COMPANY
UPDATE

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Industrial Team

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Korea Aerospace Industries

(047810)

Relative valuation burden declines

- Korea Aerospace Industries' (KAI) 1Q operating profit missed consensus due to cost adjustments on key export programs
- The miss was ascribable to rising forex rates—negative as KAI's flagship defense products heavily rely on imported critical components.
- The stock has pulled back recently after its US partner's withdrawal from a US Navy trainer program. This, however, has reduced its relative valuation premium. Reflecting a rise in domestic peers' valuation, we raise our target price to KRW190,000

WHAT'S THE STORY?

1Q26 review: Korea Aerospace Industries' (KAI) 1Q operating profit jumped 43% y-y but still fell short of consensus by 15%. The miss was attributable to cost adjustments on key export programs stemming from a weaker won. Because KAI's flagship defense products still rely on imported critical components, rising forex rates weighed on margins. As a result, we revise down our full-year earnings forecast.

(Continued on the next page)

AT A GLANCE

HOLD

Target price	KRW190,000	10.6%
Current price	**KRW171,800**	
Market cap	KRW16.7t/USD11.5b	
Shares (float)	97,475,107 (72.5%)	
52-week high/low	KRW202,000/KRW83,600	
Avg daily trading value (60-day)	KRW158.5b/ USD109.0m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Korea Aerospace Industries (%)	-7.8	77.1	95.2
Vs Kospi (%pts)	-32.3	-6.5	-32.9

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	HOLD	HOLD	
Target price	190,000	168,000	13.1%
2026E EPS	3,702	4,025	-8.0%
2027E EPS	4,972	5,016	-0.9%

SAMSUNG vs THE STREET

No of estimates	18
Target price	205,722
Recommendation	3.8

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

SUMMARY 1Q RESULTS

(KRWb)	1Q26	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	1,093	56.3	-25.5	-15.6	0.6
Operating profit	67	43.4	-12.8	-39.7	-15.4
Pre-tax profit	53	48.5	1.5	-53.9	-23.6
Net profit	42	39.7	-30.7	-52.5	-25.8
Margins (%)					
Operating profit	6.1				
Pre-tax profit	4.9				
Net profit	3.8				

Source: Company data, FnGuide, Samsung Securities estimates

VALUATION SUMMARY

	2025	2026E	2027E
Valuations (x)			
P/E	90.1	46.4	34.6
P/B	9.2	8.0	6.8
EV/EBITDA	49.5	27.2	21.4
Div yield (%)	0.3	0.6	0.7
EPS growth (% y-y)	8.0	94.1	34.3
ROE (%)	10.5	18.4	21.3
Per-share data (KRW)			
EPS	1,907	3,702	4,972
BVPS	18,776	21,476	25,248
DPS	500	1,000	1,200

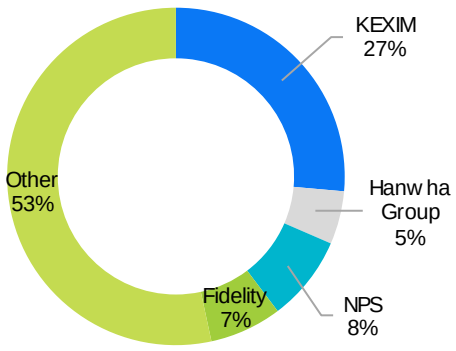
Earnings to head north in 2026: Still, we anticipate solid earnings momentum this year, considering that: 1) aircraft deliveries should surge y-y to 60 units this year (vs 15 units last year); 2) KF-21 production should scale up; and 3) sales contribution from export projects should increasingly gain momentum in 2H26. Meanwhile, considering a rise in domestic peers' valuation since the outbreak of Iran war and the solid earnings prospect (thanks to a low base), we increase our target price to KRW190,000 (based on a 2026 P/E of 51x, in line with the KRX Machinery & Equipment sector average). For reference, shares in KAI have lost around 10% since the Iran war began—partly due to Lockheed Martin's withdrawal from a US Navy trainer program, which affected KAI as its partner. But this pullback has also reduced its relative valuation premium. Given that our downgrade early this year was based on concerns about KAI trading at a premium to peers, we believe the current correction presents a buying opportunity. Hanwha Group's additional stake acquisition—0.1m KAI shares in early May, although its long-term intent remains unclear—signal confidence in KAI's fundamentals and provides meaningful support to investor sentiment and share demand.

