SECTOR UPDATE

2026. 8. 25

Industrial Team

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AT A GLANCE

HD Hyundai Heavy Industries (329180 KS, 475,500)		
Target price	KRW806,000	70%
BUY		
HD Construction Equipment (267270 KS, KRW129,200)		
Target price	KRW192,000	48.6%
BUY		

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Shipbuilding/Machinery (OVERWEIGHT)

Comprehensive review of 1H earnings

- In this report, we revisit 2Q earnings at the sector level rather than at the company level.
- Despite the high base, industrial firms delivered another quarter of strong earnings growth. Following the earnings releases, consensus was either raised slightly or held steady, underscoring firms' resilient fundamentals.
- The correction since May has eased valuation pressure on domestic industrial companies (vs their overseas peers). We remain positive towards the sector. Given valuations, we prefer shipbuilders and construction equipment makers.

(§ The Korean version of this report was published on Aug 20)

WHAT'S THE STORY?

Rationale for revisiting 2Q results: While major Korean shipbuilding and machinery firms released their preliminary 2Q results around late July/early August, we decided to revisit sector-wide figures, as: 1) earnings were reported by companies at different times, and each firm's results were influenced by unique, one-off items; and 2) official semi-annual reports, published after the preliminary earnings releases, contain critical supplementary data that are not reflected in early announcements (such as balance-sheet metrics and order backlogs).

Assessment of 2Q results: Earnings at Korea's leading shipbuilding and machinery firms came in strong in 2Q despite the high base. By sector, operating profit rose 77% y-y for shipbuilding (topping estimates by 16%), 62% y-y for construction equipment (exceeding forecasts by 33%), 51% y-y for power equipment (inline), and 36% y-y for defense (beating by 20%). Following the 2Q earnings announcements, consensus was either raised slightly or held steady. Other key indicators were also strong. Shipbuilders and power equipment firms saw significant order backlog growth, and their balance sheets remained sound.

(Continued on the next page)

Subcategories of industrial sector—our preferences: We remain positive towards the industrial sector as a whole. Korean industrial companies have been correcting since May, diverging from both global industrial trends and the broader Korean equity market. Still, their fundamentals remain strong, as shown in their 2Q earnings. Therefore, the recent pullback should prove to be temporary. Following recent corrections and with the earnings valuation baseline shifting to 2027, valuation pressure (vs that for their overseas peers) has also eased. By subsector, we favor shipbuilders and construction equipment makers. Shipbuilders offer superior valuation attractiveness vs that for the domestic industrial sector. Given current profitability levels and the gradual sales recognition of high-priced orders (in shipbuilders' backlogs), there exists a strong potential for earnings estimates to be revised up. Moreover, orders taken in 1H far exceeded expectations. Construction equipment makers also trade at a discount vs the Korean and global industrial sectors. Demand for construction equipment in the US, the world's largest market, is clearly recovering.

Among shipbuilders, HD Hyundai Heavy Industries (HD HHI) is our top pick, benefiting from its strong cost structure and momentum (stemming from its entry into the power generation engine market). Given the high profitability of its affiliate HD Hyundai Samho, there also exists clear visibility for further margin expansion at HD HHI. For the machinery sector, we favor HD Construction Equipment (HD CE), which firm: 1) has significant exposure to emerging markets (EMs); and 2) stands to gain from rising demand for emergency generators. Alongside improved operational efficiency at existing facilities, additional revenue growth is expected from expanded engine production.

Summary

Industrial companies' 1H stock performance

Industrial sector's share-price trends this year and our interpretation

Industrial sector decouples from global and domestic equity markets in early May

The domestic industrial sector has risen 23% ytd. However, it is hard to be upbeat towards this figure given the backdrop. The sector's ytd price increase falls significantly short of the broader market's (Kospi) 54% gain. Even considering the industrial sector's long history of outperforming the market, this year's performance cannot be considered satisfactory. Recent price trends have also been notably weak—industrial stocks have declined 23% since early May.

The recent correction for Korean industrial companies has been somewhat unusual compared to historical patterns, as the sector has diverged from both global industrial trends and the broader Korean equity market. While domestic industrial stocks began falling in early May, the global industrial index has risen 3% since then. The sector's performance has also failed to align with the broader Korean market's movement. Although the overall directional trends for the year were largely similar—both the sector and the market rose early in the year before pulling back—the period from May to July reveals more than a simple decoupling: industrial stocks exhibited a negative correlation against the broader market. Notably, Korea's industrial stocks began to decline in early May just as the broader Korean market initiated another sharp re-rating.

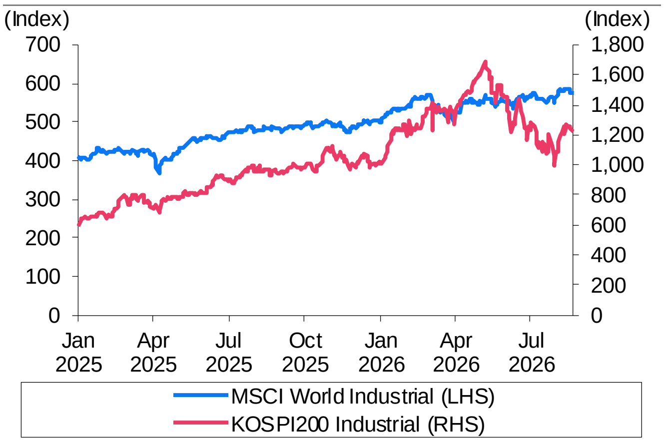
Interpretation of share-price correction

It is hard to say that the recent share-price correction in the industrial sector stems from a deterioration in its fundamentals—global industrial stocks have not fallen. Most Korean industrial companies operate with an export-oriented business structure, meaning their operating environment is broadly aligned with their global peers. In fact, order wins and profitability for domestic firms remain healthy. Therefore, the recent pullback is best understood as being a uniquely Korean phenomenon driven by shifts in supply-demand dynamics within the domestic financial market (specifically, the equity market)—namely, a decline in investor preference for industrial stocks.

Industrial stocks have demonstrated a strong price trend over an extended period, as external uncertainties—such as tariffs, geopolitical tensions, and interest rates—have reinforced investor preference for the sector. Industrial subsectors enjoy long business cycles, and most of them are currently in a boom phase of their cycle, with future profits assured by robust order backlogs. As a result, these firms are highly likely to generate stable earnings over a prolonged period despite the existence of diverse uncertainties—sales over the next 2-3 years are all but guaranteed thanks to orders that have already been secured, providing high visibility for profit. However, a new alternative has emerged in the domestic equity market: Certain sectors—particularly semiconductors—have entered an unprecedented boom, drawing capital away from the industrial sector.

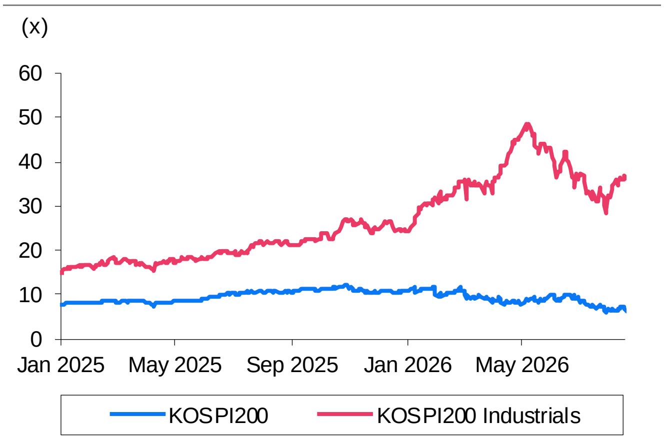
This hypothesis is further supported by changes in foreign ownership. Domestic investors are more likely than global investors to confine their equity portfolios exclusively to the Korean market. This year, foreign ownership in the industrial sector has increased ytd. Even when compared to early May, when industrial share prices declined, foreign ownership continued to rise—it appears as though domestic investors, not foreign investors, have been the primary drivers of the recent sell-off. Moreover, when comparing industrial stock performance against technology firms (rather than the broader market; since May), the inverse correlation becomes even clearer.

