COMPANY UPDATE

2026. 8. 4

Industrial Team

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▶ AT A GLANCE

BUY

Target price	**KRW1,360,000 48.3%**
Current price	**KRW917,000**
Market cap	KRW47.3t/USD33.2b
Shares (float)	51,563,401 (62.7%)
52-week high/low	KRW1,537,000/KRW810,000
Avg daily trading value (60-day)	KRW261.5b/ USD183.6m

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Hanwha Aerospace (%)	-7.8	-29.5	-7.9
Vs Kospi (%pts)	18.4	-44.1	-54.7

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	1,360,000	1,700,000	-18.1%
2026E EPS	39,926	40,749	-2.0%
2027E EPS	52,460	50,306	4.3%

▶ SAMSUNG vs THE STREET

No of estimates	16
Target price	1,716,875
Recommendation	4.0

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

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Hanwha Aerospace (012450)

Defense stock with valuation appeal and momentum

- Hanwha Aerospace delivered a 2Q earnings surprise, led by strong performance from consolidated subsidiaries and robust results in the parent's defense segment.
- The company is one of the few major Korean defense firms to secure tangible export contracts this year, with further order and earnings momentum anticipated in 2H.
- Even after accounting for sector-wide valuation adjustments, the company retains significant upside potential—among major domestic peers, it is one of the few with valuation levels that are not overly burdensome relative to overseas competitors.

WHAT'S THE STORY?

2Q review—Strong core performance and surprises from subsidiaries: Hanwha Aerospace reported that 2Q consolidated operating profit surpassed consensus by 37%. First, consolidated subsidiary Hanwha Ocean recognized approximately KRW1.5t in additional revenue from its offshore business, with profitability in commercial vessels exceeding expectations. Hanwha Systems also delivered a surprise performance. Core businesses at the parent also remained robust: ground defense segment operating profit rose 155% q-q, with operating margin improving from 17% to 25%, led by normalization of domestic defense project profitability and sustained high margins in the export segment.

(Continued on the next page)

SUMMARY 2Q RESULTS

(KRWb)	2Q26	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	9,293	47.2	61.6	24.8	24.4
Operating profit	1,366	58.5	113.7	42.4	37.1
Pre-tax profit	1,247	167.3	124.8	38.2	30.2
Net profit	636	253.2	144.4	47.9	36.4
Margins (%)					
Operating profit	14.7				
Pre-tax profit	13.4				
Net profit	6.8				

Source: Company data, Fnguide, Samsung Securities estimates

VALUATION SUMMARY

	2025	2026E	2027E
Valuation (x)			
P/E	33.7	23.0	17.5
P/B	4.9	4.1	3.5
EV/EBITDA	14.8	11.3	8.7
Div yield (%)	0.8	0.9	1.1
EPS growth (% y-y)	-38.1	39.7	31.4
ROE (%)	19.1	19.6	21.7
Per-share data (KRW)			
EPS	28,573	39,926	52,460
BVPS	188,244	221,030	263,585
DPS	7,000	7,800	10,000

Upcoming catalysts: The company has secured export contracts this year for the Chunmoo (the Chunmoo multiple rocket launcher systems) in Norway, K9 self-propelled howitzers in Finland, and Chunmoo in Estonia. It remains the only major Korean defense firm to consistently convert large-scale export opportunities into firm contracts without significant delays. In addition, the final shortlist for the US self-propelled artillery modernization program is expected to be announced soon. As this would be the company's first major US project, selection would significantly boost investor sentiment. On the earnings front, momentum in the ground defense segment is anticipated in 2H, as sales are structurally concentrated in 2H.

Valuation remains attractive: Despite recent market corrections, domestic defense stocks have not fully shed elevated valuations due to sharp declines among overseas peers. Hanwha Aerospace has been pressured by the sector-wide multiple compression, as well as downward pressure from its subsidiaries' stock performance. Accordingly, we lower our target price for the stock to KRW1,360,000 (using a SOTP method). We, however, note that the stock retains significant upside potential (relative to the current price), as its valuation is already discounted to domestic peers. Among major Korean defense firms, it also stands out as one of the few with valuation levels that are not overly burdensome relative to overseas competitors.

