COMPANY UPDATE

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HD Hyundai Heavy Industries
(329180)

Long-awaited capex plan announced

- HD Hyundai Heavy Industries (HD HHI) announced a KRW1.07t capex plan for its power generation business.
- The announcement was largely anticipated, but the scale and scope of the investment exceeded market expectations.
- The company's strategic expansion into power generation should provide a credible basis for a valuation premium.

AT A GLANCE

BUY

Target price	**KRW806,000**	**77.7%**
Current price	**KRW453,500**	
Market cap	KRW47.6t/USD35.5b	
Shares (float)	104,961,225 (30.6%)	
52-week high/low	KRW745,000/KRW422,000	
Avg daily trading value (60-day)	KRW146.3b/ USD109.3m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
HD Hyundai Heavy Industries (%)	-14.8	-22.2	-10.0
Vs Kospi (%pts)	-23.7	-38.8	-57.6

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	806,000	806,000	0.0%
2026E EPS	27,829	27,886	-0.2%
2027E EPS	36,456	36,618	-0.4%

SAMSUNG vs THE STREET

No of estimates	17
Target price	871,059
Recommendation	4.0

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

WHAT'S THE STORY?

Capex plan: HD HHI unveiled a capex plan to strengthen its power generation engine business. It plans to invest KRW830b to expand four-stroke engine production capacity and KRW240b to build a dedicated SMR facility. While the engine capacity expansion was largely anticipated—given sustained strong demand for marine engines and recent large orders for data center power-generation engines—deliveries for these orders are concentrated in 2029-2030, requiring capacity to be added well in advance.

New catalysts: The scale and scope of the investment go beyond prior expectations. Upon completion, total four-stroke engine production capacity, including both marine and land-based units, should rise from 3 GW to 7.2 GW, more than doubling overall capacity. Most of the added capacity should serve land-based power generation. Equally significant is the early decision to build a dedicated facility for small modular reactors (SMRs).

(Continued on the next page)

SUMMARY FINANCIAL DATA

(KRWb)	2025	2026E	2027E	2028E
Revenue	17,581	24,166	28,468	29,937
Operating profit	2,038	3,802	5,068	5,953
Net profit (adj)	1,415	2,921	3,826	4,458
EPS (adj) (KRW)	13,486	27,829	36,456	42,476
EPS (adj) growth (% y-y)	92.6	106.4	31.0	16.5
EBITDA margin (%)	13.5	17.5	19.4	21.4
ROE (%)	18.8	28.5	31.2	30.4
P/E (adj) (x)	33.6	16.3	12.4	10.7
P/B (x)	5.1	4.3	3.6	3.0
EV/EBITDA (x)	18.8	10.4	7.6	5.8
Dividend yield (%)	1.2	2.9	3.3	4.0

Source: Company data, Samsung Securities estimates

HD HHI's partner TerraPower has only recently begun construction of its first Natrium demonstration reactor, a Generation IV design at the leading edge of SMR technology. HD HHI's decision to commit to a dedicated manufacturing facility at such an early stage suggests that advanced negotiations for future orders are already underway.

Positive near and long term: The earnings contribution will take time to materialize given the multi-year construction timeline, but the announcement offers clear near- and long-term upside. Longer term, it signals meaningful business diversification. As the shipbuilding cycle eventually softens, the power generation segment should provide a buffer against cyclical downturns. Near term, the announcement should support the share price. In Korea, power-sector companies trade at substantially higher valuations than shipbuilders. The investment reinforces HD HHI's unique position as a shipbuilder with high-value engine capabilities and strengthens the case for a valuation premium.

KRW1.07t capex plan: HD HHI unveiled a two-part capex plan to strengthen its power generation engine business. First, the company plans to invest KRW830b through 2028 to expand four-stroke engine production capacity. Second, it plans to allocate KRW240b through 2029 to build a dedicated facility for small modular reactors (SMRs).

