COMPANY UPDATE

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HD Hyundai Electric (267260)

Focus on sustained profit growth

- HD Hyundai Electric's 2Q sales and operating profit continued to grow, in line with market expectations.
- Despite top-line growth, operating margin remained flat q-q.
- The company maintains industry-leading margins, with absolute profits still on an upward trajectory. Even after adjusting for sector-wide valuation compression, the stock still offers meaningful upside potential—indicating the recent correction was excessive.

AT A GLANCE

BUY

Target price	KRW1,160,000 64.5%
Current price	**KRW705,000**
Market cap	KRW25.4t/USD17.4b
Shares (float)	36,047,135 (62.7%)
52-week high/low	KRW1,420,000/KRW446,500
Avg daily trading value (60-day)	KRW195.5b/ USD133.6m

ONE-YEAR PERFORMANCE

	1M	6M	12M
HD Hyundai Electric (%)	-20.2	-21.8	44.2
Vs Kospi (%pts)	11.5	-32.9	-23.2

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	1,160,000	1,530,000	-24.2%
2026E EPS	26,890	28,047	-4.1%
2027E EPS	32,570	34,059	-4.4%

SAMSUNG vs THE STREET

No of estimates	14
Target price	1,442,143
Recommendation	4.0

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

WHAT'S THE STORY?

Solid, in-line 2Q results: HD Hyundai Electric reported 2Q sales and operating profit growth of 10% and 11% q-q, respectively, meeting consensus. Despite top-line momentum, operating margin remained flat q-q, primarily due to a shift in sales mix toward distribution equipment, which rose from 13% in 1Q to 20% in 2Q—a segment with notably lower profitability than power equipment. The margin differential between the two segments proved wider than anticipated. However, given recent price increases across the power equipment segment and distribution equipment's still-modest contribution to overall revenue, we make only marginal adjustments to our earnings forecasts.

Unwarranted discount: Despite a straightforward business model and industry-leading profitability, the stock trades at a significant valuation discount. Paradoxically, investor concerns have emerged over a potential peak in profitability—even though HD Hyundai Electric was among the first movers to execute structural growth, margin expansion, and capacity scaling. While 2Q margins remained among the highest in the sector, the lack of further improvement was disappointing.

(Continued on the next page)

SUMMARY 2Q RESULTS

(KRWb)	2Q26	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	1,142	26.0	10.2	0.8	2.7
Operating profit	287	37.3	11.1	-5.2	0.6
Pre-tax profit	279	52.9	-1.9	-9.3	-3.7
Net profit	207	45.1	-0.7	-13.3	-8.3
Margins (%)					
Operating profit	25.1				
Pre-tax profit	24.4				
Net profit	18.1				

Source: Company data, Fnguide, Samsung Securities estimates

VALUATION SUMMARY

	2025	2026E	2027E
Valuation (x)			
P/E	34.7	26.2	21.6
P/B	12.5	9.4	7.2
EV/EBITDA	23.0	18.7	15.1
Div yield (%)	1.0	1.2	1.4
EPS growth (% y-y)	46.1	32.3	21.1
ROE (%)	41.5	41.1	37.8
Per-share data (KRW)			
EPS	20,324	26,890	32,570
BVPS	56,281	74,671	97,641
DPS	7,100	8,500	9,600

Samsung Securities

Yet, this does not justify the current discount for three key reasons: 1) The company's margin advantage over peers is unlikely to narrow meaningfully in the near term. Even without additional margin expansion, absolute profits are set to grow, supported by ongoing capacity ramp-up and rising order unit prices. 2) The order backlog—critical to future growth—remains robust: 1H orders reached 76% of full-year 2025 levels. The company recently raised its annual order target, reflecting faster-than-expected production scaling. 3) It has successfully entered the data center infrastructure market, securing major contracts, with additional wins expected. Reflecting broader multiple compression in Korea's power equipment sector, we cut our target price to KRW1,160,000 (based on an industry-average P/E of 36x; FnGuide). This adjustment reflects our view that recent price corrections have been excessive and that the company's valuation discount relative to peers is unjustified. Even after the target price cut, the stock still retains meaningful upside potential—suggesting the recent pullback was overdone.