Share-price comparison: Kospi Industrials vs MSCI Industrials



Source: Bloomberg, FnGuide

Valuation comparison: Kospi vs industrials



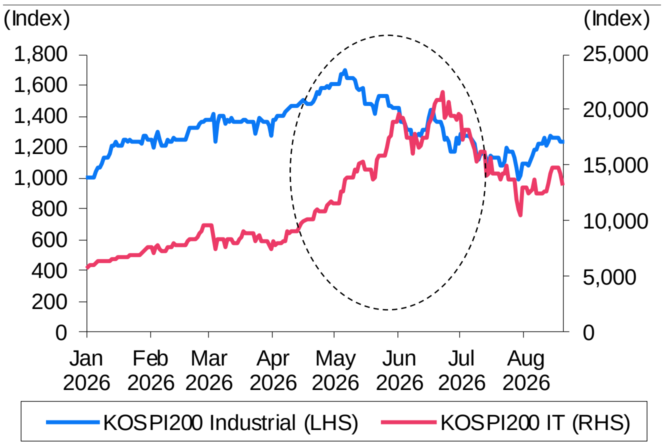
Note: Based on 2026E P/E (consensus)
Source: FnGuide

Foreign ownership comparison: Kospi vs industrials

(%)	Kospi	Kospi 200 Industrials
Foreign ownership		
Year start	19.12	12.73
Early May	18.91	13.96
Current	19.65	15.06
Share price return		
Jan 2 - early May	53.1	59.2
Early May - present	-1.9	-23.1

Source: FnGuide

Share-price comparison: Industrials vs tech



Source: FnGuide

Reasons to still expect a rebound

Easing valuation pressure vs that for overseas peers

One of the key reasons for anticipating a rebound for industrial stocks is the easing of their valuation pressure. First, only Korean industrial stocks have undergone a correction recently. Second, as we have entered 2H, it has become easier to shift the earnings valuation baseline from 2026 to 2027.

Currently, the 2026 and 2027 P/E multiples for Korea's industrial sector stand at 37x and 23x, respectively. While the 2026 P/E figure for domestic industrials is above that for global industrials, the 2027 P/E figures are similar. This suggests that Korean industrial companies continue to enjoy stronger earnings growth vs their global counterparts. Thanks to their simpler business structures, these Korean firms have been able to enjoy rapid profit expansion, justifying a valuation premium. Yet, after the recent correction and based on 2027 earnings, domestic industrials are trading at valuation levels comparable to those in overseas markets. As time passes, market valuations are increasingly likely to be anchored in next year's earnings rather than this year's. Consequently, investors' perceived valuation burden is likely to continue easing.

Valuation and share price comparison: MSCI industrials vs Kospi industrials

(%, x)	MSCI Industrials	Kospi 200 Industrials
Share price return		
YTD	14.7	22.7
Vs. Early May	3.0	-23.1
Valuation		
2026E P/E	25.2	36.6
2027E P/E	22.4	22.7

Source: Bloomberg, FnGuide

Healthy fundamentals and external conditions

It is also important that Korean industrials continue to have healthy fundamentals. Global industrial stocks have sustained a resilient upwards trend, indicating that current business conditions are upbeat. And Korean industrials are still achieving profit growth that eclipses the global sector's.

As discussed in greater detail later, Korea's major industrial firms posted strong growth y-y in 2Q in terms of sales and operating profit. Orders won in 1H for most of these companies either reached or surpassed the figures they recorded in full-year 2025. Moreover, many of these companies are actively executing large-scale facility investments. Solid order backlogs combined with substantial capacity expansions have enhanced their future profit growth visibility.

In summary, Korea's industrial firms continue to sustain profit growth amid easing valuation pressure. As a result, investors who: 1) prioritize bottom-up fundamental analysis over top-down macroeconomic trends; and 2) assess corporate value by comparing Korean firms against their overseas peers (rather than solely based on their attractiveness within the Korean equity market), may find Korean industrial companies in their current form increasingly attractive.

Key takeaways of earnings

2Q earnings recap

Why we are revisiting 2Q earnings

While major Korean shipbuilding and machinery firms released their preliminary 2Q results in late July/early August, a sector-wide re-evaluation remains warranted, as: 1) their earnings were reported at different times, and each firm's results were influenced by unique, one-off items—making it difficult to discern the underlying trend from individual figures alone; and 2) official semi-annual reports, published after the preliminary releases, contain critical supplementary data that are not reflected in early announcements—such as balance-sheet metrics and order backlogs.

Strong earnings clearly top expectations

Robust profit growth amid raised consensus

It is clear that 2Q earnings at Korea's leading shipbuilding and machinery firms were strong—no deep analysis is required. Most major industrial companies delivered significant y-y profit growth. By subsector, operating profit jumped 77% y-y for shipbuilding, 62% y-y for construction equipment, 51% y-y for power equipment, and 36% y-y for defense. Given the protracted industry uptrend, sustained hikes to earnings forecasts, and the high base, we are blown away by the strength of this growth.

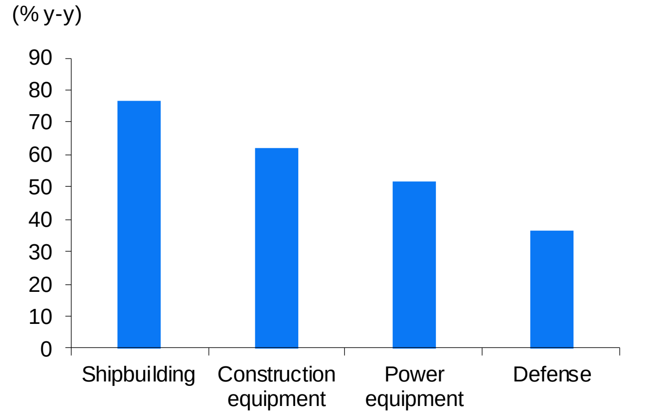
Results also exceeded market expectations. Shipbuilders' operating profit beat consensus by 16.4% on average. Even after accounting for Hanwha Ocean's one-off marine revenue, the sector's operating results beat expectations. The one-off gain at Hanwha Ocean had a minimal impact on its profitability. Samsung Heavy Industries (SHI) recorded a one-off cost tied to corporate pension obligations. The key takeaway: The impact of sales from high-margin vessels was stronger than the market expected.

Operating profit at construction equipment companies also topped consensus by 33%. While Doosan Bobcat benefited from a refund of US tariffs (a one-off factor), it also reflected some delays in recognizing sales. HD Construction Equipment reported remarkable results, with operating profit exceeding market expectations by 25%.

The combined operating profit of three major power equipment companies was in line with consensus, which was a solid result given the high base. The failure to beat consensus was largely due to Hyosung Heavy Industries' increase in unrealized inventory—goods shipped to its US subsidiary but not yet delivered to end customers. These sales, however, should be recognized upon final delivery. The inventory buildup reflects proactive production scaling in response to firm demand and a deliberate strategy to build an inventory buffer.

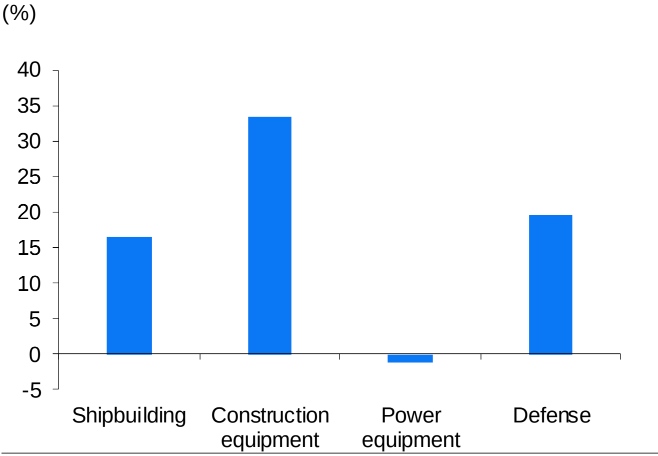
Four defense firms' combined operating profit exceeded consensus by 19.6%, but this outperformance was driven almost entirely by Hanwha Aerospace's consolidated results, which firm leaned heavily on its subsidiaries (Hanwha Ocean and Hanwha Systems). Excluding these subsidiaries, Hanwha Aerospace's defense business missed market expectations. However, Korean defense earnings should be concentrated in 2H26, and overseas business profitability—key to current earnings—remained healthy in 2Q26. We believe there is no basis for a bearish outlook on the defense sector at this stage.

2Q operating profit growth (y-y) at industrial subsectors



Note: Shipbuilding = sum of HD KSOE, Samsung Heavy, Hanwha Ocean
Construction equipment = sum of HD CE, Doosan Bobcat
Power equipment = sum of HD Hyundai Electric, Hyosung Heavy, LS Electric
Defense = sum of Hanwha Aerospace, Hyundai Rotem, LIG D&A and KAI
Source: Company data

2Q operating profit at industrial subsectors vs consensus



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Source: Company data, FnGuide

Market interpretation of earnings—generally positive

The market also interpreted 2Q results favorably—2026 operating profit forecasts for shipbuilders and machinery makers were revised up right after their releases. For the shipbuilding and construction equipment segments, even 2027 earnings forecasts were lifted, signaling that the market viewed the remarkable 2Q results as indicative of sustained momentum rather than a temporary spike.

For the shipbuilding sector, estimates for 2026 operating profit were raised 5.5% (20% higher than early-year projections), and 2027 forecasts were lifted 3.2% (17% higher). At the same time, 2026 and 2027 earnings estimates for construction equipment makers were also revised up. As for power equipment firms, 2026 and 2027 earnings forecasts were unchanged—their 2Q results were in line with consensus. In the meantime, 2026 earnings forecast for the defense sector saw a modest uptick, driven almost entirely by Hanwha Aerospace's consolidated results. Indeed, core defense operations at most defense firms put in somewhat sluggish performances. Nevertheless, 2027 earnings forecasts remained unchanged, suggesting that the market still has a positive outlook on the defense sector.

