SECTOR UPDATE

2026. 8. 19

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Shipbuilding/Machinery Weekly

Can M&As drive synergies in the defense industry?

- The Newbuilding Price Index remained unchanged w-w last week, despite large containership prices declining for a second consecutive week. The Secondhand Price Index also showed no significant w-w change.
- The ClarkSea Index, which represents vessel earnings, rose 0.2% w-w to USD41,789/day. Bulk-carrier data remained weak, while containership data remained solid.
- Following Hanwha Group's acquisition of stakes in Korea Aerospace Industries, investor interest in potential M&A synergies in the defense sector has risen significantly. In this report, we assess the implications of this development.

WHAT'S THE STORY?

Can M&As generate synergies in Korea's defense industry?

Hanwha Group has reportedly filed for merger review regarding Korea Aerospace Industries (KAI), in which its stake has risen to 15.9%—comprising 9.9% held by Hanwha Aerospace, 4.98% by Hanwha Systems, and 1.01% by Hanwha Aerospace USA. The filing is a mandatory step triggered by the increase in ownership and does not indicate an intention to secure management control. The ultimate determinant of KAI's future remains whether the Export-Import Bank of Korea is willing to divest its controlling stake.

The announcement has reignited debate over potential M&A synergies in Korea's defense sector—a space historically devoid of mergers between listed firms. With no meaningful precedent among listed firms, the analysis must rely on theoretical frameworks. M&As typically create value through cost savings and enhanced market power. In Korea's defense industry, however, both avenues are structurally constrained. Companies are highly specialized, with each focused on distinct product lines with minimal overlap—limiting economies of scale or shared cost savings. The government, as the sole major buyer, wields overwhelming negotiating power, making it difficult for any merger to materially strengthen market power. Moreover, critical components are often procured directly by the state and supplied to contractors, limiting the benefits of vertical integration. For export projects, however, consolidation could accelerate decision-making on contract awards and pricing, while also improving post-award cost control.

(Continued on the next page)

Performance

(%)	1W	3M	YTD
KSOE	-3.6	-8.1	-5.5
HD Hyundai Heavy	0.2	-20.3	-0.8
Samsung Heavy	0.9	-23.2	-7.6
Hanwha Ocean	7.1	-19.0	-15.3
HD Hyundai Marine Solution	-0.1	-7.2	1.9
HD Hyundai Electric	4.8	-32.1	2.8
HD CE	0.2	-14.1	41.1
HD Hyundai	4.0	-12.6	25.5
Doosan Bobcat	4.6	-5.0	14.7
KAI	-4.2	-9.3	28.3
LIG D&A	11.0	-2.4	92.0
Hanwha Aerospace	7.3	-4.8	23.0
Hyosung Heavy	3.8	-21.7	65.2
LS Electric	2.7	-20.2	122.9

Valuation summary

(x, %)	P/B	P/E	ROE
KSOE	1.8	8.6	22.4
HD Hyundai Heavy	4.6	18.3	27.9
Samsung Heavy	4.0	19.0	22.8
Hanwha Ocean	3.9	20.3	21.1
HD Hyundai Marine Solution	9.5	25.0	40.2
HD Hyundai Electric	10.6	28.6	42.5
HD CE	1.5	13.3	16.0
HD Hyundai	1.5	7.3	22.8
Doosan Bobcat	0.8	11.5	7.5
KAI	6.8	39.6	18.4
LIG D&A	10.2	44.0	25.6
Hanwha Aerospace	5.3	28.7	nm
Hyosung Heavy	8.9	35.3	28.7
LS Electric	12.6	60.3	22.7

Note: 2026 estimates
Source: Samsung Securities estimates

Even here, however, the impact is likely to be limited, as most defense exports are government-to-government deals requiring coordinated policy support. In emerging sectors—particularly space—M&As could help avoid redundant investments and solidify a company's position as a national champion.

From a stock market perspective, M&As could have positive implications., including for Hanwha Group and KAI. The mere presence of a potential acquirer should support investor sentiment toward KAI shares. If multiple bidders emerge, supply-demand dynamics for the stock could improve further, providing additional upward pressure on the share price. However, KAI is already trading at a premium to both domestic and international peers, and much of the optimism surrounding a potential acquisition appears to be priced in. Further rerating is therefore likely to depend more on improvements in KAI's fundamentals—such as earnings growth and export orders—than on continued M&A speculation.