HD Hyundai Electric: 2Q26 review

(KRWb)	2Q26	1Q26	Chg (% q-q)	2Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung Securities	Diff (%)
Sales	1,142	1,037	10.2	906	26.0	1,112	2.7	1,133	0.8
Operating profit	287	258	11.1	209	37.3	285	0.6	303	-5.2
Pre-tax profit	279	284	-1.9	182	52.9	290	-3.7	307	-9.3
Net profit	207	208	-0.7	142	45.1	225	-8.3	238	-13.3
Margins (%)									
Operating profit	25.1	24.9		23.1		25.7		26.7	
Pre-tax profit	24.4	27.4		20.1		26.0		27.1	
Net profit	18.1	20.1		15.7		20.3		21.0	

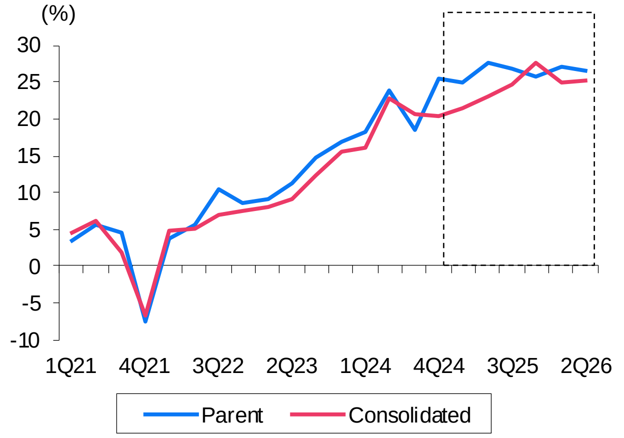
Source: FnGuide, Samsung Securities estimates

HD Hyundai Electric: Divisional results

(KRWb)	2Q26	1Q26	Chg (% q-q)	2Q25	Chg (% y-y)
Power	536	564	-5.0	484	10.7
Distribution	231	136	70.1	192	20.2
Rotating	160	185	-13.5	146	9.5
Parent total	927	885	4.8	822	12.7
Subsidiaries and consolidation adjustment	215	152	41.5	84	156.0
Total	1,142	1,037	10.2	906	26.0
% of sales					
Distribution	46.9	54.4		53.4	
Rotating	20.2	13.1		21.2	
Parent total	14.0	17.8		16.1	
Subsidiaries and consolidation adjustment	81.2	85.4		90.7	
Total	18.8	14.6		9.3	

Source: HD Hyundai Electric

Operating margin: Parent vs consolidated



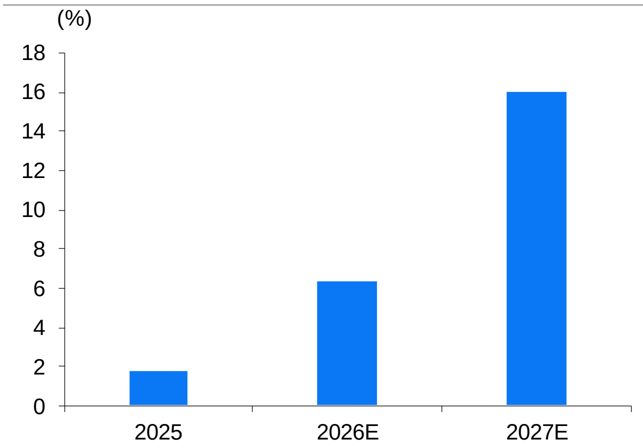
Source: HD Hyundai Electric

2026 orders guidance revised

(USDm)	
After upward revision	5,185
Before upward revision	4,222
Chg (%)	23
2025 orders	4,273
Chg (%)	21

