COMPANY UPDATE

2026. 8. 25

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DN Automotive (007340)

Amid extreme volatility, focus only on what's clear

- DN Automotive plunged 30% in the three market trading sessions following its announcement of 2Q results. The correction was triggered by concerns over: 1) a high base from one-off gains (KRW30b) in 2Q; 2) a strong won pressuring export revenues in 2H; and 3) a duplicate listing of DN Solutions. (When a subsidiary lists while its parent remains listed, this structure is commonly referred to in Korea as a duplicate listing.)
- In 1H, machine tool orders reached KRW1.8t (up 54% y-y)—or KRW1.45t (up 22% y-y) excluding Heller. The order backlog provides clear visibility into revenue growth through 1H27, offsetting the impact of won appreciation.
- DN Auto is unlikely to pursue the listing of DN Solutions, given regulatory constraints and a lack of strategic justification. In 2027, we expect the firm to acquire financial investors' stakes in DN Solutions and cancel its treasury shares (11.53% of total shares issued).

AT A GLANCE

Not rated

Target price	n/a
Current price	**KRW47,800**
Market Cap	KRW2.8t / USD2.0b
Shares (float)	58,510,865 (36.3%)
52-week high/low	KRW62,800/KRW22,100
Avg daily trading value (60-day)	"KRW10.5b/ USD7.6m"

ONE-YEAR PERFORMANCE

	1M	6M	12M
DN Automotive (%)	22.9	56.7	91.2
Vs Kospi (%pts)	22.8	39.7	-9.5

SAMSUNG vs THE STREET

No of estimates	2
Target price	69,500
Recommendation	4.0

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

WHAT'S THE STORY?

Shares plunge 30% over three days after strong 2Q earnings release: DN Automotive tumbled 30% in the three trading sessions that followed its 2Q results announcement due to concerns about its 2H earnings prospects and uncertainty over DN Solutions' IPO.

- **One-off gains:** 2Q results included a one-off gain of KRW30b from the recovery of a portion of US tariffs. Excluding this, operating profit would have amounted to KRW175b, beating consensus by 9%.
- **Won appreciation poses risk to 2H results:** Over 80% of DN Auto's sales come from exports. The won strengthened to KRW1,380/USD on Aug 20, up 8% from its 2Q average of KRW1,500/USD.
- **Uncertainty over DN Solutions' IPO:** While the company has no active plans to pursue an IPO for DN Solutions, market participants are concerned abour a potential duplicate listing.

(Continued on the next page)

SUMMARY FINANCIAL DATA

(KRWb)	2022	2023	2024	2025
Revenue	3,156	3,269	3,435	3,676
Operating profit	422	490	523	528
Net profit	185	283	318	325
EPS (adj) (KRW)	3,620	5,499	5,383	4,809
EPS (adj) growth (%)	123.8	51.9	(2.1)	(10.7)
EBITDA margin (%)	15.6	17.3	17.5	16.6
ROE (%)	22.8	27.3	19.8	15.0
P/E (adj) (x)	3.5	2.7	3.4	5.1
P/B (x)	0.6	0.6	0.5	0.6
EV/EBITDA (x)	6.0	4.9	5.0	5.5
Dividend yield (%)	3.9	4.1	5.5	4.1

Source: Company data, Samsung Securities estimates

Factors positive to 2H earnings visibility: 1) record-breaking machine-tool orders;...

- **Machine tool orders:** In 1H, DN Auto's machine tool orders reached KRW1.8t (up 54% y-y)—or KRW1.45t (up 22% y-y) excluding Heller. Excluding one-off gains, operating margin at the business was 16.5% in 2Q.

  With typical lead times of 6-12 months from order intake to revenue recognition, the order backlog provides clear visibility into revenue growth through 1H27. Orders expanded to KRW804.1b in 2Q (excluding Heller), up from KRW653b (excluding Heller) in 1Q, signaling sustained quarterly momentum.

- **Order composition—highly favorable:** Demand is rising from the aerospace and defense sectors, with strong growth in both the US and China. Machine tools for these industries require high precision and quality, translating into superior profitability. The prolonged conflict in the Middle East has depleted US defense inventories. Growth in orders from aerospace (a strategic battleground between the US and China) and defense should remain high for the foreseeable future. Historically, machine tool demand was driven by industrial sectors such as automotive components and shipbuilding equipment. However, given the overlap between automotive components and robotics manufacturing, players in the auto value chain are expanding into robotics production. This shift should naturally boost demand for machine tools.

- **Won appreciation—positive to machine tool cost structure:** While a stronger won hurts DN Auto's exports, growth in machine tool sales is likely to more than offset the currency headwinds. Moreover, most machine tool controllers are imported from Japan. As of 2024, CNC system costs as a percentage of sales stood at 8.5%.

...and; 2) profitability improvement at Heller

- **Reaches breakeven in 2Q:** Heller's sales rose 29.3% q-q to KRW198b in 2Q, lifting the company to breakeven on a pre-tax profit basis. In 1Q, sales came in at KRW153b, and the business recoded a pre-tax loss of KRW4.5b. We forecast that the German machine tool manufacturer will achieve top-line growth and generate synergies in 2H.

