COMPANY UPDATE

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Industrial Team

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Hyosung Heavy Industries (298040)

Rapidly building order backlog

- Hyosung Heavy Industries' 2Q results slightly missed consensus due to delayed revenue recognition on US exports (ie, a rise in unrealized inventory). This reflects the company's proactive buildup of production and inventory in anticipation of rising demand—a positive signal.
- Given the sharp rise in order backlog and its growing share of North American projects, we believe expectations for future revenue and earnings improvement remain intact. Even after accounting for the recent sector-wide valuation declines, the stock has significant upside potential.

AT A GLANCE

BUY

Target price	KRW3,760,000	57.1%
Current price	**KRW2,417,000**	
Market cap	KRW22.5t/USD15.8b	
Shares (float)	9,324,548 (55.9%)	
52-week high/low	KRW4,601,000/KRW1,115,000	
Avg daily trading value (60-day)	KRW202.5b/ USD142.2m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Hyosung Heavy Industries (%)	-29.7	-7.1	97.1
Vs Kospi (%pts)	-9.6	-26.4	-3.0

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	3,760,000	4,300,000	-12.6%
2026E EPS	84,140	83,764	0.4%
2027E EPS	120,009	117,673	2.0%

SAMSUNG vs THE STREET

No of estimates	9
Target price	4,688,889
Recommendation	4.0

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

WHAT'S THE STORY?

2Q review—miss consensus but in line with underlying strength: Hyosung Heavy Industries' 2Q operating profit missed consensus by 9%, primarily due to delayed revenue recognition on US exports. Goods sold from the parent to its US subsidiary but not yet delivered to end customers have increased, resulting in higher unrealized inventory on a consolidated basis. This is not a sign of weak demand, but rather evidence of proactive production scaling ahead of rising order intake—a fundamentally positive development. The majority of this unrealized inventory should be recognized as revenue in 2H, limiting any meaningful downward revision to full-year earnings estimate. Notably, operating margin in the heavy industries division improved to 20% despite the revenue recognition delay. Sales disruptions to the Middle East occurred but were modest in scale and carried lower margins than US shipments, resulting in negligible net impact on profitability.

(Continued on the next page)

SUMMARY 2Q RESULTS

(KRWb)	2Q26	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	1,687	10.6	24.2	-6.6	-6.9
Operating profit	264	60.9	73.5	-9.2	-9.1
Pre-tax profit	237	121.2	83.4	-17.3	-10.7
Net profit	173	86.5	97.8	-20.4	-16.3
Margins (%)					
Operating profit	15.7				
Pre-tax profit	14.0				
Net profit	10.2				

Source: Company data, Fnguide, Samsung Securities estimates

VALUATION SUMMARY

	2025	2026E	2027E
Valuation (x)			
P/E	42.9	28.5	19.9
P/B	9.5	7.2	5.4
EV/EBITDA	27.6	18.9	13.1
Div yield (%)	0.3	0.4	0.5
EPS growth (% y-y)	133.5	50.9	42.6
ROE (%)	24.4	28.9	31.1
Per-share data (KRW)			
EPS	55,755	84,140	120,009
BVPS	252,208	330,942	439,950
DPS	7,500	8,500	11,000

Samsung Securities

Strong order intake signals sustainable growth: In 1H, orders in the heavy industries division expanded 78% y-y, equivalent to 98% of last year's full-year total. The company has raised its full-year order target by 43% from KRW8.4t to KRW12t—a clear signal that capacity expansion is progressing ahead of schedule. Absent faster-than-expected ramp-up of new production lines, such aggressive order pursuit would be unlikely. This implies meaningful upside potential to future revenue forecasts. The order backlog surged 63% y-y, with North America now accounting for 57% of the total—significantly higher than its current 38% share of revenue. This implies meaningful upside to profitability as North American sales, which carry higher margins, continue to grow. While we reduce our target price to reflect recent valuation compression across Korea's power equipment sector, the revision is modest at just 13%, underscoring the strength of the company's fundamentals. Our new target of KRW3,760,000 is based on a 31x P/E on 2027 EPS, aligned with Hyosung's average multiple traded in 2026. This reflects our view that recent valuation pullback is temporary and that the stock's premium valuation will recover. Overseas frontrunners' valuation still remain robust. We do not think the stock's current multiple is demanding.