Change in earnings consensus, by industrial subsector

(%)	Share price	Operating profit estimates	
		2026E	2027E
Shipbuilding			
vs January	-13.3	19.8	16.9
vs after 2Q earnings season	-3.2	5.5	3.2
Power equipment			
vs January	45.0	9.9	17.1
vs after 2Q earnings season	1.6	0.3	-0.2
Defense			
vs January	21.0	-2.8	-0.6
vs after 2Q earnings season	6.9	2.4	-0.2
Construction equipment			
vs January	23.1	9.4	11.0
vs after 2Q earnings season	3.8	2.3	0.9

Note: Earnings season reflects the change since the announcement date of the first major company to report earnings
Source: FnGuide

Other key indicators also strong

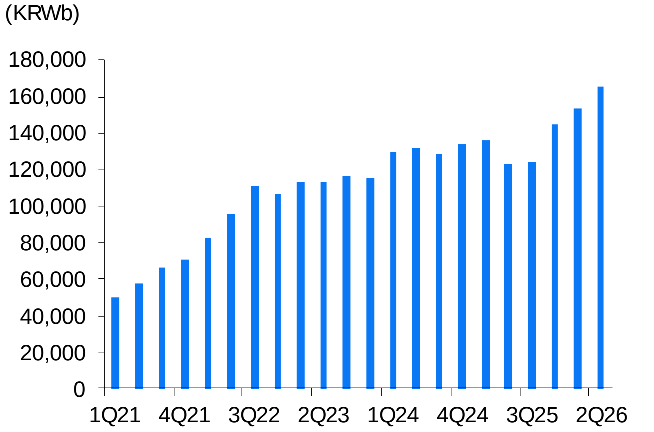
Earnings reports and management comments provide more than just profit figures. Companies also disclose their new order wins, order backlogs, financial metrics, and guidance, offering a fuller picture of their business health.

All non-earnings metrics released in 2Q were broadly positive. Shipbuilders disclosed that new orders ytd had reached 90% of last year's full-year total. Their won-denominated order backlog (on a revenue recognition basis) expanded 14% vs the end-2025 figure.

While specific order data are not routinely disclosed in the construction equipment sector, HD Construction Equipment raised its outlook for the global construction equipment market. Caterpillar, the world's largest construction equipment manufacturer, also raised its revenue guidance. Together, these signals point to broadly improving sentiment at frontline equipment makers.

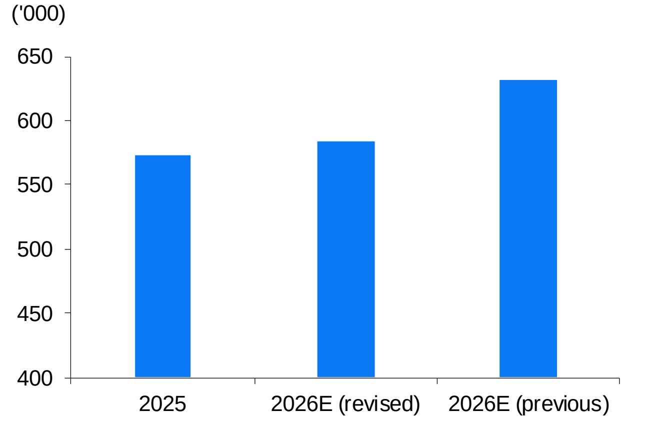
The power equipment sector also posted strong new orders. HD Hyundai Electric and Hyosung Heavy Industries recorded 1H26 new orders at 76% and 98%, respectively, of their full-year 2025 totals. All three major players—HD Hyundai Electric, Hyosung Heavy Industries, and LS Electric—upgraded their full-year order guidance, reinforcing confidence in sustained demand.

Order backlog at major shipbuilders (sales recognition basis)



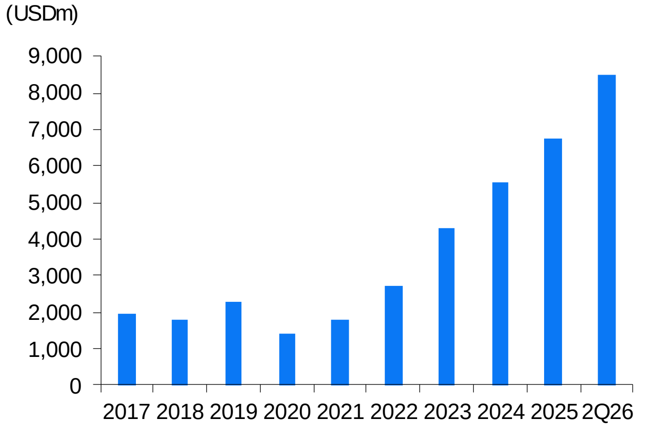
Note: Based on the sum of HD Group, Samsung Heavy and Hanwha Ocean
Source: Company data

HD CE: 2026 global construction equipment market outlook



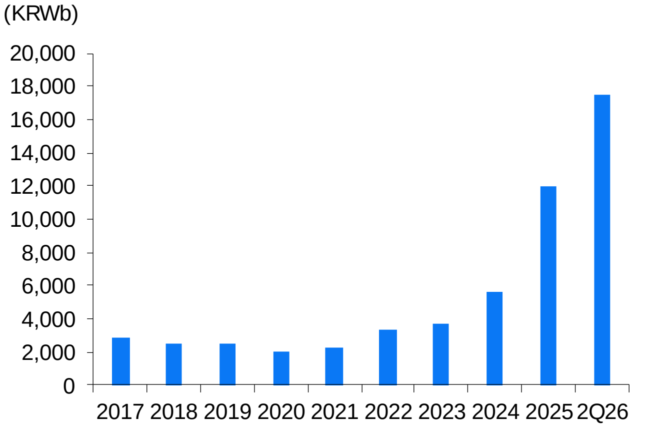
Source: HD CE

HD Hyundai Electric: Order backlog



Source: HD Hyundai Electric

Hyosung Heavy Industries: Order backlog



Source: Hyosung Heavy Industries

Key metrics to watch, by sector

Shipbuilding—HD Hyundai Samho's operating margin

The most striking figure we found among shipbuilders' 2Q earnings was not from a listed giant, but from HD Hyundai Samho (unlisted), which firm posted an operating margin of 22.5%—a figure it achieved without any material one-off gains, and above the 20% threshold.

Hanwha Ocean's commercial ship segment reported a 22.7% margin, and HD HHI's commercial ship segment (excluding special vessels) neared 17%. Yet, Hanwha Ocean's results were significantly aided by a more relaxed forex hedging policy, which shift in strategy amplified its currency-related gains. Moreover, both Hanwha Ocean and HD HHI carry diversified business portfolios. This means their reported margins include shared overhead costs across multiple divisions, making the true profitability of their shipbuilding operations harder to isolate.

HD Hyundai Samho, by contrast, is a pure-play shipbuilder, with its entire business focused solely on shipbuilding. Its reported 22.5% margin, therefore, reflects the actual operating results of its core business. Its outstanding results demonstrate that shipbuilders can indeed achieve margins above 20% through disciplined cost and labor management. The company has also hedged a portion of its forex exposure, and 34% of its 2Q sales came from orders it received over 2022-2023 (when vessel prices were relatively low). This suggests that as higher-priced orders (placed over 2024-2025; these orders have been hedged at high forex rates) begin to flow into revenue, the company's margins will rise further.

Ultimately, margins in the shipbuilding industry may prove far higher than the market currently expects. HD HHI, which follows a similar order and cost-control strategy as HD Hyundai Samho, is well positioned to further improve its margins. The current margin gap between the two companies stems primarily from differences in sales mix (the portion of high-priced orders). As more of HD HHI's higher-priced orders are recognized in revenue, its margin is likely to match—or even surpass—HD Hyundai Samho's.

2Q26 sales, by contract year and operating margin at major shipbuilders

(%)	HD HHI			HD Hyundai Samho	Samsung Heavy	Hanwha Ocean
	Large	Medium (Mipo)	Company-wide			
As portion of sales						
2022 orders	7	0	5	7	20	13
2023 orders	54	20	44	27	35	21
2024 orders	31	69	42	52	45	45
2025 orders	8	11	9	14		22
Company-wide OPM			16.4	**22.5**	10.1	13.5
Shipbuilding segment OPM			17.1	**22.5**	n/a	22.7

Source: Company data, Samsung Securities estimates

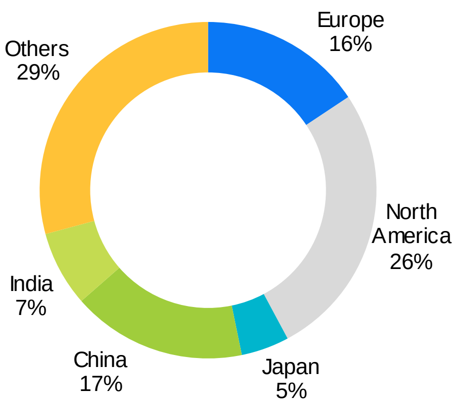
Construction equipment—recovery in DMs

The key development in the construction equipment segment was the clear rebound in demand in North American. HD Construction Equipment's North American sales rose 7% y-y in 2Q, while Doosan Bobcat's North American sales grew 3% y-y, the latter despite internal system reviews and operational disruptions. More significantly, Caterpillar, the global market leader, reported a 50% y-y surge in North American construction equipment sales on growth at both wholesale and retail channels. This dual strength (at wholesale and retail channels) is telling: 1) wholesale growth indicates dealers and rental companies are rebuilding inventories; and 2) retail growth reflects buying by end-users. Caterpillar's North American retail sales have increased y-y for six consecutive quarters, with the last four quarters posting double-digit growth.