Source: HD Hyundai Electric

Data centers as portion of power sector orders



Source: HD Hyundai Electric

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**3,322**	**4,079**	**4,643**	**5,462**	**6,662**
Cost of goods sold	2,278	2,687	2,976	3,445	4,125
Gross profit	**1,045**	**1,393**	**1,667**	**2,016**	**2,537**
Gross margin (%)	31.4	34.1	35.9	36.9	38.1
SG&A expenses	376	398	439	498	584
Operating profit	**669**	**995**	**1,228**	**1,518**	**1,954**
Operating margin (%)	20.1	24.4	26.4	27.8	29.3
Non-operating gains (losses)	**-19**	**-39**	**48**	**27**	**41**
Financial profit	146	133	118	126	50
Financial costs	153	156	88	119	9
Equity-method gains (losses)	-0	0	0	0	0
Other	-12	-16	18	20	0
Pre-tax profit	**650**	**956**	**1,275**	**1,545**	**1,994**
Taxes	152	225	306	371	479
Effective tax rate (%)	23.3	23.5	24.0	24.0	24.0
Profit from continuing operations	498	732	969	1,174	1,516
Profit from discontinued operations	0	0	0	0	0
Net profit	**498**	**732**	**969**	**1,174**	**1,516**
Net margin (%)	15.0	17.9	20.9	21.5	22.8
Net profit (controlling interests)	502	733	969	1,174	1,516
Net profit (non-controlling interests)	-3	-1	0	0	0
EBITDA	734	1,069	1,305	1,605	2,046
EBITDA margin (%)	22.1	26.2	28.1	29.4	30.7
EPS (parent-based) (KRW)	13,914	20,324	26,890	32,570	42,049
EPS (consolidated) (KRW)	13,827	20,302	26,890	32,570	42,049
Adjusted EPS (KRW)*	13,914	20,324	26,890	32,570	42,049

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**2,764**	**3,426**	**4,285**	**5,638**	**7,410**
Cash & equivalents	570	951	1,206	1,298	1,482
Accounts receivable	797	736	1,018	1,272	1,825
Inventories	1,081	1,267	1,526	2,245	3,012
Other current assets	316	473	536	824	1,092
Fixed assets	**1,032**	**1,344**	**1,515**	**1,689**	**1,726**
Investment assets	6	9	9	9	9
Tangible assets	730	943	1,125	1,298	1,335
Intangible assets	66	65	55	55	55
Other long-term assets	230	327	327	327	327
Total assets	**3,796**	**4,770**	**5,800**	**7,327**	**9,136**
Current liabilities	**2,001**	**2,549**	**2,537**	**2,783**	**3,011**
Accounts payable	326	402	445	524	639
Short-term debt	20	19	100	50	40
Other current liabilities	1,655	2,128	1,991	2,209	2,332
Long-term liabilities	**287**	**188**	**572**	**1,024**	**1,522**
Bonds & long-term debt	167	47	47	27	7
Other long-term liabilities	120	141	525	997	1,516
Total liabilities	**2,288**	**2,737**	**3,109**	**3,807**	**4,533**
Owners of parent equity	**1,502**	**2,029**	**2,692**	**3,520**	**4,603**
Capital stock	180	180	180	180	180
Capital surplus	402	402	402	402	402
Retained earnings	816	1,323	1,986	2,814	3,897
Other	104	124	124	124	124
Non-controlling interests' equity	**6**	**4**	**0**	**0**	**0**
Total equity	**1,508**	**2,033**	**2,692**	**3,520**	**4,603**
Net debt	-310	-784	-967	-1,144	-1,328

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**1,034**	**960**	**423**	**412**	**333**
Net profit	498	732	969	1,174	1,516
Non-cash profit and expenses	174	34	143	187	199
Depreciation	57	65	77	86	92
Amortization	9	9	6	5	5
Other	109	-39	60	96	102
Changes in A/L from operating activities	361	193	-689	-949	-1,382
Cash flow from investments	**-143**	**-226**	**-249**	**-249**	**-119**
Change in tangible assets	-121	-233	-249	-249	-119
Change in financial assets	-4	11	0	0	0
Other	-18	-4	0	0	0
Cash flow from financing	**-518**	**-350**	**81**	**-70**	**-30**
Change in debt	-345	-126	81	-70	-30
Change in equity	0	0	0	0	0
Dividends	-76	-221	-306	-346	-433
Other	-97	-3	306	346	433
Change in cash	394	381	255	93	183
Cash at beginning of year	176	570	951	1,206	1,298
Cash at end of year	570	951	1,206	1,298	1,482
Gross cash flow	**672**	**766**	**1,112**	**1,361**	**1,715**
Free cash flow	**912**	**726**	**173**	**162**	**213**