Hanwha Aerospace: 2Q results

(KRWb)	2Q26	1Q26	Chg (% q-q)	2Q25	Chg (% y-y)	Consensus	Diff (%)	Samsung Securities	Diff (%)
Sales	9,293	5,751	61.6	6,311	47.2	7,472	24.4	7,445	24.8
Operating profit	1,366	639	113.7	861	58.5	996	37.1	959	42.4
Pre-tax profit	1,247	555	124.8	466	167.3	958	30.2	902	38.2
Net profit	636	260	144.4	180	253.2	467	36.4	430	47.9
Margins (%)									
Operating profit	14.7	11.1		13.6		13.3		12.9	
Pre-tax profit	13.4	9.6		7.4		12.8		12.1	
Net profit	6.8	4.5		2.9		6.2		5.8	

Source: FnGuide, Samsung Securities estimates

Hanwha Aerospace: Results, by division

(KRWb)	2Q26	1Q26	Chg (% q-q)	2Q25	Chg (% y-y)
Sales					
Aerospace	760	661	14.9	649	17.1
Land Systems	2,107	1,221	72.6	1,773	18.9
Hanwha Systems	1,118	807	38.5	768	45.5
Hanwha Ocean	5,443	3,210	69.6	3,294	65.2
Operating profit					
Aerospace	37	23	nm	-12	nm
Land Systems	533	209	155.4	523	2.0
Hanwha Systems	104	34	202.3	33	219.1
Hanwha Ocean	736	441	66.9	372	nm
Operating margin (%)					
Aerospace	4.9	3.4		-1.8	
Land Systems	25.3	17.1		29.5	
Hanwha Systems	9.3	4.2		4.2	
Hanwha Ocean	13.5	13.7		11.3	

Source: Company data

Hanwha Aerospace: Sum-of-the-parts valuation

(KRWb)	Calculation	
Aero/defense value	(A = a x b)	**62,970**
2027E EBITDA*	(a)	3,332
Applied EV/EBITDA** (x)	(b)	18.9
Value of subsidiaries	(C = (d+e+f+g+h) x 60%)	**10,350**
Hanwha Ocean	(d)	7,947
Hanwha Systems	(e)	5,518
Satrec Initiative	(f)	235
KAI	(g)	1,229
Other subsidiaries	(h)	2,321
Net debt estimate**	(I)	**3,382**
EV	(J = A+C-I)	69,938
Outstanding shares ('000)	(K)	51,563
Target price	(J/K)	**1,360,000**

Note: *Average of major Korean defense companies excluding Hanwha Aerospace (KAI, LIG D&A, Hyundai Rotem), based on market consensus
**As of end-1Q26 (separate basis), plus payment for KAI share purchase
Source: Fnguide, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**11,240**	**26,703**	**31,909**	**35,186**	**40,304**
Cost of goods sold	8,370	21,252	24,688	26,483	29,794
Gross profit	**2,870**	**5,450**	**7,220**	**8,703**	**10,509**
Gross margin (%)	25.5	20.4	22.6	24.7	26.1
SG&A expenses	1,138	2,361	2,724	2,983	3,353
Operating profit	**1,732**	**3,089**	**4,496**	**5,720**	**7,157**
Operating margin (%)	15.4	11.6	14.1	16.3	17.8
Non-operating gains (losses)	**966**	**-879**	**-286**	**-244**	**-147**
Financial profit	374	1,271	1,113	1,387	1,536
Financial costs	495	1,596	1,289	1,509	1,569
Equity-method gains (losses)	105	-83	-83	-83	-83
Other	982	-471	-27	-39	-31
Pre-tax profit	**2,697**	**2,210**	**4,210**	**5,476**	**7,009**
Taxes	158	8	779	1,314	1,682
Effective tax rate (%)	5.8	0.4	18.5	24.0	24.0
Profit from continuing operations	2,511	2,202	3,431	4,162	5,327
Profit from discontinued operations	29	0	0	0	0
Net profit	**2,540**	**2,202**	**3,431**	**4,162**	**5,327**
Net margin (%)	22.6	8.2	10.8	11.8	13.2
Net profit (controlling interests)	2,299	1,405	2,059	2,705	3,463
Net profit (non-controlling interests)	241	797	1,372	1,457	1,864
EBITDA	2,063	3,962	5,124	6,395	7,869
EBITDA margin (%)	18.4	14.8	16.1	18.2	19.5
EPS (parent-based) (KRW)	50,436	27,247	39,926	52,460	67,153
EPS (consolidated) (KRW)	55,722	42,704	66,544	80,707	103,312
Adjusted EPS (KRW)*	50,436	27,247	39,926	52,460	67,153