DN Solutions IPO unlikely: DN Auto is unlikely to pursue the listing of DN Solutions, given regulatory constraints and a lack of strategic justification.

- In early July, Korea's Financial Services Commission announced new rules prohibiting duplicate listings in principle, while setting out detailed criteria allowing exemptions subject to stringent shareholder-protection requirements. The parent company's board must: 1) assess the impact on shareholders; 2) establish shareholder protection measures; 3) communicate with shareholders or obtain their approval through a vote; 4) pass a board resolution and notify the subsidiary; and 5) comply with mandatory disclosure requirements.

  As DN Solutions is classified as a standard subsidiary, it cannot pursue an IPO without either shareholder approval or a rigorous case-by-case review. To secure approval, DN Auto would need to offer tangible shareholder benefits, such as distributing DN Solutions shares to DN Auto shareholders.

- **Rapid balance-sheet improvement reduces need for a listing:** DN Auto's financial structure has improved dramatically: 1) its debt-to-equity ratio fell sharply from 369% in 1Q22 to 219% in 2Q26 amid solid industry conditions; 2) the acquisition of German machine tool manufacturer Heller (annual sales: KRW700b-800b) was completed in 1Q26; and 3) its capex should be largely completed by end-2026. Its strong financials have reduced the need for a DN Solutions IPO.

- **Potential for DN Group to acquire financial investors' stakes in DN Solutions:** Another rationale for pursuing the IPO of DN Solutions was to provide an exit for financial investors. Given that IPO processes typically require at least 18 months of preparation, the absence of active IPO planning renders a 2027 listing unfeasible. Instead, GMT Holdings (DN Auto's subsidiary) is increasingly likely to acquire the financial investors' shares.

  At end-2Q26, financial investors held a combined 14.5% stake in DN Solutions. Their initial equity tranche (4.82%) was structured via a PEF and funded at KRW170b. Of this, KRW51.2b was repaid in 2024. Separately, a KRW250b investment by Korea Development Bank and STIC Investment was converted in 2024 from debt to equity (a 9.68% stake), with an agreed exit condition tied to an IPO by end-2027.

  However, with IPO prospects now effectively off the table, GMT Holdings is likely to negotiate direct acquisitions of the financial investors' stakes. Assuming an annual IRR of 8-12% and cumulative dividends/interest payments of 4% *pa* since investment, the acquisition cost is estimated at KRW150b-180b as of Jan 2027, rising to KRW280b-320b by late 2027-early 2028 to reflect compounding returns.

  While this would temporarily increase DN Auto's debt-to-equity ratio, the company has ample liquidity to absorb the outflow. In 1H, DN Auto generated KRW266b in free cash flow. For context, the DN Group successfully financed the Heller acquisition (KRW253.2b purchase price + KRW71.1b follow-on rights offering) in Jan 2026. The consolidated debt-to-equity ratio declined from 155% in 1Q26 to 120% in 2Q26.

  Major investments in the automotive-parts and machine-tools businesses are now complete, and Heller is on track to return to profitability in 2027.

Trading at 6x P/E: Over three trading sessions, DN Auto tumbled 30%, driving its valuation down to approximately 6x P/E, far below peers' 20-25x (FnGuide).

- FnGuide consensus has the company's: 1) 2026 sales coming in at KRW4.6t (up 25% y-y), operating profit at KRW695b (up 31.6% y-y), and operating margin at 15.1%; and 2) 2027 sales at KRW4.9t (up 6.5% y-y), operating profit at KRW744.9b (up 7.2% y-y), and operating margin at 15.2%.
- DN Auto's treasury shares amount to 11.53% out shares issued. Under the revised Commercial Act, mandatory cancellation must occur by early Sep 2027.

DN Automotive: Quarterly results

(KRWb)	2Q26	1Q26	2Q25	Chg (% q-q)	Chg (% y-y)	Consensus	
						2Q26	Diff (%)
Sales	1,249	1,018	910	22.8	37.3	1,109	12.6
Operating income	205	145	122	42.1	69.0	160	28.1
Pre-tax income	213	142	70	49.7	204.5	136	56.7
Net income	158	99	53	59.2	195.3	104	51.8
Margins (%)							
Operating income	16.4	14.2	13.4			14.5	
Pre-tax income	17.0	14.0	7.7			12.2	
Net income	12.6	9.7	5.9			9.4	