Industry news

HD Hyundai Heavy Industries wins another power generation engine order: HD Hyundai Heavy Industries (HD HHI) signed a USD676m (KRW960b) contract with US energy infrastructure firm Corban Energy to supply 9.6 MW-class HiMSEN engines, the Korean firm announced on Aug 10. This order is 59% larger than the power generation contract it secured in April.

Equinor concludes short-term charter deals for Qatari LNG vessels amid delays to long-term contracts: Equinor has chartered LNG carriers built for Qatar's LNG project that were originally intended for long-term deployment under QatarEnergy contracts, according to maritime sources. While geopolitical tensions have delayed the finalization of long-term agreements, the shipowner has secured a short-term charter with the third party (Equinor). As a result, vessel deliveries are proceeding on schedule, defying market concerns. For Korean shipbuilders, this underscores sustained momentum in the Qatar LNG project despite external headwinds.

Philippine Navy moves to acquire two additional frigates: The Philippine Navy is advancing plans to procure two additional frigates. To date, nearly all of its major surface vessels have been built by HD HHI. Given the shipbuilder's proven track record and existing operational integration, HD HHI is widely expected to be selected again for this new order.

Hanwha Group pursues acquisition of Austal USA: Hanwha Group is moving to acquire Austal USA, the US operations of Australia's Austal Limited. If completed, the deal would give Hanwha two US-based manufacturing facilities alongside its existing Philly Shipyard—strengthening its local production footprint. According to media reports, Hanwha USA has submitted a conditional offer and is set to begin a four-week due-diligence process shortly. The enterprise value is estimated at USD1.05b–1.20b. Austal USA specializes in building vessels for the US Navy and Coast Guard, including modules used in nuclear submarine construction.

K2 tank performance upgrade program—approved: The Defense Acquisition Program Promotion Committee has approved the basic plan for upgrading the K2 battle tank. The program is expected to incorporate electronic countermeasures against drones and improvised explosive devices (IEDs). With a total budget of approximately KRW3.45t, the project will run from 2028 to 2046, with system development scheduled for completion by 2032 and deployment beginning in 2033.

Naver invests in floating data-center startup: Naver has decided to invest in US startup Panthalassa, which is developing wave-powered floating data centers.

India moves ahead with acquisition of 150 next-generation trainer aircraft (NGTA): Indian media report that India is advancing its next-generation trainer aircraft (NGTA) program to replace its aging Hawk advanced trainers, with plans to procure approximately 150 aircraft. Interested vendors must submit requests for information (RFIs) by Oct 5, and the procuring authority is expected to issue a formal request for proposal (RFP) around December. Initial operational deployment is expected in the mid-2030s. Potential bidders include Korea Aerospace Industries (KAI), Boeing, and Leonardo.

US considers allowing Korean shipbuilders to construct warships domestically: President Trump signed a National Security Presidential Memorandum (NSPM) entitled “Rebuilding the US Navy and Shipbuilding Industrial Base,” allowing foreign shipbuilders investing in the US to construct up to two warships per year at their US-based shipyards. While congressional approval remains necessary for actual contracts and funding, the move signals a clear policy shift toward greater collaboration with foreign shipbuilders. This opens a strategic pathway for Korean shipbuilders to compete for US naval contracts. Hanwha Group—through its ownership of a US shipyard—appears best positioned, while HD Hyundai Group is also increasingly likely to accelerate US investment under the new framework.

Shipbuilding weekly indices

	This week	A week ago		Vs end-2025	
	Aug 14, 2026	Aug 7, 2026	Chg (%)	End-2025	Chg (%)
New building prices (USDm)					
Overall (indexed)	185.64	185.64	0.0	184.7	0.5
Bulkers (Capesize)	76.0	76.0	0.0	75.0	1.3
Tankers (VLCC)	131.0	131.0	0.0	128.0	2.3
Tankers (51,000 DWT PCs)	52.0	52.0	0.0	49.0	6.1
Containerships (22,000 TEU)	233.0	235.0	-0.9	235.0	-0.9
Containerships (13,000 TEU)	150.5	150.5	0.0	145.5	3.4
LNG carriers (174,000m³)	248.5	248.5	0.0	248.0	0.2
Secondhand prices (USDm)*					
Overall	213.0	213.0	0.0	191.1	11.5
Bulkers (Capesize)	71.5	71.5	0.0	66.0	8.3
Tankers (VLCC)	157.0	158.0	-0.6	120.0	30.8
Tankers (51,000 DWT PCs)	48.0	48.0	0.0	43.0	11.6
Daily charter rates (USD)**					
Bulkers (Capesize, eco)	36,500	36,000	1.4	24,850	46.9
Bulkers (Capesize, non-eco)	33,100	32,600	1.5	23,850	38.8
Tankers (VLCC, eco)	117,500	117,500	0.0	65,500	79.4
Tankers (VLCC, non-eco)	103,750	103,750	0.0	58,000	78.9
Freight rate index					
ClarkSea Index (USD/day)	41,789	41,688	0.2	29,856	40.0
BDI	2,863	3,089	-7.3	1,877	52.5
WS (based on Saudi route)	453	393	15.3	58	687.0
CCFI	1,847	1,840	0.4	1,147	61.1
SCFI	3,355	3,276	2.4	1,656	102.6
Energy prices***					
Natural gas (USD/mil BTU)	2.8	2.6	8.7	4.0	-30.2
Oil (USD/bbl)	82.4	78.2	5.4	57.4	43.5
MGO-HSFO (USD/tonne)	591.8	541.0	9.4	262.8	125.2
VLSFO-HSFO (USD/tonne)	205.8	240.3	-14.4	71.8	186.8

