SECTOR UPDATE

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Samsung Securities

Construction (OVERWEIGHT)

2H26 outlook

Imbalance between orders and earnings

Imbalance between orders and earnings

Shares in the construction sector have exhibited significant volatility in 2026, as they did in 2025. Over January-April this year, construction stocks rose sharply, fueled by: 1) optimism towards domestic firms winning global nuclear power plant projects; and 2) anticipated reconstruction contracts in the Middle East (after the Iran conflict passes).

Since May, however, stock prices have been retreating rapidly due to a confluence of factors: 1) the continuation of the Middle East war; 2) heightened inflation and rising interest rates (pressuring profitability); 3) weaker nuclear power project wins (vs in prior periods); and 4) investor confidence erosion (relating to the GTX missing rebar scandal).

The outlook for the construction sector in 2H is mixed. While new-order momentum is strengthening, firms' earnings should remain under pressure from elevated inflation and interest rates (both stemming from the Middle East war). Construction stocks have corrected sharply since peaking in April, yet still trade at valuations above usual levels.

We recommend adopting a selective investment approach in 2H, targeting firms that meet three key criteria: 1) fair valuations; 2) robust fundamentals (earnings and financial structure); and 3) strong new-order momentum.

Based on this, we present Samsung E&A as our top pick for 2H, with GS E&C and DL E&C our second top picks.

All three companies are trading at valuations below their domestic and global EPC peers, suggesting that their valuations have room to grow. Among the three, Samsung E&A stands out, as: 1) revenue recognition from the Fadhili gas plant project is accelerating; and 2) new-order momentum (tied to investments in semiconductors and the energy transition) is strong. GS E&C is well-positioned to benefit from domestic AI data center order momentum. DL E&C is likely to win orders that were originally expected in 2025 but delayed to 2026.

REPORT
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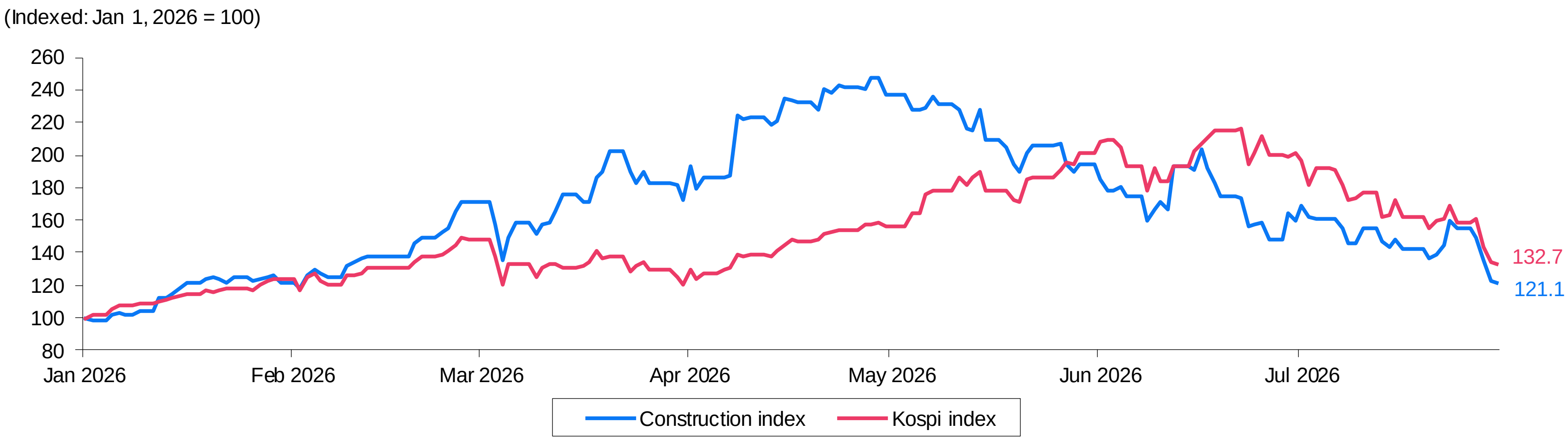
PART 01

Investment strategy

1H26 review: Strong through April, correction begins in May

- The construction sector index has shown significant volatility versus the Kospi in 2026.
- Before major construction firms released their 1Q earnings in late April, the index outperformed the Kospi ytd, fueled by optimism over domestic firms winning: 1) global nuclear power projects; and 2) reconstruction contracts in the Middle East (following an end to the Iran war).
- However, in May, construction stocks declined sharply…
- …due to: 1) the continuation of the Middle East war; 2) heightened inflation and rising interest rates pressuring profitability; 3) weaker nuclear power project wins (vs in prior periods); and 4) investor confidence erosion (due to the GTX missing rebar scandal).

Kospi vs construction sector

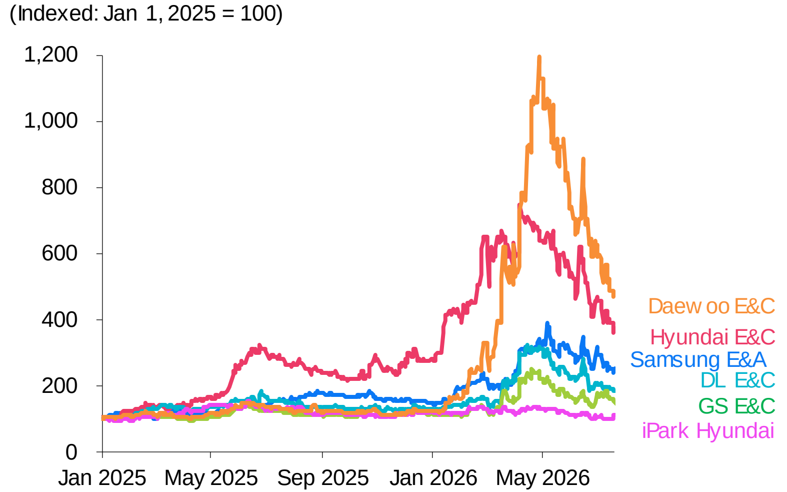


Source: Quantiwise, Samsung Securities

1H26 review: Order growth matters, but macro factors matter more

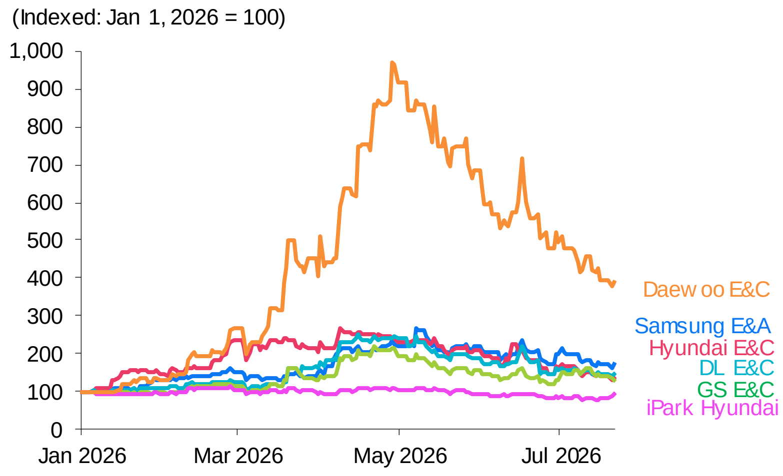
- From January to its ytd high, Daewoo E&C's stock price surged more than 10x…
- …fueled by expectations of post-big bath earnings stabilization and an expanding global pipeline of nuclear power and reconstruction projects.
- Samsung E&A and DL E&C posted the next strongest share-price gains.
- These stock-price increases were driven by rising expectations of new orders for nuclear power, LNG, and energy transition projects.
- However, in recent months, investor focus has shifted to macroeconomic factors such as inflation and interest rates, leading to a broad correction for the construction sector.

Construction stocks: Performance since Jan 2025



Source: Quantiwise, Samsung Securities

Construction stocks: Performance ytd

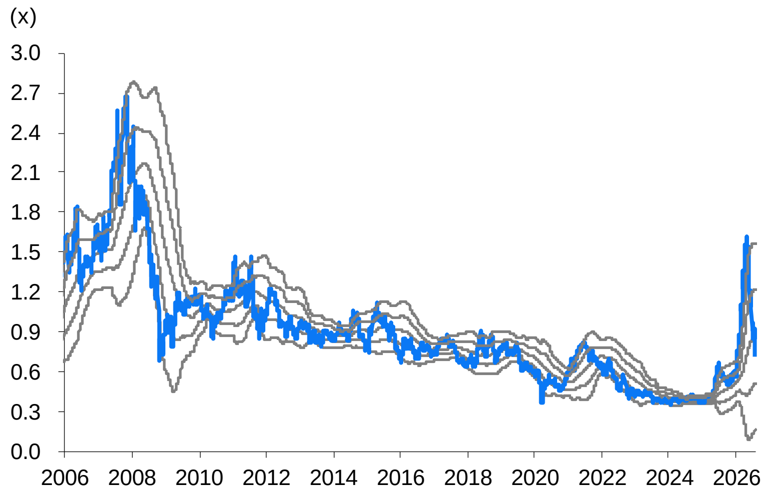


Source: Quantiwise, Samsung Securities

Valuation: Short-term valuation pressures significantly ease

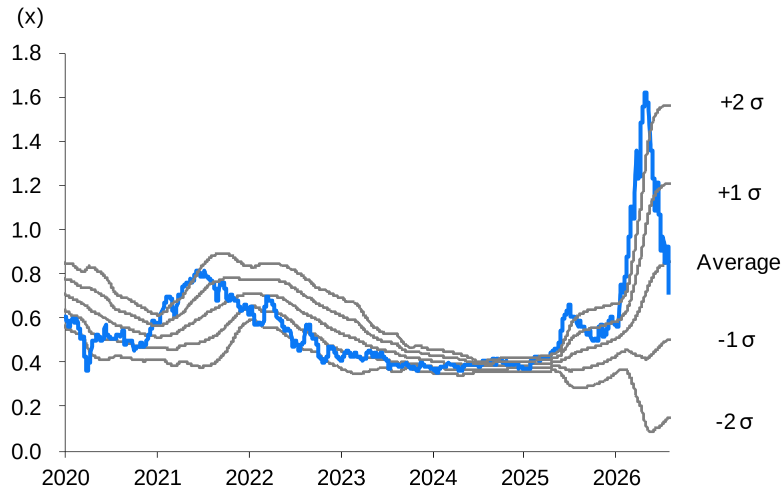
- Recent price corrections have significantly eased short-term valuation pressures for the construction sector.
- At the start of the year, the forward P/B multiple exceeded 2 standard deviations, hitting a record high.
- …but recently the sector's forward P/B returned to its historical average.