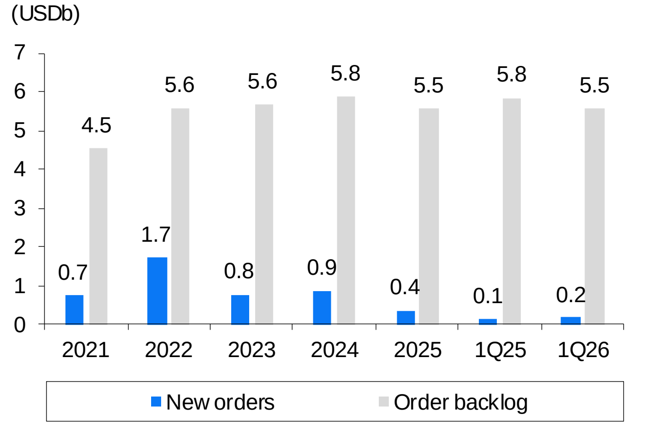
Source: Company data, FnGuide

DN Automotive: Results

(KRWb)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	2022	2023	2024	2025
Revenue	**879**	**910**	**919**	**969**	**1,018**	**1,249**	**3,156**	**3,269**	**3,435**	**3,676**
Growth (% y-y)	12.5	2.8	8.2	5.3	15.8	37.3	239.0	3.6	5.1	7.0
Vibration management systems (VMS)	228	230	237	236	245	238	856	891	891	933
Battery total solutions (BTS)	100	101	95	89	86	74	303	276	373	387
Tire tubes	38	39	34	38	34	62	0	0	50	149
Machine tools	512	539	552	603	650	875	1,997	2,102	2,112	2,207
Gross profit	**240**	**233**	**224**	**270**	**300**	**380**	**733**	**603**	**580**	**608**
Operating profit	**138**	**122**	**119**	**150**	**145**	**205**	**422**	**490**	**523**	**528**
Growth (% y-y)	11.3	-18.1	-8.5	24.0	5.1	68.4	368.4	16.2	6.7	1.0
VMS + BTS	35	17	11	36	31	27	84	54	108	100
Tire tubes	4	5	4	4	4	3				
Machine tools	98	100	105	110	110	175	338	436	410	412
Pre-tax profit	**117**	**70**	**117**	**139**	**142**	**213**	**254**	**390**	**422**	**443**
Net profit	**87**	**53**	**78**	**106**	**99**	**158**	**185**	**283**	**318**	**325**
Net profit (controlling)	**76**	**45**	**67**	**94**	**87**	**141**	**181**	**275**	**285**	**282**
Margins										
Gross margin	27.3	25.6	24.4	27.9	29.5	30.4	432.7	18.4	16.9	16.5
Operating margin	15.7	13.4	12.9	15.5	14.2	16.4	13.4	15.0	15.2	14.4
VMS + BTS	10.7	5.1	3.3	11.1	9.4	8.7	7.2	4.6	8.5	7.6
Tire tubes	10.5	12.8	11.8	10.5	11.8	5.3	0.0	0.0	0.0	0.0
Machine tools	19.1	18.6	19.0	18.2	16.9	20.0	16.9	20.7	19.4	18.7
Net margin	9.9	5.8	8.5	10.9	9.7	12.6	5.9	8.7	9.3	8.8
Net margin (controlling)	8.6	4.9	7.3	9.7	8.5	11.3	5.7	8.4	8.3	7.7

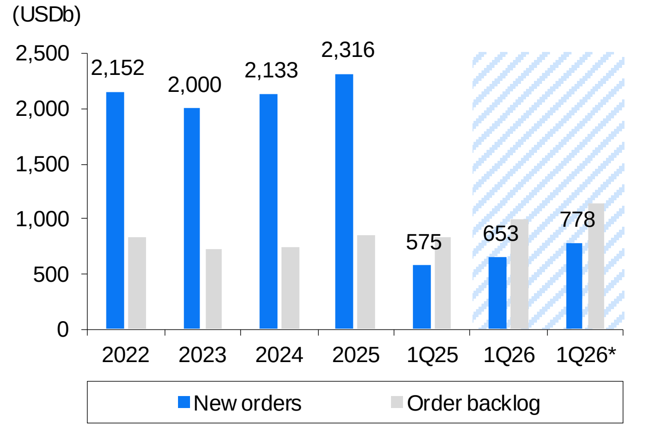
Source Company data, Samsung Securities

Anti-vibration products: New orders and order backlog



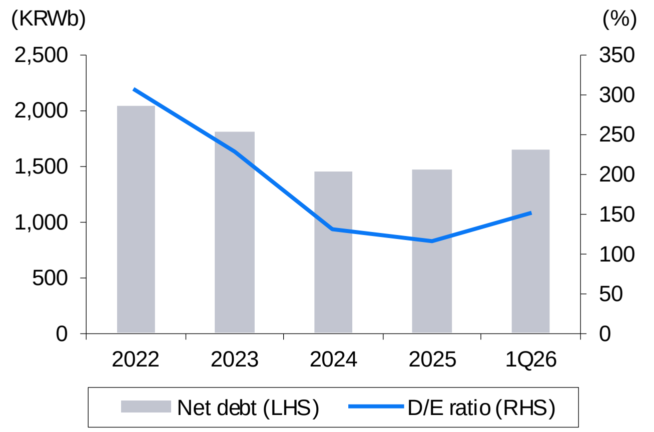
Source: Company data, Samsung Securities

