

Mirae Asset Securities Co., Ltd.

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012450 KS · Aerospace/Defense

Hanwha Aerospace

Defense market likely to grow full swing in 2024

(Maintain)

Buy

Target price
W210,000 ▲

Upside
36.3%

Current price (2/23/24)
W154,100

KOSPI	2,667.70	Market cap (Wbn)	7,802	Shares outstanding (mn)	51	Foreign ownership (%)	32.7
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Report summary

4Q23 review: OP beats consensus by 19.4%

Hanwha Aerospace announced better-than-expected 4Q23 results, with revenue of W3.4tr (+32.6% YoY; 22.9% above consensus) and operating profit of W289.5bn (+75.3% YoY; 19.4% above consensus). Overall top-line growth was driven by robust land systems revenue.

1Q24 preview: Full-scale deliveries to Poland

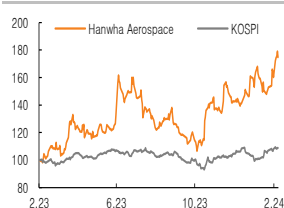
For 1Q24, we look for revenue of W2.13tr (+4.5% YoY) and operating profit of W194.9bn (-11.2% YoY; OP margin of 9.1%). Operating profit is likely to decline YoY mainly due to a tough comparison stemming from large-scale K9 (self-propelled howitzer) deliveries to Poland in 1Q23 (24 units). That said, OP margin should remain strong, as earnings will likely reflect Poland-bound deliveries of 15 K9 units and 10 Chunmoo (rocket artillery system) units (including one unit deferred from 4Q23).

Raise TP to W210,000 and maintain Buy

We raise our target price for Hanwha Aerospace to W210,000 (from W150,000) and maintain our Buy rating on the stock. We derived our target price by applying a P/B of 2.6x to our 2024F BPS of W81,259. The company continues to field a large number of export inquiries from both new and existing customers. The defense market boom has just begun.

Key data

Price performance



(%)	1M	6M	12M
Absolute	7.3	37.2	73.1
Relative	-0.3	28.9	58.3

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	6,415	7,060	9,370	11,130	13,572
OP (Wbn)	277	404	705	1,002	1,206
OP margin (%)	4.3	5.7	7.5	9.0	8.9
NP (Wbn)	253	201	806	541	649
EPS (W)	4,989	3,967	15,915	10,694	12,823
ROE (%)	9.2	7.0	24.8	14.0	14.7
P/E (x)	9.6	18.6	7.8	14.4	12.0
P/B (x)	0.8	1.3	1.7	1.9	1.7
Dividend yield (%)	1.5	1.4	0.8	0.6	0.6

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Securities Research estimates

4Q23 review: OP beats consensus by 19.4%

Hanwha Aerospace announced better-than-expected 4Q23 results, with revenue of W3.4tr (+32.6% YoY; 22.9% above consensus) and operating profit of W289.5bn (+75.3% YoY; 19.4% above consensus). Once again, robust land systems revenue drove overall top-line growth.

The land systems division posted revenue of W1.9tr (+72% YoY) and operating profit of W320bn (+75% YoY; OP margin of 7.0%), supported by strong domestic sales and exports. Domestic revenue surged 57.9% YoY to W1.2tr, driven by chemical reconnaissance vehicles, 120mm self-propelled howitzers, anti-aircraft gun wheeled vehicle systems (AAGW), etc. In addition, exports soared 103% YoY to W715.7bn, backed by deliveries of 18 K9 units and 17 Chunmoo units to Poland. Meanwhile, the division's order backlog grew 43% YoY to W28.3tr, with exports accounting for 71%; as such, there are high expectations for both top- and bottom-line growth going forward.

Meanwhile, the aerospace division remained weak, with revenue of W428.4bn (+14% YoY) and an operating loss of W25.9bn (remaining in the red). While top-line growth is continuing amid a recovery in the aviation industry, losses widened due to: 1) increased GTF engine sales; 2) the absence of provisioning write-backs; and 3) year-end incentive payments. Of note, we expect the risk and revenue sharing partnership project with Pratt & Whitney to turn around in 2030.

Table 1. 4Q23 review

(Wbn, %, %p)

	4Q22	3Q23	4Q23P			Mirae Asset		Consensus	
			Actual	QoQ	YoY	Est.	Diff.	Est.	Diff.
Revenue	2,595	1,981	3,442	73.7	32.6	3,024	13.8	2,800	22.9
OP	165	104	290	177.5	75.3	265	9.2	242	19.4
NP	14	-4	163	-4579.0	1045.1	135	20.5	133	22.4
OP margin (%)	6.4	5.3	8.4	3.1	2.0	8.8	-0.4	8.7	-0.2
Net margin (%)	0.5	(0.2)	4.7	4.9	4.2	4.5	0.3	4.7	0.0
Revenue breakdown									
Aerospace	376	390	428	9.8	14.1				
Land systems	1121	763	1,930	153.0	72.1				
Hanwha Vision	250	246	250	1.6	0.1				
Hanwha Systems	789	621	783	26.2	-0.6				
Satrec Initiative	29	25	38	51.2	28.6				
Precision machinery	77	110	85	-22.8	9.9				