North America matters for two reasons: 1) it is the largest single market for construction equipment; and 2) it was also the most sluggish region until recently. As a result, a sustained rebound is needed for a broader global sector recovery to emerge. Turnarounds in weak markets tend to drive more meaningful earnings growth for individual firms than incremental gains in already-strong regions.

Notably, this rebound is occurring even as macroeconomic headwinds persist—tariff volatility and lingering rate uncertainty have not fully dissipated. Yet buyers are moving forward anyway. This suggests that demand is no longer being held back by hesitation.

North America's share of global construction equipment market



Source: OHR

CAT: Retail sales growth, by region

(%)	Asia/Pacific	EAME	Latin America	North America	World
1Q24	-6	-24	-10	4	-5
2Q24	-12	-10	4	-3	-5
3Q24	-7	-12	6	-8	-7
4Q24	-11	-8	5	-1	-3
1Q25	-3	4	16	1	3
2Q25	-2	5	-7	3	2
3Q25	-9	7	2	11	7
4Q25	-2	-1	6	18	11
1Q26	-	-2	4	12	7
2Q26	8	13	24	27	22

Source: CAT

Power equipment—significant upward revisions to order guidance

The most meaningful development in the power equipment sector was that all three major Korean players—LS Electric, HD Hyundai Electric, and Hyosung Heavy Industries—upgraded their full-year order guidance. This reflects sustained demand and their optimistic outlooks. But more importantly, these upward revisions have helped alleviate valuation pressure that had weighed on the sector.

Unlike shipbuilding, defense, or the construction equipment segments, Korean power equipment firms have outperformed the broader market thanks to solid operating results, momentum tied to data center demand, and elevated valuations at their overseas peers. Yet domestically, the sector carried a relative valuation premium, particularly when compared to other industrial companies.

LS Electric, for instance, traded at high absolute valuation multiples based on 2026 and 2027 earnings forecasts, and its international competitors also traded at a premium. HD Hyundai Electric and Hyosung Heavy Industries, meanwhile, faced valuation constraints from concerns over the cycle peaking and their long-term growth potential. The key insight lies not merely in the fact that guidance was raised, but in why it was raised.

LS Electric operates more like a manufacturing company than a project-based industrial firm. Its core products have short lead times and benefit from high automation, allowing for the rapid scaling of production. As a result, new orders translate quickly into sales and earnings. The raised guidance is not just a forward-looking statement—it suggests that next year's earnings estimates may be revised up. This justifies a compression in its valuation multiple: Higher earnings visibility justifies a lower P/E.

HD Hyundai Electric and Hyosung Heavy Industries, by contrast, operate a more cyclical, capital-intensive model. Their order-to-revenue cycles are long and their production capacities cannot be easily expanded. Despite trading at valuations below LS Electric's and their global peers', their shares have remained under pressure due to concerns about the industry peaking and their limited long-term growth visibility. The recent guidance upgrade, however, reflects more than near-term demand. It signals confidence in their future production. Their core products are currently in a state of severe supply shortage. Yet they cannot indefinitely take orders—their factories are at or near full utilization. The raised guidance implies that planned capacity expansions, which were previously expected to come online gradually, are now set to be ramped up sooner than expected. In essence, this new guidance provides a credible foundation for us to revise up our long-term earnings forecasts.

Order guidance revisions by major power equipment players

		Revised	Previous	Diff (%)	2025 orders	Diff (%)
Hyosung Heavy	(KRWb)	12,000	8,400	42.9	7,627	57.3
LS Electric	(KRWb)	6,250	4,000	56.3	3,715	68.2
HD Hyundai Electric	(USDm)	5,185	4,222	22.8	4,273	21.3

Note: Hyosung Heavy figures are for the power equipment division only
Source: Company data

1H new orders won by major power equipment companies

		1H26	2026 guidance	Portion (%)	2025 orders	Portion (%)
Hyosung Heavy	(KRWb)	7,499	12,000	62.5	7,627	98.3
LS Electric	(KRWb)	2,084	6,250	33.3	3,715	56.1
HD Hyundai Electric	(USDm)	3,237	5,185	62.4	4,273	75.8

Note: Hyosung Heavy figures are for the power equipment division only
Source: Company data

Defense—market's long-term outlook intact

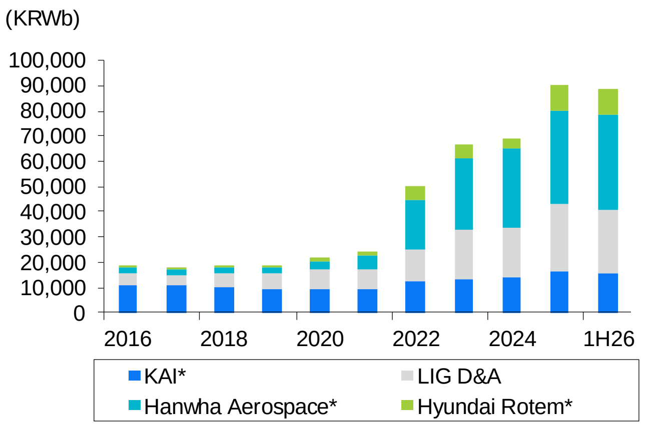
It is important to note that the defense industry's long-term earnings outlook has not been downgraded by the market, though its 2Q earnings as a whole were not so great. Most defense companies—excluding Hanwha Aerospace and Hanwha Systems—missed consensus. Hanwha Aerospace's results were primarily driven by its consolidated subsidiaries, Hanwha Ocean and Hanwha Systems, rather than its core business.

It is also difficult to characterize the sector's order momentum as strong. A significant number of the major projects that are underway by domestic defense firms are linked to the Middle East. Geopolitical tensions, heightened oil-price volatility, and import-export disruptions have introduced uncertainty into Middle Eastern governments' budget executions. And, there have been practical and procedural constraints on direct engagement between K-defense companies and Middle Eastern governments.

Despite weaker-than-expected 2Q earnings and delays in taking export contracts, shares in the defense sector rose following the release of firm's 2Q earnings. This suggests that current valuations are driven more by long-term prospects than short-term results. As long as long-term earnings forecasts and the industry outlook remain bright, the defense sector's stock performance is likely to be supported.

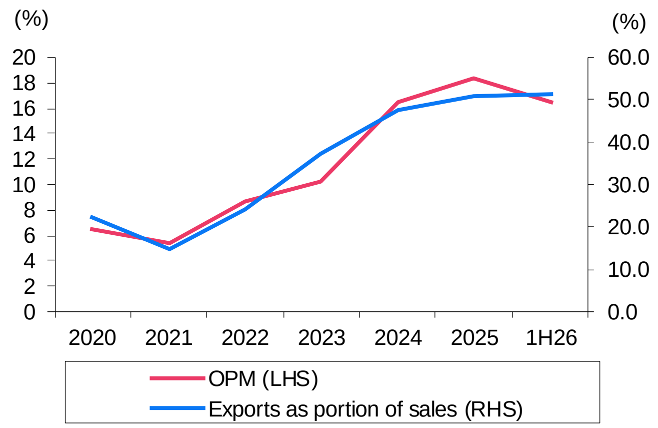
The market's outlook for the defense industry is likely to stay upbeat, considering the strong profitability of export projects in 2Q. Indeed, the profitability of defense firms today is determined by margins on their overseas projects. Most of the companies that reported weak 2Q results cited poor domestic project margins or an increasing share of domestic sales as the primary cause. While few new contracts have been formally signed as of late, media reports indicate growing opportunities. Additionally, companies are steadily increasing their facility investments to support future growth.

