

SECTOR UPDATE

2026. 6. 8

Industrial Team

Youngsoo Han

Team Leader

han.youngsoo@samsung.com

► Performance

| (%) | 1M | 3M | YTD |
|----------------------------|-------|-------|-------|
| KSOE | -10.6 | -6.0 | -6.6 |
| HD Hyundai Heavy | -5.9 | 19.2 | 29.2 |
| Samsung Heavy | -1.8 | 0.0 | 14.3 |
| Hanwha Ocean | -10.0 | -13.3 | -2.4 |
| HD Hyundai Marine Solution | -1.3 | 30.9 | 14.8 |
| HD Hyundai Electric | -10.0 | -0.5 | 22.7 |
| HD CE | -3.6 | 17.2 | 48.5 |
| HD Hyundai | -0.9 | 0.2 | 45.4 |
| Doosan Bobcat | 0.9 | 12.1 | 13.5 |
| KAI | -18.0 | -23.6 | 20.8 |
| LIG Nex1 | -11.0 | -13.0 | 68.9 |
| Hanwha Aerospace | -11.1 | -28.4 | 9.8 |
| Hyosung Heavy | -10.0 | 36.4 | 86.9 |
| LS Electric | -7.0 | 61.9 | 142.7 |

► Valuation summary

| (x, %) | P/B | P/E | ROE |
|----------------------------|------|------|------|
| KSOE | 1.7 | 8.5 | 22.4 |
| HD Hyundai Heavy | 6.0 | 23.9 | 27.9 |
| Samsung Heavy | 4.9 | 23.5 | 22.8 |
| Hanwha Ocean | 4.5 | 23.4 | 21.1 |
| HD Hyundai Marine Solution | 10.7 | 28.1 | 40.2 |
| HD Hyundai Electric | 12.6 | 34.1 | 42.5 |
| HD CE | 1.6 | 14.0 | 16.0 |
| HD Hyundai | 1.8 | 8.5 | 22.8 |
| Doosan Bobcat | 0.8 | 11.4 | 7.5 |
| KAI | 6.4 | 37.3 | 18.4 |
| LIG Nex1 | 9.0 | 38.7 | 25.6 |
| Hanwha Aerospace | 4.7 | 25.6 | nm |
| Hyosung Heavy | 10.1 | 39.9 | 28.7 |
| LS Electric | 13.7 | 65.6 | 22.7 |

Note: 2026 estimates

Source: Samsung Securities estimates



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Shipbuilding/Machinery Weekly

For industrials, the cycle matters more than interest rates

- The Clarksons Newbuilding Price Index remained flat w-w at 185 last week, buoyed by continued increases in prices of small and medium containerships. The Secondhand Price Index was also unchanged w-w.
- The ClarkSea Index, which represents vessel earnings, slipped 2.6% w-w to USD36,076/day. Containerships continued to outperform, contrary to expectations.
- In this week's report, we examine the impact of interest-rate changes on industrial goods companies' fundamentals.

WHAT'S THE STORY?

For industrials, the cycle matters far more than interest rates

Investors have recently focused more on the correlation between interest rates and industrial-goods business cycles. Industrials typically produce high-value, capital-intensive products with long lead times, so financing costs could, in theory, affect both pricing and purchasing decisions. Theoretically, higher long-term interest rates raise buyers' cost of capital, potentially constraining funding for financially vulnerable customers. Interest rates can also pressure product pricing: industrial goods are often treated as assets that are valued based on the present value of their future earnings. Higher rates imply a higher discount rate, which reduces the present value of those future cash flows.

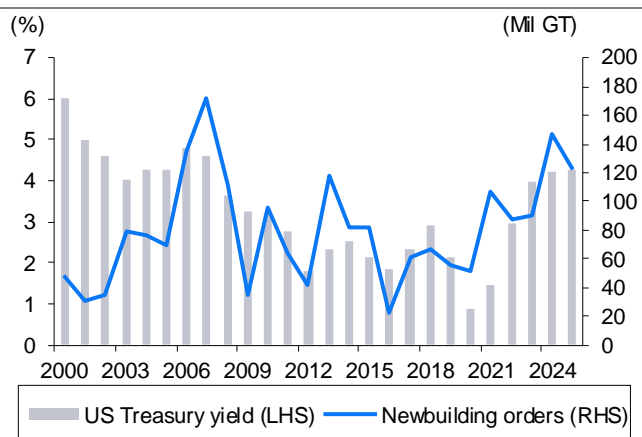
While these concerns are understandable, we believe it is premature to factor them materially into share prices. Industrial goods are driven far more by industry cycles than by interest-rate movements—particularly in terms of order volumes and pricing. Shipbuilding is the clearest example. Although ships are assets requiring long-term financing, historical data show no statistically significant correlation between shipbuilding order volumes and interest rates. Vessel prices are far more sensitive to freight-rate expectations and vessel supply-demand dynamics. In fact, during booms, shipyards have often passed through rising construction costs—including those linked to higher rates—by raising contract prices or requiring higher advance-payment ratios.