Construction sector: 12-month forward P/B since 2006



Source: Quantiwise, Samsung Securities

Construction sector: 12-month forward P/B since 2020

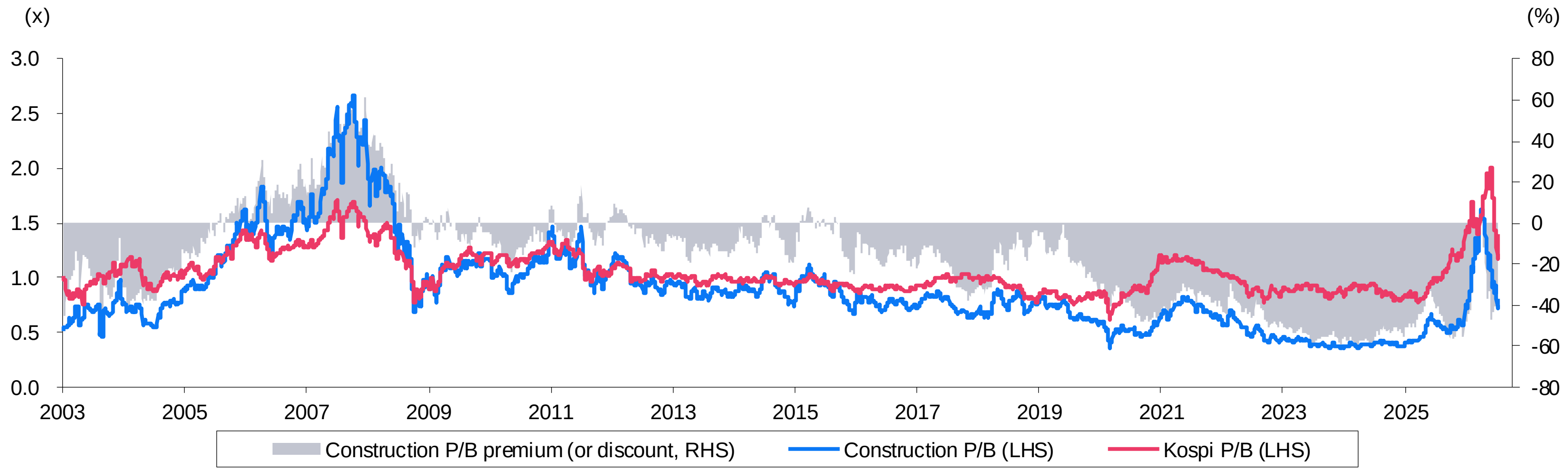


Source: Quantiwise, Samsung Securities

Valuation: Kospi vs construction industry's P/B

- As of the close of Jul 31, the construction industry's P/B (12-month forward basis) stood at 0.79x, trading at a 42.4% discount to the Kospi's 1.38x.
- Early this year, the sector rallied, briefly commanding a premium to the Kospi. However, recent corrections mean it now trades at a large discount.

Kospi vs construction industry 12-month forward P/B valuation

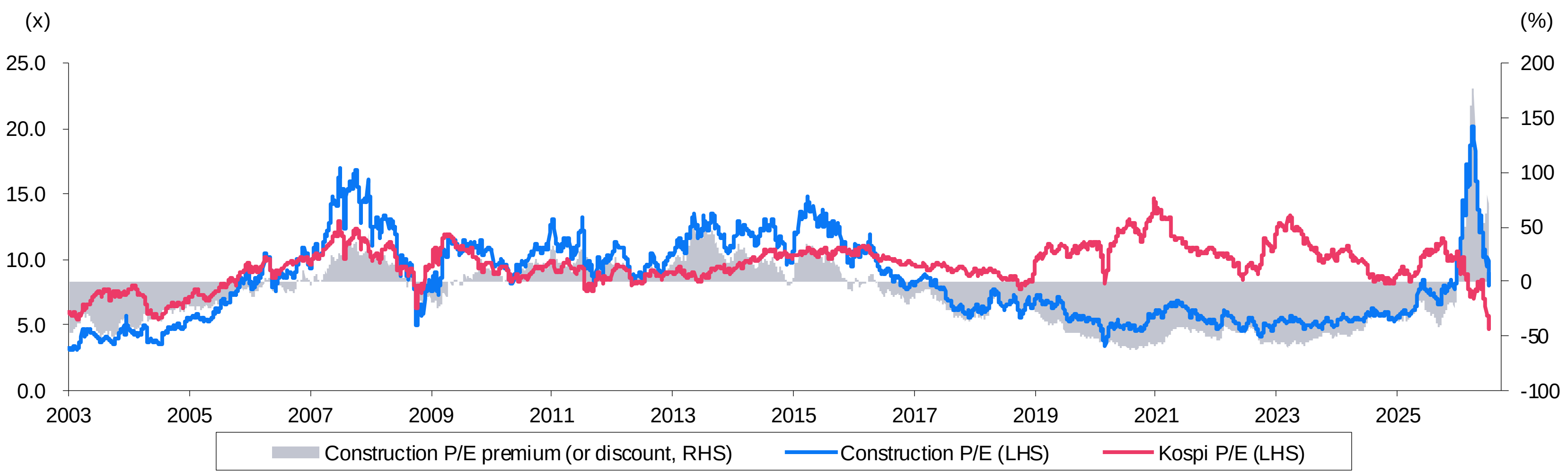


Source: Quantiwise, Samsung Securities

Valuation: Kospi vs construction industry's P/E

- Meanwhile, as of the close of Jul 31, the construction industry's P/E (12-month forward basis) was 8.9x, trading at a 58.8% premium to the Kospi's 5.6x.
- The premium has narrowed significantly over the last few months (it exceeded 150% in early April) but remains elevated…
- …as the rally (the construction sector rose 34% over Jan-July) was driven by optimism over order wins—unlike the Kospi's rally, which was fueled by expectations of stellar profit growth at semiconductor makers.

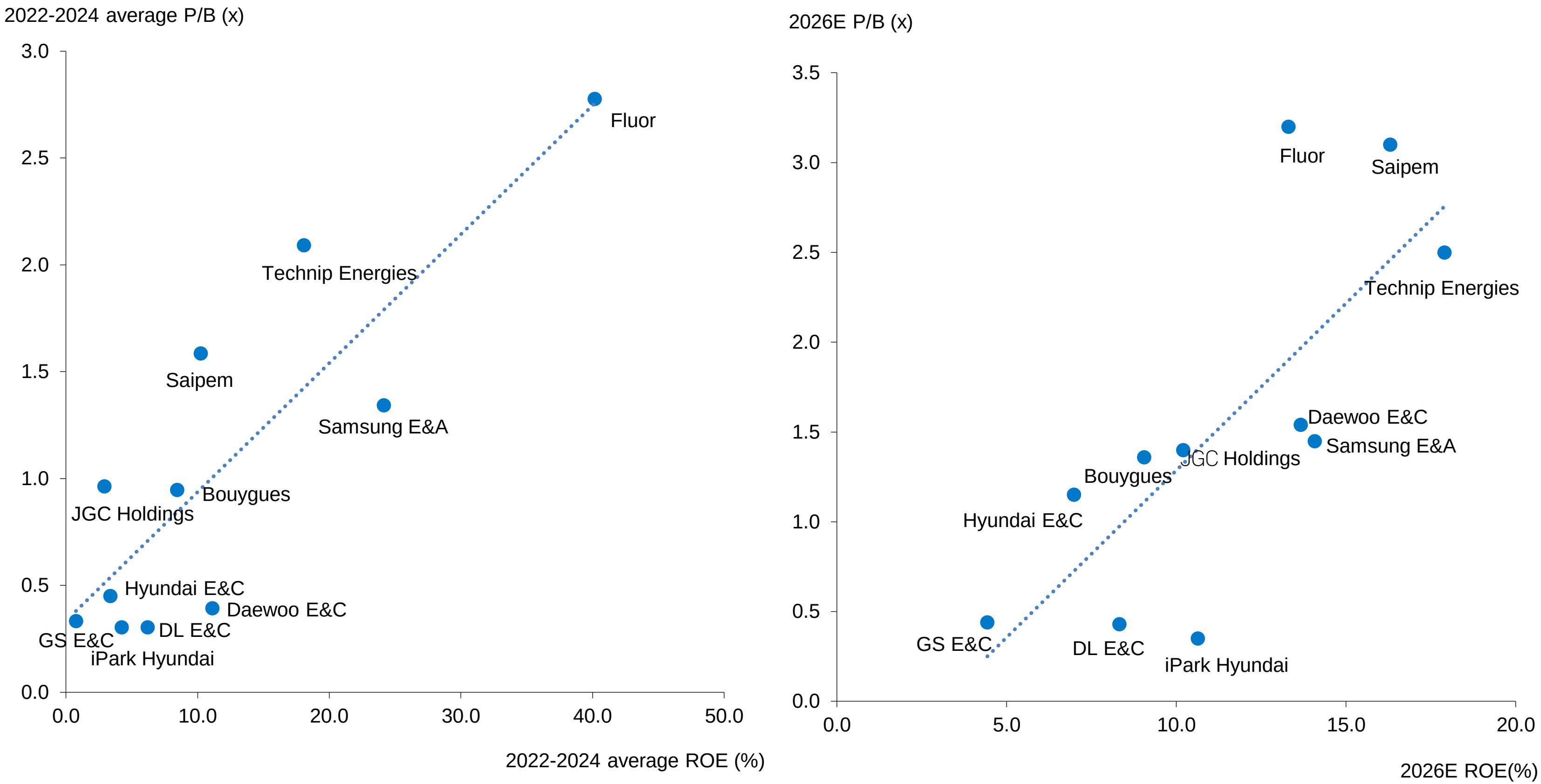
Kospi vs construction industry 12-month forward P/E



Source: Quantiwise, Samsung Securities

Valuation: Domestic vs overseas constructors' P/Bs & ROEs

Domestic and overseas constructors' P/Bs & ROEs: 2022-2024 average vs 2026E



Source: Bloomberg, Quantiwise, Samsung Securities

Summary of 2H sector strategy: Separating the wheat from the chaff

- The outlook for the construction sector in 2H is mixed. While new-order momentum is strengthening, earnings remain under pressure due to elevated inflation and rising interest rates (both stem from the Middle East war).
- Construction stocks corrected sharply after peaking in April, yet they still trade at valuations above usual levels.
- We recommend adopting a selective investment approach in 2H, targeting firms that meet three key criteria: 1) a fair valuation; 2) robust fundamentals (healthy earnings and sound financial structure); and 3) strong new-order momentum.
- Based on this framework, we present Samsung E&A as our top pick, with DL E&C and GS E&C our second top picks.

