

SECTOR UPDATE

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Industrial Team

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Team Leader

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► Performance

(%)	1W	3M	YTD
KSOE	3.3	-5.0	-3.6
HD Hyundai Heavy	-2.1	9.6	26.5
Samsung Heavy	-1.6	-10.7	12.4
Hanwha Ocean	2.0	-16.3	-0.4
HD Hyundai Marine Solution	10.8	42.2	27.2
HD Hyundai Electric	12.3	15.7	37.9
HD CE	1.6	13.1	50.8
HD Hyundai	-9.9	-5.9	31.1
Doosan Bobcat	0.6	9.5	14.2
KAI	2.5	-21.8	23.8
LIG D&A	7.9	8.7	82.3
Hanwha Aerospace	4.5	-25.9	14.7
Hyosung Heavy	1.2	30.8	89.2
LS Electric	1.5	54.0	146.5

► Valuation summary

(x, %)	P/B	P/E	ROE
KSOE	1.8	8.8	22.4
HD Hyundai Heavy	5.9	23.3	27.9
Samsung Heavy	4.9	23.1	22.8
Hanwha Ocean	4.6	23.8	21.1
HD Hyundai Marine Solution	11.8	31.1	40.2
HD Hyundai Electric	14.2	38.3	42.5
HD CE	1.6	14.2	16.0
HD Hyundai	1.6	7.6	22.8
Doosan Bobcat	0.8	11.4	7.5
KAI	6.6	38.2	18.4
LIG D&A	9.7	41.8	25.6
Hanwha Aerospace	4.9	26.8	nm
Hyosung Heavy	10.2	40.4	28.7
LS Electric	13.9	66.7	22.7

Note: 2026 estimates

Source: Samsung Securities estimates



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Shipbuilding/Machinery Weekly

Impact of weak global defense shares on domestic defense firms

- The Clarksons Newbuilding Price Index remained flat w-w at 185 last week, supported by containership prices, which unexpectedly remained strong. The Secondhand Price Index climbed 1pt w-w.
- The ClarkSea Index, which represents vessel earnings, slipped 0.6% w-w to USD35,853/day, falling mainly due to weakness in the bulk carrier segment.
- In this week's report, we examine the impact of overseas defense stocks' valuation weakness on domestic defense names.

WHAT'S THE STORY?

With global defense stocks weak, picking winning local defense names

Foreign defense contractors' valuations continue to underperform, as: 1) the rising prospects for a ceasefire have dampened share-price momentum; and 2) their earnings growth has lagged expectations. Some firms are experiencing longer delays in converting surging order backlogs into profits due to production disruptions.

In contrast, Korean defense firms are maintaining solid earnings growth without significant production disruptions. Their initial appeal stemmed from their rapid delivery timelines, and ongoing capacity expansions should support solid earnings growth over the longer term—a valuation premium (vs their global peers) is warranted. That said, valuation compression across the global defense sector is dragging down Korean names as well. Although Korean defense stocks have recently corrected, their valuations remain elevated versus their international competitors.

Aside from a recovery in their foreign peers' valuations, the most credible path to alleviating valuation pressure on Korean defense firms would be a hike in earnings forecasts. Considering capacity expansion schedules, a near-term upward revision in earnings forecasts is possible. Yet, utilization at major Korean defense firms is at its highest level in a decade. While some firms operate below 80% utilization, supply-chain and component constraints limit the possibility of near-term production growth. An alternative path is reallocating domestic delivery commitments to higher-margin export projects—exemplified by gap-filler exports to Poland and LIG Defense & Aerospace's expanded exports to the Middle East in 1Q. However, such cases remain the exception. Moreover, if geopolitical tensions ease, earnings concerns may surface. In conclusion, the potential for Korean defense stocks to become attractively valued through a hike in earnings revisions is limited. The most rational approach is to select companies with the lowest valuation burdens relative to earnings forecasts for them. Hyundai Rotem and Hanwha Aerospace are compelling choices.

