MIRAE ASSET
Building on principles

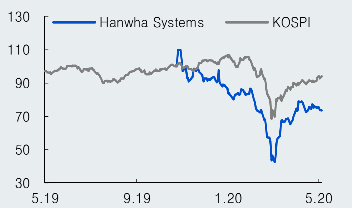
Defense

Initiation Report
May 27, 2020

(Initiate)	Buy
Target Price (12M, W)	**11,000**
Share Price (05/25/20, W)	8,170
Expected Return	35%

OP (20F, Wbn)	90
Consensus OP (20F, Wbn)	92
EPS Growth (20F, %)	-9.5
Market EPS Growth (20F, %)	26.7
P/E (20F, x)	12.8
Market P/E (20F, x)	13.5
KOSPI	1,994.60
Market Cap (Wbn)	901
Shares Outstanding (mn)	110
Free Float (%)	31.5
Foreign Ownership (%)	0.9
Beta (12M)	1.28
52-Week Low	4,730
52-Week High	12,200

(%)	1M	6M	12M
Absolute	-6.8	-25.7	0.0
Relative	-11.8	-20.9	0.0



Mirae Asset Daewoo Co., Ltd.

[Metals & Mining/Machinery]

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Hanwha Systems
(272210 KS)

Strong order inflow

A defense and ICT company

Hanwha Systems is mainly engaged in the defense and ICT businesses. The defense business boasts competitiveness in surveillance/reconnaissance systems and command/control weapon systems, while the ICT business is supported by stable captive demand. Originally founded in 1977 as Samsung Precision Industries, the company merged with Hanwha S&C in August 2018 to become the current Hanwha Systems. (Hanwha S&C was an ICT company that originated from Hanwha's IT team, established in 1992.) In 2019, defense accounted for 69% of revenue and 53% of operating profit, while ICT made up 31% of revenue and 47% of operating profit.

Defense: 10% CAGR on increased defense capabilities improvement spending

We forecast Hanwha Systems' defense business to grow at a CAGR of 10%, given that the government plans to increase defense spending (especially on improving defense capabilities) as part of the Moon Jae-in administration's "Defense Reform 2.0" program. Under the plan, defense capabilities improvement expenditures are set to grow at 10.3% CAGR over the next five years, higher than the 5.8% CAGR seen over the past decade. Hanwha Systems' defense orders are already increasing. As of end-1Q20, defense order backlog stood at W3.8tr, nearly three times the end-2018 figure of W1.3tr. In particular, the company has won a series of contracts on the back of its dominant market position in avionics, including the Identification Friend or Foe (IFF) project (W550bn), the third phase of the Tactical Information Communication Network (TICN) project (W470bn), and the long-range surface-to-air missile (L-SAM) multi-functional radar project (W230bn). This year, the company is expected to win a W670bn contract to develop the Korea Destroyer Next Generation (KDDX) combat system.

ICT: Steady earnings to continue on the back of group affiliates

We believe Hanwha Systems' ICT business, which generates around 80% of its revenue from group affiliates, stands to benefit from Hanwha Group's top-line expansion. The group plans to invest a total of W21tr over the next four years, including W9tr in solar PV/energy, W4tr in aerospace/defense, W4tr in petrochemicals, and W4tr in resorts/shopping malls. As the ICT business builds a successful track record in executing leading group projects, we expect non-captive projects to also increase.

Initiate coverage with Buy and TP of W11,000

We initiate our coverage on Hanwha Systems with a Buy rating and target price of W11,000. We derived our target price based on an SOTP methodology, applying a 20% discount to the sector average EV/EBIT multiples for defense and ICT. We reflected a discount to account for the stock's overhang risks (Helios S&C's 7.8% stake and H-Solution's 13.4% stake).

FY (Dec.)	12/17	12/18	12/19	12/20F	12/21F	12/22F
Revenue (Wbn)	859	1,129	1,546	1,662	1,784	1,918
OP (Wbn)	31	45	86	90	98	104
OP margin (%)	4.0	4.0	5.5	5.4	5.5	5.4
NP (Wbn)	14	41	73	70	75	80
EPS (W)	261	556	706	638	683	726
ROE (%)	4.4	5.0	8.1	7.1	7.4	7.5
P/E (x)	-	-	14.7	12.8	12.0	11.3
P/B (x)	-	-	1.2	0.9	0.9	0.8
Dividend yield (%)	-	-	3.0	3.8	3.8	3.8

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

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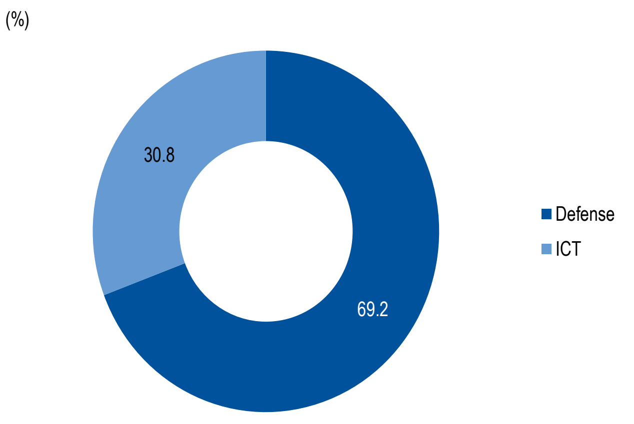
I. Company overview

Korea's only company engaged in both defense and ICT

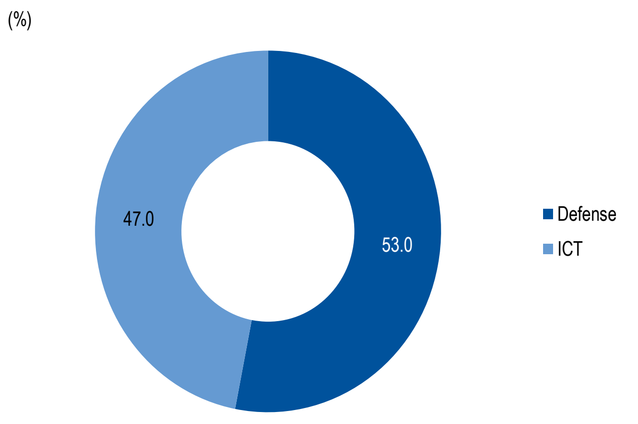
The current Hanwha Systems was born of the August 2018 merger between Hanwha Systems, a defense company, and Hanwha S&C, a system integration (SI) company. As such, the company now engages in defense and ICT businesses. In 2019, defense accounted for 69% of revenue and 53% of operating profit, while ICT made up 31% of revenue and 47% of operating profit.