Power equipment tells a similar story. In North America, severe supply shortages have enabled manufacturers to pass tariff-related costs on to customers, even under contracts signed before tariff implementation. As in shipbuilding, higher financing costs can be absorbed into new contract prices.

In defense, domestic demand is driven far more by government budget allocations and strategic priorities than by interest rates. For exports, geopolitical uncertainty outsizes financial conditions as the primary driver.

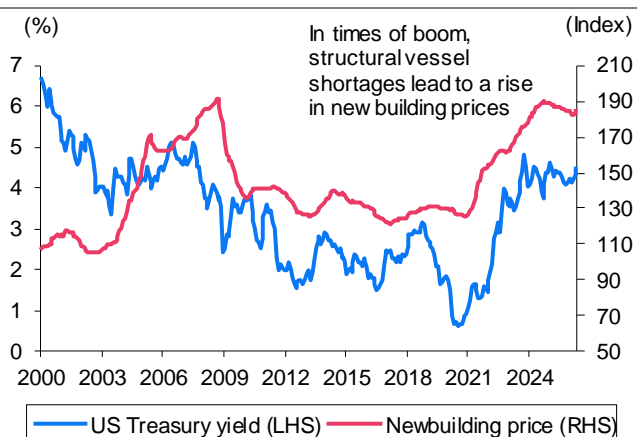
In short, with the industrial-goods sector in a broad upturn, the impact of interest rates on corporate fundamentals should be limited. More importantly, most major Korean industrial-goods companies now hold net cash positions after the prolonged upturn, meaning higher interest rates could even lift their financial income.

Newbuilding orders vs long-term interest rates*



Note: *10-year US Treasury yield
Source: Clarksons, FRED

Newbuilding prices vs long-term interest rates*



Note: 10-year US Treasury yield
Source: Clarksons, FRED

Industry news

SHI finally signs FLNG contract: Samsung Heavy Industries (SHI) has secured a contract for one floating liquefied natural gas (FLNG) facility in North America. The contract value of USD2.9b (KRW4.3t) is larger than was anticipated, thanks to an expansion of SHI's project responsibilities (to include design). This contract brings the ytd cumulative value of SHI's orders to USD8.3b, surpassing last year's full-year total (and reaching 60% of this year's target). Additional FLNG contracts are expected before year-end.

Explosion at Hanwha Aerospace's Daejeon facility: An explosion at Hanwha Aerospace's facility in Daejeon has resulted in a number of casualties. The company has suspended operations for two days across all nine of its domestic sites and initiated a special safety inspection. Police and the Ministry of Employment and Labor have launched investigations into the cause of the accident.

Uncertainty over US warship construction program persists: The potential involvement of allied nations in US warship construction remains uncertain. US media, citing White House officials, reported that up to USD1.85b in US Navy R&D funding could potentially be used to support hull procurement for warships built in Korea or Japan. The report named Hanwha Ocean, HD Hyundai, SHI, Mitsubishi Heavy Industries, Kawasaki Heavy Industries, and JMU as potential partners. However, Korean media reported that the US Congress passed an amendment during the review of the fiscal year 2027 National Defense Authorization Act, prohibiting the use of any Navy funds for procurement contracts involving combat vessels constructed at foreign shipyards.

Court dismisses HD HHI's request for injunction against KDDX score demerit: HD Hyundai Heavy Industries' (HD HHI) request for an injunction to block the extension of a score demerit for a security breach has been denied. The company had asked that the score demerit tied to the Korean Destroyer Next Generation (KDDX) program be calculated from the date of initial conviction—*ie*, when the court first ruled it had illegally acquired classified materials.

HD Hyundai pursuing SMR-powered PCTC development: At the Posidonia 2026 exhibition, HD Hyundai received Approval in Principle (AiP) for the conceptual design of an SMR-powered vessel. The firm, which is developing a containership powered by an SMR propulsion system, will now expand the application of the technology to pure car and truck carriers (PCTCs).

