COMPANY UPDATE

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EV/Mobility Team

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Hanon Systems (018880)

2Q review: Feels impact of sluggish orders

- Hanon Systems' 2Q sales growth stalled due to two years of weak order momentum. Operating profit missed consensus as the portion of R&D costs capitalized fell from 31% in 1Q26 to 23% in 2Q26.
- With higher production volumes and cost recoveries in 3Q, the company should remain on track to achieve its 2026 operating margin target of 4%. While earnings fell short of expectations, improved earnings and lower capex have begun to drive stronger cash flow.
- For the stock to rebound, visible progress in 2H26 is essential—particularly in securing large new contracts from Hyundai Motor, Kia, and Ford, and demonstrating tangible results in the data center and ESS thermal management business.

AT A GLANCE

BUY

Target price	KRW4,000	21%
Current price	**KRW3,305**	
Market cap	KRW3.4t/USD2.4b	
Shares (float)	1,026,262,552 (47.5%)	
52-week high/low	KRW5,730/KRW2,800	
Avg daily trading value (60-day)	KRW109.5b/ USD76.9m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Hanon Systems (%)	-13.8	0.9	8.4
Vs Kospi (%pts)	10.8	-20.1	-46.7

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	4,000	5,000	-20.0%
2026E EPS	250	168	48.8%
2027E EPS	267	235	13.6%

SAMSUNG vs THE STREET

No of estimates	16
Target price	5,047
Recommendation	3.8

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

WHAT'S THE STORY?

Cutting target price and maintaining BUY: We reduce our target multiple to reflect prolonged stagnation in the topline growth.

- **Cutting target price by 20% to KRW4,000:** Our new target price is based on a 1x P/B multiple applied to the average of our 2026 and 2027 BVPS forecasts—a 30% reduction from the prior multiple. While the company is showing signs of earnings recovery, revenue growth remains flat following two years of weak new order intake, pressuring ROE below 10%.
- **Maintaining BUY:** We keep the stock at BUY for two reasons. First, Hanon Systems is set to deliver five consecutive quarters of earnings growth (3Q25-3Q26), even as the portion of R&D costs capitalized fell from 50% to 30% and now to the 20% range. The company is on track to achieve a 4% operating margin in 2026, a threshold that should enable it to fully cover its annual interest expense (KRW200b) using operating profit alone. Its debt level should decline gradually. Second, sustained profitability should unlock the ability to invest in new businesses that possess high growth potential.

(Continued on the next page)

SUMMARY 2Q RESULTS

(KRWb)	2Q26	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	2,875.2	0.6	4.6	-0.4	-2.7
Operating profit	103.7	61.3	6.7	-7.6	-8.3
Pre-tax profit	85.3	nm	-20.6	-8.2	-4.6
Net profit	86.1	nm	27.6	47.6	35.5
Margins (%)					
Operating profit	3.6				
Pre-tax profit	3.0				
Net profit	3.0				

Source: Company data, Fnguide, Samsung Securities estimates

VALUATION SUMMARY

	2025	2026E	2027E
Valuation (x)			
P/E	n/a	13.2	12.4
P/B	0.8	0.8	0.8
EV/EBITDA	5.0	5.4	5.0
Div yield (%)	0.0	0.0	3.0
EPS growth (% y-y)	nm	nm	6.8
ROE (%)	-6.0	6.6	6.6
Per-share data (KRW)			
EPS	-257	250	267
BVPS	3,671	3,921	4,188
DPS	0	0	100

Samsung Securities

2Q review: Hanon Systems achieved operating margin improvement and turned to a net profit in 2Q.

- **Sales amount to KRW2.88t (up 0.6% y-y and 4.6% q-q):** Favorable forex rates and expanded supply to premium European clients offset declines in sales volume in the US and Korea. Regionally, European sales rose 9% y-y, while US and Korean sales declined 6% and 2%, respectively. By customer: Mercedes-Benz (up 36%) and BMW (up 19%) drove growth; Hyundai Motor Group (HMG; down 4%), Ford (down 5%), and GM (down 7%) contributed to contraction. The portion of xEV sales came in at 31%.
- **Operating profit hit KRW103.7b (up 61.2% y-y and 6.7% q-q; operating margin of 3.6%):** The firm's operating profit missed consensus but it was primarily because the portion of R&D costs capitalized fell from 31% to 23% in 2Q. The company has shifted from capitalizing broad operational costs (eg, factory labor) to capitalizing only pure R&D expenditures, a change expected to persist.

