SECTOR UPDATE

2026. 9. 28

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Shipbuilding/Machinery Weekly

Are Chinese firms undercutting prices?

- The Newbuilding Price Index climbed 1pts w-w to 187 last week. Prices in the LPGC and bulk carrier segments rose, while prices in the LNGC and large-containership segments fell. The Secondhand Price Index also rose w-w.
- The ClarkSea Index, which represents vessel earnings, increased 3% w-w to USD66,421/day, continuing to set new all-time highs week after week.
- In this report, we examine concerns that Chinese shipbuilders' capacity expansions may intensify competition in the global shipbuilding market.

WHAT'S THE STORY?

Are Chinese shipbuilders really undercutting prices?

Investors in the shipbuilding sector remain most sensitive to the risk of intensifying competition from China. The core concern stems from Chinese shipbuilders' capacity expansions and their perceived impact on market share. Korean shipbuilders, meanwhile, have been enjoying stronger-than-expected order inflows this year. Their order backlogs continue to rise, supporting expectations for earnings growth. However, when viewed at the national level, Korea's share of global shipbuilding orders has plunged (14% over Jan-Aug 2026 vs 20% in 2025; based on GT data) due to China's growing capacity.

The market's underlying fear is that China's capacity expansions could trigger price competition, eroding profitability—such a development was also seen during the last industry downturn, which downturn was triggered by China's entry into the shipbuilding market and aggressive pricing. Yet, current conditions suggest that these concerns may be exaggerated. With sufficient global demand for new vessels, Chinese shipbuilders have limited incentives to engage in destructive price cuts. In fact, the vessel types with the strongest price increases ytd are oil tankers and bulk carriers. Tankers are a competitive space between Korea and China; bulk carriers are dominated by Chinese shipyards, yet prices have still risen. If Chinese shipyards were aggressively undercutting Korea's, these prices would not have increased.

(Continued on the next page)

▶ Performance

(%)	1W	3M	YTD
KSOE	-1.5	-4.0	-18.4
HD Hyundai Heavy	-4.1	-21.7	-14.2
Samsung Heavy	-2.6	-11.8	-16.3
Hanwha Ocean	-4.0	-20.2	-30.0
HD Hyundai Marine Solution	-2.8	11.4	23.8
HD Hyundai Electric	-2.3	-20.5	-9.1
HD Construction Equipment	-7.2	18.4	31.8
Doosan Bobcat	-2.2	-4.0	-0.2
KAI	-1.8	-7.7	11.5
LIG D&A	-7.0	-6.1	63.0
Hanwha Aerospace	-5.3	2.1	7.2
Hyosung Heavy	-0.7	-7.1	61.8
LS Electric	-2.8	0.2	120.7

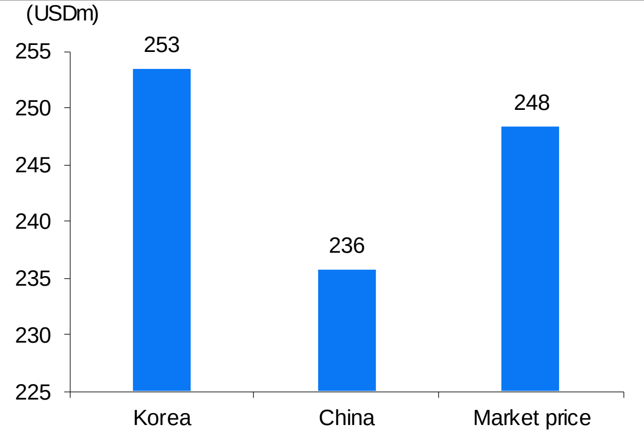
▶ Valuation summary

(x, %)	P/B	P/E	ROE
KSOE	1.5	6.7	24.9
HD Hyundai Heavy	4.2	15.8	28.6
Samsung Heavy	3.7	18.5	21.4
Hanwha Ocean	3.0	13.1	26.3
HD Hyundai Marine Solution	11.5	30.6	40.0
HD Hyundai Electric	9.5	26.3	41.1
HD CE	1.4	10.5	18.5
Doosan Bobcat	0.7	9.4	7.9
KAI	6.2	43.4	14.9
LIG D&A	8.8	40.0	24.1
Hanwha Aerospace	4.6	25.6	19.6
Hyosung Heavy	8.8	34.4	28.9
LS Electric	12.2	54.0	24.8

