COMPANY UPDATE

2026. 4. 28

Industrial Team

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HD CE (267270)

CE earnings & engine valuation as key drivers

- HD CE's 1Q operating profit beat consensus by 33% on steep improvement in the construction machinery segment.
- With excess inventory and sluggish performance in developed markets now behind it, the company is likely to benefit from a low base as demand recovers. We expect a recovery faster than the industry.
- We raise our target price to KRW250,000, reflecting our revised earnings estimates and a re-rating of the engine sector.

WHAT'S THE STORY?

1Q review—earnings surprise: HD CE's 1Q operating profit topped consensus by 33% thanks to a strong rebound in its construction machinery segment (responsible for 84% of total sales). This was attributable to: 1) firm demand in resource-rich regions (Middle East, Africa, and Latin America) amid rising commodity prices; 2) robust growth in European sales; and 3) a clear recovery in North American sales. Earnings improved y-y thanks to reduced fixed costs (stemming from higher sales volumes), lower promotional spending (as demand normalized), and favorable forex rates. Reflecting the earnings surprise, we revise up our full-year earnings estimates.

(Continued on the next page)

HD CE: 1Q review

(KRWb)	1Q26	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	2,305	2,009	14.8	1,888	22.1	2,195	5.0	2,278	1.2
Operating profit	191	55	249.3	101	88.3	143	33.2	144	32.0
Pre-tax profit	224	23	897.3	87	158.2	127	76.7	127	76.9
Net profit	174	5	3,378.0	62	180.5	96	76.9	96	81.1
Margins (%)									
Operating profit	8.3	2.7		5.4		6.5		6.3	
Pre-tax profit	9.7	1.1		4.6		5.8		5.6	
Net profit	7.5	0.2		3.3		4.4		4.2	

Source: Company data, Samsung Securities estimates

Valuations

(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	3,438	190	121	100	5,461	-22.8	36.3	359	38.1	2.2	6.2
2025	3,777	171	118	99	5,725	4.8	34.6	401	41.7	1.9	5.7
2026E	8,680	665	659	502	10,460	82.7	18.9	1,077	11.9	2.1	16.0
2027E	9,150	726	702	534	11,126	6.4	17.8	921	11.0	2.0	11.6
2028E	9,873	862	813	618	12,885	15.8	15.4	956	9.6	1.8	12.4

Source: Company data, Samsung Securities estimates

AT A GLANCE

BUY

Target price	KRW250,000	26.2%
Current price	**KRW198,100**	
Market cap	KRW9.5t/USD6.5b	
Shares (float)	47,921,897 (62.5%)	
52-week high/low	KRW198,100/KRW66,600	
Avg daily trading value (60-day)	KRW73.5b/ USD49.9m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
HD CE (%)	52.3	78.1	197.4
Vs Kospi (%pts)	25.2	8.9	14.5

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	250,000	190,000	31.6%
2026E EPS	10,460	10,460	0.0%
2027E EPS	11,126	11,126	0.0%

SAMSUNG vs THE STREET

No of estimates	4
Target price	188,000
Recommendation	4.0

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

To recover faster than the market: Global construction machinery demand has turned around since last year, and HD CE is set to recover faster than the broader industry. A key driver is the low base effect: Its North American inventories, which had been well above the peers' levels, have now normalized to roughly four months of operation at end-1Q26—better than we previously expected. Promotional spending has also declined, and forex rates remain favorable relative to management's plan. Moreover, rising commodity prices resulting from high geopolitical tensions should actually benefit the company, given its significant exposure to emerging markets.

Engine business commands higher valuation: We increase our target price to KRW250,000 (based on a SOTP valuation), reflecting our revised earnings estimates and a re-rating of the engine sector. Recent market sentiment has sharply improved for companies tied to data centers and power infrastructure, while defense-related valuations remain elevated. HD CE's engine division generates about 40% of sales from land-based power generators and defense applications—businesses now trading at premium multiples. We apply a 24x 2026 EV/EBITDA multiple to this segment (the average for domestic and global engine-related peers). Given that the broader Korean machinery sector (KRX Machinery) trades at an average of 23x, we find this multiple reasonable.

HD CE: 1Q26 review

(KRWb)	1Q26	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung Securities	Diff (%)
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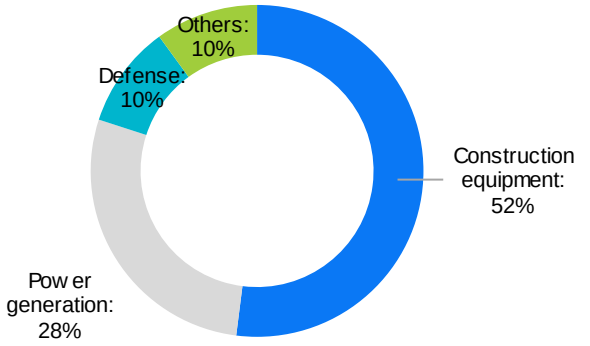
Note: 4Q25, 1Q25 figures are company estimates on a post-merger basis
Source: FnGuide, Samsung Securities estimates