Three key criteria needed to invest in the construction sector in 2H26

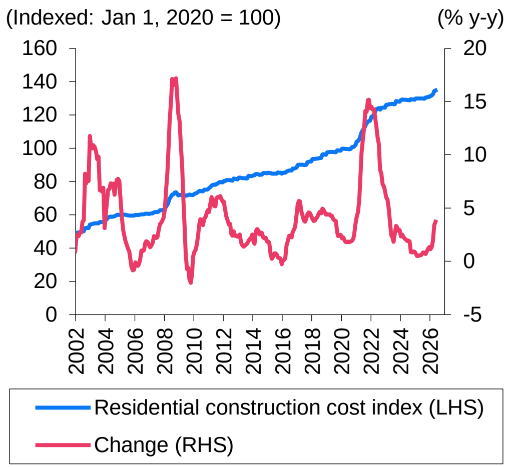
		Valuation	Fundamentals	Order momentum
Top pick	**Samsung E&A**	• Trade at low level compared to domestic and overseas constructors	• Earnings momentum from Fadhili project and high-tech division	• Ongoing expansion of energy transition-related orders and semiconductor orders from affiliates
Alternative	**DL E&C**		• Stable earnings thanks to selective order taking • Profitability improvement on improved housing revenue mix	• Large-scale NPP and SMR orders
	GS E&C		• Profitability improvement on improved housing revenue mix	• Large-scale data center orders

Source: Samsung Securities

① Construction costs: Construction costs begin rising again

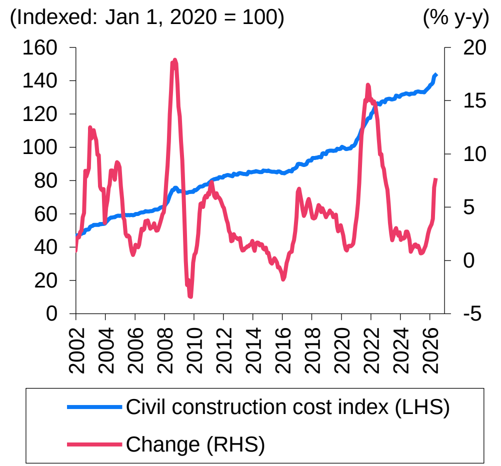
- Domestic residential construction costs began to surge in 2021, hitting the fastest growth rate since 2008 (+15.2% y-y in Nov 2021), but costs subsequently stabilized as raw material and wage inflation moderated.
- The war in the Middle East, however, has reignited cost pressures.
- In May 2026, the domestic residential construction cost index rose 3.7% y-y—the largest y-y increase since Apr 2023.
- Also, the civil engineering cost index (covering roads, railways, power plants, and plants) climbed 7.6% y-y in May.

Residential construction cost index



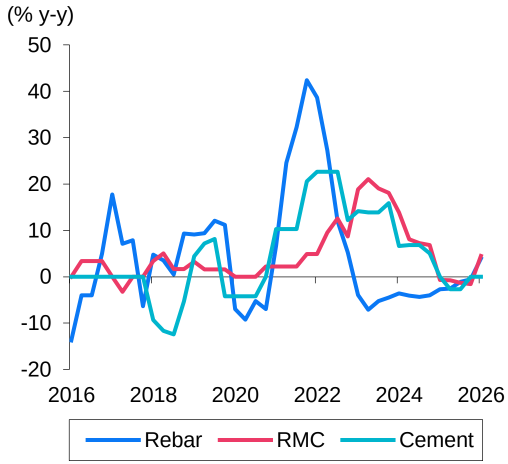
Source: KOSIS, Samsung Securities

Civil construction cost index



Source: KOSIS, Samsung Securities

Changes in raw-material prices

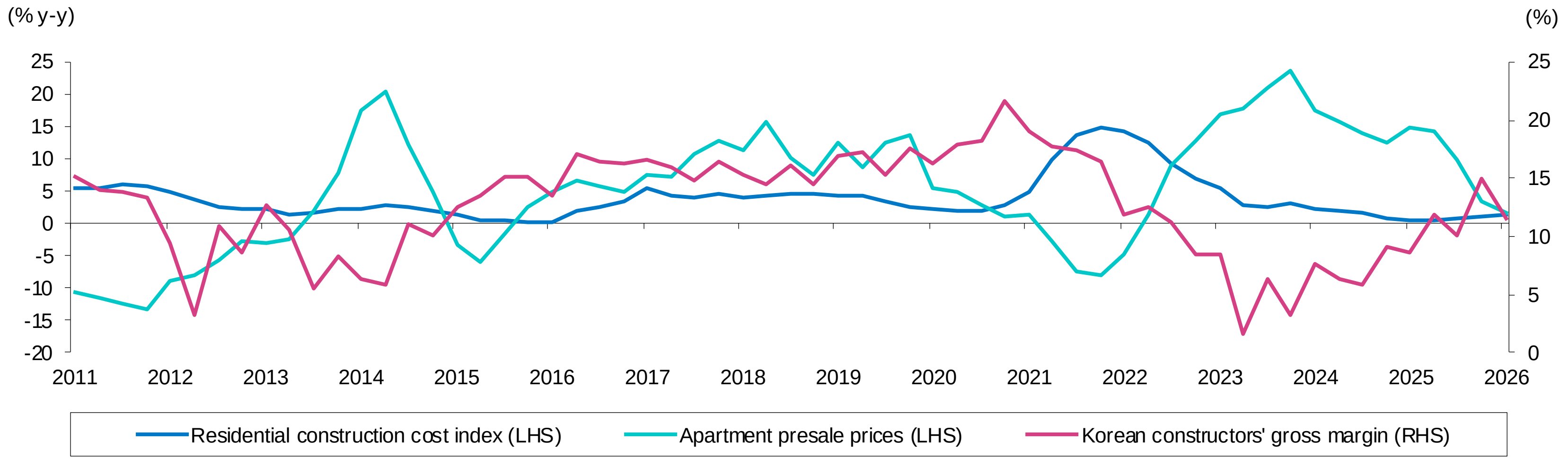


Source: DL E&C, Samsung Securities

① Construction costs: Profitability improvement to lag expectations

- Construction costs are closely tied to the profitability of housing businesses, but rising construction costs do not automatically hurt constructors' margins.
- If presale prices rise alongside construction costs, developers would be able to afford to raise subcontractor budgets (thanks to their improved cash positions), helping constructors maintain healthy margins.
- Over 2021-2022, construction costs surged while presale prices fell, pressuring constructors' housing margins.
- Over 2023-2025, presale prices rose at a record pace amid easing construction costs, driving margin improvement.
- Now, with construction costs rising again amid slowing presale price growth, profitability improvements at housing businesses are likely to prove slower than initially expected.

Residential construction cost index vs apartment presale prices vs gross margins at Korean constructors' housing/building divisions



Source: KOSIS, Samsung Securities

① Construction costs: Impact limited vs that at start of Russia-Ukraine war

- That said, a sharp deterioration in housing business profitability, as seen over 2023-2024, is unlikely…
- …as: 1) construction-cost increases in 2026 have been more contained compared to the cost increases seen during the initial phase of the Russia-Ukraine war, with the upwards price trend softening since President Trump's US-Iran ceasefire announcement;
- …and 2) developers have reportedly incorporated escalation clauses into contracts since the start of the Russia-Ukraine war, enabling them to pass on inflation and secure reasonable profits.

Inflation shock from Iran war narrower in scope than that in initial phase of the Russia-Ukraine war

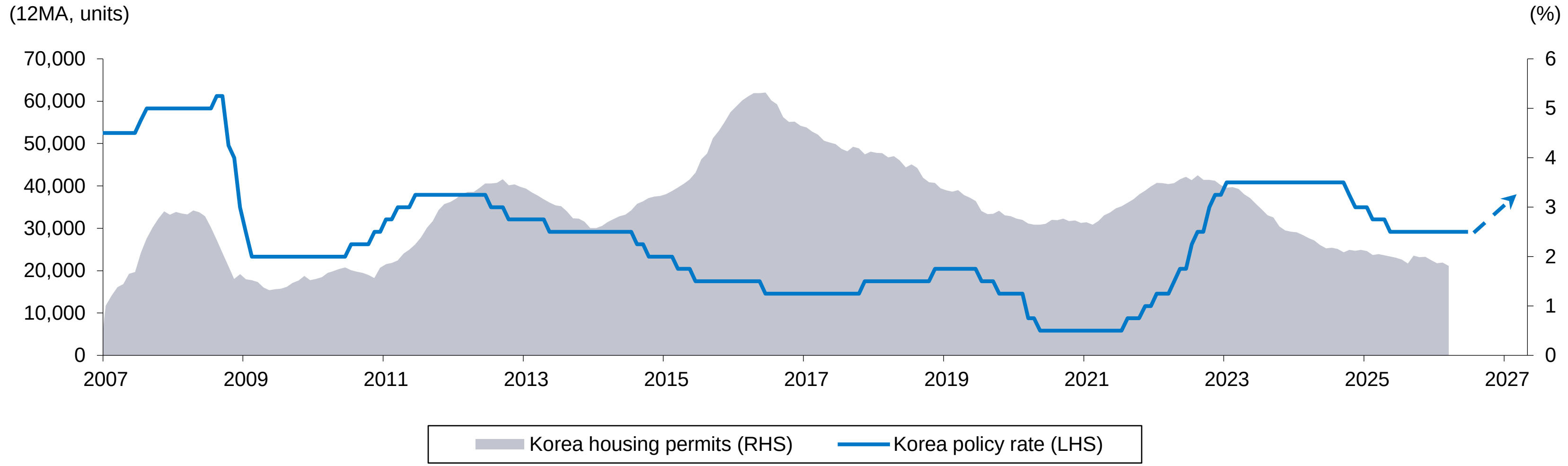
Inflation shock channel	Russia-Ukraine war impact	Iran war impact	Difference
Crude oil	High	High	Oil-price risk is central in both cases
Natural gas	Very high	Medium	The Russia-Ukraine war directly hit Europe's dependence on Russian gas; the Iran war is more about LNG shipping-route risk
Grains / food	Very high	Low	Russia and Ukraine are key exporters of wheat, corn, and sunflower oil
Fertilizers	Very high	Low to medium	Russia/Belarus fertilizer supply and gas-based ammonia costs amplified food-price pressure
Logistics / freight	Medium	Medium	Russia-Ukraine affected the Black Sea and inland European logistics; The Iran war mainly affects the Red Sea / Strait of Hormuz maritime routes
Inflation pass-through scope	Broad	Limited	The Russia-Ukraine war created a simultaneous energy + food + fertilizer shock; the Iran war is more oil/shipping centric

Source: Samsung Securities

① Construction costs: Rising rates may also delay housing sales recovery

- Rising inflation (stemming from the Iran war) has increased the likelihood of the Bank of Korea lifting policy rates.
- Our global bond team forecasts two rate hikes 2H26 (in July and October), and one in 1Q27, pushing up the policy rate to 3.25%.
- When rates rise, housing projects tend to become less profitable, prompting developers to delay their new investments.
- Rising rates are likely to delay any rise in housing permits and move-ins (the latter with a 2-year lag). Any construction sales recovery is also likely to be postponed.

Korea: Housing permits vs policy rate



Source: BOK, R114, Samsung Securities

② Infrastructure orders: Energy infrastructure investments to expand

- Following the start of the Middle East war, major countries have strengthened their resolve to reduce their dependence on fossil fuels and enhance their energy self-reliance.
- As a result, investments in renewable energy sources—such as wind power and nuclear—are expected to rise.
- Oil-producing nations are also expected to increase their investments, diversifying their fossil-fuel distribution channels to mitigate risks.
- Overall, energy infrastructure-related investments are likely to expand following the Middle East war.