Machine tools: New orders and order backlog



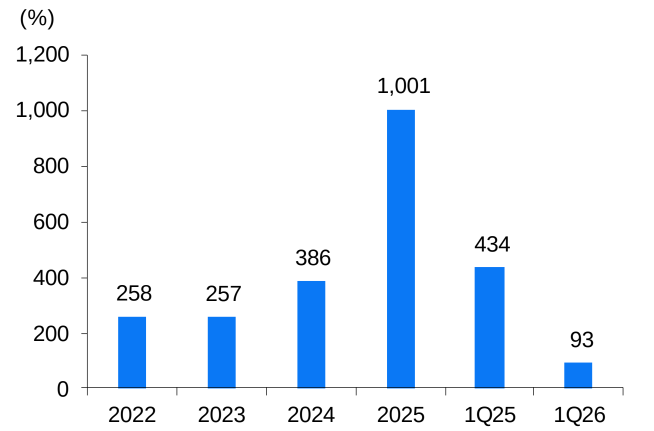
Source: Company data, Samsung Securities

DN Automotive: Consolidated financial structure



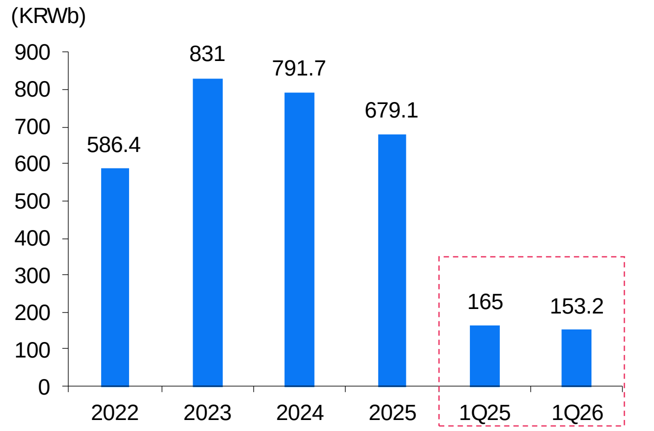
Source: Company data, Samsung Securities

Heller: Debt-to-equity ratio



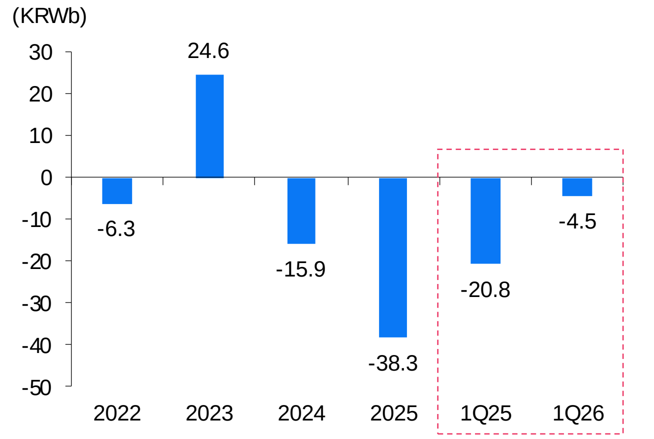
Source: Company data, Samsung Securities

Heller: Revenue



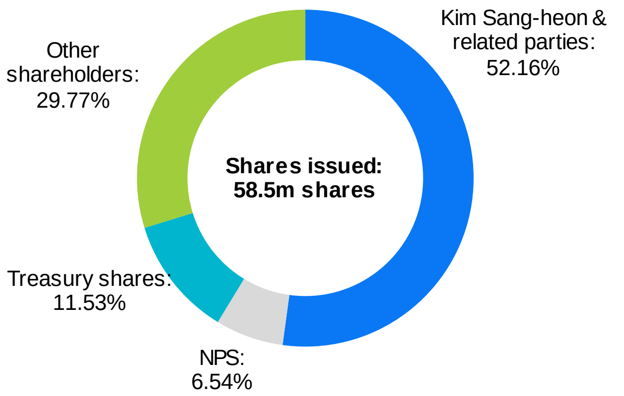
Source: Company data, Samsung Securities

Heller: EBIT



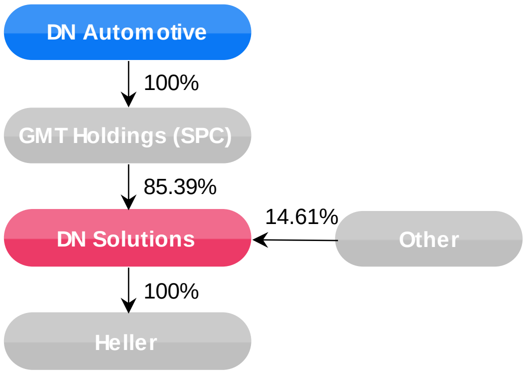
Source: Company data, Samsung Securities

