COMPANY UPDATE

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Industrial Team

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HD Hyundai Heavy Industries (329180)

Attractive even under conservative assumptions

- HD Hyundai Heavy Industries (HD HHI) reported in-line 2Q earnings. We see it positively, as it demonstrated potential for further profitability improvement in shipbuilding and effective cost control in the offshore structure segment.
- The recent valuation discount is temporary and short-term in nature. Even under a conservative assumption that the discount continues in the near term, the stock still offers meaningful upside potential. It remains our sector top pick.

WHAT'S THE STORY?

Positive interpretation despite in-line earnings: The company's 2Q operating profit was in line with consensus, yet we maintain a constructive view for three key reasons. First, shipbuilding margin expansion could gain further traction. The shipbuilding margin improved to 17% in 2Q. The company has hedged over 75% of its forex exposure at rates significantly below current market levels. Notably, affiliate HD Hyundai Samho recorded a 22.5% operating margin in 2Q, reflecting accelerated revenue recognition from its 2024–2025 order book. HD HHI stands to benefit similarly as its own 2024+ orders—hedged at favorable rates—should be gradually recognized, implying a clear path to margin performance at or above affiliate levels. Second, the offshore structure business has now posted strong margins for three consecutive quarters. This suggests the business can maintain fixed-cost burden and profitability even with modest revenue recovery.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW806,000	85.7%
Current price	**KRW434,000**	
Market cap	KRW45.6t/USD31.5b	
Shares (float)	104,961,225 (30.6%)	
52-week high/low	KRW745,000/KRW434,000	
Avg daily trading value (60-day)	KRW264.2b/ USD182.7m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
HD Hyundai Heavy Industries (%)	-26.7	-26.2	-8.3
Vs Kospi (%pts)	8.7	-32.0	-47.7

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	806,000	900,000	-10.4%
2026E EPS	27,886	27,837	0.2%
2027E EPS	36,618	37,518	-2.4%

SAMSUNG vs THE STREET

No of estimates	21
Target price	911,524
Recommendation	4.0

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

SUMMARY 2Q RESULTS

(KRWb)	2Q26	Chg (% y-y)	Chg (% q-q)	Diff (%) Samsung	Diff (%) Consensus
Sales	6,314	52.3	7.0	-0.3	-0.2
Operating profit	1,036	120.7	15.1	4.2	3.5
Pre-tax profit	1,151	314.1	9.5	17.0	14.1
Net profit	818	291.2	6.4	7.9	3.3
Margins (%)					
Operating profit	16.4				
Pre-tax profit	18.2				
Net profit	13.0				

Source: Company data, FnGuide, Samsung Securities estimates

VALUATION SUMMARY

	2025	2026E	2027E
Valuations (x)			
P/E	32.2	15.6	11.9
P/B	4.9	4.1	3.4
EV/EBITDA	18.0	9.8	7.1
Div yield (%)	1.3	3.0	3.5
EPS growth (% y-y)	92.6	106.8	31.3
ROE (%)	18.8	28.6	31.3
Per-share data (KRW)			
EPS	13,486	27,886	36,618
BVPS	89,001	106,058	127,677
DPS	5,661	13,000	15,000

Why the discount persists: Despite superior profitability and a leading position in marine engines, the stock is trading at a discount to peers. Paradoxically, this stems from its diversified business structure—covering shipbuilding, defense, offshore structures, and engines—which exposes it to a broader range of news flows. As a result, investor sentiment is more sensitive to negative headlines: recent setbacks include delays in offshore structure orders and the loss of the Korea next-generation destroyer program and the US next-generation logistics ship design program. While these events have weighed on sentiment, the company's ytd order intake remains stronger than peers'. Long-term, this diversification should command a premium. But even under a conservative assumption that near-term momentum remains subdued, the current valuation is compelling. Notably, the average valuation discount to peers in 1H26 was only 9%—a period marked by overlapping negative catalysts (convertible bond issuance, failure from winning the defense orders, and a yard safety incident). Even if we apply that 9% discount to the sector's target P/E of 24x and cut our target price to KRW806,000, the target still implies over 80% upside. Catalysts for premium re-rating include: securing offshore structure orders, announcements of engine production capacity expansion, and winning international defense contracts.

HD Hyundai Heavy Industries: 2Q26 review

(KRWb)	2Q26	1Q26	Chg (% q-q)	2Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung Securities	Diff (%)
Sales	6,314	5,899	7.0	4,145	52.3	6,328	-0.2	6,331	-0.3
Operating profit	1,036	900	15.1	469	120.7	1,000	3.5	994	4.2
Pre-tax profit	1,151	1,051	9.5	278	314.1	1,009	14.1	984	17.0
Net profit	818	769	6.4	209	291.2	792	3.3	758	7.9
Margins (%)									
Operating profit	16.4	15.3		11.3		15.8		15.7	
Pre-tax profit	18.2	17.8		6.7		15.9		15.5	
Net profit	13.0	13.0		5.0		12.5		12.0	