Energy infrastructure investments to expand after Iran war

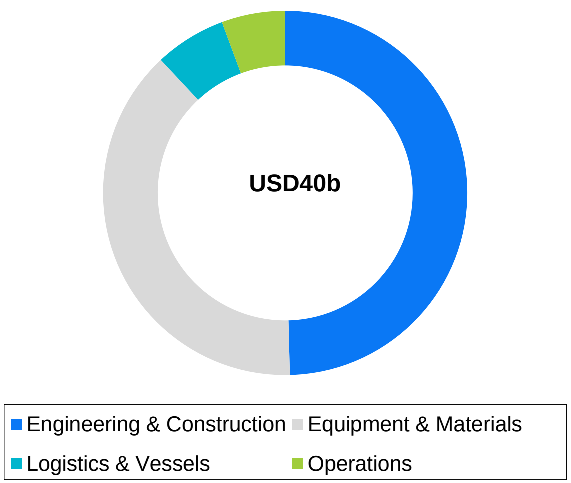
Channel	Key message	Why investment expands
Recovery	Restoration of war-damaged facilities should be the first target of capex.	Bombed or shut-down facilities are directly linked to fiscal revenue recovery and energy-supply stability.
Alternative supply	Alternative-supply infrastructure investments should rise to reduce dependence on chokepoints such as the Strait of Hormuz.	Strait closure risk, vessel attacks, and higher insurance premiums highlight the risk that transportation can be disrupted.
Security hardening	Physical and digital security capex should rise to keep energy facilities running.	Repairing damaged assets alone does not solve vulnerability to repeat attacks; protection, redundancy, and control-system security are required.
Power reliability	Energy security should expand into grid, generation, nuclear and gas-fired power investments.	Power stability for industrial complexes, desalination, data centers, and military facilities become critical alongside oil and gas assets.
Localization / regionalization	Local and multi-source energy infra investments should rise to reduce equipment supply-chain bottlenecks.	War, sanctions, and maritime disruptions increase lead-time risk for critical equipment such as compressors, valves, transformers, and cables.

Source: Samsung Securities

② Infrastructure orders: Reconstruction contracts to fall short of expectations

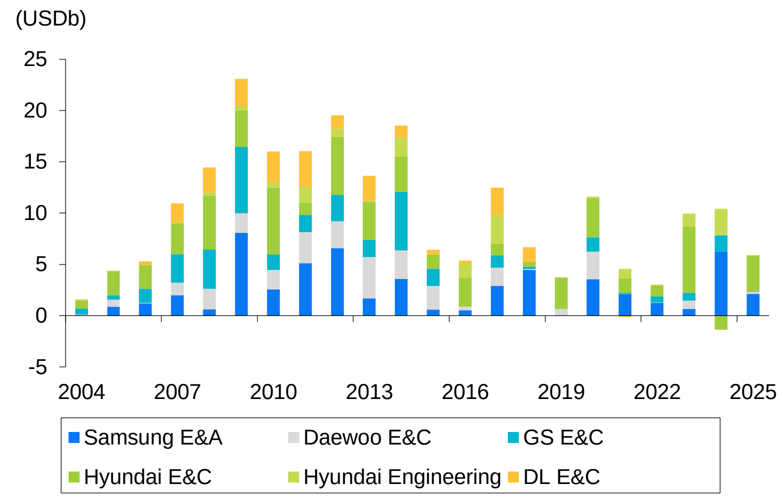
- According to Norway's research firm Rystad Energy, post-war energy infrastructure repair and reconstruction costs in the Middle East could reach USD35b-58b (KRW53t-87t), with USD30b-50b (KRW45t-75t) tied to oil and gas facilities.
- However, the volume of reconstruction contracts awarded to Korean construction firms is likely to fall short of market expectations…
- …as only a limited number of facilities built by them has been damaged.
- The extent of benefits will vary by company, depending on the regions and types of projects they previously executed, with Samsung E&A anticipated to be the prime beneficiary.

Expected repair costs for impacted oil and gas infrastructure



Source: Rystad Energy, Samsung Securities

Middle East construction orders, by company

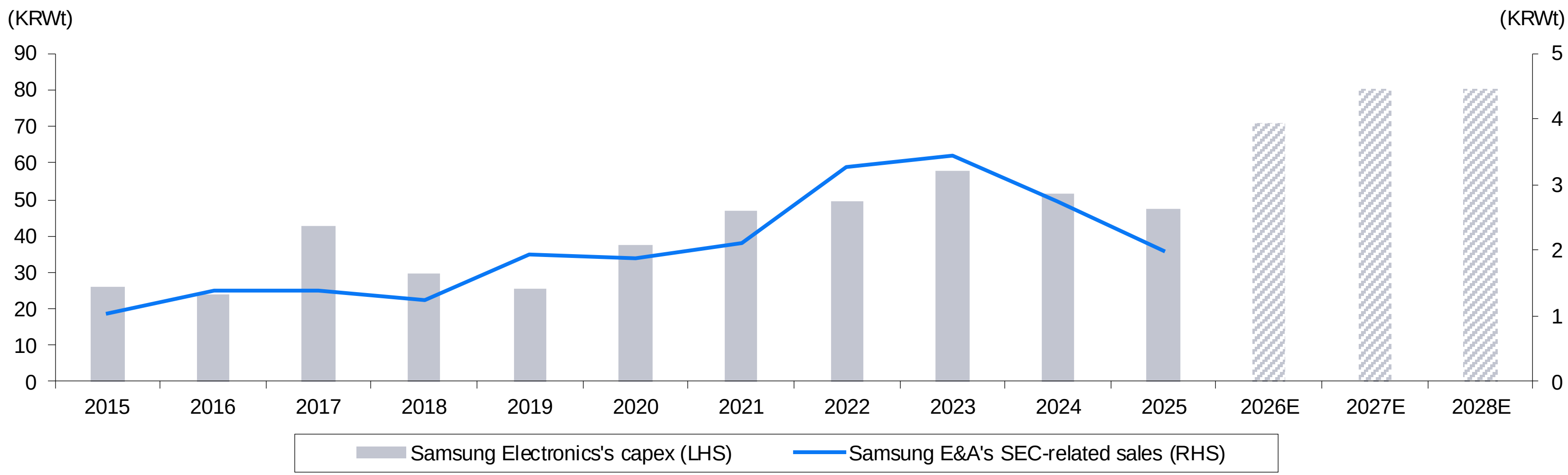


Source: OCIS, Samsung Securities

③ Semiconductor firms' growing capex: Expectations for fab constructions

- Growing semiconductor investments are driving up demand for fab constructions.
- New projects range from the P5 facility and the Yongin semiconductor cluster to proposed new fabs in the country's southwest, brightening the prospects of medium- to long-term growth of semiconductor fab construction orders.
- Samsung E&A, as the primary infrastructure builder of Samsung Electronics' (SEC) fabs, is poised to benefit visibly starting this year.
- Its sales to SEC have historically moved in tandem with the latter's capex growth.

Samsung Electronics' capex vs Samsung E&A's SEC-related sales

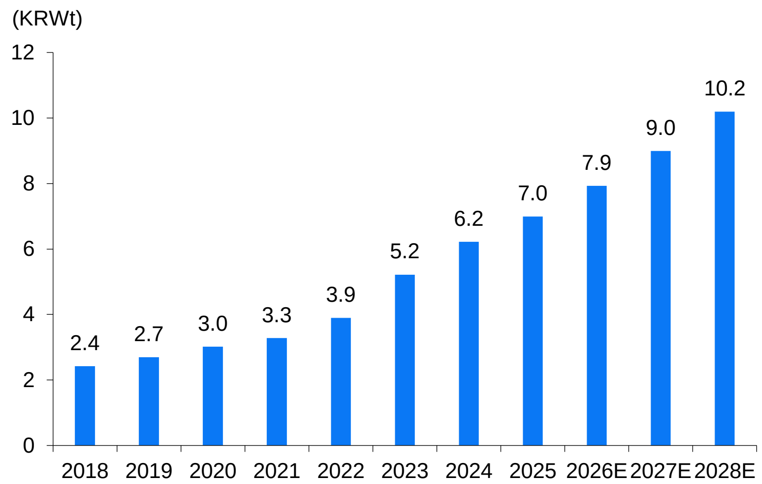


Source: Quantiwise, Samsung E&A, Samsung Securities

③ Semiconductor firms' growing capex: More AI data centers to be constructed

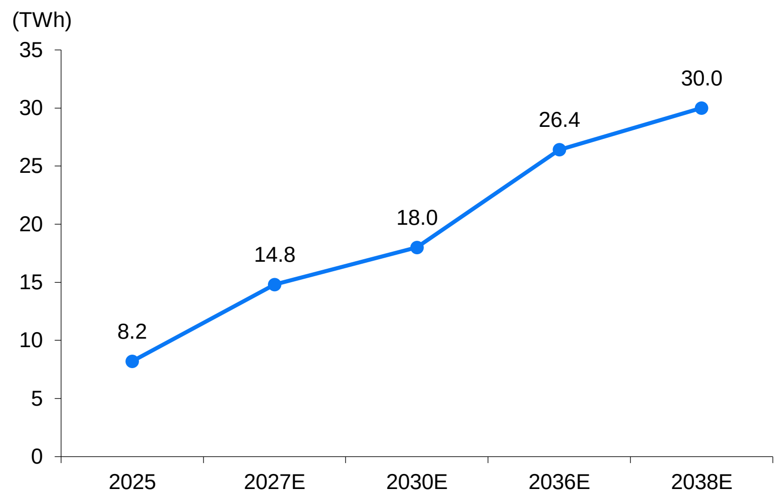
- Recently, SK Hynix announced plans to invest KRW100t in AI data centers over the next decade. Domestic companies such as Naver and Kakao, along with global players including BlackRock and Equinix, have signaled their intent to invest in data-center infrastructure in Korea.
- As a result, the domestic data-center market is projected to grow from KRW7t in 2025 to KRW10.2t by 2028 (+45% over three years).
- This suggests that Korean builders will enjoy an inflow of new AI data-center construction orders.
- Beyond direct benefits stemming from building data centers, Korean constructors are also set to benefit from orders related to power infrastructure systems that are required to operate these facilities—pointing to medium- to long-term growth opportunities.

Domestic data-center market



Source: KDCC, Samsung Securities

Electricity consumption at data centers



Source: MOTIR, Samsung Securities

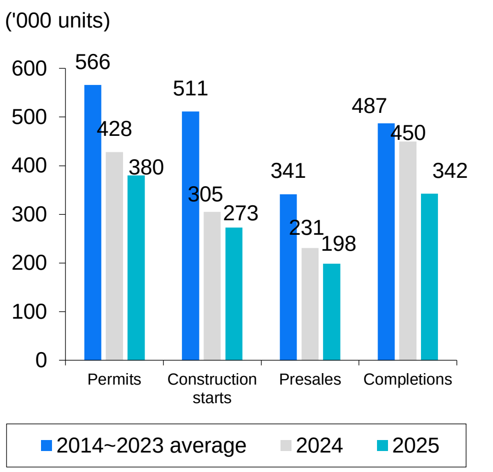
PART
02

Domestic construction projects

Supply: Housing supply shrinking

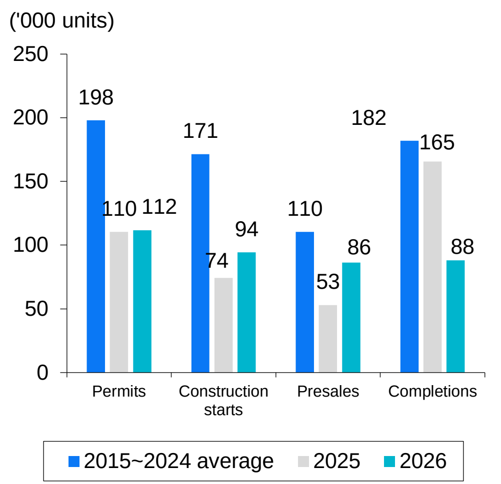
- Housing supply indicators have stayed on a downtrend in 2026.
- Housing permits, construction starts, and presales (volume basis) over January-May remained below their historical averages—housing completions were far below their historical average.
- Because housing permits began to fall in 2023, housing completions and move-in volumes are destined to decline over 2025-2027.