Figure 1. Hanwha Systems: Revenue breakdown (2019)



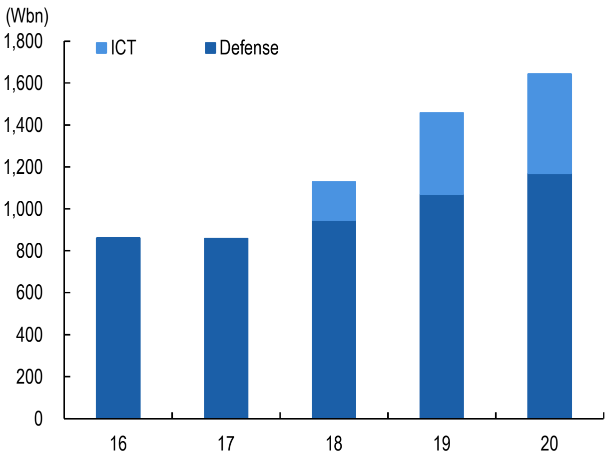
Source: Company data, Mirae Asset Daewoo Research

Figure 2. Hanwha Systems: OP breakdown (2019)



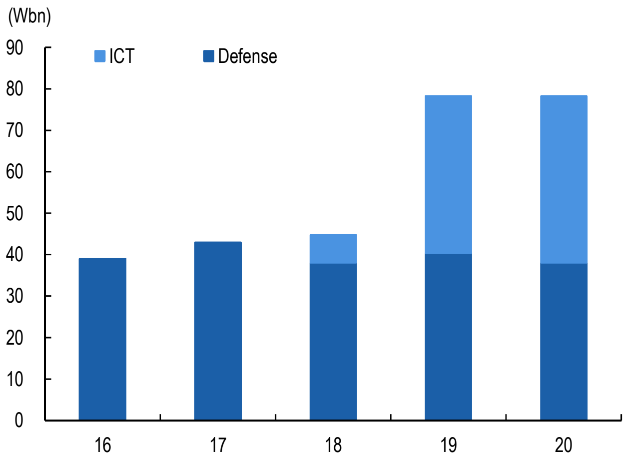
Source: Company data, Mirae Asset Daewoo Research

Figure 3. Hanwha Systems: Revenue by division



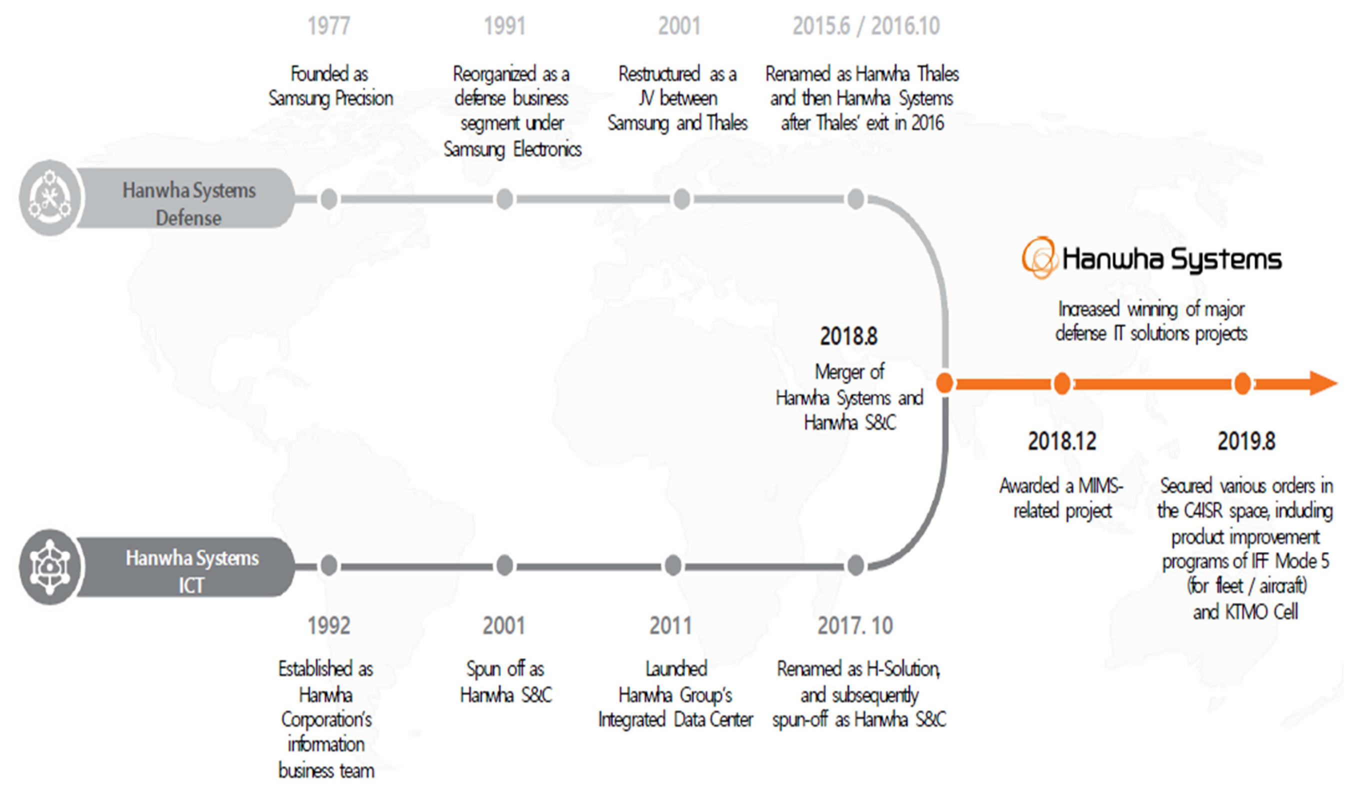
Source: Company data, Mirae Asset Daewoo Research