Source: FnGuide, Samsung Securities estimates

HD Hyundai Heavy Industries: Earnings, by division

(KRWb)	2Q26	1Q26	Chg (% q-q)	2Q25	Chg (% y-y)
Sales					
Shipbuilding*	4,978	4,560	9.2	2,850	74.7
Offshore/Plant	377	458	-17.6	246	53.3
Engine & Machinery	952	879	8.3	1,029	-7.5
Others	25	20	25.0	23	8.9
Operating profit					
Shipbuilding*	851	713	19.4	337	152.4
Offshore/Plant	60	87	-30.6	37	63.3
Engine & Machinery	236	185	27.6	184	28.5
Others	-108	-79	36.5	-87	24.5
OPM (%)					
Shipbuilding*	17.1	15.6		11.8	
Offshore/Plant	15.9	18.9		15.0	
Engine & Machinery	24.8	21.1		17.9	

Note: *Including naval & special ships
Source: Company data

2Q26 sales breakdown by contract year and operating margin

(%)	HD HHI			HD Hyundai Samho
	Large	Medium*	Company-wide	
2022 orders	7	0	5	7
2023 orders	54	20	44	27
2024 orders	31	69	42	52
2025 orders	8	11	9	14
Company-wide OPM			16.4	22.5
Shipbuilding segment OPM			17.1	22.5

Note: *Formerly HD Hyundai Mipo
Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**14,486**	**17,581**	**24,166**	**28,468**	**29,937**
Cost of goods sold	12,993	14,616	19,250	22,120	22,632
Gross profit	**1,494**	**2,964**	**4,915**	**6,348**	**7,305**
Gross margin (%)	10.3	16.9	20.3	22.3	24.4
SG&A expenses	789	927	1,109	1,267	1,332
Operating profit	**705**	**2,038**	**3,807**	**5,081**	**5,973**
Operating margin (%)	4.9	11.6	15.8	17.8	20.0
Non-operating gains (losses)	**93**	**-237**	**148**	**113**	**91**
Financial profit	964	1,018	907	1,122	909
Financial costs	3,244	1,265	1,049	1,305	753
Equity-method gains (losses)	-0	-4	-4	-4	-4
Other	2,373	14	295	301	-60
Pre-tax profit	**798**	**1,801**	**3,955**	**5,194**	**6,064**
Taxes	177	385	1,028	1,350	1,577
Effective tax rate (%)	22.1	21.4	26.0	26.0	26.0
Profit from continuing operations	622	1,415	2,927	3,843	4,488
Profit from discontinued operations	0	0	0	0	0
Net profit	**622**	**1,415**	**2,927**	**3,843**	**4,488**
Net margin (%)	4.3	8.1	12.1	13.5	15.0
Net profit (controlling interests)	622	1,415	2,927	3,843	4,488
Net profit (non-controlling interests)	0	-0	0	0	0
EBITDA	1,011	2,371	4,223	5,510	6,409
EBITDA margin (%)	7.0	13.5	17.5	19.4	21.4
EPS (parent-based) (KRW)	7,001	13,486	27,886	36,618	42,754
EPS (consolidated) (KRW)	7,001	13,486	27,886	36,618	42,754
Adjusted EPS (KRW)*	7,001	13,486	27,886	36,618	42,754

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**10,403**	**14,980**	**19,712**	**24,582**	**30,240**
Cash & equivalents	1,258	1,870	3,369	5,391	10,298
Accounts receivable	1,393	1,431	1,986	2,340	2,461
Inventories	1,511	2,017	2,979	3,510	3,691
Other current assets	6,242	9,663	11,377	13,342	13,791
Fixed assets	**8,988**	**11,183**	**14,435**	**14,472**	**14,422**
Investment assets	1,070	1,214	1,210	1,206	1,202
Tangible assets	6,610	8,781	12,051	12,128	12,112
Intangible assets	128	161	146	112	82
Other long-term assets	1,180	1,027	1,027	1,026	1,026
Total assets	**19,391**	**26,163**	**34,146**	**39,053**	**44,662**
Current liabilities	**11,796**	**15,333**	**18,061**	**18,810**	**19,712**
Accounts payable	1,535	1,751	2,383	2,808	2,953
Short-term debt	28	4	700	500	500
Other current liabilities	10,233	13,577	14,977	15,502	16,259
Long-term liabilities	**1,890**	**1,489**	**4,954**	**6,843**	**8,951**
Bonds & long-term debt	752	488	348	248	148
Other long-term liabilities	1,139	1,000	4,605	6,594	8,802
Total liabilities	**13,686**	**16,821**	**23,014**	**25,652**	**28,662**
Owners of parent equity	**5,704**	**9,342**	**11,132**	**13,401**	**15,999**
Capital stock	444	525	525	525	525
Capital surplus	3,123	5,130	5,145	5,145	5,145
Retained earnings	1,288	2,394	4,167	6,436	9,034
Other	850	1,293	1,295	1,295	1,295
Non-controlling interests' equity	**0**	**0**	**0**	**0**	**0**
Total equity	**5,704**	**9,342**	**11,132**	**13,401**	**15,999**
Net debt	-238	-2,927	-3,956	-6,391	-11,283