The engine capacity expansion was broadly anticipated given strong order momentum. Marine engine demand remains robust, while HD HHI has secured major power-generation engine contracts this year, with deliveries concentrated in 2029-2030 and therefore requiring capacity to be added well in advance. The engine division has reportedly secured approximately USD3.5b in orders ytd, already surpassing last year's total of USD3.4b and exceeding its 2026 full-year target of USD2.7b.

New catalysts: While the capacity expansion itself was anticipated, the scale and specifics of the plan exceeded market expectations. HD HHI's current production capacity for four-stroke power-generation engines is around 0.7 GW. Following the expansion, this should rise to 4 GW. Including marine engines, total four-stroke engine production capacity should increase from 3 GW to 7.2 GW, more than doubling overall capacity.

The decision to build a dedicated facility for SMR main equipment was also unexpected. HD Hyundai (the holding company), TerraPower(US), and Hyundai Engineering & Construction (Hyundai E&C) have signed an MOU to collaborate on next-generation nuclear technology. HD HHI is expected to manufacture core reactor components based on TerraPower's reactor design, while Hyundai E&C should lead EPC services. HD HHI has also been selected as the preferred bidder to supply critical equipment for TerraPower's Natrium reactor, a Generation IV design incorporating advanced SMR technology. However, TerraPower remains in the early stages of its first demonstration project and has yet to establish itself as a market leader. Against this backdrop, HD HHI's decision to commit to a dedicated manufacturing facility so early suggests that advanced negotiations for future orders are already underway.

HD HHI: 4-stroke medium-speed engine capacity expansion

(GW)	Now	After expansion
Marine	2.3	3.2
Power generation*	0.7	4.0
Total	3.0	7.2

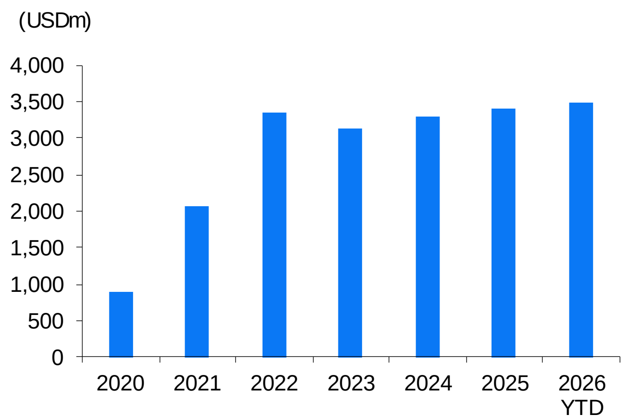
Note: Construction of a new 3 GW-scale factory
Source: Company data

HD HHI: Expansion plan

(KRWb)	4-stroke medium-speed engines	SMR main equipment
Period	Sep 2026-May 2028	Oct 2026-Apr 2029
Investment amount	833.6	238.6

Source: Company data

HD Hyundai Heavy Industries: Engine orders



Source: Company data, Samsung Securities estimates

Positive near and long term: The power business expansion will take time to translate into meaningful revenue. The expanded capacity is expected to begin contributing materially to sales and earnings in 2H28, while the SMR main-equipment facility is slated for completion in 2029. We therefore see little reason for a sharp increase in near-term earnings estimates, but the announcement provides clear near- and long-term upside. Longer term, the move represents meaningful strategic diversification. As the shipbuilding cycle eventually cools, power generation should provide a more stable earnings base. Near term, the news should support the share price. In Korea, power-sector companies trade at a significant premium to shipbuilders, while shipbuilder valuations remain deeply discounted relative to global engine manufacturers. We believe HD HHI's capacity expansion will validate and strengthen the case for a valuation premium over shipbuilders and engine manufacturers alike. HD HHI is one of only a handful of companies globally capable of producing proprietary land-based power-generation engines and the only domestic player with this capability.