Housing supply indicators: Annual



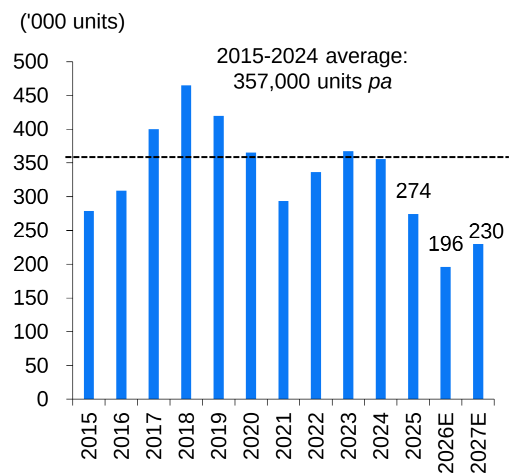
Source: KOSIS, Samsung Securities

Housing supply indicators: Jan-May



Source: KOSIS, Samsung Securities

Apartment move-in volume

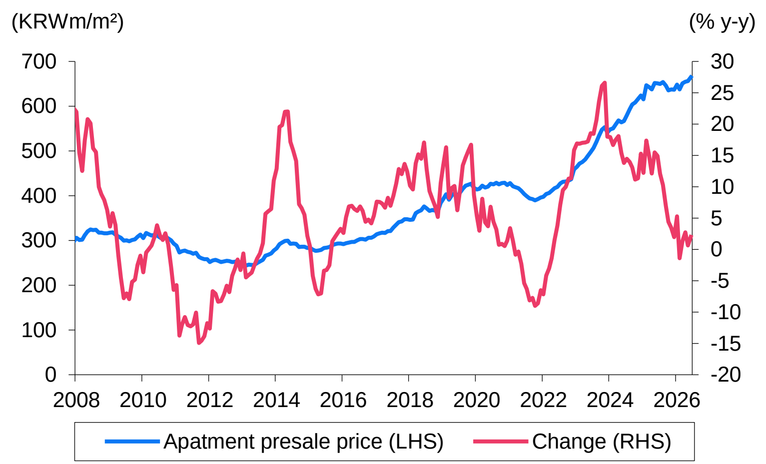


Source: R114, Samsung Securities

Presales: Prices remain elevated

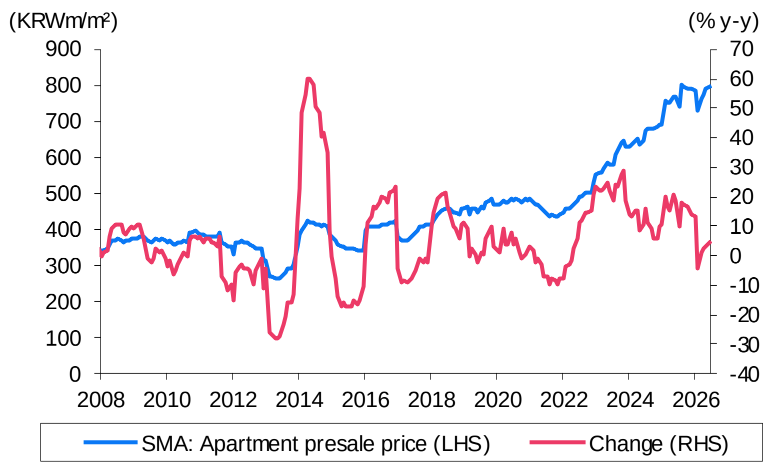
- Apartment presale prices remain high, though the pace of price hikes began to slow considerably in 2H25.
- The nationwide average presale price stands at KRW6.79m/m² (up 8.9% y-y).
- The SMA average is KRW8m/m² (up 2.6% y-y).
- Apartment presale prices do not directly impact construction companies.
- But higher prices are positive for constructors, as at higher prices developers should be more tolerant of constructors' demands for higher contract prices (as developers can realize greater development gains) .

Korea: Apartment presale price (12-month average)



Source: R114, Samsung Securities

SMA: Apartment presale price (12-month average)

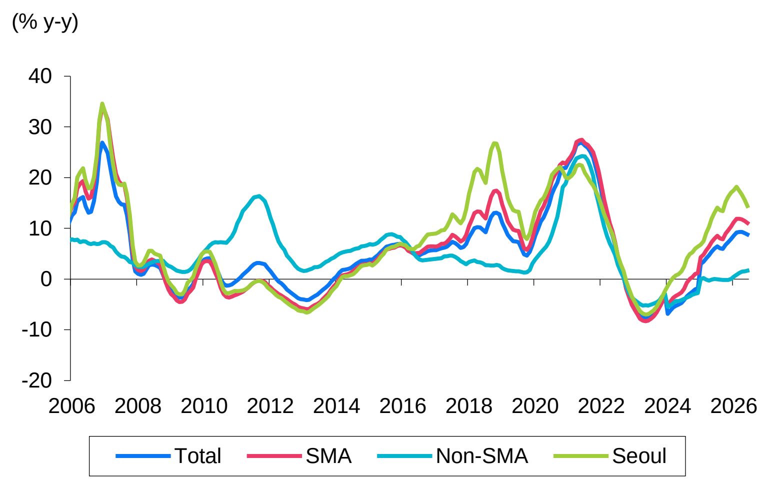


Source: R114, Samsung Securities

Sales price: Continued appreciation despite regulatory tightening

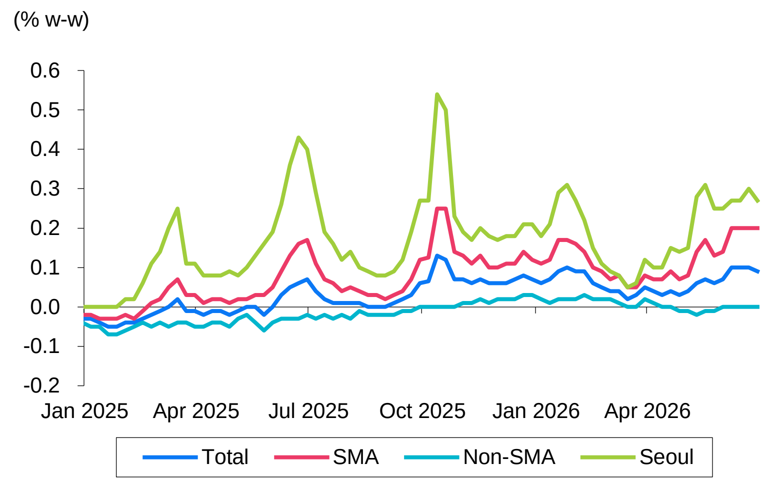
- A series of actions by the government—*eg*, the Jun 27 and Oct 15, 2025 housing measures; the end of the grace period for exempting punitive capital gains taxes on multiple-home owners—dampened the pace of apartment price growth earlier this year.
- However, recent data show that price growth is accelerating again, particularly in the Seoul Metropolitan Area (SMA; since mid-March).

Apartment transaction price change, by region (y-y)



Source: R114, Samsung Securities

Apartment transaction price change, by region (w-w)

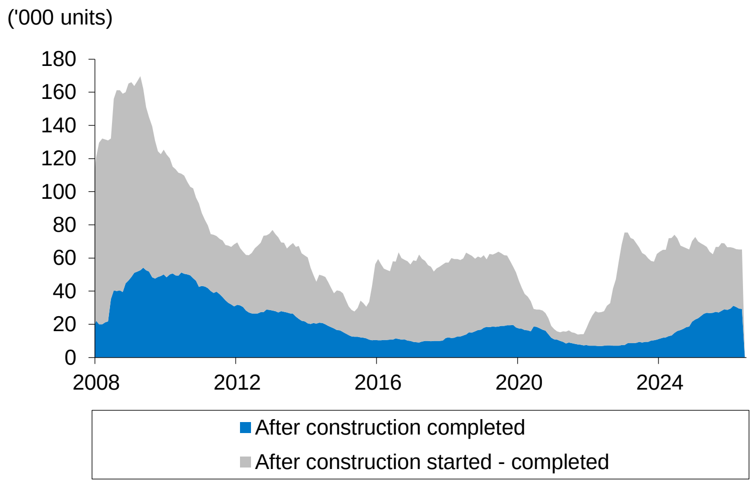


Source: KREB, Samsung Securities

Unsold inventory: Lingering risk

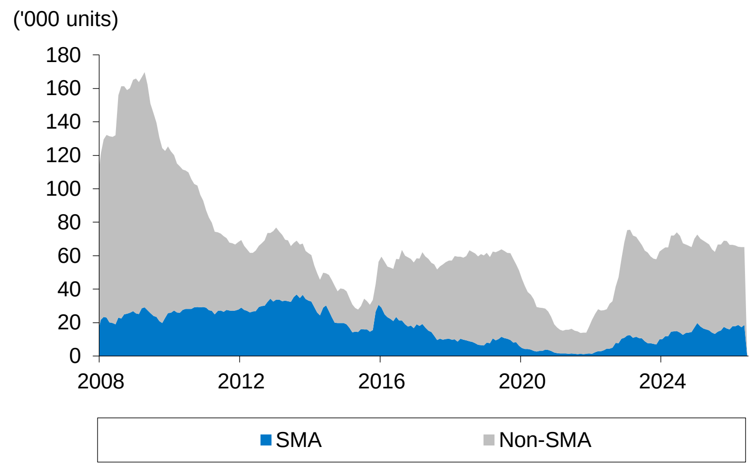
- As of end-May, the total unsold housing inventory in Korea stood at 65,000 units, including 29,000 completed units.
- While the overall pace of unsold inventory growth has slowed, the fact that the number of completed-but-unsold apartments is nearing 30,000 units remains a key concern.
- The provinces account for 83.6% of the total number of units that have been completed but not sold.
- The unsold unit risk varies by firm, and the level of risk depends on: 1) the housing construction type (contracted/reconstruction); 2) region in which the apartment was built (SMA/non-SMA); and 3) the financial health of the company.
- Considering the government's moves to resolve the unsold housing inventory issue in the provinces (*eg*, directly purchasing them or introducing CR REITs),the unsold inventory issue should be resolved gradually.