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**22,868**	**30,705**	**36,368**	**40,641**	**46,066**
Cash & equivalents	2,968	7,713	7,688	8,961	9,611
Accounts receivable	8,509	3,076	4,808	5,302	6,073
Inventories	6,290	7,742	9,251	10,201	11,685
Other current assets	5,101	12,174	14,621	16,177	18,697
Fixed assets	**20,469**	**23,248**	**24,523**	**25,237**	**25,686**
Investment assets	2,416	4,148	4,077	4,006	3,936
Tangible assets	8,320	9,524	10,543	11,017	11,240
Intangible assets	7,744	7,498	7,825	8,136	8,432
Other long-term assets	1,988	2,078	2,078	2,078	2,078
Total assets	**43,337**	**53,954**	**60,891**	**65,878**	**71,751**
Current liabilities	**25,516**	**29,976**	**32,981**	**33,687**	**34,254**
Accounts payable	1,708	2,176	2,600	2,867	3,284
Short-term debt	5,153	5,371	5,000	4,800	4,000
Other current liabilities	18,655	22,429	25,381	26,020	26,970
Long-term liabilities	**6,456**	**7,189**	**9,435**	**11,527**	**13,990**
Bonds & long-term debt	4,165	5,413	5,153	4,563	3,923
Other long-term liabilities	2,292	1,776	4,282	6,964	10,067
Total liabilities	**31,973**	**37,165**	**42,416**	**45,214**	**48,243**
Owners of parent equity	**4,995**	**9,685**	**11,372**	**13,561**	**16,405**
Capital stock	240	270	270	270	270
Capital surplus	207	3,604	3,604	3,604	3,604
Retained earnings	4,747	5,983	7,639	9,829	12,673
Other	-198	-173	-142	-142	-142
Non-controlling interests' equity	**6,369**	**7,103**	**7,103**	**7,103**	**7,103**
Total equity	**11,364**	**16,788**	**18,475**	**20,664**	**23,508**
Net debt	6,957	4,287	3,340	1,101	-1,103

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**1,393**	**4,050**	**2,349**	**3,206**	**3,018**
Net profit	2,540	2,202	3,431	4,162	5,327
Non-cash profit and expenses	-244	2,151	929	988	1,024
Depreciation	259	495	562	607	642
Amortization	72	378	65	68	71
Other	-575	1,278	301	314	311
Changes in A/L from operating activities	-903	-303	-2,011	-1,944	-3,333
Cash flow from investments	**-1,367**	**-4,021**	**-1,593**	**-1,093**	**-878**
Change in tangible assets	-577	-1,691	-1,581	-1,081	-865
Change in financial assets	-897	109	-12	-12	-14
Other	106	-2,439	-0	-0	-0
Cash flow from financing	**1,066**	**4,682**	**-781**	**-840**	**-1,490**
Change in debt	6,928	2,133	-781	-840	-1,490
Change in equity	-10	4,209	0	0	0
Dividends	-120	-195	-402	-516	-619
Other	-5,732	-1,466	402	516	619
Change in cash	1,161	4,746	-25	1,273	650
Cash at beginning of year	1,806	2,968	7,713	7,688	8,961
Cash at end of year	2,968	7,713	7,688	8,961	9,611
Gross cash flow	**2,296**	**4,353**	**4,360**	**5,150**	**6,351**
Free cash flow	**815**	**2,339**	**749**	**2,106**	**2,134**