  Cumulative restructuring efforts have been translating into improved profitability, supported by sustained savings from materials and logistics optimization, plant efficiency gains, and tariff recovery. Customers' tariff recovery should accelerate in 3Q26.
- **Net profit reaches KRW86.1b (up 27.6% q-q; turning positive y-y):** The company moved into the black y-y (after having incurred a net loss of KRW15.1b in 2Q25), driven by improved forex valuation gains and lower interest expenses from debt repayment. Corporate tax was -KRW1b due to the write-off of accumulated losses at its Dutch subsidiary.
- **Financial structure:** The company's net debt-to-EBITDA ratio fell to 2.46x as of end-1H26, down from 2.9x at end-2025. The EBITDA-to-net interest expense ratio rose to 6.63x.
- **Capex peaks, free cash flow turnaround underway:** The firm's tangible asset investment totaled KRW80b in 1H26, well below the full-year target of KRW300b. Capex as a percentage of EBITDA dropped to 25.5% in 1H26, from the historical average of over 40%. We forecast the company will generate positive net cash flow this year and could repay debt further.
- **New orders:** The company's new orders totaled USD342m in 1H26, achieving 26% of annual target of USD1.3b. Of this, USD240m came from program extensions; USD102m from new programs. Customer decision-making is concentrated in 2H26, with major new awards from Hyundai Motor, Kia, and Ford expected to be confirmed sequentially in 3Q26 and 4Q26. Existing ICE and HEV programs, which require no additional investment, should continue to generate stable revenue and profitability.

3Q preview—to meet consensus: Increasing production volumes at customers and cost recovery should drive operating results.

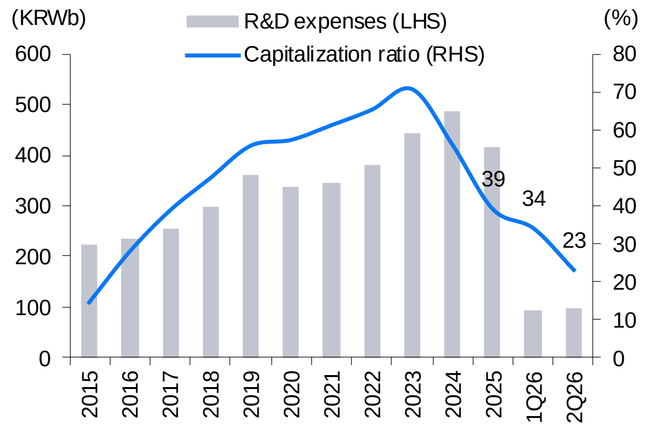
- We estimate the firm's 3Q sales and operating profit will amount to a respective KRW2.78t (down 3.1% q-q but up 2.9% y-y) and KRW113b (up 9.1% q-q and 18.7% y-y), for an operating margin of 4.1%. According to FnGuide, 3Q consensus has its sales at KRW2.95t and operating profit at KRW113.4b, implying an operating margin of 3.8%.
- Data center & ESS thermal management—early-stage opportunity, not yet a catalyst: Hanon Systems is actively engaging potential customers with existing vehicle components (eg, valves and heat exchangers) adapted for new applications. Initial prototypes have been delivered, and a limited

number of RFQs have been received. However, the business remains in the concept and preliminary discussion phase—no meaningful revenue is expected in the near term. While the technical extension of automotive thermal management into new markets is promising, meaningful revenue contribution is not yet foreseeable. For this segment to drive stock momentum, concrete customer commitments and order volumes must be confirmed.

Put option by its second-largest shareholder: As the current share price diverges significantly from the strike price, the likelihood that Hahn & Company (Hanon Systems' second-largest shareholder) will exercise its put option should increase.