Combined order backlog of major Korean defense companies



Note: Based on the sum of KAI, Hanwha Aerospace (land systems), LIG D&A, and Hyundai Rotem (defense division)
Source: Company data

Exports as portion of total vs OPM at major Korean defense firms



Note: Based on the sum of KAI, Hanwha Aerospace (land systems), LIG D&A, and Hyundai Rotem (defense division); 1H26 figures for Hyundai Rotem reflect recent business segment reorganization
Source: Company data

Investment strategy

Preferred sectors and stocks

Prefer shipbuilding and construction equipment

We prefer the shipbuilding and construction equipment sectors, considering: 1) the implications of their 2Q earnings; and 2) their attractive valuations. Unlike other industries, the domestic shipbuilding sector lacks direct global peers, making comparisons with the broader Korean industrial sector more appropriate. Currently, the shipbuilding sector trades at a discount to Korean industrials, but shipbuilders' 2Q earnings were robust enough to prompt upward revisions to both this year's and next year's profit forecasts. Continued upward revisions have steadily improved the sector's valuation appeal. Given the projected sales-mix improvement (greater sales of high-margin vessels), earnings estimates have room to be raised. Order conditions remain favorable, too. Global shipbuilding orders over January-July rose 82% y-y and reached 84% of the full-year 2025 figure—a highly impressive performance considering the high base. Shipbuilding price indices, after seeing a modest correction earlier in the year, have fully recovered. Moreover, shipbuilding technology is being applied to new areas, and we are particularly upbeat towards its use in the power generation field. New opportunities such as data center-specific power-generation engines and floating data-center constructions are expected to serve as future share-price catalysts.

Among machinery sub-sectors, we favor construction equipment. Korean construction equipment firms remain attractive both vs: 1) other Korean industrial companies; and 2) their global peers. While their overseas competitors have seen their valuations rise significantly, Korean construction equipment makers' shares have lagged, creating a valuation gap. The industry outlook shows limited downside and clear potential for improvement. Strong demand from emerging markets (EMs), supported by resilient commodity prices, comes amid improving conditions in development markets (DMs). Major construction equipment manufacturers reported double-digit growth in Europe in 2Q, while North America is now seeing concurrent wholesale and retail demand growth.

The power equipment and defense industries have bright earnings outlooks but they are trading at somewhat demanding valuations. Korean power equipment firms trade at: 1) an attractive level vs their globally rivals; but 2) at a premium within the Korean industrial sector. The defense sector trades at a level similar to the broader Korean industrial index. However, given the sharp decline in valuations at global defense players, Korean defense firms' relative attractiveness has diminished. Earnings estimates have remained flat since the start of the year, yet share prices have held steady, keeping valuations elevated.

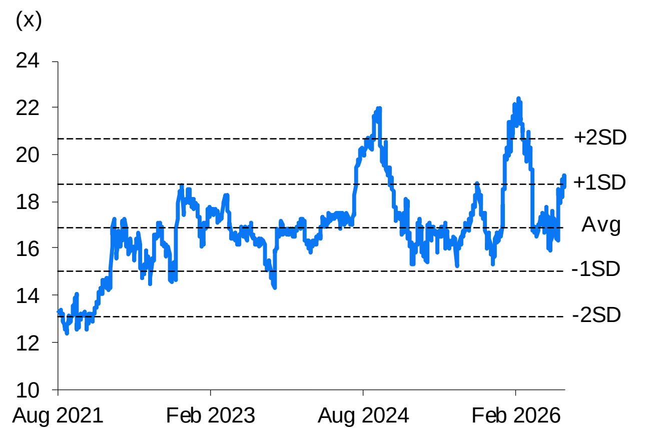
Industrials: P/E valuations

(x)	Kospi 200	Kospi 200 industrials	Shipbuilding	Defense	Power equipment	Construction equipment
2026E	6.5	36.6	15.4	30.4	37.2	10.5
2027E	5.0	22.7	13.2	22.8	27.1	9.1

Note: Individual sector valuations are calculated by dividing the combined market cap of major listed companies by the combined net income consensus

Source: FnGuide

LMT: 1 year forward P/E

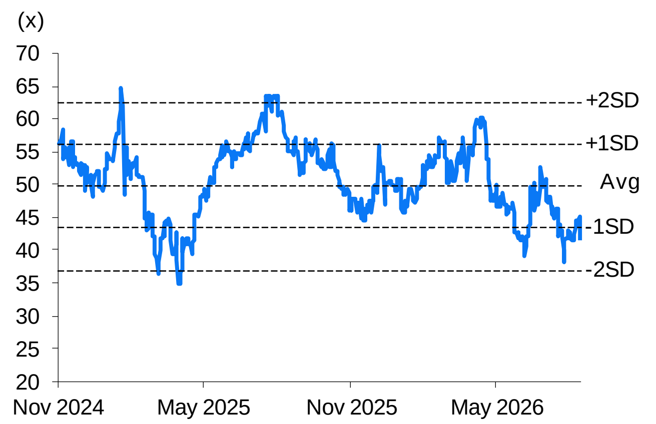


Source: Bloomberg, Samsung Securities

Rheinmetall: 1 year forward P/E

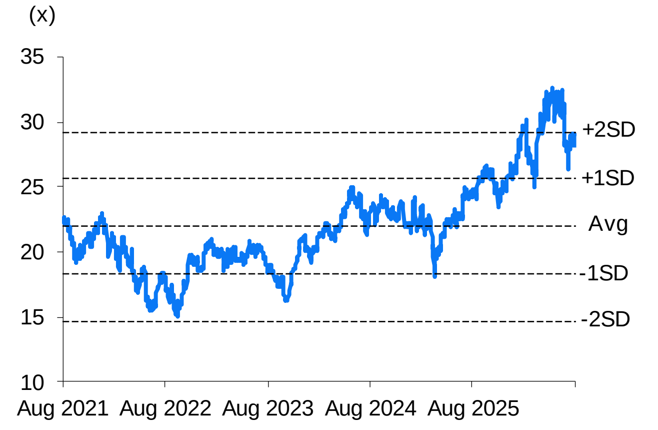
Source: Bloomberg, Samsung Securities

GE Vernova: 1 year forward P/E



Source: Bloomberg, Samsung Securities

ABB: 1 year forward P/E



Source: Bloomberg, Samsung Securities

HD HHI and HD CE

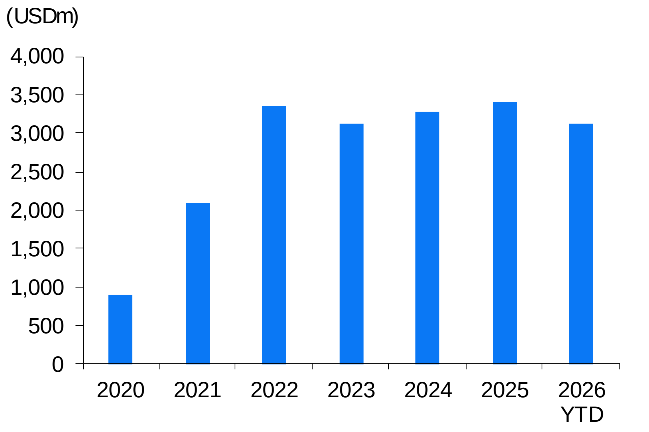
HD Hyundai Heavy Industries: A shipbuilder with strong order, earnings, and valuation momentum

Among shipbuilders, we favor HD Hyundai Heavy Industries (HD HHI) thanks to its compelling combination of orders wins, earnings performance, and attractive valuation. In 2Q, HD HHI posted the highest consolidated operating margin among listed Korean shipbuilders. This strong margin—particularly impressive given the company's significant forex hedging—reflects its superior cost structure and operational efficiency. The high profitability of its affiliate HD Hyundai Samho further supports this thesis. Both companies pursue similar order strategies, raw-material procurement practices, and forex policies. The margin gap between the two in 2Q is attributed solely to differences in sales mix related to high-margin vessels ordered over 2024-2025. This implies that HD HHI can reasonably catch up to Samho's margin levels as it recognizes (in sales) more high-margin orders in the coming quarters—potentially demonstrating clear and visible earnings growth relative to that at its peers. Order momentum remains robust. HD HHI has already secured more than its full-year 2025 order volume, ranking first among all major Korean shipbuilders in terms of order volume won ytd.

The company also benefits from strong non-shipbuilding momentum, particularly in the power generation segment. In 2026, HD HHI secured two major contracts for power generation engines—using its proprietary HiMSEN engine—as primary power sources for data centers in North America. The combined contract value of these two projects amounts to USD1.1b, representing 41% of the company's full-year order target. With the marine engine market already experiencing supply shortages, rising demand for power generation engines is expected to drive price increases in both segments. Given the strength of demand in both markets, HD HHI may need to seriously consider expanding its engine production capacity. If realized, such an expansion would become a key long-term driver for upward revisions to earnings forecasts.

Considering its earnings growth trajectory and ownership of proprietary engine technology, it seems reasonable for HD HHI to trade at a premium. In fact, even without complex modeling, the power generation business alone justifies a premium—power equipment players typically trade at higher valuations than traditional shipbuilders. Despite this, HD HHI's current valuation remains broadly in line with its Korean shipbuilding peers'. This implies significant upside exists from current levels.