HD Construction Equipment secures Polish military bulldozer contract: HD Construction Equipment has signed a major contract with the Polish military to supply 50 units of its 15-tonne Develon bulldozer, in a contract valued at approximately KRW27b. This marks the company's first large military equipment order in Europe.

Shipbuilding weekly indices

| | This week | A week ago | | Vs end-2025 | |
|---------------------------------------|--------------|--------------|---------|-------------|---------|
| | June 5, 2026 | May 29, 2026 | Chg (%) | End-2025 | Chg (%) |
| New building prices (USDm) | | | | | |
| Overall (indexed) | 185.0 | 185.0 | -0.0 | 184.7 | 0.2 |
| Bulkers (Capesize) | 75.5 | 75.5 | 0.0 | 75.0 | 0.7 |
| Tankers (VLCC) | 130.5 | 130.5 | 0.0 | 128.0 | 2.0 |
| Tankers (51,000 DWT PCs) | 51.0 | 51.0 | 0.0 | 49.0 | 4.1 |
| Containerships (22,000 TEU) | 237.0 | 237.0 | 0.0 | 235.0 | 0.9 |
| Containerships (13,000 TEU) | 149.0 | 148.5 | 0.3 | 145.5 | 2.4 |
| LNG carriers (174,000m ³) | 248.5 | 248.5 | 0.0 | 248.0 | 0.2 |
| Secondhand prices (USDm)* | | | | | |
| Overall | 210.0 | 210.0 | 0.0 | 191.1 | 9.9 |
| Bulkers (Capesize) | 71.5 | 71.0 | 0.7 | 66.0 | 8.3 |
| Tankers (VLCC) | 145.0 | 145.0 | 0.0 | 120.0 | 20.8 |
| Tankers (51,000 DWT PCs) | 51.0 | 51.0 | 0.0 | 43.0 | 18.6 |
| Daily charter rates (USD)** | | | | | |
| Bulkers (Capesize, eco) | 32,000 | 33,200 | -3.6 | 24,850 | 28.8 |
| Bulkers (Capesize, non-eco) | 29,250 | 29,800 | -1.8 | 23,850 | 22.6 |
| Tankers (VLCC, eco) | 116,750 | 116,750 | 0.0 | 65,500 | 78.2 |
| Tankers (VLCC, non-eco) | 106,500 | 106,500 | 0.0 | 58,000 | 83.6 |
| Freight rate index | | | | | |
| ClarkSea Index (USD/day) | 36,076 | 37,056 | -2.6 | 29,856 | 20.8 |
| BDI | 2,981 | 3,224 | -7.5 | 1,877 | 58.8 |
| WS (based on Saudi route) | 373 | 373 | 0.0 | 58 | 547.8 |
| CCFI | 1,412 | 1,367 | 3.3 | 1,147 | 23.1 |
| SCFI | 2,726 | 2,572 | 6.0 | 1,656 | 64.6 |
| Energy prices*** | | | | | |
| Natural gas (USD/mil BTU) | 3.0 | 3.3 | -9.0 | 4.0 | -23.8 |
| Oil (USD/bbl) | 90.5 | 87.4 | 3.6 | 57.4 | 57.7 |
| MGO-HSFO (USD/tonne) | 519.8 | 467.8 | 11.1 | 262.8 | 97.8 |
| VLSFO-HSFO (USD/tonne) | 147.0 | 159.8 | -8.0 | 71.8 | 104.9 |

Note: *Based on 5-year-old vessels;