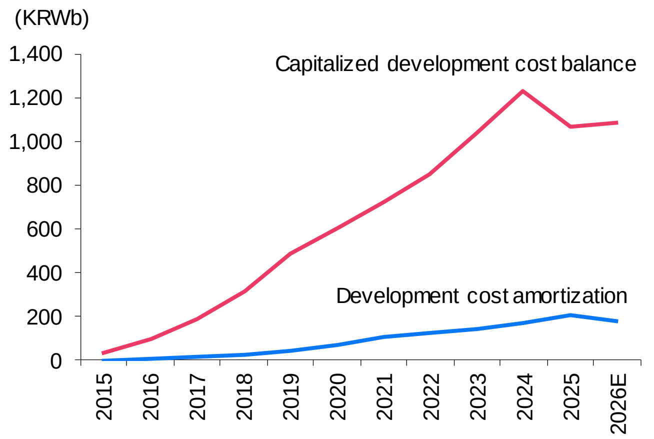
- Hahn & Company holds a put option to sell up to 40% of its remaining stake in Hanon Systems (58.718m shares; KRW305.3b) to Hankook Tire & Technology (Hanon Systems' largest shareholder) over Jan 11-Feb 11, 2027 (a one-month period). The put option would allow Hahn & Company to sell these shares at a fixed strike price of KRW5,200/share.

Hanon Systems: R&D expenses and capitalization ratio



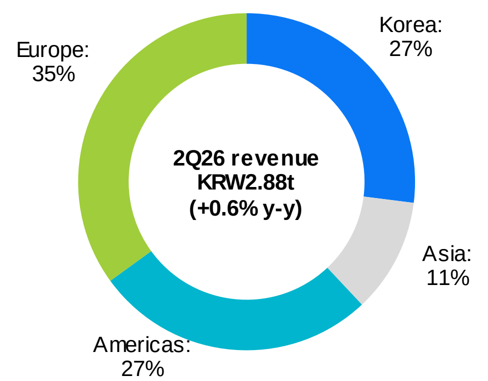
Source: Company data, Samsung Securities estimates

Hanon Systems: Development cost balance and amortization



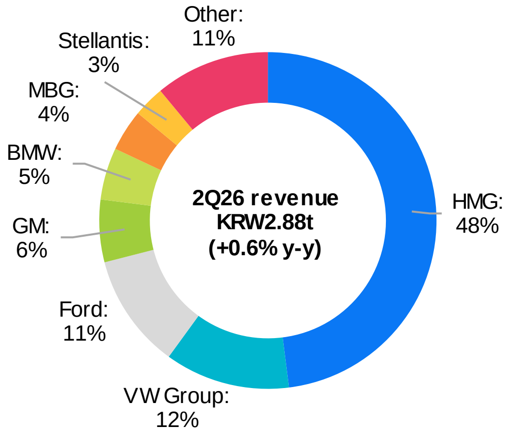
Source: Company data, Samsung Securities estimates

Hanon Systems: Sales, by region



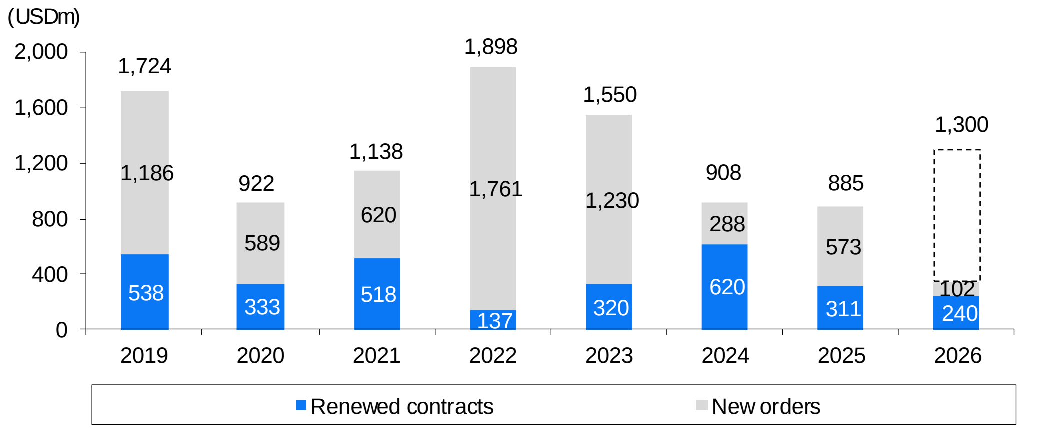
Source: Company data, Samsung Securities

