COMPANY UPDATE

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Industrial Team

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Hanwha Ocean (042660)

Lifting commercial ship profitability is key

- Hanwha Ocean reported 1Q results that beat expectations, as strong performance from the commercial vessel segment offset weakness in offshore and naval ship segments. The company stated that the results include no special one-time gains.
- The company's flexible forex strategy appears to have had a clear positive impact. Its 1Q earnings show how orders secured under today's high won-dollar exchange rate will drive future profitability across the entire shipbuilding industry.
- Reflecting rising valuations across the industrial goods sector and strong earnings, we raise our target price.

WHAT'S THE STORY?

1Q review—commercial vessel segment drives performance: Hanwha Ocean's 1Q operating profit beat consensus by 18%, thanks to strength of the commercial vessel division. The naval ship and offshore & plant divisions recorded losses due to higher fixed costs, as key project awards were delayed amid proactive capacity expansions. However, the sharp improvement in commercial vessel profitability fully offset these losses, with the division's operating margin reaching 18% in 1Q.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW180,000	34.8%
Current price	KRW133,500	
Market cap	KRW40.9t/USD27.8b	
Shares (float)	306,413,394 (46.4%)	
52-week high/low	KRW149,900/KRW73,100	
Avg daily trading value (60-day)	KRW253.4b/ USD172.1m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Hanwha Ocean (%)	8.4	-4.4	48.5
Vs Kospi (%pts)	-10.9	-41.6	-42.8

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	180,000	159,000	13.2%
2026E EPS	4,749	4,749	0.0%
2027E EPS	5,499	5,499	0.0%

SAMSUNG vs THE STREET

No of estimates	19
Target price	168,211
Recommendation	4.0

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

Hanwha Ocean 1Q26 review

(KRWb)	1Q26	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	3,210	3,323	-3.4	3,143	2.1	3,290	-2.4	3,442	-6.7
Operating profit	441	248	78.2	259	70.6	375	17.6	363	21.5
Pre-tax profit	506	202	150.8	217	133.1	366	38.5	378	34.0
Net profit	500	612	-18.3	216	131.8	294	70.3	247	102.3
Margins (%)									
Operating profit	13.7	7.4		8.2		11.4		10.6	
Pre-tax profit	15.8	6.1		6.9		11.1		11.0	
Net profit	15.6	18.4		6.9		8.9		7.2	

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	10,776	238	181	528	1,724	127.6	21.7	4,845	39.0	2.4	11.5
2025	12,784	1,168	842	1,246	4,066	135.9	27.9	5,001	28.4	5.6	22.6
2026E	13,728	1,836	1,775	1,455	4,749	16.8	28.1	3,831	20.9	5.4	21.1
2027E	15,800	2,288	2,160	1,685	5,499	15.8	24.3	2,683	16.7	4.4	19.9
2028E	16,871	2,638	2,442	1,905	6,215	13.0	21.5	921	14.0	3.6	18.6

Source: Company data, Samsung Securities estimates

The company emphasized that this performance was not driven by one-time gains, but by favorable forex movements, sales recognition from high-priced orders, and productivity gains. In particular, its flexible forex strategy—compared to peers—had a clear positive impact on short-term results. Net profit surpassed market expectations further due to a lower-than-anticipated corporate tax rate. The company has raised its full-year profit outlook accordingly.

To join industrial goods-wide re-rating: The industrial goods sector as a whole has seen sustained valuation growth this year. Amid rising geopolitical uncertainty, investors are viewing industrial goods as a safer investment—thanks to its long industry cycles and large order backlogs, which provide clear visibility into future earnings. The shipbuilding industry, with its strong order pipeline, stands to benefit from this dynamic. Hanwha Ocean's strong 1Q earnings show how orders secured under today's high won-dollar exchange rate will drive future profitability across the entire shipbuilding industry. As one of the world's top shipbuilders, Hanwha Ocean still has significant upside potential. Based on upward revisions to earnings forecasts and recent industrial goods sector re-rating, we raise our target price to KRW180,000, based on 37x 2026 P/E—the domestic industrial goods sector's average multiple since the Iran situation. (Note: the current market P/E stands at 45x, above this average). However, the sustainability of Hanwha Ocean's current premium valuation relative to peers depends on securing future orders, especially for Canadian submarine and offshore structures.