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**14,486**	**17,581**	**24,166**	**28,468**	**29,937**
Cost of goods sold	12,993	14,616	19,255	22,133	22,653
Gross profit	**1,494**	**2,964**	**4,910**	**6,335**	**7,285**
Gross margin (%)	10.3	16.9	20.3	22.3	24.3
SG&A expenses	789	927	1,109	1,267	1,332
Operating profit	**705**	**2,038**	**3,802**	**5,068**	**5,953**
Operating margin (%)	4.9	11.6	15.7	17.8	19.9
Non-operating gains (losses)	**93**	**-237**	**145**	**103**	**72**
Financial profit	964	1,018	905	1,112	890
Financial costs	3,244	1,265	1,049	1,305	753
Equity-method gains (losses)	-0	-4	-4	-4	-4
Other	2,373	14	295	301	-60
Pre-tax profit	**798**	**1,801**	**3,947**	**5,171**	**6,025**
Taxes	177	385	1,026	1,344	1,566
Effective tax rate (%)	22.1	21.4	26.0	26.0	26.0
Profit from continuing operations	622	1,415	2,921	3,826	4,458
Profit from discontinued operations	0	0	0	0	0
Net profit	**622**	**1,415**	**2,921**	**3,826**	**4,458**
Net margin (%)	4.3	8.1	12.1	13.4	14.9
Net profit (controlling interests)	622	1,415	2,921	3,826	4,458
Net profit (non-controlling interests)	0	-0	0	0	0
EBITDA	1,011	2,371	4,224	5,511	6,412
EBITDA margin (%)	7.0	13.5	17.5	19.4	21.4
EPS (parent-based) (KRW)	7,001	13,486	27,829	36,456	42,476
EPS (consolidated) (KRW)	7,001	13,486	27,829	36,456	42,476
Adjusted EPS (KRW)*	7,001	13,486	27,829	36,456	42,476

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**10,403**	**14,980**	**19,514**	**24,089**	**29,455**
Cash & equivalents	1,258	1,870	3,169	4,888	9,489
Accounts receivable	1,393	1,431	1,986	2,340	2,461
Inventories	1,511	2,017	2,979	3,510	3,691
Other current assets	6,242	9,663	11,379	13,351	13,815
Fixed assets	**8,988**	**11,183**	**14,629**	**14,951**	**15,178**
Investment assets	1,070	1,214	1,210	1,206	1,202
Tangible assets	6,610	8,781	12,246	12,608	12,869
Intangible assets	128	161	146	112	82
Other long-term assets	1,180	1,027	1,027	1,026	1,026
Total assets	**19,391**	**26,163**	**34,143**	**39,040**	**44,634**
Current liabilities	**11,796**	**15,333**	**18,061**	**18,810**	**19,712**
Accounts payable	1,535	1,751	2,383	2,808	2,953
Short-term debt	28	4	700	500	500
Other current liabilities	10,233	13,577	14,977	15,502	16,259
Long-term liabilities	**1,890**	**1,489**	**4,956**	**6,853**	**8,975**
Bonds & long-term debt	752	488	348	248	148
Other long-term liabilities	1,139	1,000	4,608	6,604	8,826
Total liabilities	**13,686**	**16,821**	**23,017**	**25,662**	**28,686**
Owners of parent equity	**5,704**	**9,342**	**11,126**	**13,378**	**15,947**
Capital stock	444	525	525	525	525
Capital surplus	3,123	5,130	5,145	5,145	5,145
Retained earnings	1,288	2,394	4,161	6,413	8,982
Other	850	1,293	1,295	1,295	1,295
Non-controlling interests' equity	**0**	**0**	**0**	**0**	**0**
Total equity	**5,704**	**9,342**	**11,126**	**13,378**	**15,947**
Net debt	-238	-2,927	-3,758	-5,898	-10,499