HD HHI: Engine orders



Source: HD HHI, Samsung Securities

Major Korean shipbuilders: Ytd order performance

(USDm)	2026 ytd	2026 guidance		2025 orders	
		Target	Achieved in 1H (%)	2025 orders	2026 orders ytd/full-year 2025 orders (%)
HD HHI	12,630	20,420	61.9	11,644	108.5
Shipbuilding	12,517	17,502	71.5	11,511	108.7
Offshore	113	3,259	3.5	133	85.0
HD Samho	3,886	5,048	77.0	6,948	55.9
HD Group	16,516	25,468	64.8	18,592	88.8
SHI	10,149	13,900	73.0	7,900	128.5
Shipbuilding	5,749	5,700	100.9	7,100	81.0
Offshore	4,400	8,200	53.7	800	550.0
Hanwha	6,076	n/a	n/a	10,050	60.5
Shipbuilding	5,167	n/a	n/a	9,810	52.7
Offshore	908	n/a	n/a	240	378.4
Total	32,740	n/a	n/a	36,542	89.6

Source: Company data, Samsung Securities estimates

Comparison of major Korean engine manufacturers

		HD Hyundai Heavy (engine division)	HD Hyundai Marine Engine	Hanwha Engine	STX Engine
Product mix		2-stroke low-speed engine 4-stroke medium-speed engine	2-stroke low-speed engine	2-stroke low-speed engine 'Partial' 4-stroke medium-speed engine	4-stroke medium-speed engine Defense/high-speed engine
In-house model	2-stroke	×	×	×	×
	4-stroke	✓ (HiMSEN engine)	×	×	×
License model	2-stroke	MAN ES, WinGD	Everllence	Everllence, WinGD	Everllence
	4-stroke	In-house (HiMSEN engine)		Everllence, WinGD	Everllence, Rolls-Royce, Cummins

Source: Company data, Samsung Securities

Shipbuilding: Peer valuation

		HD KSOE	HD HHI*	SHI	Hanwha Ocean	HD Hyundai Marine Solution	Hanwha Engine	HD Hyundai Marine Engine	Wartsila	Seatrium
Ticker		009540 KS	329180 KS	010140 KS	042660 KS	443060 KS	082740 KS	071970 KS	WRT1V EU	STM SP
Listed country		Korea	Korea	Korea	Korea	Korea	Korea	Korea	Finland	Singapore
Market cap (USDm)		18,706	35,831	13,056	19,438	6,595	2,795	1,317	20,109	5,746
P/E (x)	2025	12.0	35.1	33.2	21.7	34.8	33.2	20.3	28.0	22.3
	2026E	7.4	17.0	18.8	14.5	26.8	19.3	14.3	25.6	13.7
	2027E	5.7	12.9	12.6	15.6	21.7	12.9	10.5	22.5	13.8
	2028E	4.8	11.1	10.8	13.5	18.5	10.3	8.8	19.6	13.5
P/B (x)	2025	2.0	5.3	4.4	4.4	11.4	7.4	4.4	6.0	1.1
	2026E	1.6	4.5	3.7	3.4	10.1	5.1	3.0	6.0	1.0
	2027E	1.3	3.7	3.0	2.8	9.0	3.7	2.3	5.4	1.0
	2028E	1.1	3.1	2.4	2.3	8.1	2.7	1.9	4.7	0.9
EPS growth (%)	2025	85.0	92.6	754.1	135.9	17.3	44.6	-2.5	22.9	185.3
	2026E	62.9	106.8	76.8	49.6	30.0	72.3	41.8	9.1	62.9
	2027E	28.2	31.3	49.2	-7.0	23.6	49.3	36.4	14.0	-1.3
	2028E	19.2	16.8	16.4	15.1	17.3	25.3	20.0	14.5	2.6
ROE (%)	2025	18.9	18.8	13.7	22.6	33.7	26.8	24.4	22.5	5.0
	2026E	24.9	28.6	21.4	26.3	40.0	30.6	23.3	23.8	7.8
	2027E	27.3	31.3	26.5	19.5	44.0	32.0	25.1	25.9	7.0
	2028E	27.7	77.8	24.9	18.5	46.1	29.7	23.6	26.6	7.0

Note: Based on closing prices as of Aug 19; *For HD HHI, 2026E figures onward reflect the impact of the merger with HD Hyundai Mipo
Source: Bloomberg, Samsung Securities estimates

HD Construction Equipment: Favorable operating environment and strong engine business

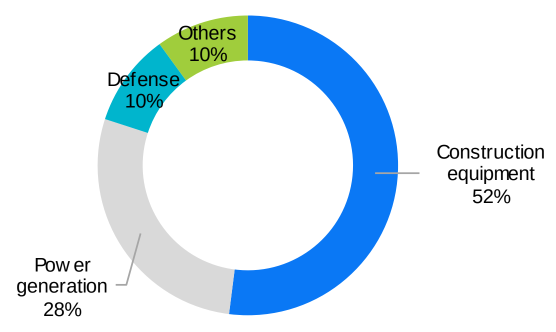
Within the machinery sector, we favor the construction equipment segment. Among Korean construction equipment manufacturers, we like HD Construction Equipment (HD CE) the most. First of all, the operating environment is particularly favorable at present. Rising commodity prices are driving strong demand for medium- and large-sized equipment in EMs. Market conditions strongly align with HD CE's product and geographic focus. With only two major domestic construction equipment makers listed in Korea, and HD CE being the sole player specialized in mid- to large-sized equipment, any market recovery is likely to funnel investor attention towards the company. On the earnings front, past underperformance has created a low base, offering a clear path for earnings growth. Concerns over US tariff-related uncertainty, previously a key risk, are also easing.

HD CE also stands to benefit from the same engine-related momentum as HD HHI. The surge in data-center constructions is set to drive demand for emergency power generation engines—a segment where HD CE is actively expanding. Additionally, demand for high-speed engines in the defense sector should keep growing given the export order backlog for the K2 main battle tank. The company is currently constructing new production facilities dedicated to defense and large-scale power generation engines.

These new facilities should not only generate more revenue but also enable operational reconfiguration and efficiency gains across existing production lines, further enhancing profitability.

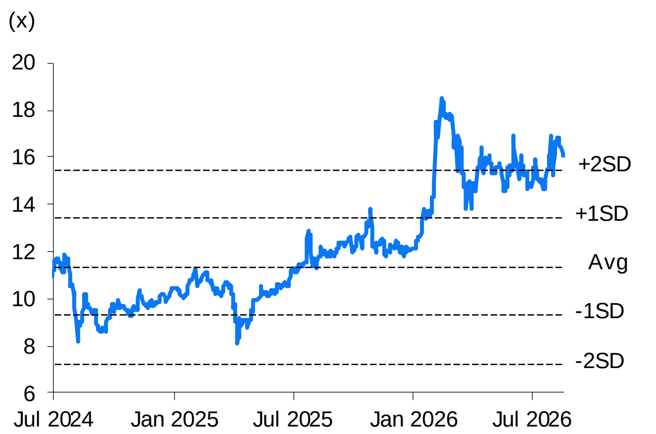
Its valuation remains attractive. HD CE trades at a discount relative to both the broader Korean industrial sector and its global construction equipment peers. When considering the value of its engine business and the high valuation multiples typically assigned to the power and defense end-markets it serves, the current share price implies that significant upside exists.

HD CE: Engine division sales, by type



Note: Based on 2025 data
Source: HD CE

Komatsu: 1 year forward P/E



Source: Bloomberg, Samsung Securities

Construction equipment: Peer valuation

		HD CE	Doosan Bobcat	Caterpillar	Deere & Co	Komatsu	Guangxi LiuGong	Sany	Kubota	Terex
Ticker		267270 KS	241560 KS	CAT US	DE US	6301 JP	000528 CH	600031 CH	6326 JP	TEX US
Listed country		Korea	Korea	US	US	Japan	China	China	Japan	US
Market cap (USDm)		1,833	4,462	375,164	156,734	40,066	2,427	25,538	17,996	7,384
P/E (x)	2025	22.6	14.7	43.7	31.5	17.0	9.4	19.3	17.0	13.1
	2026E	10.5	10.1	30.1	32.0	15.7	8.2	16.4	11.2	12.8
	2027E	9.6	8.4	25.2	25.9	14.6	6.4	13.1	11.1	10.8
	2028E	8.4	7.4	21.2	21.2	13.4	5.6	10.9	10.1	9.3
P/B (x)	2025	1.2	0.8	20.5	7.4	1.9	0.9	2.1	1.1	2.1
	2026E	1.4	0.8	17.4	6.2	1.7	0.8	1.9	1.0	1.8
	2027E	1.3	0.7	14.5	5.7	1.6	0.7	1.7	1.0	1.6
	2028E	1.1	0.7	11.4	5.3	1.5	0.7	1.6	0.9	1.6
EPS growth (%)	2025	4.8	-25.3	-14.8	-29.8	-5.9	46.1	46.7	-28.7	-19.5
	2026E	114.9	45.9	45.5	-1.6	8.1	15.0	17.4	52.1	2.5
	2027E	9.6	19.9	19.2	23.6	8.0	27.1	25.9	0.8	19.1
	2028E	13.8	14.2	19.2	22.1	9.0	14.1	20.4	9.7	15.1
ROE (%)	2025	5.7	5.7	50.5	24.6	11.2	9.1	11.1	6.7	16.8
	2026E	18.5	7.9	64.3	18.1	10.6	9.7	11.6	9.0	20.9
	2027E	13.7	9.0	67.8	22.6	11.0	11.2	13.7	8.7	20.5
	2028E	14.0	9.6	62.7	27.1	11.3	11.7	15.1	8.9	19.1