KAI: 1Q results

(KRWb)	1Q26	4Q25	Chg (% q-q)	1Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung Securities	Diff (%)
Sales	1,093	1,467	-25.5	699	56.3	1,086	0.6	1,294	-15.6
Operating profit	67	77	-12.8	47	43.4	79	-15.4	111	-39.7
Pre-tax profit	53	52	1.5	36	48.5	69	-23.6	115	-53.9
Net profit	42	61	-30.7	30	39.7	57	-25.8	88	-52.5
Margins (%)									
Operating profit	6.1	5.2		6.7		7.3		8.6	
Pre-tax profit	4.9	3.6		5.1		6.4		8.9	
Net profit	3.8	4.1		4.3		5.2		6.8	

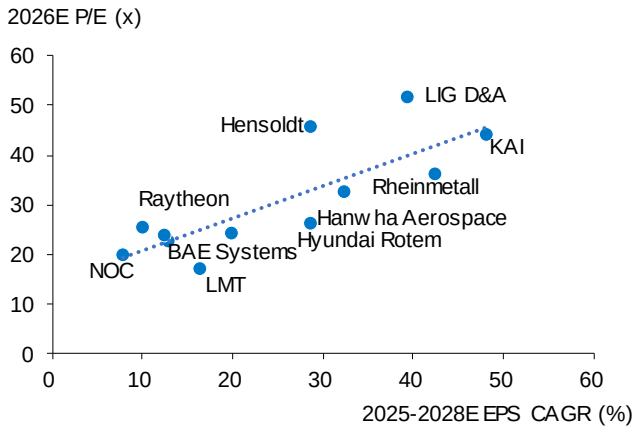
Source: FnGuide, Samsung Securities estimates

KAI: Shareholder structure



Source: Samsung Securities

Major defense peers: EPS growth vs P/E multiple



Source: Bloomberg, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**3,634**	**3,696**	**5,686**	**6,677**	**7,483**
Cost of goods sold	3,152	3,088	4,781	5,537	6,132
Gross profit	**481**	**608**	**905**	**1,139**	**1,351**
Gross margin (%)	13.3	16.5	15.9	17.1	18.1
SG&A expenses	241	339	417	483	540
Operating profit	**241**	**269**	**488**	**657**	**811**
Operating margin (%)	6.6	7.3	8.6	9.8	10.8
Non-operating gains (losses)	**-44**	**-67**	**-27**	**-27**	**-25**
Financial profit	121	119	275	343	190
Financial costs	144	177	304	370	215
Equity-method gains (losses)	-2	-4	0	0	0
Other	-18	-4	2	-0	0
Pre-tax profit	**197**	**202**	**461**	**629**	**785**
Taxes	26	15	101	145	181
Effective tax rate (%)	13.3	7.4	22.0	23.0	23.0
Profit from continuing operations	171	187	360	485	605
Profit from discontinued operations	0	0	0	0	0
Net profit	**171**	**187**	**360**	**485**	**605**
Net margin (%)	4.7	5.1	6.3	7.3	8.1
Net profit (controlling interests)	172	186	361	485	605
Net profit (non-controlling interests)	-1	1	-1	0	0
EBITDA	345	380	660	830	997
EBITDA margin (%)	9.5	10.3	11.6	12.4	13.3
EPS (parent-based) (KRW)	1,765	1,907	3,702	4,972	6,203
EPS (consolidated) (KRW)	1,753	1,922	3,691	4,972	6,203
Adjusted EPS (KRW)*	1,765	1,907	3,702	4,972	6,203

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**5,439**	**7,595**	**9,143**	**10,773**	**12,360**
Cash & equivalents	115	61	870	1,038	1,433
Accounts receivable	399	722	545	640	718
Inventories	2,359	3,637	3,739	4,390	4,920
Other current assets	2,567	3,176	3,989	4,704	5,289
Fixed assets	**2,587**	**2,775**	**2,993**	**3,270**	**3,542**
Investment assets	103	114	108	108	108
Tangible assets	913	994	1,183	1,356	1,512
Intangible assets	846	944	978	1,083	1,199
Other long-term assets	725	723	723	723	723
Total assets	**8,026**	**10,370**	**12,136**	**14,043**	**15,902**
Current liabilities	**4,915**	**6,351**	**7,582**	**8,745**	**9,716**
Accounts payable	504	609	779	915	1,025
Short-term debt	414	493	410	380	380
Other current liabilities	3,997	5,250	6,393	7,450	8,311
Long-term liabilities	**1,384**	**2,122**	**2,394**	**2,770**	**3,199**
Bonds & long-term debt	593	1,330	1,380	1,420	1,460
Other long-term liabilities	791	791	1,013	1,350	1,739
Total liabilities	**6,298**	**8,473**	**9,976**	**11,515**	**12,916**
Owners of parent equity	**1,706**	**1,830**	**2,093**	**2,461**	**2,919**
Capital stock	487	487	487	487	487
Capital surplus	128	128	128	128	128
Retained earnings	1,111	1,235	1,499	1,867	2,325
Other	-21	-21	-21	-21	-21
Non-controlling interests' equity	**21**	**67**	**67**	**67**	**67**
Total equity	**1,727**	**1,897**	**2,161**	**2,528**	**2,987**
Net debt	916	2,084	1,218	1,035	658