Unsold inventory: Housing starts vs completed



Source: R114, Samsung Securities

Unsold inventory (completed units): SMA vs non-SMA

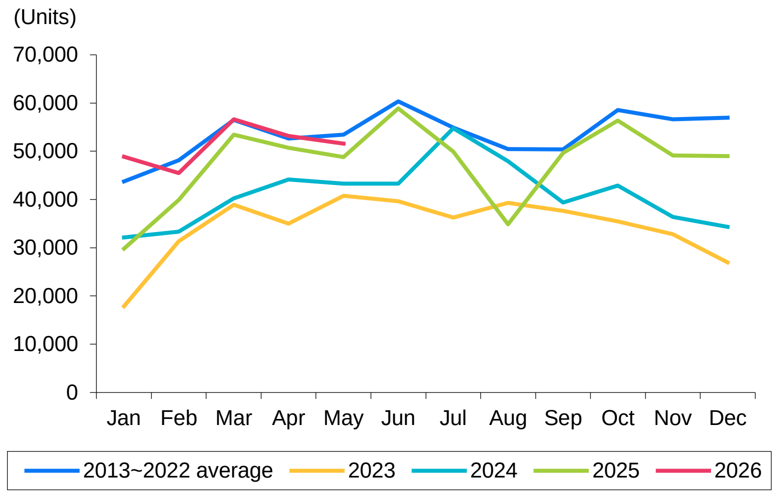


Source: R114, Samsung Securities

Transaction volume: 1H26 figure back at 1H average seen over 2013-2022

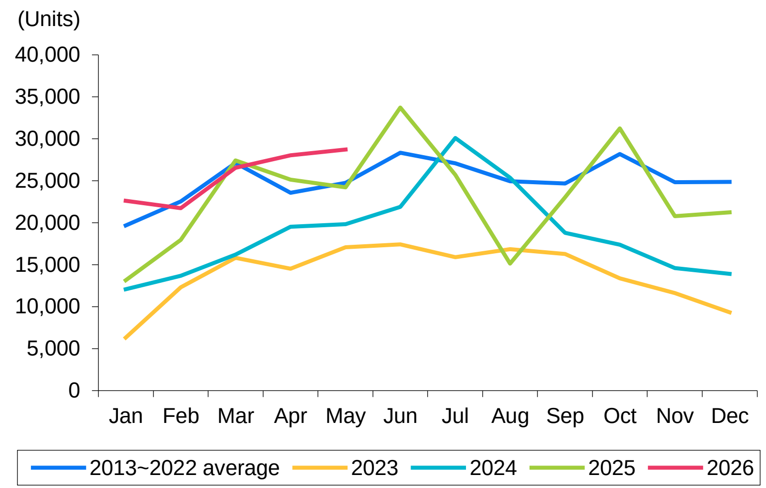
- The apartment transaction volume in 1H26 came to 282,000 units, similar to the 1H average seen over 2013-2022.
- In the SMA, the transaction volume in May surpassed the historical monthly average.

Korea: Monthly apartment sales transaction volume



Source: KREB, Samsung Securities

SMA: Monthly apartment sales transaction volume

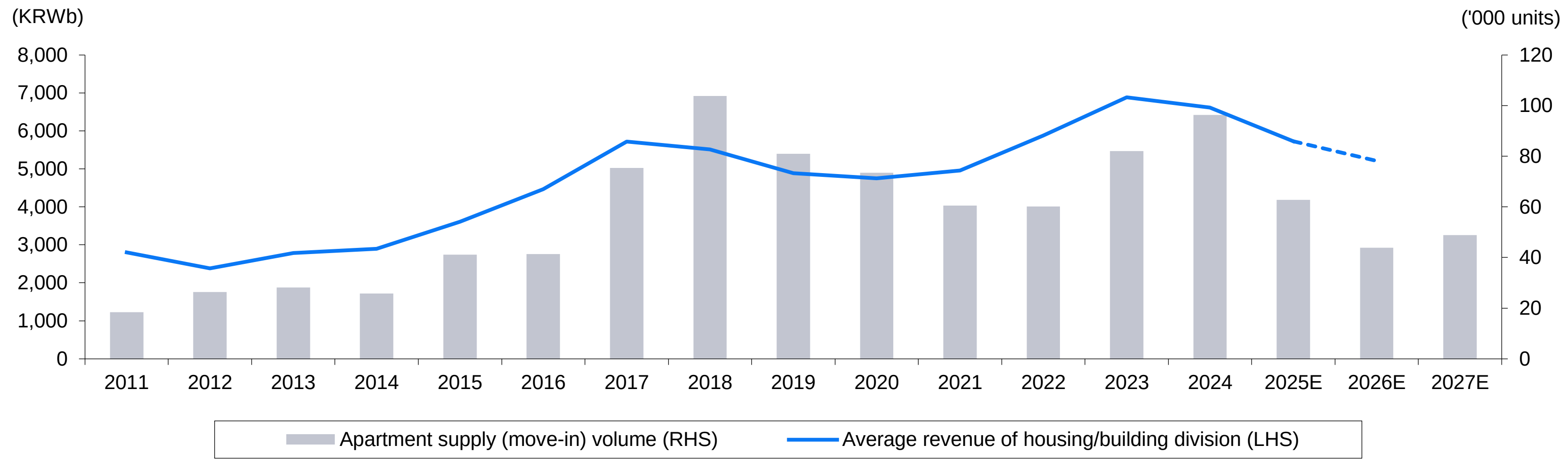


Source: KREB, Samsung Securities

Revenue outlook: 2026 to mark the bottom

- Domestic constructors' housing/building sales tend to precede apartment move-ins by one year.
- Despite the outlook of move-ins plunging in 2026 (mirroring 2025), our covered firms should see only limited falls in housing/building sales.
- We attribute this projected limited fall to: 1) a hike in contract value; and 2) a rise in the portion of redevelopment/reconstruction projects (which tend to be long-term projects).
- With the move-in volume expected to recover in 2027, 2026 is likely to mark the low point for sales, setting the stage for sales growth in 2027.

Apartment move-in volume vs the average revenue of builders (housing/building divisions) under our coverage*

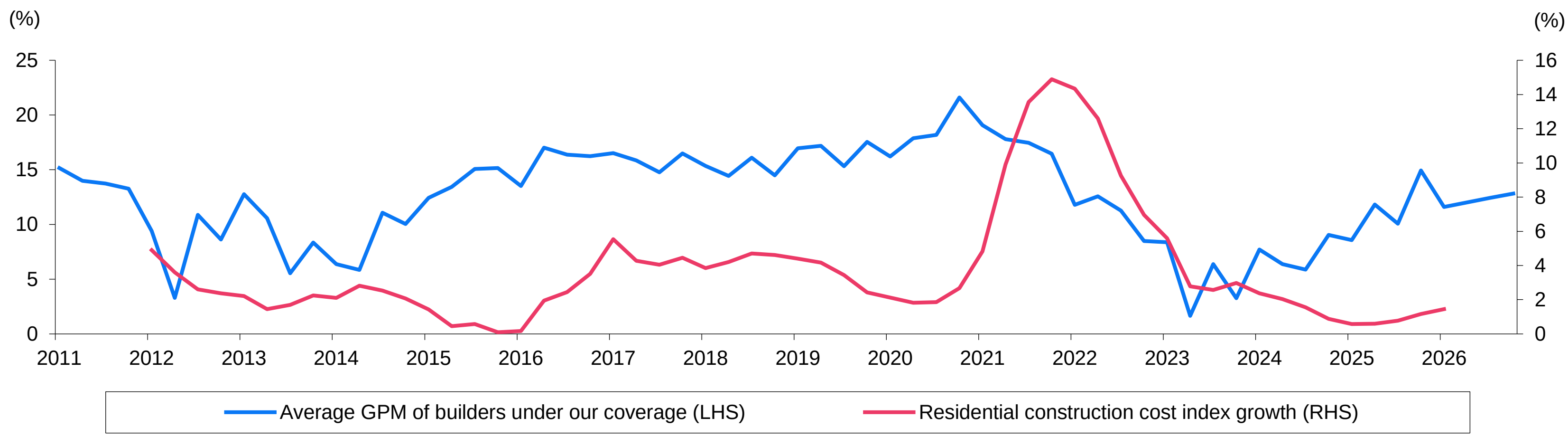


Note: *Our covered builders: Hyundai E&C, GS E&C, DL E&C, Daewoo E&C, HDC Hyundai Development
Source: Company data, R114, Samsung Securities

Profitability outlook: Margins to improve but at slower pace than expected

- The prolonged conflict in the Middle East has caused upwards pressure on construction costs to grow once again, delaying the pace of margin recovery (vs earlier expectations).
- However, constructors' profitability is beginning to improve (from this year), and the pace of improvement should accelerate from 2027 thanks to the completion of low-margin projects that were initiated over 2022-2023 (when construction costs soared).

Construction costs vs gross margins at Korean constructors' housing/building divisions

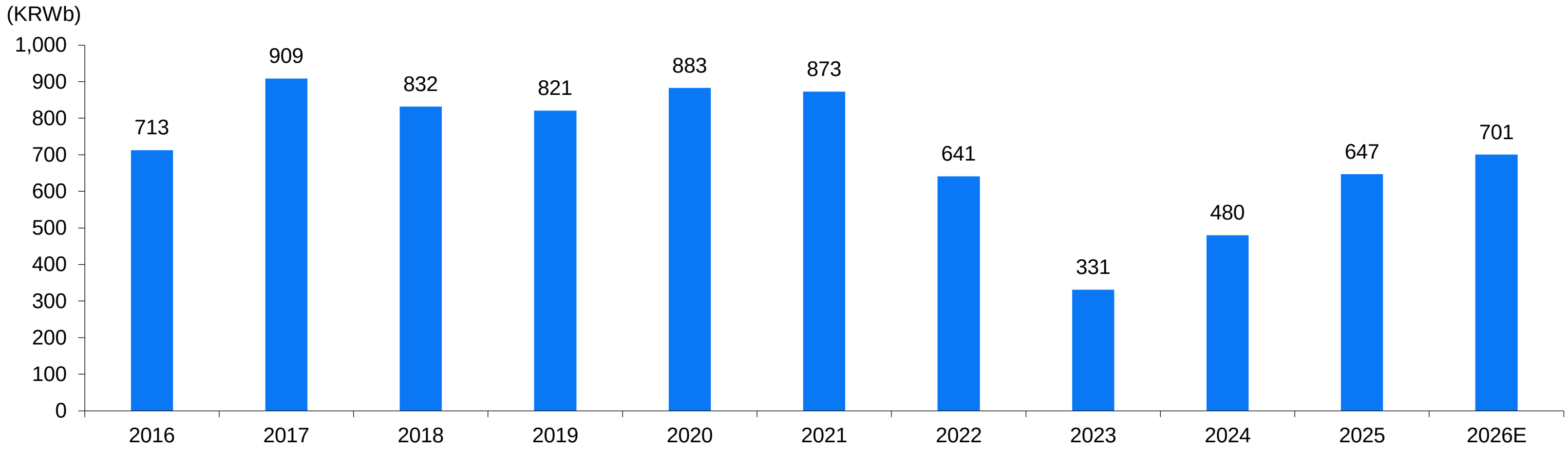


Note: Coverage builders include: Hyundai E&C, GS E&C, DL E&C, Daewoo E&C, HDC Hyundai Development
Source: Company data, KICT, Samsung Securities

Conclusion: Earnings to keep growing in absolute terms

- In summary, our covered players' earnings should keep rising in 2026, with the positive impact of margin growth outweighing the negative impact of a sales decline.
- We forecast that their gross profit in 2026 will improve to a level seen before the hike in construction costs began hurting builders' profitability.