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	20.1	137.6	19.5	10.3	14.5
Operating profit	150.6	78.4	45.5	27.2	25.1
Net profit	160.0	-13.3	55.8	21.3	28.0
Adjusted EPS**	212.4	-46.0	46.5	31.4	28.0
Per-share data (KRW)					
EPS (parent-based)	50,436	27,247	39,926	52,460	67,153
EPS (consolidated)	55,722	42,704	66,544	80,707	103,312
Adjusted EPS**	50,436	27,247	39,926	52,460	67,153
BVPS	109,587	187,825	220,539	262,999	318,152
DPS (common)	3,500	7,000	7,800	10,000	12,000
Valuations (x)					
P/E***	18.2	33.7	23.0	17.5	13.7
P/B***	8.4	4.9	4.2	3.5	2.9
EV/EBITDA	29.4	14.8	11.3	8.7	6.8
Ratios (%)					
ROE	53.9	19.1	19.6	21.7	23.1
ROA	7.3	2.9	3.6	4.3	5.0
ROIC	15.0	16.8	17.7	18.3	20.1
Payout ratio	6.9	25.7	19.5	19.1	17.9
Dividend yield (common)	0.4	0.8	0.9	1.1	1.3
Net debt to equity	61.2	25.5	18.1	5.3	-4.7
Interest coverage (x)	7.1	6.3	8.3	11.4	15.9

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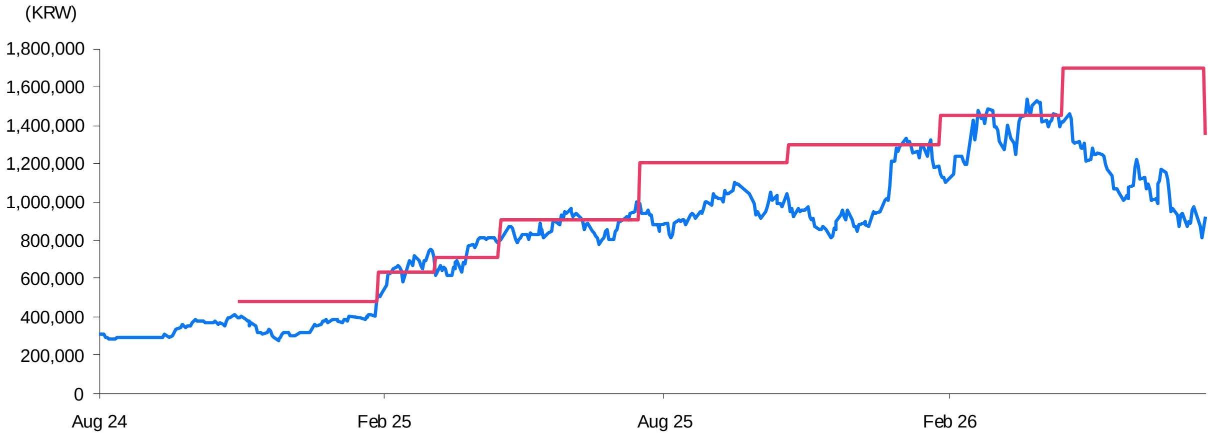
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/11/14	2025/2/12	3/21	5/2	5/23	7/31	11/4	2026/2/10	4/30	8/3
Recommendation	BUY	BUY	HOLD	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	482506	630212	713912	905929	905929	1210000	1300000	1450000	1700000	1360000
Gap* (average)	-26.78	4.57	2.22	-8.44	-2.38	-20.34	-20.45	-5.23	-35.39	
(max or min)**	1.63	19.37	14.48	-3.26	10.16	-8.51	2.31	6.00	-13.82	

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

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