Note: *Excluding one-off items
**Fully diluted, excluding one-off items
***From companies subject to equity-method valuation
Source: Company data, Samsung Securities estimates

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	22.9	22.8	13.8	17.6	22.0
Operating profit	112.2	48.8	23.3	23.7	28.7
Net profit	92.1	46.8	32.5	21.1	29.1
Adjusted EPS**	93.5	46.1	32.3	21.1	29.1
Per-share data (KRW)					
EPS (parent-based)	13,914	20,324	26,890	32,570	42,049
EPS (consolidated)	13,827	20,302	26,890	32,570	42,049
Adjusted EPS**	13,914	20,324	26,890	32,570	42,049
BVPS	41,662	56,281	74,671	97,641	127,691
DPS (common)	5,350	7,100	8,500	9,600	12,000
Valuations (x)					
P/E***	50.7	34.7	26.2	21.6	16.8
P/B***	16.9	12.5	9.4	7.2	5.5
EV/EBITDA	34.2	23.0	18.7	15.1	11.8
Ratios (%)					
ROE	39.3	41.5	41.1	37.8	37.3
ROA	15.0	17.1	18.3	17.9	18.4
ROIC	33.8	55.3	55.0	44.6	38.5
Payout ratio	38.4	34.9	31.6	29.5	28.5
Dividend yield (common)	0.8	1.0	1.2	1.4	1.7
Net debt to equity	-20.6	-38.6	-35.9	-32.5	-28.8
Interest coverage (x)	22.6	59.3	108.3	130.8	214.4

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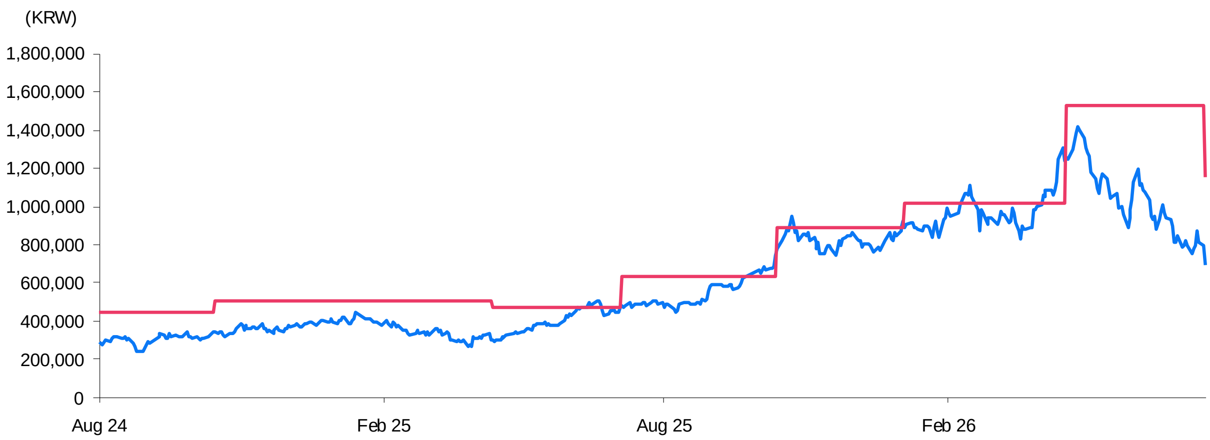
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/7/24	10/25	2025/4/23	7/16	10/24	2026/1/15	4/29	7/29
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	450000	502000	474000	635000	890000	1020000	1530000	1160000
Gap* (average)	-32.58	-28.52	-14.10	-14.26	-6.86	-5.06	-33.18	
(max or min)**	-23.89	-11.35	7.17	17.48	6.63	28.04	-7.19	

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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BUY Expected to increase in value by 15% or more within 12 months and is highly attractive within sector
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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 2026.06.30

BUY(85.5%)·HOLD(14.5%)·SELL(0%)

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