Builders under our coverage: Average gross profit (housing/building divisions)



Note: Builders under our coverage: Hyundai E&C, GS E&C, DL E&C, Daewoo E&C, HDC Hyundai Development
Source: Company data, Samsung Securities

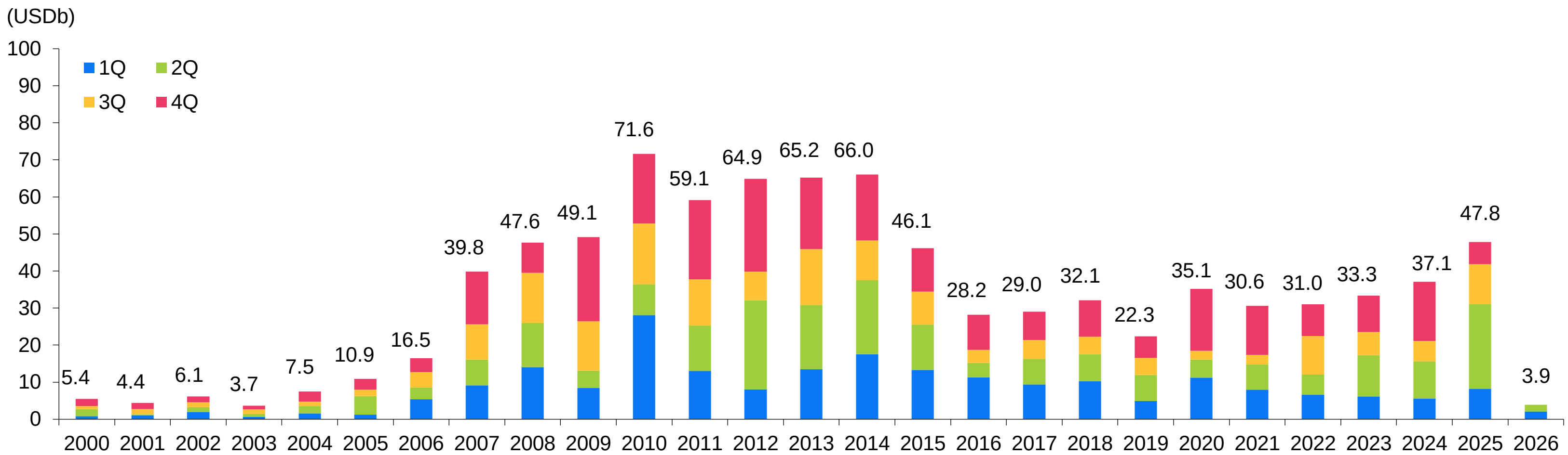
PART 03

Overseas construction projects

Orders, by quarter: Orders delayed due to Middle East conflict

- Overseas orders secured by Korean constructors over January-May reached USD3.9b, the lowest Jan-May level since 2004—in stark contrast with 1H25, when overseas orders hit a 10-year high thanks to the winning of the Czech nuclear power plant project.
- The sluggishness is ascribable to widespread project delays caused by geopolitical uncertainty stemming from the Middle East conflict.
- We believe the full-year overseas order volume in 2026 will fall short of our previous forecast, as an EPC contract for nuclear reactors in Bulgaria (previously expected in 2026) has been pushed back to 2027, and as the future of the Fermi America project (US) is now uncertain.

Overseas construction order trends, by year and quarter



Source: KCIS, Samsung Securities

Outlook for overseas orders: Energy infrastructure orders to rebound

- Despite near-term headwinds, we expect to see a rebound in energy infrastructure orders once the Middle East conflict subsides.
- This recovery should be underpinned by three long-term trends: 1) major economies are accelerating investments in the energy transition (*eg*,, renewables and LNG) to reduce their fossil-fuel dependence; 2) countries are investing in energy infrastructure to diversify energy supply routes; and 3) widespread damage to energy infrastructure in conflict zones should drive post-conflict reconstruction efforts.

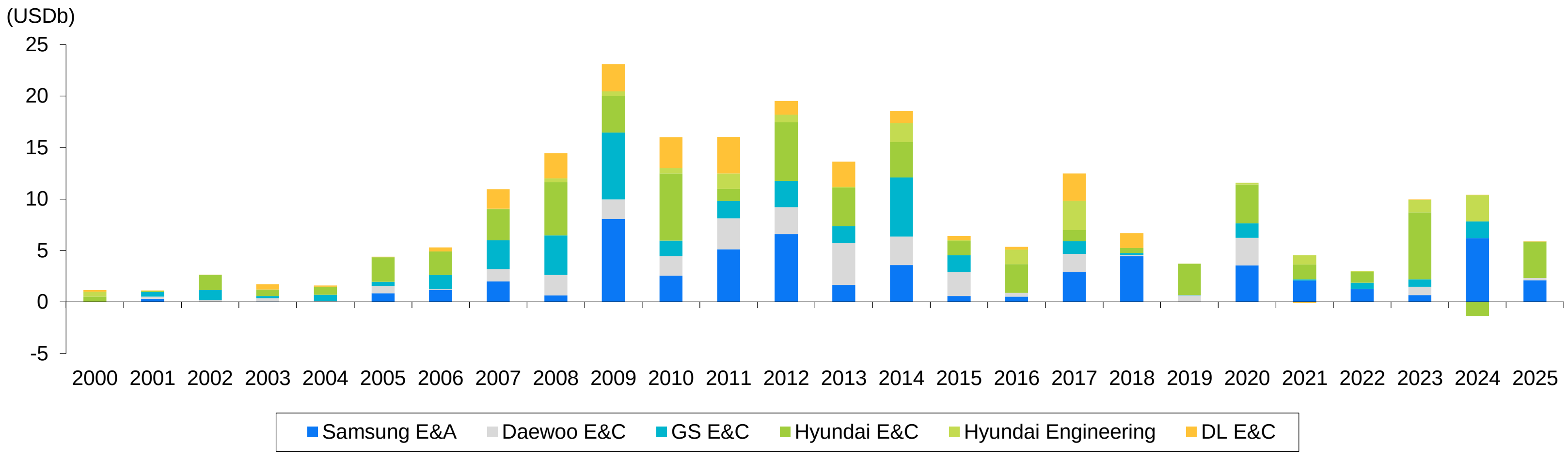
Energy infrastructure investments to grow after Middle East war

Trend	Investment rationale	Key infrastructure investments
Energy transition	Geopolitical shocks reinforce the need to reduce dependence on fossil fuels and accelerate investments in low-carbon energy systems.	Renewables, hydrogen, power grids, ESS, nuclear power
Distribution diversification	Countries aim to reduce their reliance on specific regions, chokepoints, and suppliers by rebuilding and diversifying their fossil-fuel supply chains.	LNG terminals, pipelines, storage facilities, ports, oil & gas processing assets
Post-war reconstruction	Damaged energy assets need to be repaired or rebuilt after the war, creating reconstruction demand.	Refineries, power plants, transmission grids, oil & gas production/processing facilities

Source: Samsung Securities

Trend in Middle East contracts by company (overall)

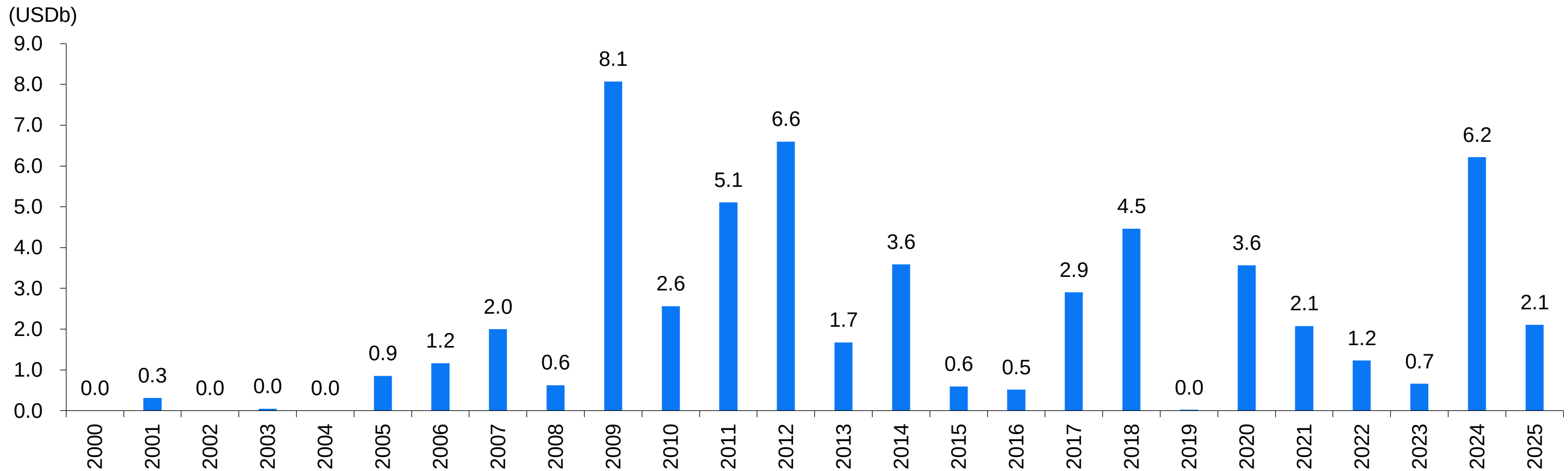
Middle East contracts won, by domestic constructor



Source: KCIS, Samsung Securities

Middle East contracts by company: Samsung E&A

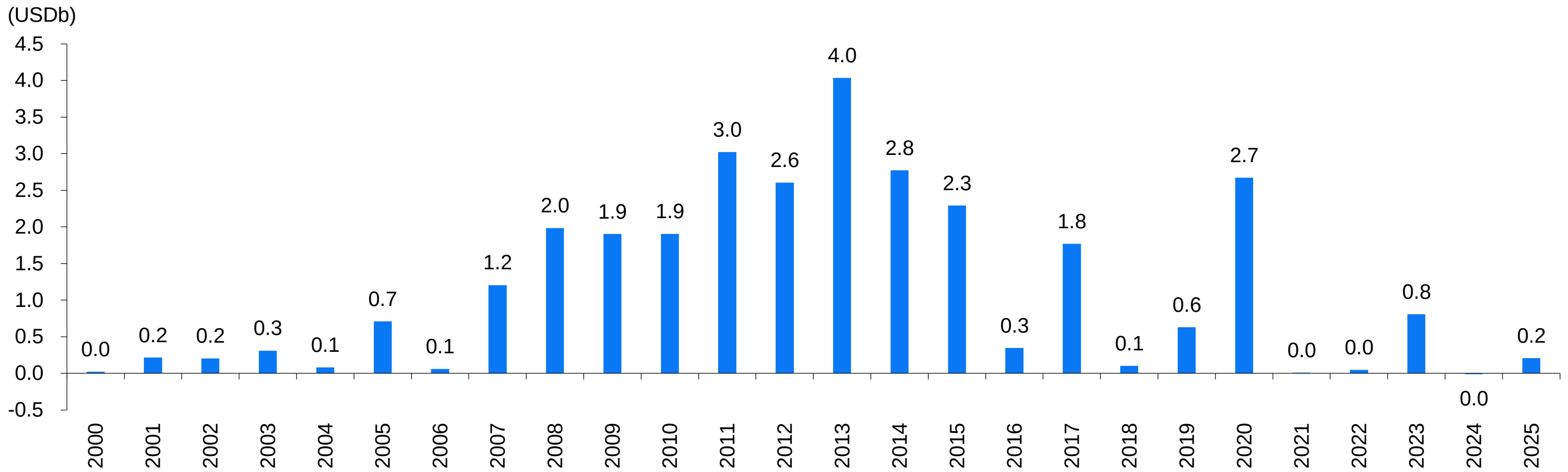
Trend in Middle East contracts by company: Samsung E&A