Figure 4. Hanwha Systems: OP by division



Source: Company data, Mirae Asset Daewoo Research

Figure 5. Hanwha Systems: Company history



Source: Company materials, Mirae Asset Daewoo Research

II. Investment points

Defense: 10% CAGR on increased defense capabilities enhancement spending

Hanwha Systems' defense business traces its roots back to Samsung Precision Industries, which was established in 1977 and renamed Samsung Aerospace in 1987. Samsung Aerospace's defense business was transferred to Samsung Electronics (SEC; 005930 KS/Buy/TP: W68,000/CP: W49,250) in 1991 and relaunched as Samsung Thomson-CSF in 2000 via a joint venture between SEC and France's Thomson-CSF. Renamed Samsung Thales in 2001, the company later became Hanwha Thales in 2015 following its inclusion into the Hanwha Group. The company changed its name to Hanwha Systems in 2016 following Thales's (HO FP/CP: US$67.52) stake disposal.

Weapon systems are generally divided into maneuver, fires, protection, intelligence, and command/control. Hanwha Systems' defense business boasts strengths in the areas of intelligence and command/control and enjoys a dominant position in the domestic market. Of note, up until 2008, the domestic defense industry operated under a policy of specialization/integration whereby specific defense contractors were designated in each segment. This served as an institutional entry barrier that provided defense companies a stable business foundation. Even after the specialization/integration scheme was abolished in late 2008, defense companies have been able to maintain strong positions in their respective segments and keep market entry barriers high. There are a number of reasons for this, including the government's commitment to domestically procure defense materials, the capital/technology-intensive nature of the industry, the business coordination program to prevent overlapping investments by defense companies, and the continuation of the defense materials/contractor designation program.

Figure 6. Hanwha Systems: Defense business competitiveness

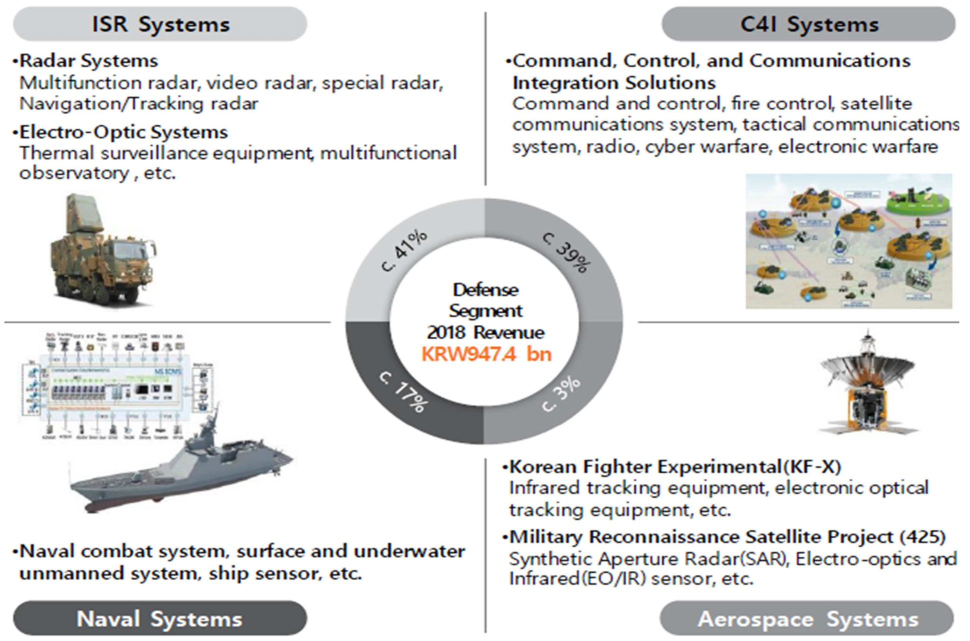
Business Area		Hanwha Systems' Market Position		
Category	Sub-Category	Dominant	Well-Positioned	Competitive
C4ISR	Tactical Communications System	✓		
	Command-Control System			✓
	Satellite Communications System		✓	
	Monitoring Equipment	✓	✓	✓
	Electronic Warfare		✓	
Ground	Shooting Control Equipment	✓		
	Air Defense Control Equipment	✓		
	Radar	✓		
	Electronic Optics	✓		
	Individual Combat System			✓
Avionics	Radar		✓	
	Electronic Optics	✓		
	Avionics System		✓	
	Micro Satellite		✓	
Sea	Fleet Battle System	✓		
	Electronic Optics	✓		
	Radar		✓	

Source: Company materials, Mirae Asset Daewoo Research

Hanwha Systems' defense business manufactures advanced electronic defense systems and materials and provides related maintenance services across: intelligence, surveillance, and reconnaissance (ISR); command, control, communications, computers, and intelligence (C4I); naval systems; and avionics/space. By category, 2018 defense revenue broke down as follows: 41% for ISR; 39% for C4I; 17% for naval systems; and 3% for avionics/space.

The ISR segment includes radar and electronic optics, while the C4I segment encompasses the TICN project, military satellite communications, the universal ground control station (UGCS), and electronic warfare. In avionics/space, Hanwha Systems has been developing state-of-the-art fixed-wing/rotary wing systems, unmanned systems, and satellite systems. In addition, as the primary supplier for the Korean Navy's naval combat management system, the company provides undersea surveillance systems and unmanned marine systems/sensors. The company also offers integrated logistics support (ILS) solutions and maintenance services to enable efficient and cost-effective management and operation.