Note: 2026 estimates
Source: Samsung Securities estimates

LNGCs present a different dynamic. Chinese shipbuilders have indeed pursued orders at lower prices, and official contract rates have softened recently. However, China remains a relatively new entrant in this segment, and future demand growth is expected to center on North America (where geopolitical and regulatory factors may limit China's access). China has an incentive to gain market share in the segment, but even in the LNGC domain, Korean shipbuilders continue to command a premium. Korean contract prices have remained stable ytd, creating a two-tier pricing structure: Korean vessels trade at a premium, while Chinese bids set a lower floor. The recent decline in official LNGC newbuilding prices reflects a small number of Chinese bids, not a broad market shift. Given the concentrated nature of the LNGC market, even a few deals can move the average. With the export potential of US LNG rising amid ongoing geopolitical factors, Korean shipbuilders are likely to secure more orders as well as see upwards pressure on LNGC newbuilding prices.

Comparison of LNGC order price: Korea vs China



Note: Jan-Aug 2026 basis
Source: Clarksons

Shipbuilding price index, by vessel type

(Index)	Bulker	Gas carrier	Tanker	Container	Index overall
Current*	177.5	203.7	223.8	117.0	186.6
End-2025	168.3	198.1	213.2	114.9	184.7
Change (%)	5.5	2.8	5.0	1.8	1.0

Note: *As of September 25
Source: Clarksons

Industry news

First production KF-21 delivered: Korea Aerospace Industries has delivered the first production KF-21 Boramae to the South Korean Air Force. The Air Force plans to start using the KF-21 in actual operations in 2H27, and aims to sequentially acquire approximately 100 units by 2030.

SHI reaches wage agreement: Samsung Heavy Industries (SHI) is the first major shipbuilder to conclude its wage and collective bargaining agreement. According to media reports, the agreement includes a 5.2% wage increase (4.5% base pay raise and 0.7% regular promotion increment), a bonus of KRW7m, and an excess profit-sharing scheme equivalent to 10% of operating profit above target. Last year, the parties agreed to a 5.5% base pay increase, a bonus of KRW5.2m (including KRW0.5m in gift vouchers), and an excess profit-sharing scheme equivalent to 20% of economic value added (EVA).

HD HHI wins RoRo ship orders: HD Hyundai Heavy Industries (HD HHI) has secured orders for two RoRo vessels worth USD240m (combined). Including this contract, HD Group (including HD Korea Shipbuilding & Offshore Engineering) has secured a total of USD18.7b in shipbuilding and related orders ytd, exceeding last year's total.

Argentinian submarine program—German and French firms leading bids: France's Naval Group and Germany's ThyssenKrupp Marine Systems (TKMS) are viewed as leading contenders for Argentina's submarine procurement program. Argentina is pursuing a project to acquire three submarines for around USD2.3b and has included funding requests for this project in its 2027 budget proposal. HD HHI is also reportedly participating in the bidding, putting forward its HDS-1500 model.

Iraqi government's accounts receivable: The Korean media has reported that domestic construction and defense companies face at least KRW565b in accounts receivable from the Iraqi government (KRW378b for constructors and KRW187b for defense players). Defense-related accounts receivable stem from base constructions, military logistics support, and helicopter-related payments. Iraqi authorities are reportedly considering settling these arrears in crude instead of in cash.

EU imposes safeguard measures on imports of GOES: On Sep 25, the EU began imposing provisional safeguard measures on imports of grain-oriented electric steel (GOES) and products made from it, such as transformer laminations and cores—extending the scope beyond raw steel to include downstream manufactured goods. Korea has been allocated a provisional tariff-rate quota of 4,789.9 tonnes for GOES. However, specific tariff calculation criteria have not yet been disclosed.