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**2,884**	**3,510**	**2,442**	**2,804**	**5,406**
Net profit	622	1,415	2,921	3,826	4,458
Non-cash profit and expenses	149	937	636	763	912
Depreciation	293	315	400	423	444
Amortization	13	18	22	20	15
Other	-157	604	214	320	453
Changes in A/L from operating activities	2,114	1,158	-1,115	-1,786	36
Cash flow from investments	**-499**	**-2,040**	**-1,699**	**-785**	**-705**
Change in tangible assets	-452	-497	-1,699	-785	-705
Change in financial assets	-1,282	-1,081	-0	-0	-0
Other	1,235	-462	-0	-0	-0
Cash flow from financing	**-2,049**	**-860**	**556**	**-300**	**-100**
Change in debt	-532	-1,082	556	-300	-100
Change in equity	-1	2,088	0	0	0
Dividends	-186	-419	-613	-840	-1,050
Other	-1,330	-1,448	613	840	1,050
Change in cash	330	612	1,299	1,719	4,601
Cash at beginning of year	928	1,258	1,870	3,169	4,888
Cash at end of year	1,258	1,870	3,169	4,888	9,489
Gross cash flow	**770**	**2,353**	**3,557**	**4,589**	**5,370**
Free cash flow	**2,420**	**2,998**	**728**	**2,004**	**4,686**

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	21.1	21.4	37.5	17.8	5.2
Operating profit	294.8	188.9	86.6	33.3	17.5
Net profit	2,417.3	127.7	106.4	31.0	16.5
Adjusted EPS**	2,417.7	92.6	106.4	31.0	16.5
Per-share data (KRW)					
EPS (parent-based)	7,001	13,486	27,829	36,456	42,476
EPS (consolidated)	7,001	13,486	27,829	36,456	42,476
Adjusted EPS**	7,001	13,486	27,829	36,456	42,476
BVPS	64,259	89,001	106,002	127,457	151,933
DPS (common)	2,090	5,661	13,000	15,000	18,000
Valuations (x)					
P/E***	64.8	33.6	16.3	12.4	10.7
P/B***	7.1	5.1	4.3	3.6	3.0
EV/EBITDA	46.8	18.8	10.4	7.6	5.8
Ratios (%)					
ROE	11.4	18.8	28.5	31.2	30.4
ROA	3.4	6.2	9.7	10.5	10.7
ROIC	9.2	27.8	31.8	30.0	32.2
Payout ratio	29.9	42.0	46.7	41.1	42.4
Dividend yield (common)	0.5	1.2	2.9	3.3	4.0
Net debt to equity	-4.2	-31.3	-33.8	-44.1	-65.8
Interest coverage (x)	4.7	21.1	82.3	80.3	116.5

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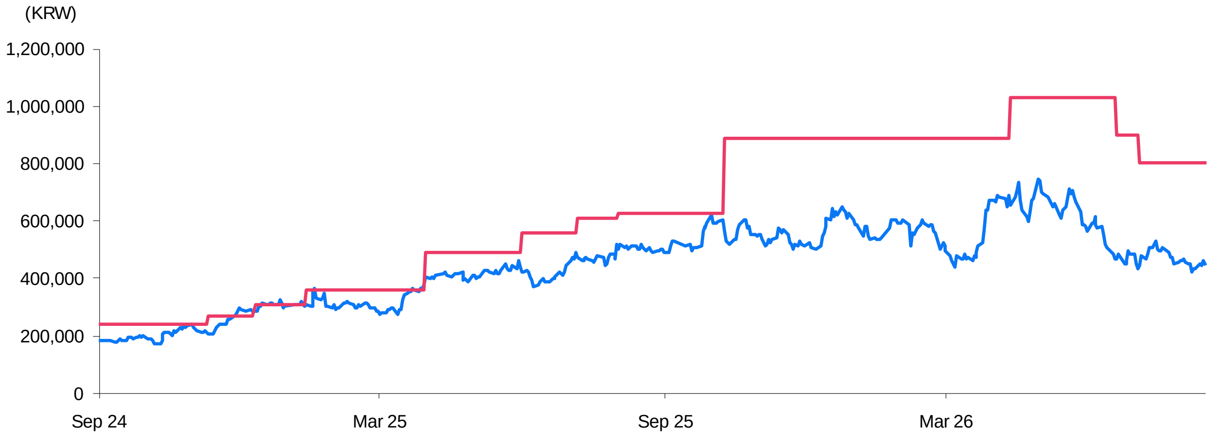
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

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	

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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