DN Automotive: Governance structure



Source: Company data, Samsung Securities

DN Solutions: Governance structure



Source: Company data, Samsung Securities

DN Solutions: Equity acquisition price scenarios

Investor	Initial investment (KRWb)	Target IRR (%)	Implied acquisition value (A)	Interest and dividends (B*)	Net acquisition price (A-B)
Initial financial investors	1,188	8%	1,746	237.6	1,508
	(stake: 4.82%)	10%	1,913	237.6	1,676
		12%	2,094	237.6	1,856
KDB & STIC	2,500	8%	3,149	300	2,849
	(stake: 9.68%)	10%	3,328	300	3,028
		12%	3,512	300	3,212

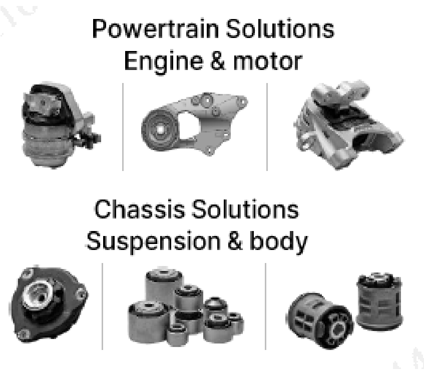
Note: * Estimated at 4% p.a.
Source: Samsung Securities

DN Automotive: Peer valuations

Company	Currency	Price	Performance (%)			Market cap		P/E (x)			P/B (x)			ROE (%)		
		(Local)	1M	3M	12M	(Local b)	(USDb)	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Anti-vibration components																
Sumitomo Electric	JPY	2,152	-12.9	-27.2	115.3	6,832.7	42.9	21.5	19.4	16.1	2.7	2.3	2.2	13.2	12.3	14.0
Anhui Zhongding	CNY	21	30.1	2.9	-4.9	27.7	4.1	16.4	14.0	12.2	1.7	1.6	1.4	10.8	11.1	11.6
Average								**18.9**	**16.7**	**14.1**	**2.2**	**2.0**	**1.8**	**12.0**	**11.7**	**12.8**
Automotive batteries																
GS Yuasa	JPY	5,378	-8.1	-12.5	66.5	540.2	3.4	16.1	13.0	11.9	1.5	1.3	1.2	9.0	10.0	10.0
Sebang global battery	KRW	56,900	6.0	-3.7	-9.3	788.6	0.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exide Industries	INR	458	3.4	34.8	15.6	389.2	4.1	35.8	26.7	21.2	2.6	n/a	n/a	7.0	n/a	n/a
Amara Raja	INR	918	5.2	11.9	-7.1	168.0	1.8	n/a	19.4	16.5	2.1	1.9	1.7	9.9	10.0	11.2
Average								**25.9**	**19.7**	**16.5**	**2.1**	**1.6**	**1.5**	**8.6**	**10.0**	**10.6**
Machine tools																
DMG Mori	JPY	3,056	-15.5	-7.2	-8.0	434.9	2.7	28.6	19.9	14.6	1.3	1.3	1.3	4.5	6.8	8.0
Okuma	JPY	4,900	0.6	21.4	38.2	330.8	2.1	25.6	17.1	15.3	1.3	1.1	1.1	5.0	7.3	7.6
Makino	JPY	15,630	6.3	19.2	36.0	389.1	2.4	18.3	13.4	12.1	1.5	1.3	1.2	8.4	9.9	10.5
Amada	JPY	2,576	-10.1	-5.7	43.8	817.8	5.1	24.5	20.0	16.7	1.6	1.5	1.5	6.4	7.4	9.0
Average								**24.3**	**17.6**	**14.7**	**1.4**	**1.3**	**1.3**	**6.1**	**7.9**	**8.8**
DN Automotive	**KRW**	**47,700**	**22**	**4.4**	**90.8**	**2,791.0**	**2.0**	**6.4**	**6.2**	**5.6**	**1.1**	**1.0**	**0.8**	**19.6**	**17.0**	**16.1**