Shipbuilding weekly indices

	This week	A week ago		Vs end-2025	
	Sep 25, 2026	Sep 18, 2026	Chg (%)	End-2025	Chg (%)
New building prices (USDm)					
Overall (indexed)	186.59	186.25	0.2	184.7	1.0
Bulkers (Capesize)	76.5	76.0	0.7	75.0	2.0
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)	224.5	226.0	-0.7	235.0	-4.5
Containerships (13,000 TEU)	151.0	150.0	0.7	145.5	3.8
LNG carriers (174,000m³)	246.5	247.0	-0.2	248.0	-0.6
Secondhand prices (USDm)*					
Overall	218.0	217.0	0.5	191.1	14.1
Bulkers (Capesize)	75.0	75.0	0.0	66.0	13.6
Tankers (VLCC)	180.0	169.0	6.5	120.0	50.0
Tankers (51,000 DWT PCs)	60.0	60.0	0.0	43.0	39.5
Daily charter rates (USD)**					
Bulkers (Capesize, eco)	39,400	41,000	-3.9	24,850	58.6
Bulkers (Capesize, non-eco)	35,900	37,500	-4.3	23,850	50.5
Tankers (VLCC, eco)	212,500	175,000	21.4	65,500	224.4
Tankers (VLCC, non-eco)	182,500	147,500	23.7	58,000	214.7
Freight rate index					
ClarkSea Index (USD/day)	66,421	64,596	2.8	29,856	122.5
BDI	3,426	3,370	1.7	1,877	82.5
WS (based on Saudi route)	1,105	1,105	0.0	58	1,821.7
CCFI	1,918	1,897	1.1	1,147	67.2
SCFI	3,687	3,688	-0.0	1,656	122.6
Energy prices***					
Natural gas (USD/mil BTU)	3.2	3.0	8.4	4.0	-18.9
Oil (USD/bbl)	99.1	100.3	-1.2	57.4	72.6
MGO-HSFO (USD/tonne)	622.5	708.3	-12.1	262.8	136.9
VLSFO-HSFO (USD/tonne)	163.0	168.8	-3.4	71.8	127.2

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*	-1.5	-8.1	-4.0	-18.4	1.5	6.7	24.9
HD Hyundai Heavy Industries*	-4.1	-5.3	-21.7	-14.2	4.2	15.8	28.6
Samsung Heavy Industries*	-2.6	-2.2	-11.8	-16.3	3.7	18.5	21.4
Hanwha Ocean*	-4.0	-8.4	-20.2	-30.0	3.0	13.1	26.3
HD Hyundai Marine Solution*	-2.8	8.4	11.4	23.8	11.5	30.6	40.0
Yangzijiang	0.4	7.2	48.3	49.1	2.8	9.8	31.2
CSSC Holdings	-3.5	11.7	14.0	14.5	1.8	14.1	13.2
CSSC Offshore	-0.5	10.7	16.6	0.6	n/a	n/a	n/a
ST Engineering	4.2	2.7	4.4	29.1	11.6	32.1	37.7
Seatrium	-0.9	-3.7	7.7	-2.8	1.0	13.1	7.7
Mitsubishi	0.5	-0.6	9.3	1.5	5.0	45.8	11.6
Kawasaki	0.1	-6.5	-15.1	16.0	2.6	21.6	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*	-2.3	-2.9	-20.5	-9.1	9.5	26.3	41.1
HD Construction Equipment*	-7.2	-6.5	18.4	31.8	1.4	10.5	18.5
Doosan Bobcat*	-2.2	-7.2	-4.0	-0.2	0.7	9.4	7.9
KAI*	-1.8	-3.0	-7.7	11.5	6.2	43.4	14.9
LIG D&A*	-7.0	-1.8	-6.1	63.0	8.8	40.0	24.1
Hanwha Aerospace*	-5.3	-6.2	2.1	7.2	4.6	25.6	19.6
Hyosung Heavy*	-0.7	4.1	-7.1	61.8	8.8	34.4	28.9
LS Electric*	-2.8	2.0	0.2	120.7	12.2	54.0	24.8
Lockheed Martin	-2.6	-8.1	2.4	7.4	11.1	17.0	81.4
Raytheon	-2.4	-10.7	0.8	3.3	3.7	26.1	14.4
Siemens	5.4	-3.4	4.0	16.4	3.3	24.8	13.4
Caterpillar	1.6	-0.0	-17.6	43.4	17.5	30.2	64.3
Komatsu	9.0	2.7	20.7	52.8	2.1	19.1	11.2
Kubota	1.2	-0.4	1.1	25.5	1.1	11.2	10.1

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

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