(Continued on the next page)

Utilization rates, by major defense company

(%)	Hanwha Aerospace *	LIG D&A	KAI	Hyundai Rotem*
2025	88.4	78.1	87.9	108.7
10-year high	89.2	78.1	87.9	110.8
10-year low	78.0	65.3	71.0	91.6

Note: *Only defense businesses

Source: Company data

Industry news

SHI secures additional FLNG contract: Samsung Heavy Industries (SHI) has signed an additional contract for the construction of an FLNG facility, widely believed to be for the Coral Norte project. This follows a prior pre-construction agreement already underway with the client. Combined, the total project value—including the pre-construction phase and this new contract—amounts to USD2.39b. With this order, the company is estimated to have secured USD9.6b worth of new orders ytd, exceeding its: 1) new orders landed in full-year 2025 by 22%; and 2) the company’s full-year 2026 new-order target by 69%.

Hanwha Ocean leading in KDDX bid: Hanwha Ocean is reported to have narrowly edged out HD Hyundai Heavy Industries (HD HHI) in the evaluation for detailed design and lead ship construction of KDDX-class frigates, winning by a margin of just 0.6425 points. HD HHI is believed to have been penalized significantly (1.2 points) by a prior security incident. As HD HHI has filed an injunction seeking to block the application of the penalty and has appealed its rejection, the final outcome remains uncertain. Nevertheless, Hanwha Ocean now holds a favorable position in the KDDX program, which aims to build six next-generation frigates for the Korean Navy at an estimated total cost of KRW7.8t.

India to place additional K9 Vajra orders: The Indian media has reported that the Indian Army is moving forward with an additional order for 300 K9 Vajra self-propelled howitzers (worth an estimated KRW3.6t). The K9 Vajra is a joint product of Hanwha Aerospace and India’s Larsen & Toubro (L&T), with final assembly conducted locally by L&T under a technology transfer agreement.

Poland maintains K2 tank procurement commitment: The Polish government has reaffirmed its intention to proceed with the original plan to acquire 1,000 K2 Black Panther Main Battle Tanks, despite recent political changes. This was confirmed by an official response from the Deputy Minister of National Defense to a written inquiry from a former Defense Minister.

Germany-France MGCS program faces delays: The Main Ground Combat System (MGCS) program between Germany and France is increasingly at risk of prolonged delays, following France’s decision to reduce its financial contribution due to fiscal pressure. Reports indicate that Germany may pursue an independent next-generation tank development path rather than continue with the joint model.

Hanwha Aerospace CEO and site manager indicted under the Serious Accidents Punishment Act: The Daejeon Regional Office of Employment and Labor and Daejeon Metropolitan Police Agency have indicted Hanwha Aerospace’s CEO and site supervisors under

the Serious Accidents Punishment Act and the Occupational Safety and Health Act. In response, Hanwha Aerospace has established an independent Safety Culture Innovation Committee, comprising 11 external experts, to prevent the recurrence of such an incident.

HHI to build ultra-high voltage circuit breaker plant in the US: Hyosung HICO, a US subsidiary of Hyosung Heavy Industries (HHI), has signed a joint venture agreement with a subsidiary of Quanta Services (a North American energy infrastructure solutions provider). The JV should begin production of ultra-high voltage gas-insulated circuit breakers ranging from 72.5 kV to 800 kV in Oct 2026.

President Trump to convene US defense industry executives: According to media reports, President Trump plans to convene US defense industry leaders this week to urge the rapid expansion of weapons production capacity.