HD CE: Sales breakdown, by segment and region

(KRWb)		1Q26	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)
Construction equip. + AM/PS		**1,928**	**1,636**	**17.9**	**1,519**	**26.9**
Construction equip.		1,749	1,475	18.6	1,340	30.5
Americas	NA	186	183	1.1	147	25.9
	LA	192	164	17.2	131	46.3
EMEA	EU	281	279	0.9	177	59.0
	ME/AF	331	305	8.7	197	68.1
APAC/CIS	Korea	285	103	176.6	245	16.7
	China	170	190	-10.5	145	17.0
	India	157	107	47.1	146	7.5
	SEA/CIS/OC	133	111	20.3	135	-1.3
	Others	14	34	-59.3	17	-20.2
AM/PS		179	161	11.1	179	-0.4
Engine		**336**	**335**	**0.4**	**305**	**10.2**
Industrial vehicle		**97**	**113**	**-13.9**	**119**	**-18.1**
Adjusted		-56	-38	nm	-55	nm
Total sales		**2,305**	**2,046**	**12.7**	**1,888**	**22.1**

Source: Company data

HD CE: Engine business revenue, by end market



Note: Based on 2025;
*Including vehicles, vessels, *etc.*
Source: HD CE

HD CE: Valuation

(KRWb)		
Operating value	**(A=bxc+dxe)**	**13,009**
CE 2026 EBITDA	(b)	587
Target EV/EBITDA*	(c)	10.1
Engine 2026E EBITDA	(d)	295
Target EV/EBITDA**	(e)	24.0
Est. net debt (end-2025, consolidated)	**(F)**	**1,007**
Equity value	(G=A-F)	12,002
Share outstanding (mil)	(H)	48
Target price (KRW)	**(G/H)**	**250,000**
Implied 2026 P/E	(x)	23.9

Note: *Based on average of Japanese CE peers;
**Based on average of HD Hyundai Marine Engine, Hanwha Engine, HD Hyundai Marine Solution, and Wartsila
Source: Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**3,438**	**3,777**	**8,680**	**9,150**	**9,873**
Cost of goods sold	2,787	3,046	6,415	6,742	7,216
Gross profit	**651**	**731**	**2,265**	**2,408**	**2,656**
Gross margin (%)	18.9	19.3	26.1	26.3	26.9
SG&A expenses	460	560	1,600	1,683	1,794
Operating profit	**190**	**171**	**665**	**726**	**862**
Operating margin (%)	5.5	4.5	7.7	7.9	8.7
Non-operating gains (losses)	**-69**	**-53**	**-7**	**-23**	**-49**
Financial profit	91	74	136	195	99
Financial costs	105	99	143	218	148
Equity-method gains (losses)	-0	0	0	0	0
Other	-55	-28	0	0	-0
Pre-tax profit	**121**	**118**	**659**	**702**	**813**
Taxes	36	31	157	169	195
Effective tax rate (%)	29.2	26.3	23.8	24.0	24.0
Profit from continuing operations	86	87	502	534	618
Profit from discontinued operations	0	0	0	0	0
Net profit	**86**	**87**	**502**	**534**	**618**
Net margin (%)	2.5	2.3	5.8	5.8	6.3
Net profit (controlling interests)	100	99	502	534	618
Net profit (non-controlling interests)	-14	-12	0	0	0
EBITDA	259	237	890	951	1,087
EBITDA margin (%)	7.5	6.3	10.3	10.4	11.0
EPS (parent-based) (KRW)	5,461	5,725	10,460	11,126	12,885
EPS (consolidated) (KRW)	4,696	5,014	10,460	11,126	12,885
Adjusted EPS (KRW)*	5,461	5,725	10,460	11,126	12,885

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**2,113**	**2,252**	**4,525**	**5,046**	**5,373**
Cash & equivalents	264	338	650	819	777
Accounts receivable	460	594	1,070	1,253	1,352
Inventories	1,129	1,084	2,259	2,381	2,570
Other current assets	260	236	545	592	674
Fixed assets	**1,212**	**1,351**	**4,039**	**3,791**	**4,093**
Investment assets	1	0	0	0	0
Tangible assets	903	945	2,036	1,936	1,826
Intangible assets	93	90	403	255	266
Other long-term assets	215	316	1,600	1,600	2,000
Total assets	**3,325**	**3,603**	**8,564**	**8,837**	**9,466**
Current liabilities	**1,064**	**1,124**	**2,816**	**2,626**	**2,774**
Accounts payable	409	443	713	752	811
Short-term debt	177	223	600	600	600
Other current liabilities	478	458	1,502	1,274	1,362
Long-term liabilities	**467**	**548**	**1,141**	**1,388**	**1,308**
Bonds & long-term debt	327	368	984	1,014	1,044
Other long-term liabilities	140	180	157	374	265
Total liabilities	**1,531**	**1,672**	**3,957**	**4,014**	**4,082**
Owners of parent equity	**1,658**	**1,805**	**4,482**	**4,698**	**5,258**
Capital stock	94	94	247	247	247
Capital surplus	839	839	2,639	2,639	2,639
Retained earnings	655	693	1,152	1,633	2,194
Other	70	179	444	179	179
Non-controlling interests' equity	**136**	**125**	**125**	**125**	**125**
Total equity	**1,794**	**1,930**	**4,607**	**4,823**	**5,384**
Net debt	359	401	1,077	921	956

