000	3030000	4300000
Gap* (average)	-17.28	-10.31	-8.50	-17.26	16.20	-12.00	-3.43	-22.67	-11.51	
(max or min)**	0.37	4.17	-2.31	-3.09	75.42	-7.79	47.24	-2.14	17.23	

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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