Note: Based on closing prices as of Aug 19
Source: Bloomberg, Samsung Securities estimates

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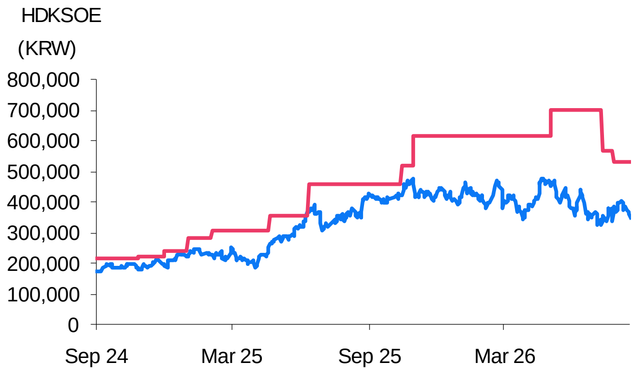
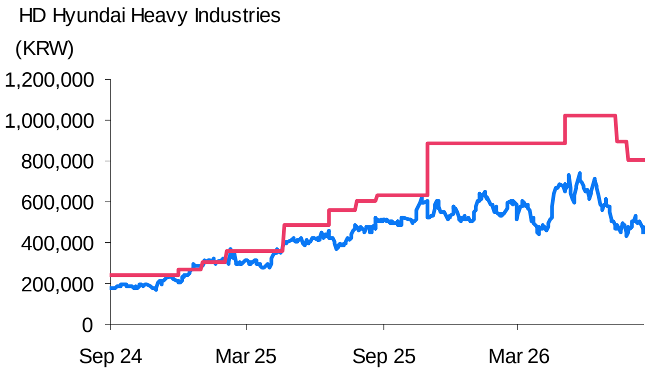
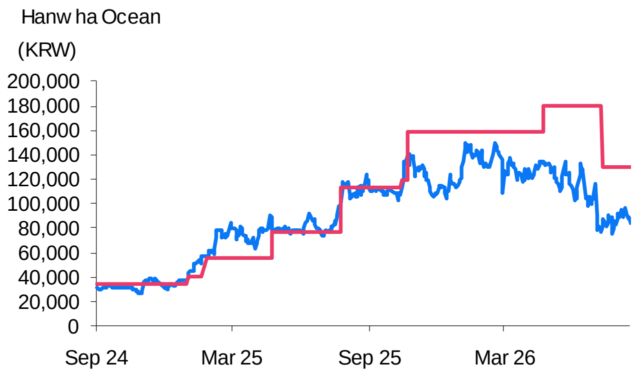
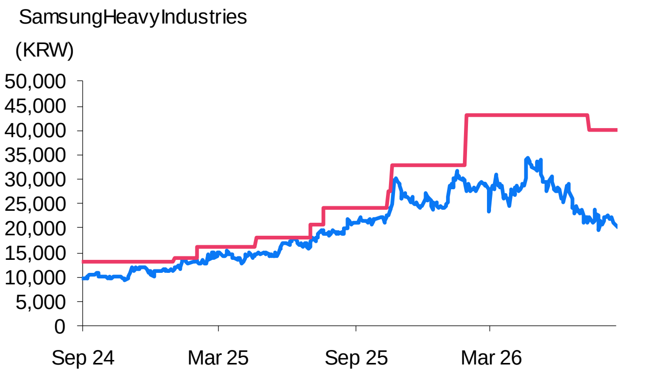
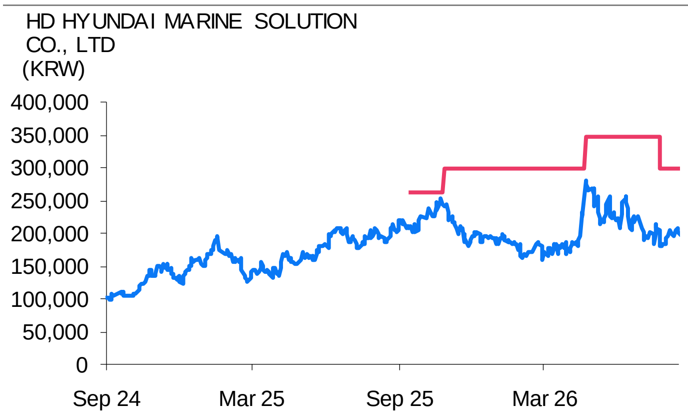
Target price changes in past two years

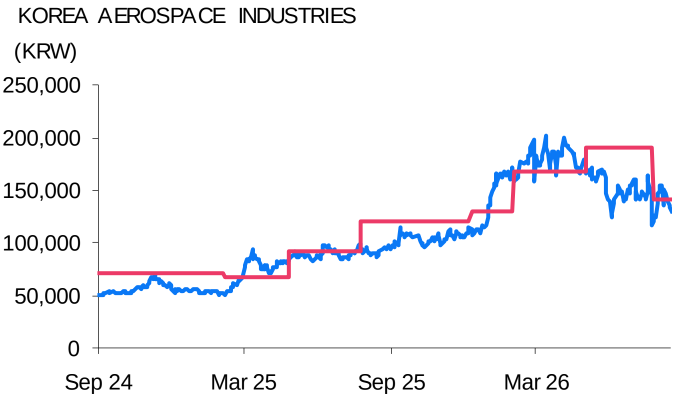




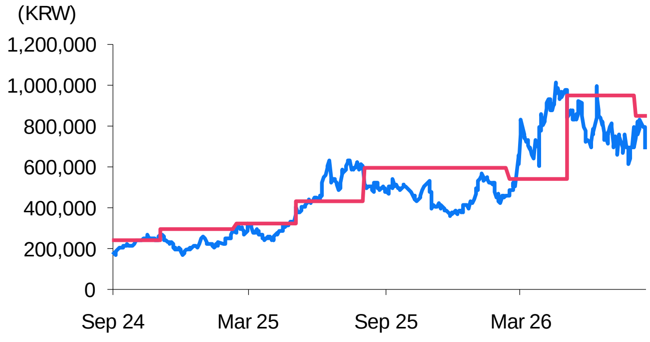




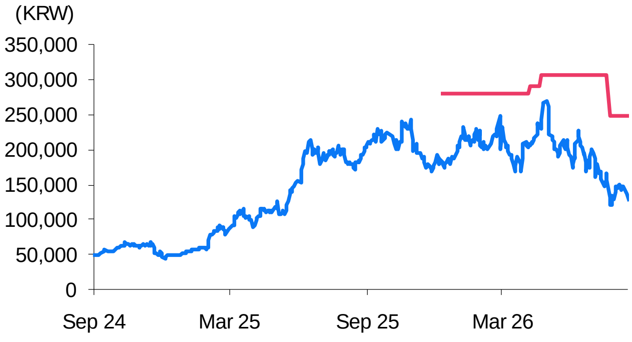




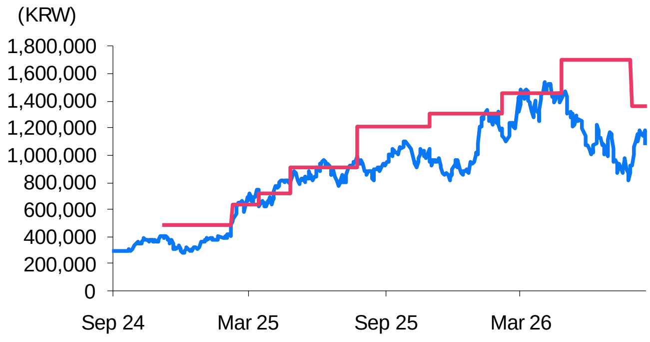
LIG Defense&Aerospace



HYUNDAI ROTEM



HANWHA AEROSPACE



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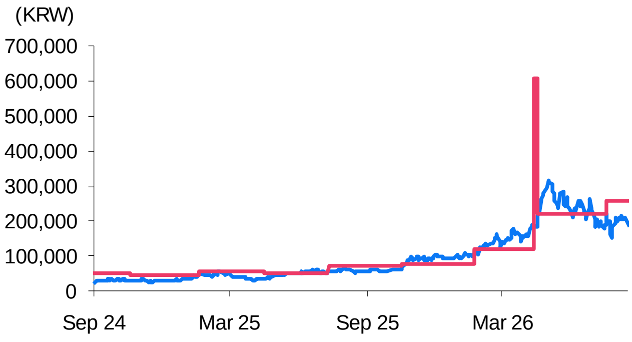
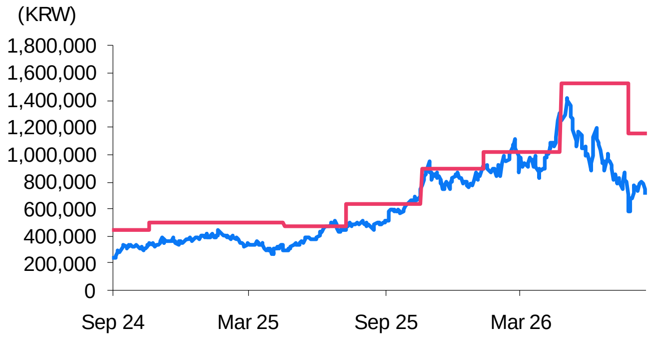
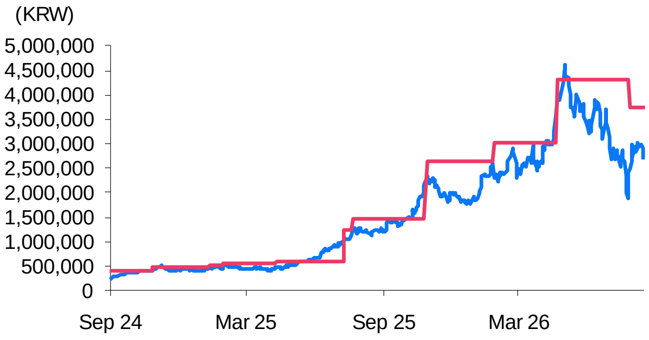