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**261**	**166**	**172**	**344**	**791**
Net profit	86	87	502	534	618
Non-cash profit and expenses	108	156	312	335	358
Depreciation	56	59	225	225	225
Amortization	12	7	11	25	16
Other	39	90	76	84	117
Changes in A/L from operating activities	67	-77	-642	-524	-185
Cash flow from investments	**-195**	**-132**	**-852**	**-205**	**-195**
Change in tangible assets	-172	-140	-852	-205	-195
Change in financial assets	21	0	0	0	0
Other	-43	7	0	0	0
Cash flow from financing	**-254**	**34**	**993**	**30**	**-638**
Change in debt	-88	54	993	30	30
Change in equity	31	-0	0	0	-668
Dividends	-13	-9	-43	-53	-58
Other	-184	-11	43	53	58
Change in cash	-163	74	312	169	-42
Cash at beginning of year	428	264	338	650	819
Cash at end of year	264	338	650	819	777
Gross cash flow	**194**	**243**	**814**	**869**	**976**
Free cash flow	**87**	**22**	**-685**	**134**	**591**

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	-10.1	9.8	129.8	5.4	7.9
Operating profit	-26.0	-10.3	289.3	9.1	18.8
Net profit	-32.5	1.2	476.6	6.4	15.8
Adjusted EPS**	-22.8	4.8	82.7	6.4	15.8
Per-share data (KRW)					
EPS (parent-based)	5,461	5,725	10,460	11,126	12,885
EPS (consolidated)	4,696	5,014	10,460	11,126	12,885
Adjusted EPS**	5,461	5,725	10,460	11,126	12,885
BVPS	90,564	104,002	93,424	97,926	109,611
DPS (common)	500	550	900	1,100	1,200
Valuations (x)					
P/E***	36.3	34.6	18.9	17.8	15.4
P/B***	2.2	1.9	2.1	2.0	1.8
EV/EBITDA	38.1	41.7	11.9	11.0	9.6
Ratios (%)					
ROE	6.2	5.7	16.0	11.6	12.4
ROA	3.0	2.9	8.2	6.1	6.8
ROIC	6.1	5.5	12.4	9.2	10.3
Payout ratio	9.2	9.6	8.6	9.9	9.3
Dividend yield (common)	0.3	0.3	0.5	0.6	0.6
Net debt to equity	20.0	20.8	23.4	19.1	17.8
Interest coverage (x)	4.4	4.8	11.7	9.4	11.0

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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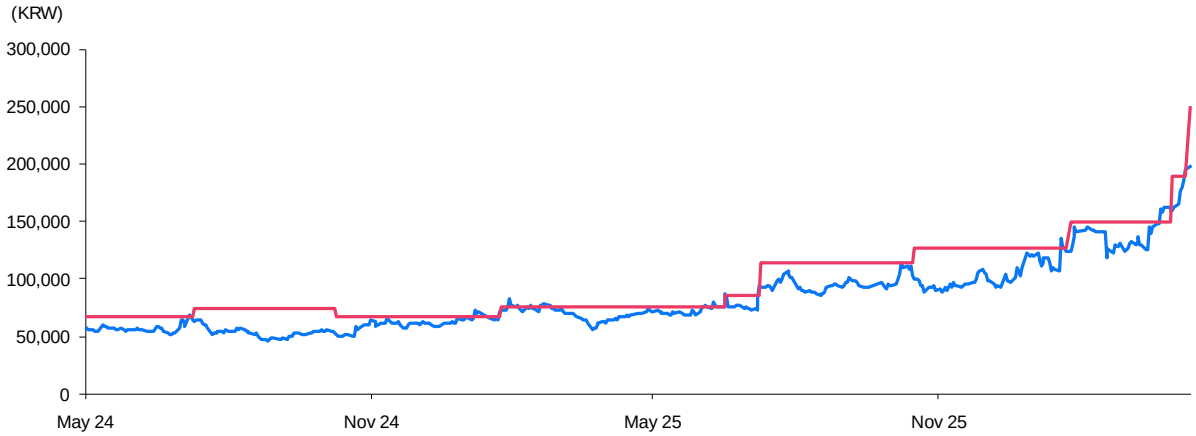

Rating changes over past two years (adjusted share prices)

Date	2024/2/7	7/25	10/24	2025/2/7	7/2	7/25	10/31	2026/2/9	4/16	4/28
Recommendation	BUY	BUY	BUY	HOLD	HOLD	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	67000	74000	67000	76000	86000	114000	127000	150000	190000	250000
Gap* (average)	-16.96	-27.69	-8.88	-6.82	-9.92	-15.73	-18.45	-7.74	-5.08	
(max or min)**	2.24	-12.16	8.51	8.95	-14.88	0.79	7.01	8.73	4.26	

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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