Source: Bloomberg, Samsung Securities

Anti-vibration products



Source: Company data

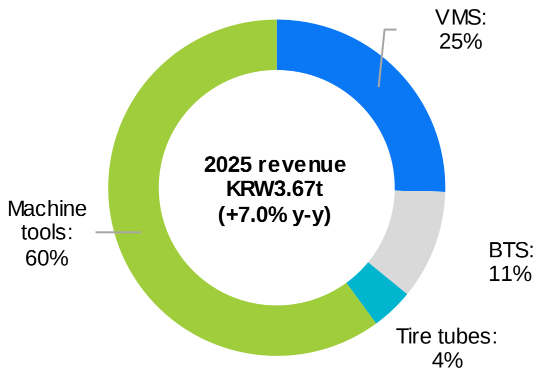
Lead-acid batteries for vehicles

Source: Company data

Tube products

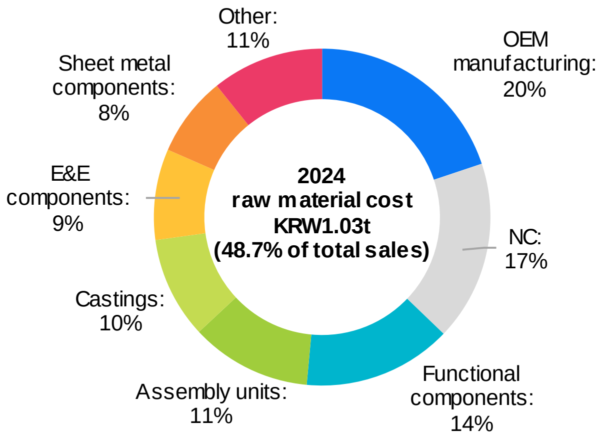
Source: Company data

DN Automotive: Sales, by division



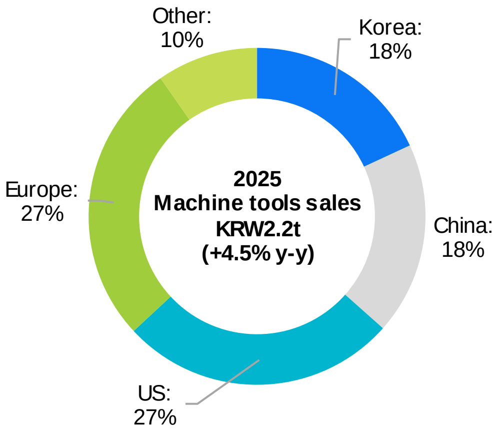
Source: Company data, Samsung Securities

DN Solutions: Cost breakdown (2024)



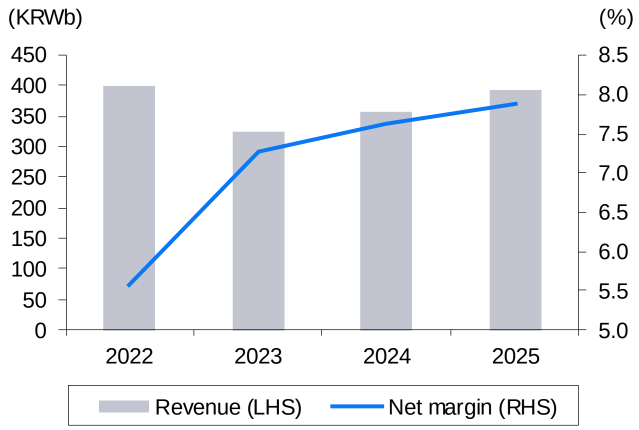
Source: Company data, Samsung Securities

DN Solutions: Sales, by region



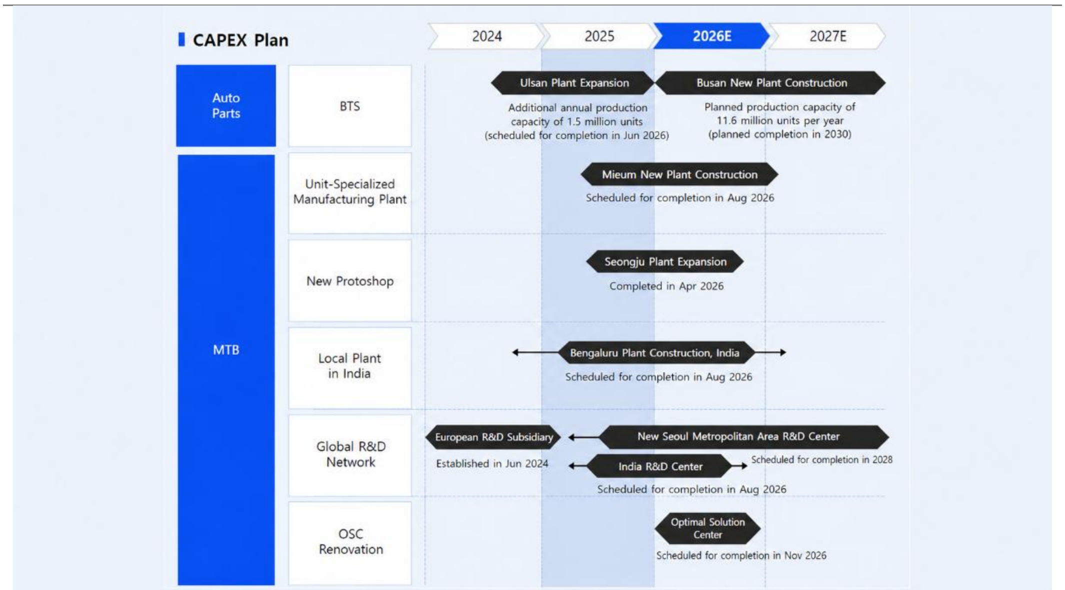
Source: Company data, Samsung Securities