Source: KCIS, Samsung Securities

Trend in Middle East contracts by company: Daewoo E&C

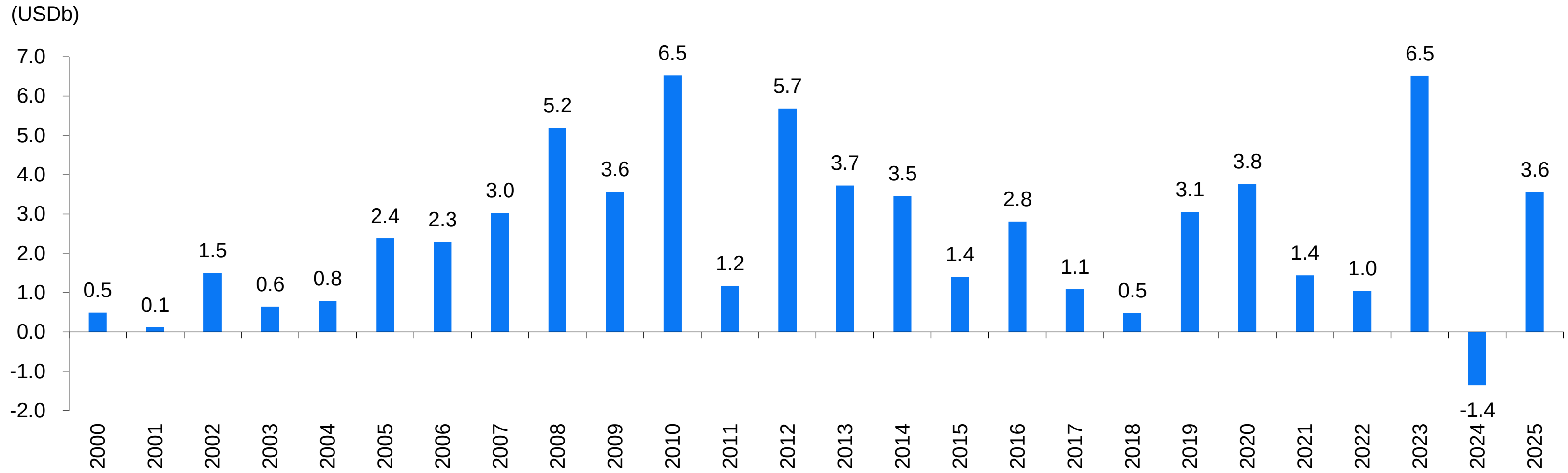
Trend in Middle East contracts by company: Daewoo E&C



Source: KCIS, Samsung Securities

Trend in Middle East contracts by company: Hyundai E&C

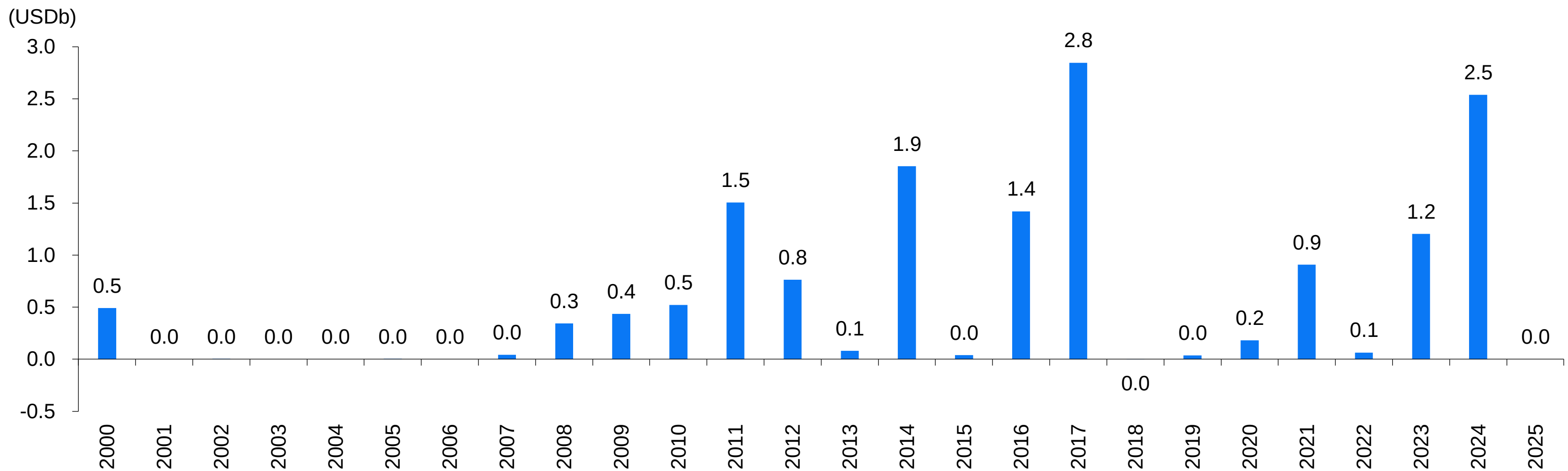
Trend in Middle East contracts by company: Hyundai E&C



Source: KCIS, Samsung Securities

Trend in Middle East contracts by company: Hyundai Engineering

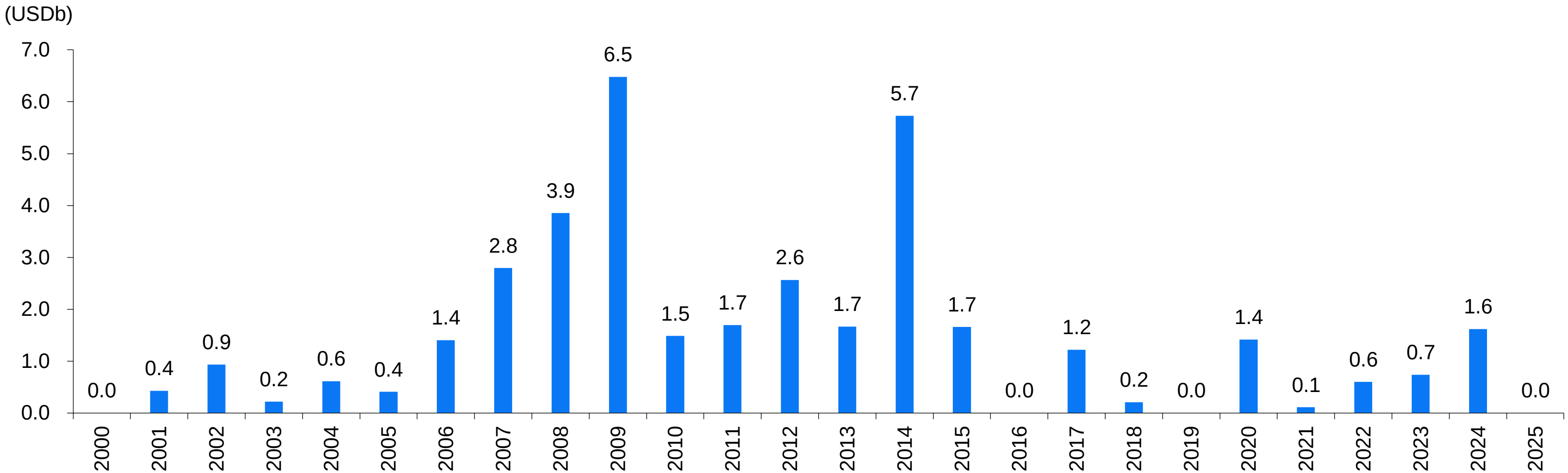
Trend in Middle East contracts by company: Hyundai Engineering



Source: KCIS, Samsung Securities

Trend in Middle East contracts by company: GS E&C

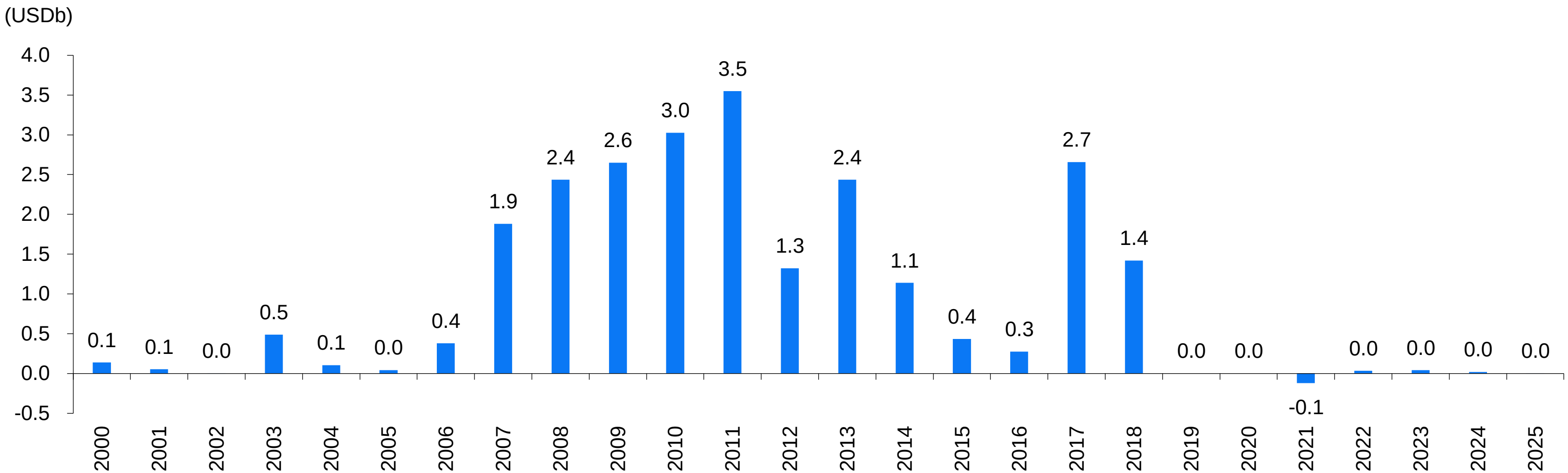
Trend in Middle East contracts by company: GS E&C



Source: KCIS, Samsung Securities

Trend in Middle East contracts by company: DL E&C

Trend in Middle East contracts by company: DL E&C



자료: 해외건설종합정보서비스, 삼성증권

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