Hanwha Ocean: 1Q26 review

(KRWb)	1Q26	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung Securities	Diff (%)
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Net profit	15.6	18.4		6.9		8.9		7.2	

Source: FnGuide, Samsung Securities estimates

Ship price index adjusted for forex

Chg (% y-y)	Monthly avg. Ship Price Index	Avg. USD/KRW.	Ship price in KRW
2023	7.2	1.1	8.3
2024	9.0	4.5	13.9
2025	0.0	4.2	4.2
1Q26	-2.0	3.2	1.1

Source: Bank of Korea, Clarksons

Hanwha Ocean: Sales, by segment

(KRWb)	1Q26	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)
Sales					
Commercial	2,795	2,686	4.0	2,569	8.8
Defense	318	369	-13.7	303	4.9
EPU (Offshore+Plant)	179	414	-56.8	384	-53.4
Adj.	-82	-146	nm	-113	nm
Total	3,210	3,323	-3.4	3,143	2.1
OPM (%)					
Commercial	18.0	6.5		9.1	
Defense	-6.5	0.9		13.6	
EPU (Offshore+Plant)	-41.3	6.7		-4.6	
Total	13.7	7.4		8.2	

Source: Company data

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**10,776**	**12,784**	**13,728**	**15,800**	**16,871**
Cost of goods sold	10,092	10,943	11,173	12,703	13,375
Gross profit	**684**	**1,840**	**2,555**	**3,096**	**3,496**
Gross margin (%)	6.3	14.4	18.6	19.6	20.7
SG&A expenses	446	673	719	808	858
Operating profit	**238**	**1,168**	**1,836**	**2,288**	**2,638**
Operating margin (%)	2.2	9.1	13.4	14.5	15.6
Non-operating gains (losses)	**-57**	**-325**	**-61**	**-128**	**-197**
Financial profit	697	643	796	1,033	660
Financial costs	1,172	767	1,042	1,375	841
Equity-method gains (losses)	15	-77	20	15	15
Other	403	-124	164	200	-30
Pre-tax profit	**181**	**842**	**1,775**	**2,160**	**2,442**
Taxes	-347	-404	319	475	537
Effective tax rate (%)	-191.8	-47.9	18.0	22.0	22.0
Profit from continuing operations	528	1,246	1,455	1,685	1,905
Profit from discontinued operations	0	0	0	0	0
Net profit	**528**	**1,246**	**1,455**	**1,685**	**1,905**
Net margin (%)	4.9	9.7	10.6	10.7	11.3
Net profit (controlling interests)	528	1,246	1,455	1,685	1,904
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	418	1,401	1,775	2,350	2,568
EBITDA margin (%)	3.9	11.0	12.9	14.9	15.2
EPS (parent-based) (KRW)	1,724	4,066	4,749	5,499	6,215
EPS (consolidated) (KRW)	1,724	4,066	4,750	5,499	6,216
Adjusted EPS (KRW)*	1,724	4,066	4,749	5,499	6,215

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**11,246**	**12,082**	**13,571**	**16,114**	**18,509**
Cash & equivalents	588	778	1,531	2,192	3,615
Accounts receivable	0	0	0	0	0
Inventories	2,780	3,040	3,385	3,896	4,160
Other current assets	7,878	8,263	8,655	10,027	10,734
Fixed assets	**6,598**	**8,059**	**8,667**	**8,927**	**9,117**
Investment assets	617	1,196	1,176	1,161	1,146
Tangible assets	4,648	5,273	5,986	6,275	6,493
Intangible assets	394	362	278	264	251
Other long-term assets	939	1,227	1,227	1,227	1,227
Total assets	**17,844**	**20,141**	**22,237**	**25,042**	**27,626**
Current liabilities	**10,347**	**11,200**	**11,978**	**13,085**	**13,663**
Accounts payable	985	938	1,128	1,299	1,387
Short-term debt	3,195	3,055	3,000	2,800	2,700
Other current liabilities	6,166	7,208	7,850	8,986	9,576
Long-term liabilities	**2,634**	**2,765**	**2,636**	**2,649**	**2,751**
Bonds & long-term debt	2,028	2,346	2,151	1,956	1,761
Other long-term liabilities	606	419	485	693	990
Total liabilities	**12,980**	**13,966**	**14,614**	**15,734**	**16,414**
Owners of parent equity	**4,859**	**6,170**	**7,618**	**9,303**	**11,208**
Capital stock	1,537	1,537	1,537	1,537	1,537
Capital surplus	119	182	182	182	182
Retained earnings	236	1,552	3,007	4,692	6,597
Other	2,966	2,899	2,892	2,892	2,892
Non-controlling interests' equity	**5**	**5**	**5**	**5**	**5**
Total equity	**4,863**	**6,175**	**7,623**	**9,308**	**11,212**
Net debt	4,660	4,892	3,753	2,605	844