Figure 7. Hanwha Systems: Defense business breakdown



Source: Company materials, Mirae Asset Daewoo Research

The domestic defense market hinges on the government's defense budget, which is divided into defense capabilities improvement and operating expenditures. Defense contractors mainly generate their revenue from defense capabilities improvement spending, which involves weapon system deployment. Meanwhile, operating expenditures include labor expenses, food, supplies, clothing, IT systems, and education/training exercises.

Under the government's current plan, defense spending is set to grow at 7.1% CAGR over the next five years, higher than the 4.9% CAGR seen over the past decade. In particular, the government plans to expand its defense capabilities improvement expenditures by 10.3% CAGR over the next five years. Against this backdrop, we think Hanwha Systems is well positioned to win orders from major defense projects such as the KM-SAM (medium-range surface-to-air missile system) upgrade, L-SAM system development, the Korea Theater Missile Operation Cell (KTMO Cell) upgrade, reconnaissance satellites, ISR and strategic strike systems, and response systems. Accordingly, we expect the defense business to expand further.

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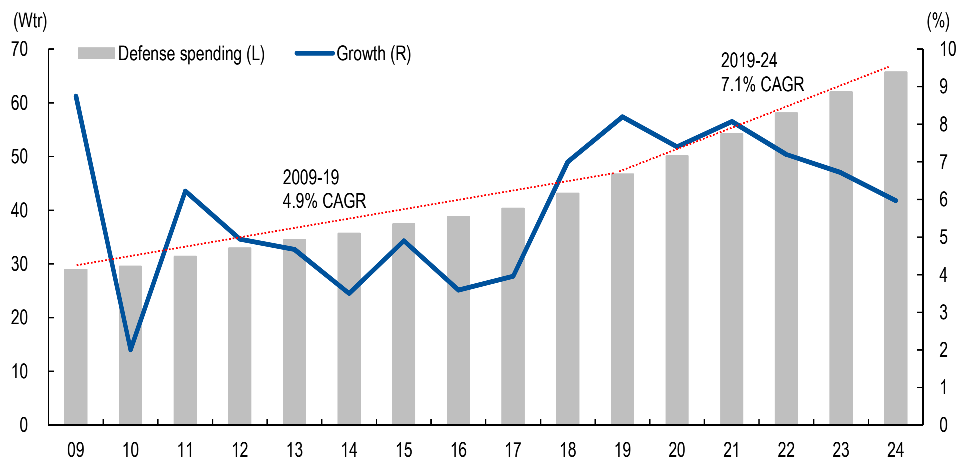
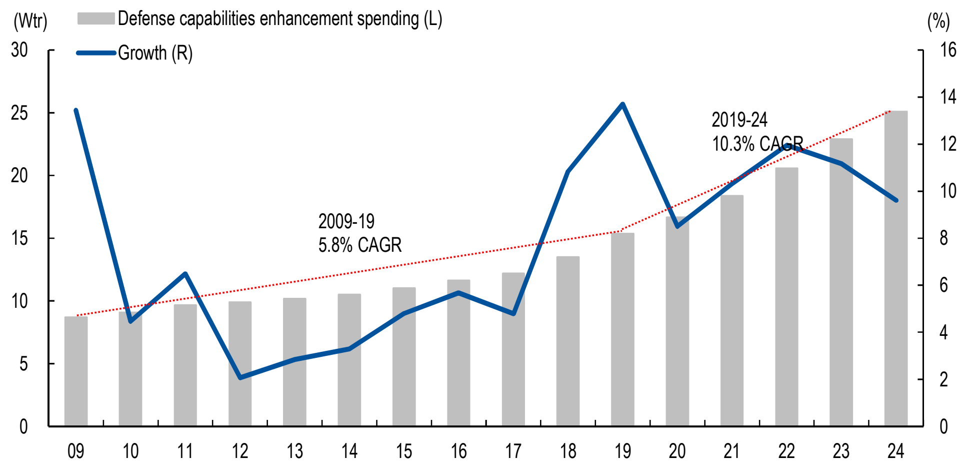
Figure 8. Korea's defense spending/budget



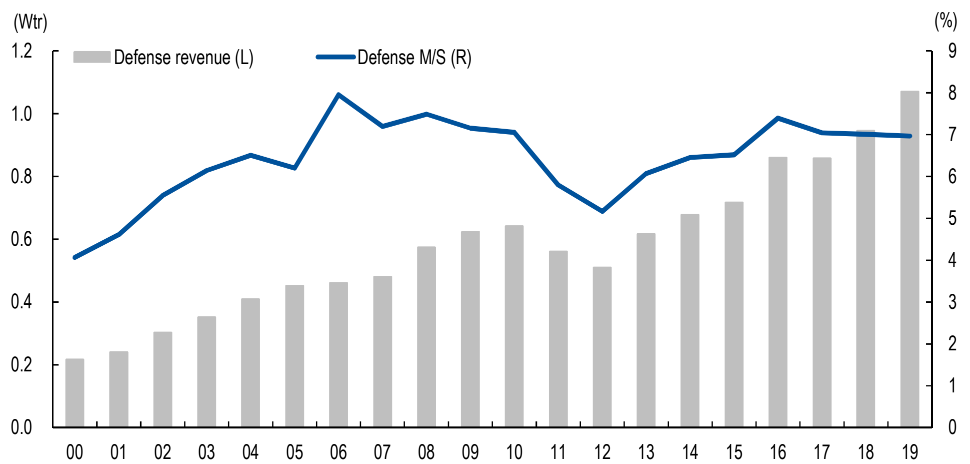
Source: Ministry of National Defense, Mirae Asset Daewoo Research