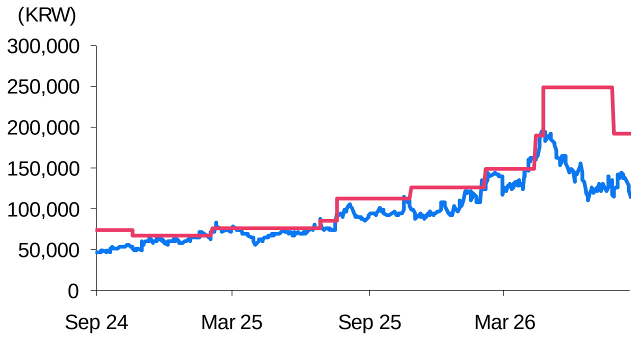
HD Hyundai Electric



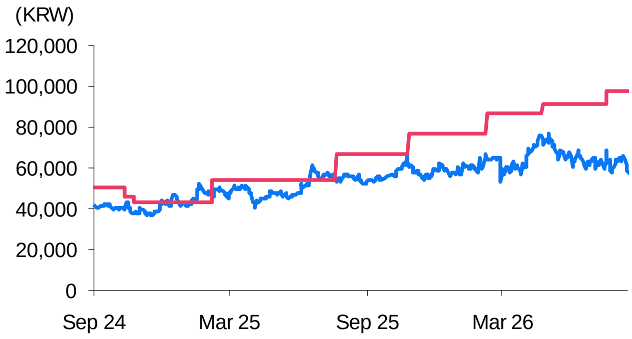
HYOSUNG HEAVY INDUSTRIES



HD Construction Equipment



Doosan Bobcat



Rating changes over past two years (adjusted share prices)

HD KSOE

Date	2024/7/26	11/1	12/6	2025/1/6	2/7	4/25	6/17	10/20	11/4	2026/5/8	7/15	7/30
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	216000	223000	242000	280000	310000	353000	460000	520000	620000	700000	570000	530000
Gap* (average)	-11.83	-11.64	-10.75	-15.81	-29.33	-14.91	-18.45	-11.47	-32.31	-44.07	-37.50	
(max or min)**	-1.39	-2.91	-2.69	-11.25	-19.03	4.11	-6.85	-7.79	-22.74	-32.29	-33.16	

HD Hyundai Heavy Industries

Date	2024/7/26	12/6	2025/1/6	2/7	4/25	6/26	8/1	8/28	11/4	2026/5/8	7/15	7/30
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	240000	270000	310000	360000	490000	557000	610000	630000	890000	1030000	900000	806000
Gap* (average)	-16.98	-5.02	-0.44	-12.25	-14.73	-25.30	-22.82	-16.24	-37.08	-38.78	-48.10	
(max or min)**	0.83	10.37	5.48	4.44	-5.41	-11.94	-14.59	-0.95	-22.13	-27.67	-44.67	

Hanwha Ocean

Date	2024/4/25	2025/1/6	1/31	4/29	7/30	10/20	10/28	2026/4/28	7/15
Recommendation	HOLD	HOLD	HOLD	HOLD	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	34000	40000	55000	77000	113000	120000	159000	180000	130000
Gap* (average)	-5.92	23.37	33.92	5.22	-1.68	10.48	-19.82	-37.02	
(max or min)**	15.29	41.75	3.82	-5.06	9.03	16.42	-5.72	-25.06	

Samsung Heavy Industries

Date	2024/7/26	2025/1/6	2/6	4/25	7/8	7/25	10/20	10/24	2026/2/2	7/15
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	13200	14000	16200	18000	20600	24000	27600	33000	43000	40000
Gap* (average)	-18.76	-8.59	-13.15	-11.28	-10.26	-13.95	-13.41	-18.53	-35.20	
(max or min)**	-8.86	-2.36	-4.69	0.39	-5.00	-6.04	-12.68	-3.48	-20.00	

HD Hyundai Marine Solution

Date	2025/9/19	10/31	2026/4/27	7/28
Recommendation	BUY	BUY	BUY	BUY
Target price (KRW)	264000	300000	347000	300000
Gap* (average)	-13.54	-36.51	-34.91	
(max or min)**	-4.17	-15.50	-20.46	

Korea Aerospace Industries

Date	2024/7/30	2025/2/10	5/2	7/30	12/15	2026/2/6	5/8	7/30
Recommendation	BUY	BUY	BUY	BUY	BUY	HOLD	HOLD	HOLD
Target price (KRW)	72000	68000	93000	120000	130000	168000	190000	141000
Gap* (average)	-22.50	9.65	-3.39	-15.63	10.47	7.68	-20.38	
(max or min)**	-3.19	39.71	8.06	-4.08	31.69	20.24	-9.37	

LIG Defense & Aerospace

Date	2024/7/29	11/8	2025/2/17	5/9	8/8	11/7	2026/2/19	5/8	8/7
Recommendation	BUY	BUY	BUY	BUY	HOLD	BUY	BUY	HOLD	BUY
Target price (KRW)	240000	300000	320000	430000	595000	595000	540000	950000	855000
Gap* (average)	-9.45	-25.01	-10.10	21.59	-17.12	-25.25	44.60	-17.71	
(max or min)**	12.08	-3.33	16.41	46.74	-8.91	-4.20	88.89	5.47	

Hyundai Rotem

Date	2025/12/15	2026/1/14	4/13	4/27	7/27
Recommendation	2	BUY	BUY	BUY	BUY
Target price (KRW)	280000	280000	292000	306000	250000
Gap* (average)	-30.36	-25.91	-23.95	-35.25	
(max or min)**	-17.14	-11.07	-18.66	-12.09	

Hanwha Aerospace

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	

LS Electric

Date	2024/7/10	10/24	2025/1/24	4/22	7/16	10/23	2026/1/28	4/22	7/24
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	52800	44000	56000	52600	70400	80000	121600	220000	260000
Gap* (average)	-34.42	-27.05	-24.72	-3.63	-16.14	19.07	23.74	9.65	
(max or min)**	-1.52	5.45	4.11	18.25	-6.53	34.75	55.10	44.77	

HD Hyundai Electric

Date	2024/7/24	10/25	2025/4/23	7/16	10/24	2026/1/15	4/29	7/29
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	450000	502000	474000	635000	890000	1020000	1530000	1160000
Gap* (average)	-32.58	-28.52	-14.10	-14.26	-6.86	-5.06	-33.18	
(max or min)**	-23.89	-11.35	7.17	17.48	6.63	28.04	-7.19	

Hyosung Heavy Industries

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	

HD Construction Equipment

Date	2024/7/25	10/24	2025/2/7	7/2	7/25	10/31	2026/2/9	4/16	4/28	7/30
Recommendation	BUY	BUY	HOLD	HOLD	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	74000	67000	76000	86000	114000	127000	150000	190000	250000	192000
Gap* (average)	-27.69	-8.88	-6.82	-9.92	-15.73	-18.45	-7.74	-5.08	-41.96	
(max or min)**	-12.16	8.51	8.95	-14.88	0.79	7.01	8.73	4.26	-21.60	

Doosan Bobcat

Date	2024/7/12	10/16	10/29	2025/2/11	4/29	7/28	10/31	2026/2/13	4/29	7/24
Recommendation	HOLD	HOLD	HOLD	HOLD	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	50500	46000	43000	54500	54500	67000	77000	87000	92000	98000
Gap* (average)	-17.65	-12.26	-1.08	-12.37	-4.24	-16.23	-22.87	-26.19	-28.35	
(max or min)**	-32.18	-5.33	22.09	-5.14	13.39	-1.64	-12.99	-12.07	-16.63	

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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UNDERWEIGHT Expected to underperform market by 5% or more within 12 months

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