DN Solutions China: Sales and net margin



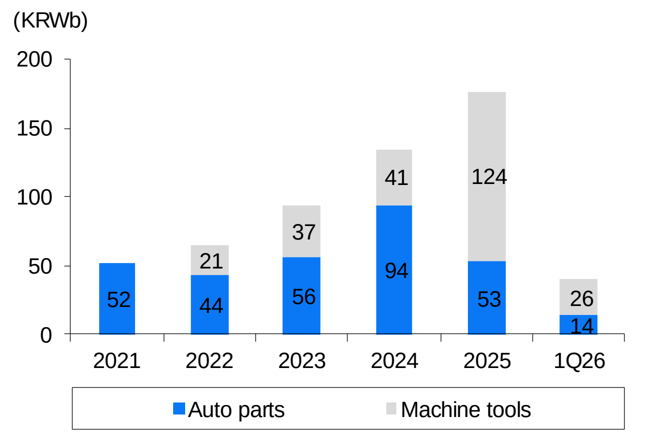
Source: Company data, Samsung Securities

DN Automotive: Capex plan



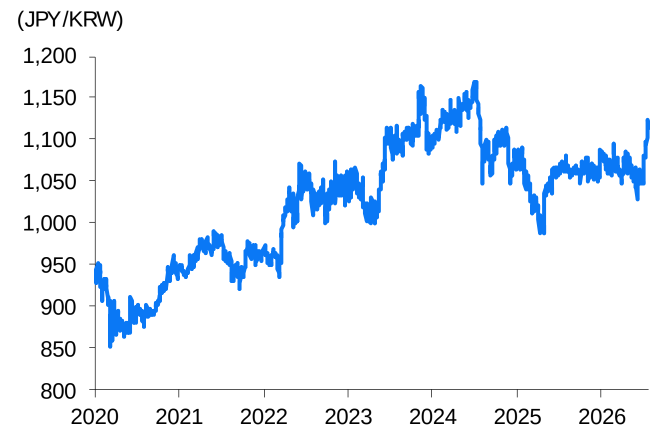
Source: Company data

DN Automotive: Capex



Source: Company data, Samsung Securities

JPY/KRW exchange rate



Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2021	2022	2023	2024	2025
Sales	**931**	**3,156**	**3,269**	**3,435**	**3,676**
Cost of goods sold	781	2,424	2,444	2,538	2,709
Gross profit	**150**	**733**	**826**	**897**	**966**
Gross margin (%)	16.1	23.2	25.3	26.1	26.3
SG&A expenses	60	311	335	374	439
Operating profit	**90**	**422**	**490**	**523**	**528**
Operating margin (%)	9.6	13.4	15.0	15.2	14.4
Non-operating gains (losses)	**24**	**(168)**	**(100)**	**(101)**	**(85)**
Financial profit	5	8	14	16	10
Financial costs	5	114	142	120	96
Equity-method gains (losses)	0	0	0	0	0
Other	24	(62)	29	2	1
Pre-tax profit	**114**	**254**	**390**	**422**	**443**
Taxes	24	69	107	104	118
Effective tax rate (%)	21.2	27.1	27.3	24.6	26.7
Profit from continuing operations	70	185	283	318	325
Profit from discontinued operations	15	0	0	0	0
Net profit	**85**	**185**	**283**	**318**	**325**
Net margin (%)	9.1	5.9	8.7	9.3	8.8
Net profit (controlling interests)	81	181	275	285	282
Net profit (non-controlling interests)	4	4	9	33	43
EBITDA	127	492	567	602	611
EBITDA margin (%)	13.7	15.6	17.3	17.5	16.6
EPS (parent-based) (KRW)	1,618	3,620	5,499	5,383	4,809
EPS (consolidated) (KRW)	1,703	3,700	5,672	6,012	5,550
Adjusted EPS (KRW)*	1,618	3,620	5,499	5,383	4,809

Balance sheet

Year-end Dec 31 (KRWb)	2021	2022	2023	2024	2025
Current assets	**1,077**	**1,776**	**1,740**	**1,965**	**2,085**
Cash & equivalents	572	509	442	364	388
Accounts receivable	161	385	414	585	610
Inventories	184	660	627	732	807
Other current assets	160	221	257	284	281
Fixed assets	**408**	**2,816**	**2,827**	**3,041**	**3,191**
Investment assets	92	81	71	75	76
Tangible assets	291	712	749	906	1,017
Intangible assets	21	1,984	1,969	1,959	1,950
Other long-term assets	5	40	38	102	148
Total assets	**1,485**	**4,592**	**4,567**	**5,006**	**5,276**
Current liabilities	**558**	**1,358**	**1,405**	**1,334**	**2,543**
Accounts payable	101	340	318	313	251
Short-term debt	393	521	543	561	642
Other current liabilities	64	497	544	460	1,650
Long-term liabilities	**213**	**2,102**	**1,768**	**1,501**	**283**
Bonds & long-term debt	203	2,007	1,680	1,379	156
Other long-term liabilities	10	95	88	122	128
Total liabilities	**771**	**3,460**	**3,173**	**2,835**	**2,826**
Owners of parent equity	**711**	**875**	**1,139**	**1,742**	**2,007**
Capital stock	5	5	5	6	6
Capital surplus	4	4	4	178	178
Retained earnings	979	1,150	1,397	1,835	2,080
Other	(277)	(284)	(267)	(278)	(257)
Non-controlling interests' equity	**3**	**257**	**255**	**429**	**442**
Total equity	**714**	**1,132**	**1,394**	**2,171**	**2,450**
Net debt	34	2,055	1,795	1,492	1,503