Figure 9. Korea's defense capabilities improvement spending



Source: Ministry of National Defense, Mirae Asset Daewoo Research

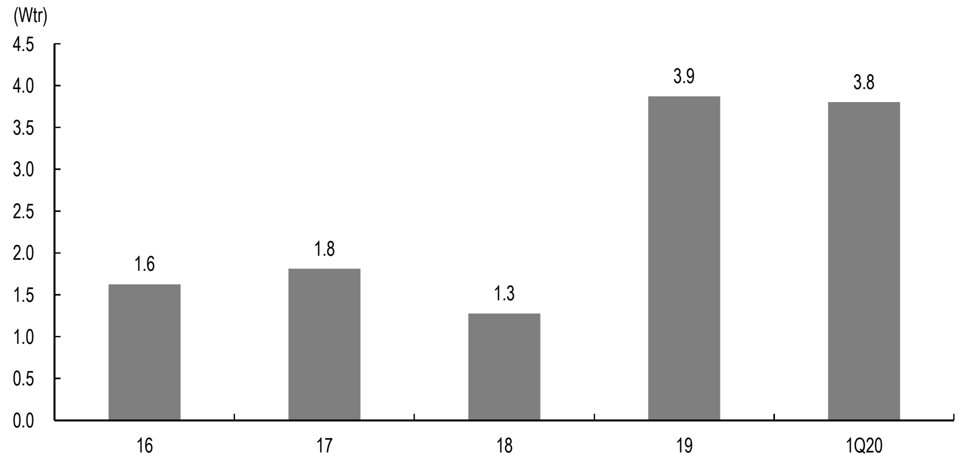
Figure 10. Hanwha Systems: Defense revenue and domestic M/S



Source: Ministry of National Defense, company data, Mirae Asset Daewoo Research

Hanwha Systems' defense orders are already increasing. As of end-1Q20, defense order backlog stood at W3.8tr, nearly three times the end-2018 figure of W1.3tr. Such strong growth has been driven by a string of recent contract wins on the back of the company's dominant market position in avionics; these include the IFF project (W550bn), the third phase of the TICN project (W470bn), and the L-SAM multi-functional radar project (W230bn). This year, the company is expected to win a W670bn contract to develop the KDDX combat system.

Figure 11. Hanwha Systems: Defense order backlog



Source: Company data, Mirae Asset Daewoo Research

Table 1. Hanwha Systems: Defense order intake disclosures (Wbn)

Project	Contract value	Client	Start	End
Aircraft IFF equipment	550	Defense Acquisition Program Administration	3/19	12/23
TICN phase 3	504	Defense Acquisition Program Administration	1/20	12/22
L-SAM multi-functional radar	222	Agency for Defense Development	1/20	10/24
Automatic terrain following (ATF) computer for KF-X	63	Korea Aerospace Industries	1/20	6/26
Next-generation high-speed boat combat system (PKX-B)	54	Hanjin Heavy I&C	12/19	12/22
KF-X AESA radar for terrain-following/terrain-avoidance (TF/TA) mode	52	Agency for Defense Development	12/19	5/26
Submarine combat management system	46	Daewoo Shipbuilding & Marine Engineering	12/19	11/26

Source: Company data, Mirae Asset Daewoo Research

ICT: Steady revenue growth on the back of captive demand

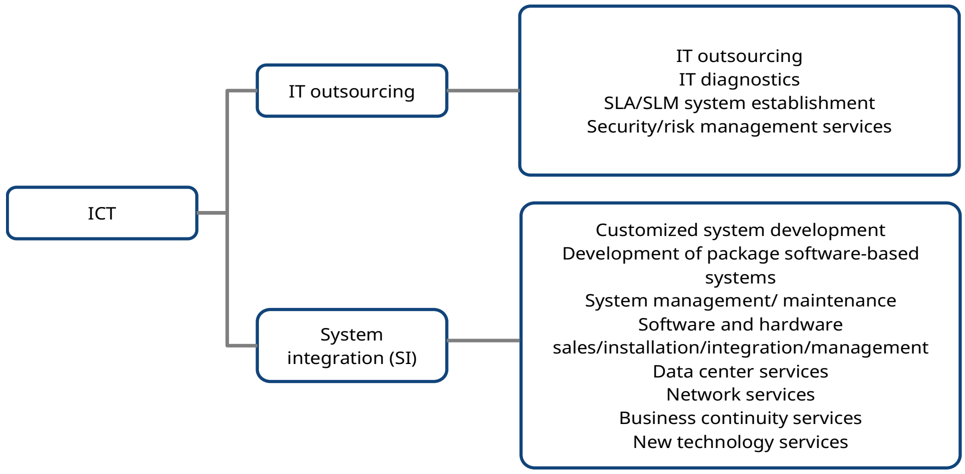
Hanwha Systems' ICT business traces its roots back to the IT team that Hanwha established in 1992, which was spun off as a separate entity, Hanwha S&C, in 2001. In 2017, Hanwha Group spun off the entity's ICT operation to establish the new Hanwha S&C, changing the name of the existing Hanwha S&C to H-Solution. In 2018, Hanwha S&C merged with Hanwha Systems, becoming the latter's in-house ICT division.

Through convergence with other industries, the ICT industry creates innovative services and technologies that drive up productivity and efficiency and generate added value for clients. The industry can largely be divided into IT outsourcing (ITO) and system integration (SI).

The ITO segment handles IT functions on behalf of customers (including managing and operating IT facilities/hardware), allowing them to focus on strategic businesses and save on IT investments. The SI segment provides customers with IT system planning, operating strategies, and customized system design/development services.

Generally speaking, the ITO segment generates a steady revenue stream and high margins, while the SI segment offers growth potential.