Hanon Systems: Sales, by customer



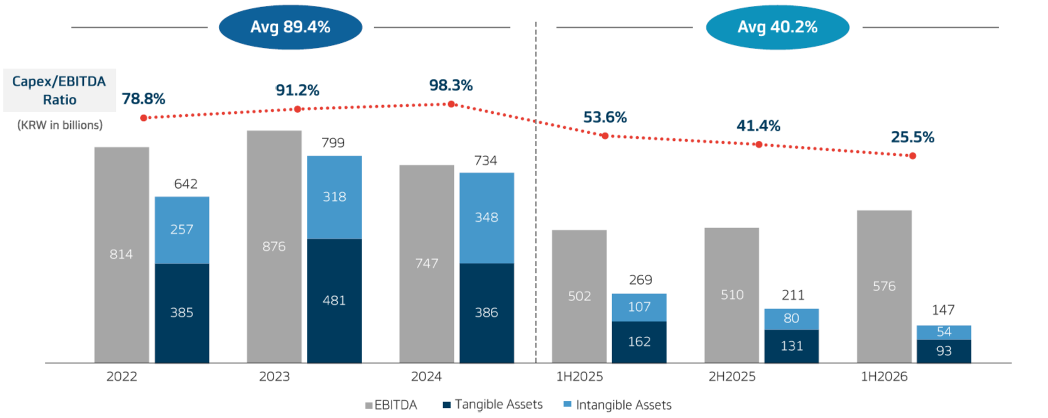
Source: Company data, Samsung Securities

Hanon Systems: New orders taken vs xEV portion



Source: Company data, Samsung Securities

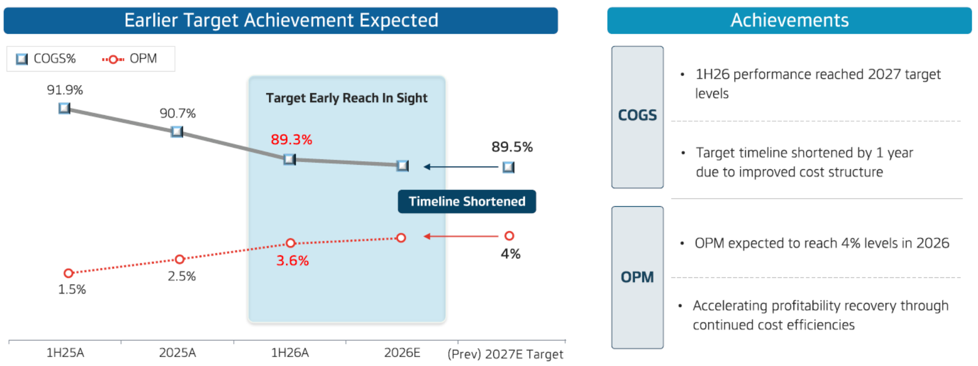
Hanon Systems: Financial strength through investment optimization



Sustainable Cash Flow Secured Through Lower CapEx-to-EBITDA Ratio

Source: Company data

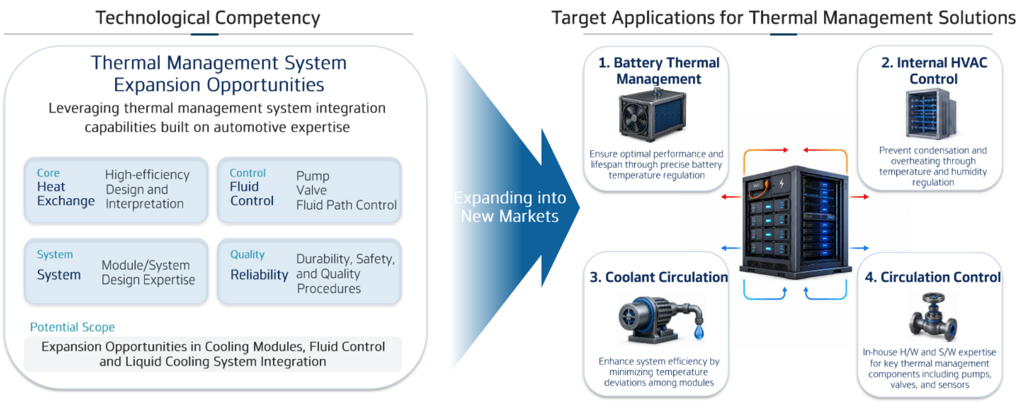
Hanon Systems: Structural optimization of profitability