Hyosung Heavy Industries: 2Q results

(KRWb)	2Q26	1Q26	Chg (% q-q)	2Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung Securities	Diff (%)
Sales	1,687	1,358	24.2	1,525	10.6	1,812	-6.9	1,806	-6.6
Operating profit	264	152	73.5	164	60.9	291	-9.1	291	-9.2
Pre-tax profit	237	129	83.4	107	121.2	265	-10.7	286	-17.3
Net profit*	173	87	97.8	93	86.5	206	-16.3	217	-20.4
Margins (%)									
Operating profit	15.7	11.2		10.8		16.0		16.1	
Pre-tax profit	14.0	9.5		7.0		14.6		15.8	
Net profit	10.2	6.4		6.1		11.4		12.0	

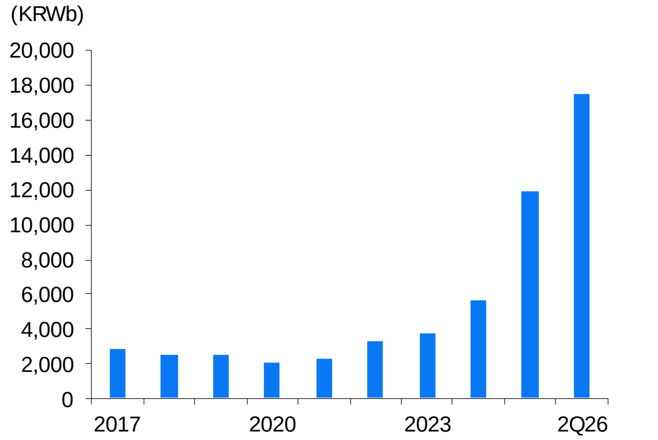
Source: FnGuide, Samsung Securities estimates

Results, by division

(KRWb)	2Q26	1Q26	Chg (% q-q)	2Q25	Chg (% y-y)
Sales					
Heavy Industries	1,137	881	29.1	1,061	7.2
Construction	549	477	15.2	463	18.5
Operating profit					
Heavy Industries	229.8	117.7	95.2	168.5	36.4
Construction	34.4	34.4	0.0	-4.2	nm
Operating margin (%)					
Heavy Industries	20.2	13.4		15.9	
Construction	6.3	7.2		-0.9	

Source: Company data

Heavy industries division: Orderbook trends



Source: Company data

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**4,895**	**5,969**	**7,142**	**8,329**	**9,747**
Cost of goods sold	4,103	4,716	5,427	6,119	7,071
Gross profit	**792**	**1,253**	**1,715**	**2,209**	**2,676**
Gross margin (%)	16.2	21.0	24.0	26.5	27.5
SG&A expenses	429	506	625	706	802
Operating profit	**362**	**747**	**1,090**	**1,503**	**1,875**
Operating margin (%)	7.4	12.5	15.3	18.0	19.2
Non-operating gains (losses)	**-139**	**-121**	**-51**	**-21**	**122**
Financial profit	528	474	106	195	312
Financial costs	567	553	568	756	186
Equity-method gains (losses)	-2	-3	-3	-3	-3
Other	-99	-39	415	544	0
Pre-tax profit	**224**	**626**	**1,039**	**1,482**	**1,997**
Taxes	1	123	255	363	489
Effective tax rate (%)	0.3	19.6	24.5	24.5	24.5
Profit from continuing operations	223	503	785	1,119	1,508
Profit from discontinued operations	0	0	0	0	0
Net profit	**223**	**503**	**785**	**1,119**	**1,508**
Net margin (%)	4.6	8.4	11.0	13.4	15.5
Net profit (controlling interests)	223	520	785	1,119	1,508
Net profit (non-controlling interests)	0	-17	0	0	0
EBITDA	435	833	1,204	1,630	2,012
EBITDA margin (%)	8.9	14.0	16.9	19.6	20.6
EPS (parent-based) (KRW)	23,876	55,755	84,140	120,009	161,701
EPS (consolidated) (KRW)	23,908	53,926	84,140	120,009	161,701
Adjusted EPS (KRW)*	23,876	55,755	84,140	120,009	161,701

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**3,036**	**3,738**	**4,287**	**6,195**	**8,177**
Cash & equivalents	249	217	83	979	2,338
Accounts receivable	969	1,297	1,553	1,825	2,136
Inventories	885	1,278	1,252	1,460	1,709
Other current assets	933	946	1,398	1,930	1,994
Fixed assets	**3,182**	**3,490**	**4,085**	**4,198**	**4,249**
Investment assets	356	376	373	369	366
Tangible assets	2,172	2,307	2,872	2,959	2,989
Intangible assets	123	122	155	184	210
Other long-term assets	532	685	685	685	685
Total assets	**6,219**	**7,228**	**8,372**	**10,393**	**12,426**
Current liabilities	**3,093**	**3,561**	**3,524**	**3,934**	**4,518**
Accounts payable	638	677	810	913	1,068
Short-term debt	332	272	350	300	300
Other current liabilities	2,123	2,613	2,364	2,722	3,149
Long-term liabilities	**1,070**	**1,177**	**1,624**	**2,218**	**2,291**
Bonds & long-term debt	563	464	364	264	164
Other long-term liabilities	507	712	1,259	1,954	2,126
Total liabilities	**4,163**	**4,738**	**5,148**	**6,153**	**6,808**
Owners of parent equity	**1,909**	**2,352**	**3,086**	**4,102**	**5,480**
Capital stock	47	47	47	47	47
Capital surplus	892	892	892	892	892
Retained earnings	353	829	1,535	2,551	3,928
Other	616	583	612	612	612
Non-controlling interests' equity	**147**	**138**	**138**	**138**	**138**
Total equity	**2,056**	**2,490**	**3,224**	**4,240**	**5,618**
Net debt	669	509	292	-1,162	-2,536