Figure 12. Hanwha Systems: ICT segments and services

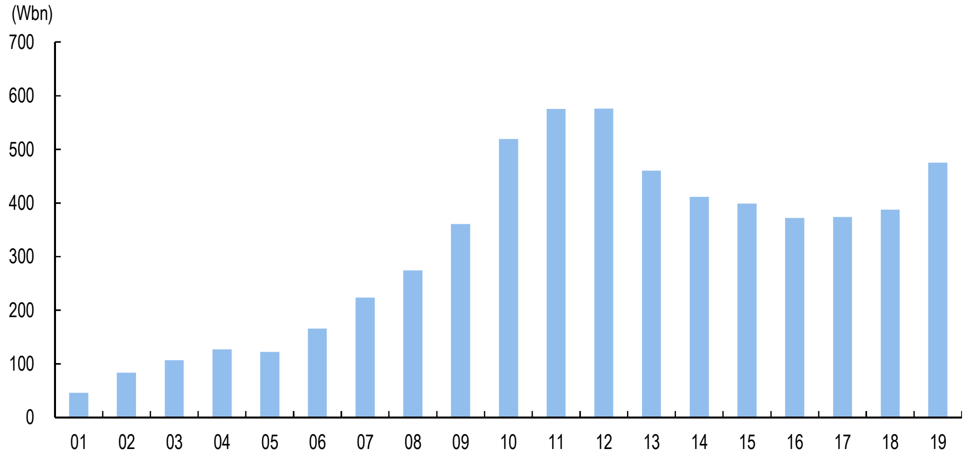


Source: Mirae Asset Daewoo Research

Korea's major IT service providers were established through spin-offs of large conglomerates' IT businesses. Usually serving as the exclusive IT service providers for their respective groups, these companies grow on the back of captive IT investment demand. Hanwha Systems' ICT division generates approximately 80% of its revenue from Hanwha Group companies.

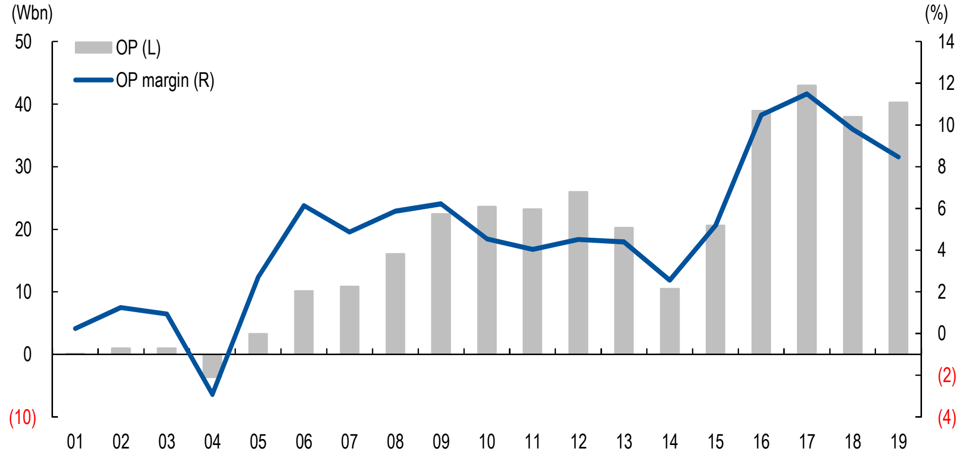
Notably, these IT companies' close ties with other group companies and lock-in effects give them a competitive advantage over external competitors in their captive markets. Building a mission-critical IT system requires in-depth knowledge of a customer's entire workflow and operational structure. These group-affiliated IT service providers are more knowledgeable than outside companies about internal processes, and their group ties can assuage concerns over data security. Moreover, the company responsible for initially setting up an IT system is better positioned to win contracts for maintenance and/or integration down the line (a further lock-in effect). For all of these reasons, we expect Hanwha Systems' ICT business to continue to serve as a steady cash cow.

Figure 13. Hanwha Systems: ICT revenue



Source: Company data, Mirae Asset Daewoo Research

Figure 14. Hanwha Systems: ICT OP and OP margin



Source: Company data, Mirae Asset Daewoo Research

III. Earnings forecasts

Stable earnings growth in 2020, despite the impact of COVID-19

Despite the impact of COVID-19, we expect Hanwha Systems to display steady earnings growth in 2020 due to the nature of the defense and ICT businesses.

For the full year, we forecast defense revenue to increase 9.2% YoY, supported by the IFF Mode-5 upgrade project, the third phase (mass production) of the TICN project, and the production test for the L-SAM multi-functional radar project. We forecast ICT revenue to rise 3.8% YoY, aided by the second phase of the Insurance Core System project for Hanwha Life (088350 KS/Trading Buy/TP: W7,900/CP: W1,640).

Table 2. Hanwha Systems: Quarterly and annual earnings (Wbn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F	3Q20F	4Q20F	2019	2020F	2021F
Revenue	261	394	426	465	282	423	457	499	1,546	1,662	1,784
Defense	160	280	300	330	168	308	330	363	1,071	1,169	1,286
ICT	101	114	126	135	115	115	128	136	476	494	498
Operating profit	12	23	27	24	11	21	26	32	86	90	98
Defense	1	8	13	24	4	9	13	25	46	52	58
ICT	11	16	14	(0)	7	12	13	7	40	38	40
OP margin	4.5	6.0	6.2	5.2	3.9	4.9	5.7	6.5	5.5	5.4	5.5
Defense	0.3	2.9	4.3	7.3	2.4	3.0	4.0	7.0	4.3	4.4	4.5
ICT	11.1	13.6	10.8	(0.1)	6.0	10.0	10.0	5.0	8.5	7.7	8.0

Source: Mirae Asset Daewoo Research estimates

IV. Key issues to watch

Overhang

As of end-1Q20, Hanwha Aerospace (012450 KS/TP: W33,000/CP: W23,500) is Hanwha Systems' largest shareholder with a 48.99% stake (54mn shares), followed by H-Solution (13.41% stake, 14.8mn shares) and Helios S&C (7.78%, 8.6mn shares). We believe the stakes held by H-Solution and Helios S&C pose overhang risks.

Shares held by H-Solution, which is wholly owned by Hanwha Group Chairman Kim Seung-yeon's three sons, do not create an immediate overhang burden, as they are subject to an 18-month lock-up period. Nevertheless, we see potential overhang risks, as H-Solution is likely to divest its stake in Hanwha Systems after the lock-up period expires to facilitate Hanwha Group's management succession plan.