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**-2,905**	**1,315**	**1,993**	**1,647**	**2,260**
Net profit	528	1,246	1,455	1,685	1,905
Non-cash profit and expenses	-174	338	306	446	605
Depreciation	173	208	282	306	328
Amortization	6	25	23	18	17
Other	-354	105	1	123	261
Changes in A/L from operating activities	-3,158	-121	232	-484	-250
Cash flow from investments	**-1,110**	**-1,449**	**-995**	**-597**	**-547**
Change in tangible assets	-372	-706	-999	-600	-550
Change in financial assets	41	321	0	0	0
Other	-779	-1,064	3	3	3
Cash flow from financing	**2,803**	**330**	**-245**	**-390**	**-290**
Change in debt	3,213	57	-245	-390	-290
Change in equity	-2,621	63	0	0	0
Dividends	0	0	0	0	0
Other	2,212	209	0	0	0
Change in cash	-1,211	190	753	661	1,423
Cash at beginning of year	1,799	588	778	1,531	2,192
Cash at end of year	588	778	1,531	2,192	3,615
Gross cash flow	**354**	**1,583**	**1,761**	**2,131**	**2,510**
Free cash flow	**-3,278**	**605**	**994**	**1,047**	**1,710**

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	45.5	18.6	7.4	15.1	6.8
Operating profit	nm	390.8	57.2	24.6	15.3
Net profit	230.0	135.9	16.8	15.8	13.0
Adjusted EPS**	230.3	135.9	16.8	15.8	13.0
Per-share data (KRW)					
EPS (parent-based)	1,724	4,066	4,749	5,499	6,215
EPS (consolidated)	1,724	4,066	4,750	5,499	6,216
Adjusted EPS**	1,724	4,066	4,749	5,499	6,215
BVPS	15,857	20,137	24,863	30,362	36,577
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	77.5	32.8	28.1	24.3	21.5
P/B***	8.4	6.6	5.4	4.4	3.6
EV/EBITDA	109.1	32.7	25.2	18.5	16.3
Ratios (%)					
ROE	11.5	22.6	21.1	19.9	18.6
ROA	3.3	6.6	6.9	7.1	7.2
ROIC	9.3	18.0	14.7	16.0	17.5
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	95.8	79.2	49.2	28.0	7.5
Interest coverage (x)	1.4	6.0	8.1	10.6	13.5

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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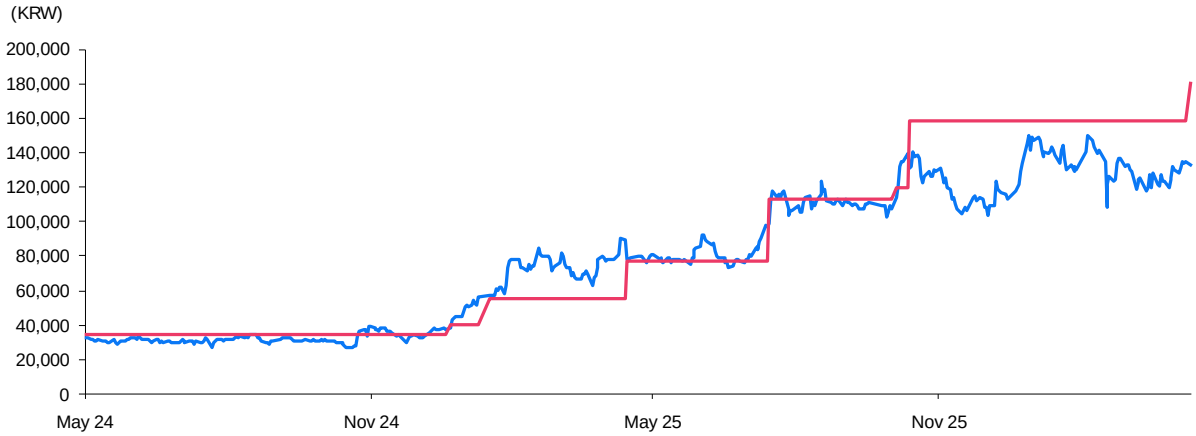
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/4/25	2025/1/6	1/31	4/29	7/30	10/20	10/28	2026/4/28
Recommendation	HOLD	HOLD	HOLD	HOLD	BUY	BUY	BUY	BUY
Target price (KRW)	34000	40000	55000	77000	113000	120000	159000	180000
Gap* (average)	-5.92	23.37	33.92	5.22	-1.68	10.48	-19.82	
(max or min)**	15.29	41.75	3.82	-5.06	9.03	16.42	-5.72	

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

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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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