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**2,884**	**3,510**	**2,442**	**2,806**	**5,412**
Net profit	622	1,415	2,927	3,843	4,488
Non-cash profit and expenses	149	937	630	748	889
Depreciation	293	315	394	408	421
Amortization	13	18	22	20	15
Other	-157	604	214	320	453
Changes in A/L from operating activities	2,114	1,158	-1,115	-1,786	36
Cash flow from investments	**-499**	**-2,040**	**-1,499**	**-485**	**-405**
Change in tangible assets	-452	-497	-1,499	-485	-405
Change in financial assets	-1,282	-1,081	-0	-0	-0
Other	1,235	-462	-0	-0	-0
Cash flow from financing	**-2,049**	**-860**	**556**	**-300**	**-100**
Change in debt	-532	-1,082	556	-300	-100
Change in equity	-1	2,088	0	0	0
Dividends	-186	-419	-613	-840	-1,050
Other	-1,330	-1,448	613	840	1,050
Change in cash	330	612	1,499	2,021	4,907
Cash at beginning of year	928	1,258	1,870	3,369	5,391
Cash at end of year	1,258	1,870	3,369	5,391	10,298
Gross cash flow	**770**	**2,353**	**3,557**	**4,592**	**5,376**
Free cash flow	**2,420**	**2,998**	**928**	**2,306**	**4,992**

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	21.1	21.4	37.5	17.8	5.2
Operating profit	294.8	188.9	86.8	33.5	17.6
Net profit	2,417.3	127.7	106.8	31.3	16.8
Adjusted EPS**	2,417.7	92.6	106.8	31.3	16.8
Per-share data (KRW)					
EPS (parent-based)	7,001	13,486	27,886	36,618	42,754
EPS (consolidated)	7,001	13,486	27,886	36,618	42,754
Adjusted EPS**	7,001	13,486	27,886	36,618	42,754
BVPS	64,259	89,001	106,058	127,677	152,431
DPS (common)	2,090	5,661	13,000	15,000	18,000
Valuations (x)					
P/E***	62.0	32.2	15.6	11.9	10.2
P/B***	6.8	4.9	4.1	3.4	2.8
EV/EBITDA	44.8	18.0	9.8	7.1	5.3
Ratios (%)					
ROE	11.4	18.8	28.6	31.3	30.5
ROA	3.4	6.2	9.7	10.5	10.7
ROIC	9.2	27.8	32.2	30.9	33.9
Payout ratio	29.9	42.0	46.6	41.0	42.1
Dividend yield (common)	0.5	1.3	3.0	3.5	4.1
Net debt to equity	-4.2	-31.3	-35.5	-47.7	-70.5
Interest coverage (x)	4.7	21.1	82.5	80.5	116.9

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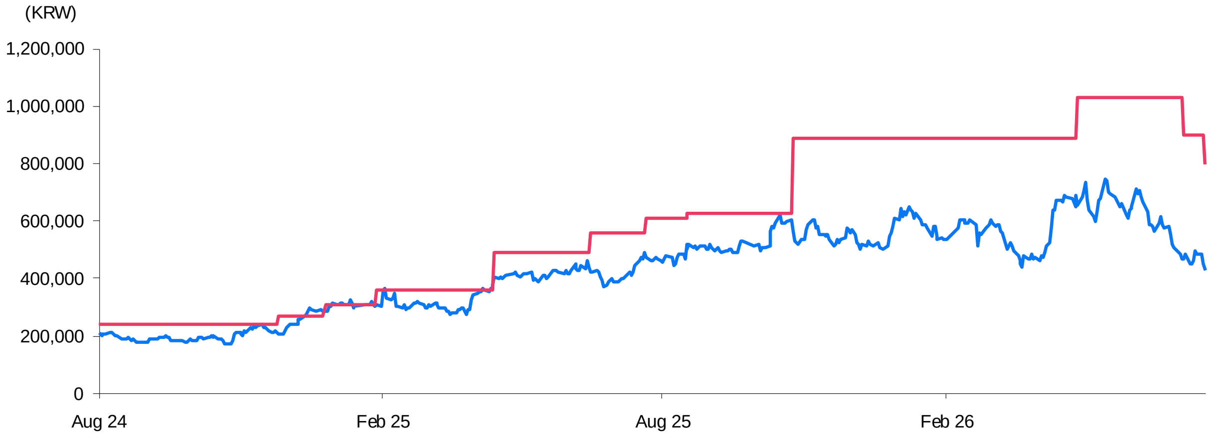
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/7/26	12/6	2025/1/6	2/7	4/25	6/26	8/1	8/28	11/4	2026/5/8	7/15	7/30
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	240000	270000	310000	360000	490000	557000	610000	630000	890000	1030000	900000	806000
Gap* (average)	-16.98	-5.02	-0.44	-12.25	-14.73	-25.30	-22.82	-16.24	-37.08	-38.78	-48.10	
(max or min)**	0.83	10.37	5.48	4.44	-5.41	-11.94	-14.59	-0.95	-22.13	-27.67	-44.67	

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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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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