As for Helios S&C, a special purpose company created by STIC Investments, the IPO lock-up period was set at three months, which means it can now sell its stake at any time. Of note, Helios S&C has already recouped most of its investments (W343bn) in Hanwha Systems through the disposal of existing Hanwha Systems shares (W302.6bn) and dividend income (W28bn).

Related-party transaction regulations

According to a May 19th news report, the Korea Fair Trade Commission launched a regulatory review into Hanwha Group's alleged funneling of business to related parties. Under review are related-party transactions that Hanwha S&C conducted between 2015 and 2017, prior to the spin-off. Although the ICT division (formerly Hanwha S&C's ICT unit) is not the direct subject of the regulatory scrutiny, there is a possibility that Hanwha Systems may face a fine, depending on the legal decision.

V. Valuation

SOTP-based TP of W11,000

We derived our target price based on an SOTP methodology, applying a 20% discount to the sector average EV/EBIT multiples for defense and ICT. We reflected a discount to account for the stock's overhang risks (Helios S&C's 7.8% stake and H-Solution's 13.4% stake). Our target price of W11,000 is based on the sum of the operating values of the defense (W538bn) and ICT (W378bn) businesses and our net cash estimate of W300bn.

Table 3. Hanwha Systems: TP calculation (Wbn, x, mn, W)

Valuation: SOTP	Value	Notes
EV	916	
EBIT	55	2020-21F avg.
Target EV/EBIT	9.8	20% discount to sector avg.
Defense EV	538	
EBIT	39	2020-21F avg.
Target EV/EBIT	9.7	20% discount to sector avg.
ICT EV	378	
Net cash	300	
Target market cap	1,216	
No. of shares	109	
TP	11,000	

Source: Mirae Asset Daewoo Research estimates

Table 4. Peer valuation table (x, %)

	P/E			P/B			EV/EBIT			OP margin			ROE		
	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
Hanwha Systems	14.7	12.3	10.3	1.2	0.9	0.9	8.2	4.6	3.7	5.5	5.5	5.8	8.0	7.3	8.3
Domestic defense															
LIG Nex1	217.9	17.0	11.9	1.1	1.1	1.0	50.7	13.7	13.5	1.7	4.8	4.3	0.5	6.2	8.4
KAI	19.5	13.5	13.8	2.9	1.8	1.7	26.3	12.0	11.2	4.7	7.5	7.5	14.9	13.5	12.0
Hanwha Aerospace	13.7	11.4	8.9	0.7	0.5	0.4	51.8	10.5	8.1	1.1	3.5	4.0	5.3	4.0	4.9
Poongsan	37.8	14.5	9.9	0.5	0.4	0.4	13.1	18.8	13.7	4.4	2.8	3.7	1.3	2.8	4.0
Avg.	72.2	14.1	11.1	1.3	0.9	0.9	35.5	13.8	11.6	3.0	4.7	4.9	5.5	6.6	7.3
Global defense															
Lockheed Martin	17.7	15.3	13.9	34.9	16.6	11.4	16.5	13.1	12.0	12.3	13.6	13.9	196.5	108.4	81.4
Raytheon	10.7	18.9	15.0	1.8	1.9	1.3	19.1	17.3	13.5	11.2	10.4	12.2	17.1	9.9	8.6
Northrop Grumman	16.2	14.7	12.9	6.5	4.9	4.1	18.4	15.8	14.2	11.2	11.4	11.8	40.4	33.3	32.1
BAE Systems	12.4	11.0	9.8	3.3	2.6	2.4	11.0	8.9	7.9	9.2	10.3	10.6	27.0	23.6	24.1
General Dynamics	14.7	12.3	11.3	3.8	2.7	2.5	14.0	11.3	10.4	11.3	11.3	11.6	25.6	21.6	21.8
Thales	14.0	13.6	10.2	3.6	2.4	2.1	13.7	11.8	8.6	9.2	8.4	10.3	25.8	17.3	20.7
Avg.	14.4	14.4	12.6	10.1	5.7	4.3	15.4	13.0	11.1	11.0	11.4	12.0	61.3	39.4	33.6
Domestic ICT															
Samsung SDS	20.4	25.1	19.0	2.3	2.1	1.9	13.3	12.0	9.8	8.2	8.3	8.8	11.3	8.3	10.1
POSCO ICT	20.5	13.7	12.0	2.2	1.8	1.6	16.6	8.3	6.4	4.3	6.4	6.7	10.7	13.0	13.1
Douzone Bizon	48.1	56.9	44.3	6.5	8.5	7.4	48.7	38.9	30.4	20.6	26.9	28.8	13.6	15.0	16.7
Lotte Data Communication	11.1	14.3	11.2	1.6	1.4	1.3	9.7	5.9	3.6	4.6	5.0	5.5	14.4	9.7	11.3
Hyundai Autoever	18.9	14.7	12.6	2.1	1.7	1.5	11.2	7.5	6.1	4.5	5.1	5.3	11.0	11.3	11.9
Avg.	24.6	24.9	20.0	3.1	3.3	2.9	21.6	15.2	11.6	8.5	10.9	11.6	12.4	12.2	13.2

Source: Bloomberg, Mirae Asset Daewoo Research

Hanwha Systems (272210 KS/Buy/TP: W11,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/19	12/20F	12/21F	12/22F
Revenue	**1,546**	**1,662**	**1,784**	**1,918**
Cost of Sales	**1,311**	**1,359**	**1,458**	**1,568**
Gross Profit	**235**	**303**	**326**	**350**
SG&A Expenses	**150**	**213**	**229**	**246**
Operating Profit (Adj)	**86**	**90**	**98**	**104**
Operating Profit	**86**	**90**	**98**	**104**
Non-Operating Profit	**-4**	**2**	**1**	**1**
Net Financial Income	1	1	1	1
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	82	92	99	105
Income Tax	9	21	24	25
Profit from Continuing Operations	73	70	75	80
Profit from Discontinued Operations	0	0	0	0
Net Profit	73	70	75	80
Controlling Interests	73	70	75	80
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	**65**	**70**	**75**	**80**
Controlling Interests	65	70	75	80
Non-Controlling Interests	0	0	0	0
EBITDA	174	170	178	184
FCF (Free Cash Flow)	366	56	117	93
EBITDA Margin (%)	11.3	10.2	10.0	9.6
Operating Profit Margin (%)	5.5	5.4	5.5	5.4
Net Profit Margin (%)	4.7	4.2	4.2	4.2