Earlier Achievement of Target OPM Expected, Driven by Cost and Operational Efficiencies

Source: Company data

Hanon Systems: Expanding thermal business opportunities



Expanding into New Markets with Leading Automotive Thermal Management Capabilities

Source: Company data

Hanon Systems: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26E	4Q26E	2024	2025	2026E	2027E
KRW/USD(Avg)	1,453	1,401	1,387	1,452	1,467	1,502	1,500	1,450	1,365	1,423	1,480	1,390
Sales	2,617	2,858	2,706	2,703	2,748	2,875	2,785	2,766	9,999	10,884	11,175	11,056
Chg (% y-y)	8.8	11.7	8.3	6.6	-3.8	6.3	3.1	0.7	5.0	8.9	2.7	-1.1
Korea	949	1,050	1,004	927	963	979	929	886	3,625	3,930	3,757	3,684
China	454	480	493	458	474	307	328	125	1,720	1,885	1,234	1,278
North America	772	810	802	784	739	894	900	778	2,502	3,167	3,311	3,443
EU	1,379	1,526	1,397	1,432	1,485	1,741	1,676	1,889	5,065	5,733	6,791	6,498
Adjustments	-936	-1,007	-990	-898	-913	-1,046	-1,048	-912	-3,391	-3,831	-3,918	-3,847
Gross profit	190	254	288	278	288	312	297	300	812	1,010	1,198	1,255
Operating profit	21	64	95	90	97	104	113	122	96	270	436	469
Chg (% y-y)	-67.7	-10.2	-1.0	-165.2	51.1	8.8	26.1	25.8	-66.3	183.0	61.3	7.6
Korea	25	54	41	-9	21	-49	-28	-44	-7	112	-100	-74
China	22	16	35	23	41	18	20	8	51	95	87	55
North America	-13	-12	17	71	19	-18	-18	-16	49	64	-33	-10
EU	-18	35	11	-7	30	157	134	151	52	22	471	536
Adjustments	5	-29	-10	10	-14	-5	5	23	-50	-23	10	-38
Pre-tax profit	-17.3	-26	91	-183	107.5	85	82	64	-330	-135	339	362
Net profit	-23	-15	55	-215	67	86	62	48	-359	-197	263	279
Controlling profit	-24	-16	55	-213	67	85	60	47	-363	-199	260	274
Chg (% y-y)	Turned neg	Remained neg	Turned pos	Turned pos	Turned pos	Turned pos	10.4	To turn pos	Turned neg	Remained neg	To turn pos	5.4
Margins (%)												
Gross profit	7.3	8.9	10.6	10.3	10.5	10.9	10.7	10.8	8.1	9.3	10.7	11.4
Operating profit	0.8	2.2	3.5	3.3	3.5	3.6	4.1	4.4	1.0	2.5	3.9	4.2
Net profit	-0.9	-0.5	2.0	-8.0	2.5	3.0	2.2	1.7	-3.6	-1.8	2.4	2.5
Controlling profit	-0.9	-0.6	2.0	-7.9	2.4	3.0	2.2	1.7	-3.6	-1.8	2.3	2.5