Shipbuilding weekly indices

	This week	A week ago		Vs end-2025	
	June 12, 2026	June 5, 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)	237.5	237.0	0.2	235.0	1.1
Containerships (13,000 TEU)	150.0	149.0	0.7	145.5	3.1
LNG carriers (174,000m ³)	248.5	248.5	0.0	248.0	0.2
Secondhand prices (USDm)*					
Overall	211.0	210.0	0.5	191.1	10.4
Bulkers (Capesize)	71.5	71.5	0.0	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)	31,400	32,000	-1.9	24,850	26.4
Bulkers (Capesize, non-eco)	27,532	29,250	-5.9	23,850	15.4
Tankers (VLCC, eco)	117,750	116,750	0.9	65,500	79.8
Tankers (VLCC, non-eco)	107,500	106,500	0.9	58,000	85.3
Freight rate index					
ClarkSea Index (USD/day)	35,853	36,076	-0.6	29,856	20.1
BDI	2,729	2,981	-8.5	1,877	45.4
WS (based on Saudi route)	373	373	0.0	58	547.8
CCFI	1,480	1,412	4.9	1,147	29.1
SCFI	2,985	2,726	9.5	1,656	80.2
Energy prices***					
Natural gas (USD/mil BTU)	3.1	3.0	0.7	4.0	-23.3
Oil (USD/bbl)	84.9	90.5	-6.3	57.4	47.8
MGO-HSFO (USD/tonne)	504.8	519.8	-2.9	262.8	92.1
VLSFO-HSFO (USD/tonne)	143.8	147.0	-2.2	71.8	100.3

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*	3.3	-14.8	-5.0	-3.6	1.8	8.8	22.4
HD Hyundai Heavy Industries*	-2.1	-11.6	9.6	26.5	5.9	23.3	27.9
Samsung Heavy Industries*	-1.6	-13.5	-10.7	12.4	4.9	23.1	22.8
Hanwha Ocean*	2.0	-7.7	-16.3	-0.4	4.6	23.8	21.1
HD Hyundai Marine Solution*	10.8	5.6	42.2	27.2	11.8	31.1	40.2
Yangzijiang	-2.5	-14.2	-13.3	-0.9	1.9	7.5	27.5
CSSC Holdings	-2.9	-16.5	-0.8	4.9	1.6	13.8	12.7
CSSC Offshore	-4.3	-20.2	-22.5	-8.6	n/a	23.8	7.6
ST Engineering	-2.9	-1.9	-2.8	25.5	11.3	31.6	37.0
Seatrium	-4.0	-16.4	-18.1	-10.2	0.9	13.7	6.7
Mitsubishi	-6.6	-19.7	-25.4	-7.8	4.6	41.3	11.6
Kawasaki	-1.9	-17.1	-13.7	36.5	3.1	25.5	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*	12.3	-17.3	15.7	37.9	14.2	38.3	42.5
HD Construction Equipment*	1.6	-15.2	13.1	50.8	1.6	14.2	16.0
HD Hyundai*	-9.9	-15.7	-5.9	31.1	1.6	7.6	22.8
Doosan Bobcat*	0.6	-6.0	9.5	14.2	0.8	11.4	7.5
KAI*	2.5	-13.6	-21.8	23.8	6.6	38.2	18.4
LIG D&A*	7.9	-10.4	8.7	82.3	9.7	41.8	25.6
Hanwha Aerospace*	4.5	-14.6	-25.9	14.7	4.9	26.8	nm
Hyosung Heavy*	1.2	-19.7	30.8	89.2	10.2	40.4	28.7
LS Electric*	1.5	-21.8	54.0	146.5	13.9	66.7	22.7
Lockheed Martin	3.2	3.9	-16.4	11.7	14.1	69.6	21.5
Raytheon	1.4	3.0	-10.3	0.1	12.2	18.1	83.2
Siemens	-1.6	-0.9	20.0	10.6	3.6	26.5	13.7
Caterpillar	0.7	0.9	31.2	58.9	3.1	24.2	13.2
Komatsu	-3.2	-1.7	-8.0	30.5	18.8	37.0	59.4
Kubota	-6.2	-6.5	0.9	22.2	1.8	16.3	11.2

Note: *Samsung Securities estimates

Source: Bloomberg, Samsung Securities estimates

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