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**412**	**493**	**537**	**1,245**	**1,608**
Net profit	223	503	785	1,119	1,508
Non-cash profit and expenses	145	271	230	279	235
Depreciation	59	69	102	112	120
Amortization	14	17	12	15	18
Other	73	185	116	152	97
Changes in A/L from operating activities	44	-281	-477	-153	-135
Cash flow from investments	**-215**	**-213**	**-649**	**-199**	**-149**
Change in tangible assets	-82	-162	-649	-199	-149
Change in financial assets	-203	18	0	0	0
Other	71	-69	0	0	0
Cash flow from financing	**-228**	**-313**	**-22**	**-150**	**-100**
Change in debt	-47	-177	-22	-150	-100
Change in equity	0	0	0	0	0
Dividends	-23	-70	-79	-103	-131
Other	-158	-66	79	103	131
Change in cash	-29	-32	-133	896	1,359
Cash at beginning of year	278	249	217	83	979
Cash at end of year	249	217	83	979	2,338
Gross cash flow	**368**	**774**	**1,014**	**1,398**	**1,743**
Free cash flow	**328**	**330**	**-113**	**1,045**	**1,458**

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	13.8	21.9	19.7	16.6	17.0
Operating profit	40.6	106.1	46.0	37.8	24.7
Net profit	69.0	125.6	56.0	42.6	34.7
Adjusted EPS**	92.0	133.5	50.9	42.6	34.7
Per-share data (KRW)					
EPS (parent-based)	23,876	55,755	84,140	120,009	161,701
EPS (consolidated)	23,908	53,926	84,140	120,009	161,701
Adjusted EPS**	23,876	55,755	84,140	120,009	161,701
BVPS	204,677	252,208	330,942	439,950	587,651
DPS (common)	5,000	7,500	8,500	11,000	14,000
Valuations (x)					
P/E***	100.3	42.9	28.5	19.9	14.8
P/B***	11.7	9.5	7.2	5.4	4.1
EV/EBITDA	53.2	27.6	18.9	13.1	9.9
Ratios (%)					
ROE	14.9	24.4	28.9	31.1	31.5
ROA	4.1	7.7	10.1	11.9	13.2
ROIC	17.4	22.9	22.4	24.0	28.5
Payout ratio	20.9	13.5	10.1	9.2	8.7
Dividend yield (common)	0.2	0.3	0.4	0.5	0.6
Net debt to equity	32.5	20.5	9.1	-27.4	-45.1
Interest coverage (x)	4.1	12.7	23.0	35.5	53.8

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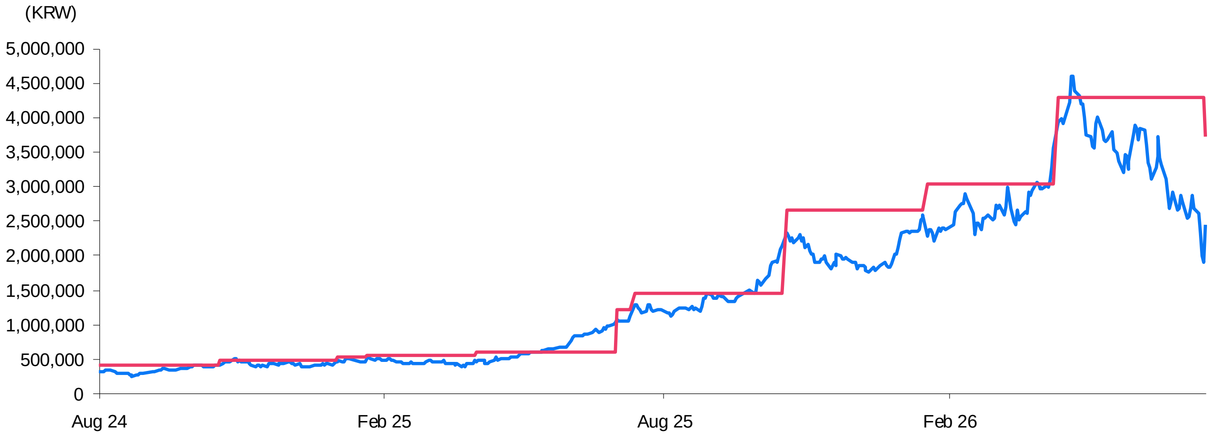
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/7/10	11/1	2025/1/16	2/4	4/16	7/16	7/28	11/3	2026/2/2	4/27	8/3
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	405000	480000	520000	550000	590000	1220000	1450000	2660000	3030000	4300000	3760000
Gap* (average)	-17.28	-10.31	-8.50	-17.26	16.20	-12.00	-3.43	-22.67	-11.51	-20.70	
(max or min)**	0.37	4.17	-2.31	-3.09	75.42	-7.79	47.24	-2.14	17.23	7.00	

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

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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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