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**-728**	**-903**	**1,142**	**459**	**655**
Net profit	171	187	360	485	605
Non-cash profit and expenses	267	224	181	218	249
Depreciation	82	93	110	127	144
Amortization	22	18	20	20	22
Other	163	113	51	70	82
Changes in A/L from operating activities	-1,166	-1,315	601	-244	-198
Cash flow from investments	**-189**	**-186**	**-300**	**-300**	**-300**
Change in tangible assets	-161	-128	-300	-300	-300
Change in financial assets	102	2	0	0	0
Other	-130	-59	0	0	0
Cash flow from financing	**369**	**1,030**	**-33**	**10**	**40**
Change in debt	436	1,109	-33	10	40
Change in equity	0	0	0	0	0
Dividends	-49	-49	-97	-117	-146
Other	-18	-31	97	117	146
Change in cash	-543	-54	809	169	395
Cash at beginning of year	658	115	61	870	1,038
Cash at end of year	115	61	870	1,038	1,433
Gross cash flow	**438**	**411**	**541**	**702**	**853**
Free cash flow	**-889**	**-1,032**	**842**	**159**	**355**

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	-4.9	1.7	53.8	17.4	12.1
Operating profit	-2.7	11.8	81.3	34.5	23.5
Net profit	-22.8	9.6	92.1	34.7	24.7
Adjusted EPS**	-23.2	8.0	94.1	34.3	24.7
Per-share data (KRW)					
EPS (parent-based)	1,765	1,907	3,702	4,972	6,203
EPS (consolidated)	1,753	1,922	3,691	4,972	6,203
Adjusted EPS**	1,765	1,907	3,702	4,972	6,203
BVPS	17,500	18,776	21,476	25,248	29,951
DPS (common)	500	500	1,000	1,200	1,500
Valuations (x)					
P/E***	97.3	90.1	46.4	34.6	27.7
P/B***	9.8	9.2	8.0	6.8	5.7
EV/EBITDA	51.3	49.5	27.2	21.4	17.5
Ratios (%)					
ROE	10.4	10.5	18.4	21.3	22.5
ROA	2.3	2.0	3.2	3.7	4.0
ROIC	8.2	6.8	9.2	12.1	13.4
Payout ratio	28.3	26.2	27.0	24.1	24.2
Dividend yield (common)	0.3	0.3	0.6	0.7	0.9
Net debt to equity	53.0	109.8	56.4	41.0	22.0
Interest coverage (x)	7.2	4.1	5.7	7.7	9.5

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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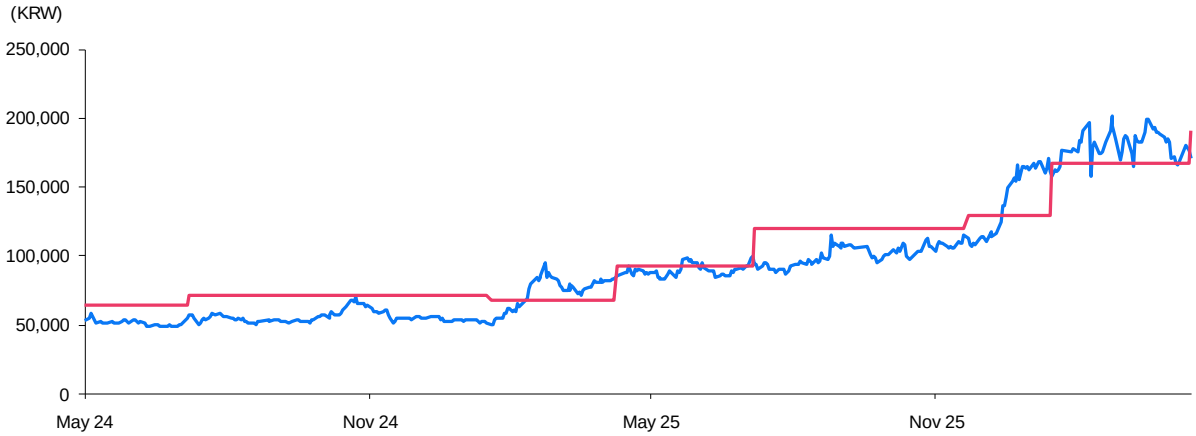
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2023/11/8	2024/7/30	2025/2/10	5/2	7/30	12/15	2026/2/6	5/8
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	HOLD	HOLD
Target price (KRW)	64000	72000	68000	93000	120000	130000	168000	190000
Gap* (average)	-20.28	-22.50	9.65	-3.39	-15.63	10.47	7.68	
(max or min)**	-8.44	-3.19	39.71	8.06	-4.08	31.69	20.24	

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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