Statement of Financial Condition (Summarized)

(Wbn)	12/19	12/20F	12/21F	12/22F
Current Assets	**1,525**	**1,559**	**1,612**	**1,671**
Cash and Cash Equivalents	564	545	590	610
AR & Other Receivables	174	174	187	201
Inventories	281	335	331	355
Other Current Assets	506	505	504	505
Non-Current Assets	**885**	**885**	**885**	**885**
Investments in Associates	0	0	0	0
Property, Plant and Equipment	217	217	217	217
Intangible Assets	532	532	532	532
Total Assets	**2,409**	**2,444**	**2,497**	**2,556**
Current Liabilities	**1,170**	**1,170**	**1,182**	**1,195**
AP & Other Payables	164	164	176	189
Short-Term Financial Liabilities	91	91	91	91
Other Current Liabilities	915	915	915	915
Non-Current Liabilities	**271**	**271**	**271**	**271**
Long-Term Financial Liabilities	87	87	87	87
Other Non-Current Liabilities	184	184	184	184
Total Liabilities	**1,441**	**1,441**	**1,453**	**1,466**
Controlling Interests	**968**	**1,003**	**1,044**	**1,090**
Capital Stock	551	551	551	551
Capital Surplus	327	327	327	327
Retained Earnings	92	128	169	215
Non-Controlling Interests	**0**	**0**	**0**	**0**
Stockholders' Equity	**968**	**1,003**	**1,044**	**1,090**

Cash Flows (Summarized)

(Wbn)	12/19	12/20F	12/21F	12/22F
Cash Flows from Op Activities	409	96	157	133
Net Profit	73	70	75	80
Non-Cash Income and Expense	127	100	102	104
Depreciation	61	40	40	40
Amortization	28	40	40	40
Others	38	20	22	24
Chg in Working Capital	205	-53	3	-26
Chg in AR & Other Receivables	33	0	-12	-14
Chg in Inventories	95	-53	4	-25
Chg in AP & Other Payables	28	0	9	10
Income Tax Paid	**-6**	**-21**	**-24**	**-25**
Cash Flows from Inv Activities	-133	-74	-74	-74
Chg in PP&E	-42	-40	-40	-40
Chg in Intangible Assets	-47	-40	-40	-40
Chg in Financial Assets	-41	0	0	0
Others	**-3**	**6**	**6**	**6**
Cash Flows from Fin Activities	85	-39	-39	-39
Chg in Financial Liabilities	56	0	0	0
Chg in Equity	99	0	0	0
Dividends Paid	-16	-34	-34	-34
Others	**-54**	**-5**	**-5**	**-5**
Increase (Decrease) in Cash	360	545	45	20
Beginning Balance	204	0	545	590
Ending Balance	**564**	**545**	**590**	**610**

Source: Company data, Mirae Asset Daewoo Research estimates

Forecasts/Valuations (Summarized)

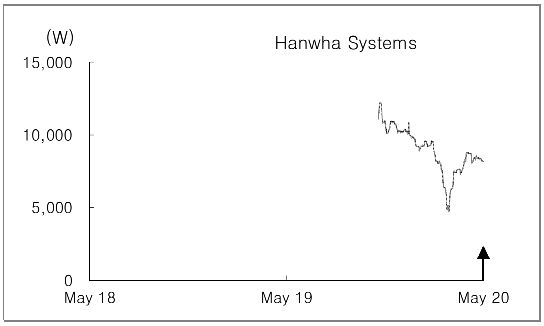
	12/19	12/20F	12/21F	12/22F
P/E (x)	14.7	12.8	12.0	11.3
P/CF (x)	5.4	5.3	5.1	4.9
P/B (x)	1.2	0.9	0.9	0.8
EV/EBITDA (x)	4.0	2.8	2.5	2.3
EPS (W)	706	638	683	726
CFPS (W)	1,930	1,545	1,612	1,669
BPS (W)	8,786	9,100	9,473	9,889
DPS (W)	310	310	310	310
Payout ratio (%)	46.9	48.5	45.3	42.7
Dividend Yield (%)	3.0	3.8	3.8	3.8
Revenue Growth (%)	36.9	7.5	7.3	7.5
EBITDA Growth (%)	85.1	-2.3	4.7	3.4
Operating Profit Growth (%)	91.1	4.7	8.9	6.1
EPS Growth (%)	27.0	-9.6	7.1	6.3
Accounts Receivable Turnover (x)	8.3	9.8	10.1	10.1
Inventory Turnover (x)	4.7	5.4	5.4	5.6
Accounts Payable Turnover (x)	11.9	11.2	11.5	11.6
ROA (%)	3.4	2.9	3.0	3.2
ROE (%)	8.1	7.1	7.4	7.5
ROIC (%)	10.7	10.5	10.9	11.4
Liability to Equity Ratio (%)	148.8	143.6	139.1	134.5
Current Ratio (%)	130.3	133.2	136.4	139.8
Net Debt to Equity Ratio (%)	-45.2	-41.8	-44.4	-44.4
Interest Coverage Ratio (x)	17.3	18.1	19.7	21.0

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Hanwha Systems (272210)	05/26/2020	Buy	11,000



Stock Ratings	
Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings	
Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (─), Target price (▬), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))
* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.
* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.
* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.
* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	82.04%	12.57%	5.39%	0.00%
Investment Banking Services	80.77%	11.54%	7.69%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2020)

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