Note: *Based on 5-year-old vessels;
**1-year charters;
***Based on WTI spot (oil) and Henry Hub (natural gas) prices
Source: Clarksons, Bloomberg, Samsung Securities

Share performances and valuations

Shipbuilding: Share performance and valuations

(%)	Share performance				2026 valuation		
	1 week	1 month	3 months	Ytd	P/B (x)	P/E (x)	ROE
HD KSOE*	-3.6	15.4	-8.1	-5.5	1.8	8.6	22.4
HD Hyundai Heavy Industries*	0.2	8.9	-20.3	-0.8	4.6	18.3	27.9
Samsung Heavy Industries*	0.9	1.6	-23.2	-7.6	4.0	19.0	22.8
Hanwha Ocean*	7.1	17.2	-19.0	-15.3	3.9	20.3	21.1
HD Hyundai Marine Solution*	-0.1	-1.1	-7.2	1.9	9.5	25.0	40.2
Yangzijiang	10.0	26.6	16.4	32.8	2.5	8.7	31.3
CSSC Holdings	-4.1	-2.6	-17.6	0.5	1.6	13.0	12.6
CSSC Offshore	0.2	2.2	-14.8	-8.0	n/a	n/a	n/a
ST Engineering	6.2	1.8	5.7	30.2	11.6	32.3	37.6
Seatrium	0.0	6.5	-4.9	-0.9	1.0	13.5	7.8
Mitsubishi	5.2	11.1	4.3	10.8	5.5	50.0	11.6
Kawasaki	2.6	4.5	-6.5	37.3	3.1	25.6	12.7

Note: *Samsung Securities estimates
Source: Bloomberg, Samsung Securities estimates

Machinery: Share performance and valuations

(%)	Share performance				2026 valuation		
	1 week	1 month	3 months	Ytd	P/B (x)	P/E (x)	ROE
HD Hyundai Electric*	4.8	-1.4	-32.1	2.8	10.6	28.6	42.5
HD Construction Equipment*	0.2	7.3	-14.1	41.1	1.5	13.3	16.0
HD Hyundai*	4.0	18.8	-12.6	25.5	1.5	7.3	22.8
Doosan Bobcat*	4.6	5.7	-5.0	14.7	0.8	11.5	7.5
KAI*	-4.2	-0.3	-9.3	28.3	6.8	39.6	18.4
LIG D&A*	11.0	9.7	-2.4	92.0	10.2	44.0	25.6
Hanwha Aerospace*	7.3	26.6	-4.8	23.0	5.3	28.7	nm
Hyosung Heavy*	3.8	4.9	-21.7	65.2	8.9	35.3	28.7
LS Electric*	2.7	4.6	-20.2	122.9	12.6	60.3	22.7
Lockheed Martin	3.5	18.3	18.0	25.8	13.1	20.0	81.4
Raytheon	-0.0	13.8	30.3	21.6	4.4	30.8	14.4
Siemens	1.5	5.1	9.4	18.8	3.3	25.3	13.5
Caterpillar	1.7	-6.3	-3.6	49.5	18.3	31.5	64.5
Komatsu	-0.6	13.7	12.6	46.0	2.0	18.3	11.2
Kubota	-0.3	-0.7	-6.0	24.1	1.1	12.8	8.6

Note: *Samsung Securities estimates
Source: Bloomberg, Samsung Securities estimates

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