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**9,999**	**10,884**	**11,177**	**11,056**	**11,771**
Cost of goods sold	9,187	9,874	9,982	9,801	10,387
Gross profit	**812**	**1,010**	**1,196**	**1,256**	**1,384**
Gross margin (%)	8.1	9.3	10.7	11.4	11.8
SG&A expenses	717	740	762	786	821
Operating profit	**96**	**270**	**434**	**470**	**564**
Operating margin (%)	1.0	2.5	3.9	4.3	4.8
Non-operating gains (losses)	**-435**	**-405**	**-97**	**-107**	**-97**
Financial profit	189	223	29	39	56
Financial costs	470	338	197	179	179
Equity-method gains (losses)	13	11	0	0	0
Other	-167	-301	71	33	25
Pre-tax profit	**-339**	**-135**	**337**	**363**	**467**
Taxes	20	62	75	84	107
Effective tax rate (%)	-5.8	-46.3	22.3	23.0	23.0
Profit from continuing operations	-349	-197	262	280	359
Profit from discontinued operations	-9	0	0	0	0
Net profit	**-359**	**-197**	**262**	**280**	**359**
Net margin (%)	-3.6	-1.8	2.3	2.5	3.1
Net profit (controlling interests)	-363	-199	257	274	352
Net profit (non-controlling interests)	5	1	5	6	7
EBITDA	747	1,012	1,080	1,037	1,066
EBITDA margin (%)	7.5	9.3	9.7	9.4	9.1
EPS (parent-based) (KRW)	-594	-257	250	267	343
EPS (consolidated) (KRW)	-587	-255	255	272	350
Adjusted EPS (KRW)*	-594	-257	250	267	343

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**4,439**	**4,413**	**4,535**	**5,153**	**5,883**
Cash & equivalents	1,346	925	954	1,610	2,112
Accounts receivable	1,259	1,437	1,476	1,460	1,554
Inventories	1,241	1,405	1,443	1,427	1,519
Other current assets	592	646	663	656	698
Fixed assets	**6,181**	**6,080**	**5,637**	**5,268**	**4,974**
Investment assets	113	111	114	112	120
Tangible assets	2,864	2,724	2,479	2,279	2,117
Intangible assets	2,351	2,185	1,984	1,817	1,677
Other long-term assets	853	1,060	1,060	1,060	1,060
Total assets	**10,620**	**10,492**	**10,172**	**10,421**	**10,857**
Current liabilities	**5,034**	**3,985**	**3,389**	**3,365**	**3,511**
Accounts payable	1,354	1,205	1,237	1,224	1,303
Short-term debt	1,902	1,008	1,108	1,108	1,108
Other current liabilities	1,778	1,772	1,044	1,033	1,099
Long-term liabilities	**2,588**	**2,594**	**2,608**	**2,602**	**2,635**
Bonds & long-term debt	1,704	1,545	1,545	1,545	1,545
Other long-term liabilities	884	1,050	1,063	1,058	1,090
Total liabilities	**7,622**	**6,579**	**5,997**	**5,967**	**6,146**
Owners of parent equity	**2,853**	**3,768**	**4,024**	**4,298**	**4,548**
Capital stock	68	103	103	103	103
Capital surplus	561	1,504	1,504	1,504	1,504
Retained earnings	1,702	1,521	1,777	2,051	2,301
Other	523	640	640	640	640
Non-controlling interests' equity	**145**	**145**	**150**	**156**	**163**
Total equity	**2,999**	**3,913**	**4,175**	**4,454**	**4,711**
Net debt	3,358	2,937	2,253	1,597	1,095

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**569**	**112**	**887**	**855**	**812**
Net profit	-359	-197	262	280	359
Non-cash profit and expenses	1,208	1,318	884	784	726
Depreciation	443	503	446	400	362
Amortization	208	239	200	168	140
Other	557	576	238	217	224
Changes in A/L from operating activities	31	-700	-20	8	-50
Cash flow from investments	**-733**	**-547**	**-200**	**-200**	**-201**
Change in tangible assets	-372	-244	-200	-200	-200
Change in financial assets	-0	8	-0	0	-1
Other	-360	-311	-0	-0	0
Cash flow from financing	**651**	**1**	**-655**	**-0**	**-102**
Change in debt	529	-850	-655	-0	0
Change in equity	599	978	-0	0	0
Dividends	-46	-2	0	0	-103
Other	-431	-126	0	0	0
Change in cash	568	-422	29	656	502
Cash at beginning of year	779	1,346	925	954	1,610
Cash at end of year	1,346	925	954	1,610	2,112
Gross cash flow	**850**	**1,121**	**1,145**	**1,064**	**1,085**
Free cash flow	**184**	**-181**	**687**	**655**	**612**