**1-year charters;

***Based on WTI spot (oil) and Henry Hub (natural gas) prices

Source: Clarksons, Bloomberg, Samsung Securities

Share performances and valuations

Shipbuilding: Share performance and valuations

| (%) | Share performance | | | | 2026 valuation | | |
|------------------------------|-------------------|---------|----------|------|----------------|---------|------|
| | 1 week | 1 month | 3 months | Ytd | P/B (x) | P/E (x) | ROE |
| HD KSOE* | -10.6 | -17.4 | -6.0 | -6.6 | 1.7 | 8.5 | 22.4 |
| HD Hyundai Heavy Industries* | -5.9 | 0.9 | 19.2 | 29.2 | 6.0 | 23.9 | 27.9 |
| Samsung Heavy Industries* | -1.8 | -14.5 | 0.0 | 14.3 | 4.9 | 23.5 | 22.8 |
| Hanwha Ocean* | -10.0 | -15.1 | -13.3 | -2.4 | 4.5 | 23.4 | 21.1 |
| HD Hyundai Marine Solution* | -1.3 | -15.5 | 30.9 | 14.8 | 10.7 | 28.1 | 40.2 |
| Yangzijiang | -2.7 | -14.5 | -15.5 | 1.7 | 2.0 | 7.7 | 27.4 |
| CSSC Holdings | -3.8 | -12.7 | -7.7 | 8.1 | 1.7 | 14.2 | 12.7 |
| CSSC Offshore | -3.8 | -15.5 | -25.3 | -4.6 | n/a | 24.9 | 7.6 |
| ST Engineering | -4.3 | -0.3 | -0.5 | 29.3 | 11.6 | 32.6 | 37.0 |
| Seatrium | -4.7 | -14.8 | -13.3 | -6.5 | 0.9 | 14.9 | 6.5 |
| Mitsubishi | -0.4 | -17.4 | -20.4 | -1.3 | 4.9 | 44.2 | 11.6 |
| Kawasaki | -7.9 | -8.3 | -11.6 | 39.2 | 3.1 | 26.0 | 12.7 |

Note: *Samsung Securities estimates

Source: Bloomberg, Samsung Securities estimates

Machinery: Share performance and valuations

| (%) | Share performance | | | | 2026 valuation | | |
|----------------------------|-------------------|---------|----------|-------|----------------|---------|------|
| | 1 week | 1 month | 3 months | Ytd | P/B (x) | P/E (x) | ROE |
| HD Hyundai Electric* | -10.0 | -32.0 | -0.5 | 22.7 | 12.6 | 34.1 | 42.5 |
| HD Construction Equipment* | -3.6 | -25.3 | 17.2 | 48.5 | 1.6 | 14.0 | 16.0 |
| HD Hyundai* | -0.9 | -6.0 | 0.2 | 45.4 | 1.8 | 8.5 | 22.8 |
| Doosan Bobcat* | 0.9 | -12.2 | 12.1 | 13.5 | 0.8 | 11.4 | 7.5 |
| KAI* | -18.0 | -22.1 | -23.6 | 20.8 | 6.4 | 37.3 | 18.4 |
| LIG Nex1* | -11.0 | -26.1 | -13.0 | 68.9 | 9.0 | 38.7 | 25.6 |
| Hanwha Aerospace* | -11.1 | -27.4 | -28.4 | 9.8 | 4.7 | 25.6 | nm |
| Hyosung Heavy* | -10.0 | -27.8 | 36.4 | 86.9 | 10.1 | 39.9 | 28.7 |
| LS Electric* | -7.0 | -30.8 | 61.9 | 142.7 | 13.7 | 65.6 | 22.7 |
| Lockheed Martin | -1.3 | 1.8 | -22.0 | 8.3 | 12.2 | 61.2 | 21.3 |
| Raytheon | 0.7 | 2.4 | -13.7 | -1.3 | 11.9 | 17.5 | 83.4 |
| Siemens | -0.4 | 0.2 | 19.6 | 12.4 | 3.5 | 26.1 | 13.7 |
| Caterpillar | 3.2 | -2.4 | 32.8 | 57.9 | 3.2 | 24.4 | 13.5 |
| Komatsu | 2.5 | 3.5 | -6.1 | 34.8 | 18.7 | 36.8 | 59.4 |
| Kubota | 1.5 | 11.5 | 2.3 | 30.2 | 1.9 | 16.8 | 11.2 |

Note: *Samsung Securities estimates

Source: Bloomberg, Samsung Securities estimates

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Samsung Electronics Bldg., 11, 74-gil,
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Tel: 02 2020 8000 / www.samsungpop.com

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Samsung Securities America Limited

1330 Avenue of the Americas, 10th Floor, New York,
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Suite 4511, Two International Finance Center,
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Tel: 852-3411-3608
Fax: 852-2114-0290

BEIJING

Samsung Securities Beijing Representative Office

Rm. 910, The Exchange Building No 118 JianGuo Lu, Chao
Yang District, Beijing, China
Tel: 86-10-6522-1855 (extension 7891)
Fax: 86-10-6522-1855 (extension 7889)

TOKYO

Samsung Securities Tokyo Representative Office

#106-8532 19F, Roppongi T-Cube 3-1-1,
Roppongi Minato-ku Tokyo, Japan
Tel: 81-3-6333-2952
Fax: 81-3-6333-2953



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