Cash flow statement

Year-end Dec 31 (KRWb)	2021	2022	2023	2024	2025
Cash flow from operations	**41**	**153**	**356**	**197**	**259**
Net profit	85	185	283	318	325
Non-cash profit and expenses	59	341	320	342	345
Depreciation	34	50	54	58	61
Amortization	4	21	22	21	21
Other	22	271	243	263	262
Changes in A/L from operating activities	(82)	(212)	(59)	(218)	(157)
Cash flow from investments	**(68)**	**(1,746)**	**(90)**	**(49)**	**(182)**
Change in tangible assets	(30)	(53)	(88)	(125)	(167)
Change in financial assets	1	(151)	(42)	14	(11)
Other	(38)	(1,541)	40	62	(4)
Cash flow from financing	**445**	**1,540**	**(335)**	**(265)**	**(58)**
Change in debt	466	2,103	(286)	(394)	46
Change in equity	1	0	(0)	176	0
Dividends	(22)	(13)	(30)	(51)	(75)
Other	0	(550)	(18)	5	(29)
Change in cash	404	(62)	(67)	(78)	24
Cash at beginning of year	168	572	509	442	364
Cash at end of year	572	509	442	364	388
Gross cash flow	**144**	**526**	**603**	**660**	**670**
Free cash flow	**6**	**97**	**266**	**70**	**92**

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	2021	2022	2023	2024	2025
Growth (%)					
Sales	15.9	239.1	3.6	5.1	7.0
Operating profit	28.8	370.2	16.3	6.6	1.0
Net profit	75.7	117.3	53.3	12.3	2.1
Adjusted EPS**	76.0	123.8	51.9	(2.1)	(10.7)
Per-share data (KRW)					
EPS (parent-based)	1,618	3,620	5,499	5,383	4,809
EPS (consolidated)	1,703	3,700	5,672	6,012	5,550
Adjusted EPS**	1,618	3,620	5,499	5,383	4,809
BVPS	16,501	20,301	26,439	33,645	38,780
DPS (common)	400	500	600	1,000	1,000
Valuations (x)					
P/E***	8.9	3.5	2.7	3.4	5.1
P/B***	0.9	0.6	0.6	0.5	0.6
EV/EBITDA	5.9	6.0	4.9	5.0	5.5
Ratios (%)					
ROE	12.1	22.8	27.3	19.8	15.0
ROA	7.0	6.1	6.2	6.6	6.3
ROIC	11.7	16.0	11.2	11.5	10.2
Payout ratio	21.3	11.9	9.4	18.3	18.4
Dividend yield (common)	2.8	3.9	4.1	5.5	4.1
Net debt to equity	4.8	181.6	128.7	68.7	61.3
Interest coverage (x)	18.3	3.7	3.4	4.4	5.5

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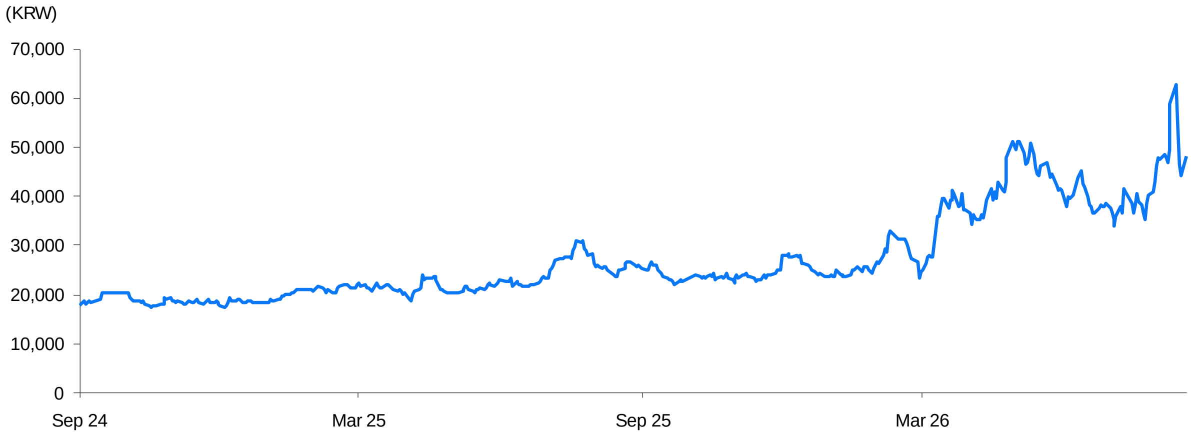
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2026/8/24
Recommendation	Not Rated
Target price (KRW)	n/a
Gap* (average)	
(max or min)**	

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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