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	5.0	8.9	2.7	-1.1	6.5
Operating profit	-66.3	183.0	60.6	8.3	19.9
Net profit	nm	nm	nm	6.8	28.5
Adjusted EPS**	nm	nm	nm	6.8	28.5
Per-share data (KRW)					
EPS (parent-based)	-594	-257	250	267	343
EPS (consolidated)	-587	-255	255	272	350
Adjusted EPS**	-594	-257	250	267	343
BVPS	3,697	3,671	3,921	4,188	4,432
DPS (common)	0	0	0	100	100
Valuations (x)					
P/E***	n/a	n/a	13.2	12.4	9.6
P/B***	1.0	0.8	0.8	0.8	0.7
EV/EBITDA	7.6	5.0	5.4	5.0	4.4
Ratios (%)					
ROE	-13.9	-6.0	6.6	6.6	8.0
ROA	-3.6	-1.9	2.5	2.7	3.4
ROIC	1.6	5.8	4.9	5.6	7.0
Payout ratio	0.0	0.0	0.0	37.4	29.1
Dividend yield (common)	0.0	0.0	0.0	3.0	3.0
Net debt to equity	112.0	75.1	54.0	35.8	23.2
Interest coverage (x)	0.4	1.1	2.2	2.6	3.2

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- As of 7/31 2026, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
- As of 7/31 2026, Samsung Securities' holdings of shares and debt instruments convertible into shares of each company covered in this report would not, if such debt instruments were converted, exceed 1% of each company's outstanding shares.
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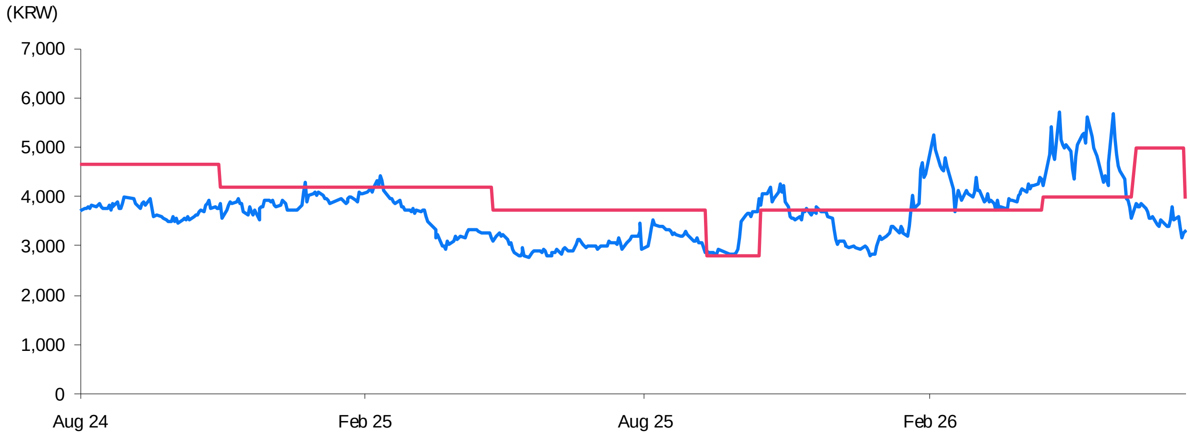
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/2/15	8/9	11/14	2025/5/9	9/25	10/30	11/14	2026/4/30	6/29	7/31
Recommendation	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	BUY	BUY
Target price (KRW)	6507	4648	4183	3718	2789	3718	3718	4000	5000	4000
Gap* (average)	-24.54	-19.82	-10.70	-17.47	17.07	10.12	0.73	19.62	-28.75	
(max or min)**	-7.29	-13.81	6.00	-5.12	1.65	4.63	-24.69	-11.00	-23.00	

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

Samsung Securities uses the following investment ratings*

Company

BUY Expected to increase in value by 15% or more within 12 months and is highly attractive within sector
HOLD Expected to increase/decrease in value by less than 15% within 12 months
SELL Expected to decrease in value by 15% or more within 12 months

Industry

OVERWEIGHT Expected to outperform market by 5% or more within 12 months
NEUTRAL Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT Expected to underperform market by 5% or more within 12 months

* 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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General

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