Source: Company data, QuantiWise, Mirae Asset Securities Research

Table 2. Earnings forecast revisions

(Wbn)

	Previous		Revised		% chg.		Notes
	24F	25F	24F	24F	25F	24F	
Revenue	10,337	11,270	11,130	13,572	7.7	20.4	1) Raised land systems earnings estimate 2) Raised Hanwha Systems earnings estimate
OP	856	975	1,002	1,206	17.0	23.7	
Pretax profit	788	919	885	1,061	12.3	15.4	
NP	431	510	541	649	25.6	27.3	
EPS (W)	8,518	10,079	10,694	12,823	25.5	27.2	

Source: Mirae Asset Securities Research

1Q24 preview: Full-scale deliveries to Poland

For 1Q24, we look for revenue of W2.13tr (+4.5% YoY) and operating profit of W194.9bn (-11.2% YoY; OP margin of 9.1%). Operating profit is likely to decline YoY mainly due to a tough comparison stemming from large-scale K9 deliveries to Poland in 1Q23 (24 units). That said, OP margin should remain strong, as earnings will likely reflect Poland-bound deliveries of 15 K9 units and 10 Chunmoo units.

For 2024, Hanwha Aerospace guided 20% growth in land systems revenue and is targeting 60 K9 and 30 Chunmoo deliveries to Poland. The firm is expected to win additional orders from Romania (K9; expected in 1H24), Latvia (K21 infantry-fighting vehicle), and Poland (Chunmoo/K9) this year. For the full year, we forecast revenue at W11.13tr (+18.8% YoY) and operating profit at W1tr (+42.8% YoY; OP margin of 9%). We believe the defense business will continue to drive top-line growth going forward.

Table 3. Quarterly and annual earnings

(Wbn)

		1Q23	2Q23	3Q23	4Q23P	1Q24F	2Q23F	3Q23F	4Q23F	2022	2023P	2024F	2025F
Order backlog	Total	51,764	52,140	53,107	64,255	64,301	64,226	65,190	72,131	50,880	64,255	72,131	73,906
	Aerospace	26,478	26,879	26,942	28,334	28,864	29,004	29,101	29,708	24,860	28,334	29,708	30,888
	Land systems	19,097	19,234	20,148	28,310	27,620	27,325	27,918	32,303	19,777	28,310	32,303	31,193
	Hanwha Systems	5,940	5,807	5,807	7,257	7,290	7,170	7,168	8,784	5,987	7,257	8,784	9,449
	Satrec Initiative	250	220	210	354	526	726	1,002	1,336	256	354	1,336	2,377
Revenue	Total	2,038	1,908	1,981	3,442	2,130	2,518	2,599	3,883	7,060	9,366	11,130	13,572
	Aerospace	390	402	390	428	431	442	408	446	1,369	1,610	1,727	1,845
	Land systems	842	600	763	1,930	853	1,046	1,134	2,114	2,048	4,134	5,032	6,927
	Hanwha Vision	274	284	246	250	255	260	265	271	1,002	1,054	1,051	1,110
	Hanwha Systems	439	611	621	783	497	652	682	960	2,187	2,454	2,791	3,243
	Satrec Initiative	24	39	25	38	28	46	30	45	91	125	149	183
	Precision machinery	111	110	110	85	100	99	100	79	522	416	377	361
Growth (%)	Total	52.8	17.8	31.1	32.6	4.5	32.0	31.1	12.8	15.1	32.7	18.8	21.9
	Aerospace	30.9	9.6	18.7	14.1	10.4	9.9	4.6	4.2	-5.6	17.6	7.2	6.8
	Land systems	247.2	80.4	117.0	72.1	1.4	74.4	48.7	9.5	39.5	101.8	21.7	37.7
	Hanwha Vision	25.9	11.0	-11.8	0.1	-6.8	-8.4	7.9	8.2	47.5	5.1	-0.2	5.6
	Hanwha Systems	2.3	19.7	35.2	-0.6	13.2	6.8	9.8	22.6	12.2	13.7	16.2	-4.4
	Satrec Initiative	32.3	86.8	7.5	28.6	18.0	19.3	18.5	18.1	37.3	18.6	23.4	1.0
	Precision machinery	-33.7	-32.8	-3.0	-8.7	-10.2	-9.9	-9.2	-7.7	-20.2	-9.3	-4.4	-1.0
OP		220	81	115	290	195	204	229	374	400	702	1,002	1,206
YoY (%)		221.8	-24.5	80.9	79.6	-11.2	151.6	99.5	29.2	9.7	75.3	42.8	20.4
OP margin (%)		10.8	4.3	5.8	8.4	9.1	8.1	8.8	9.6	5.7	7.5	9.0	8.9
NP		409	263	-15	149	98	108	120	215	201	806	541	649
YoY (%)		967.7	847.7	TTR	223.4	-75.9	-58.8	TTB	44.1	-20.5	301.2	-32.8	19.9
Net margin (%)		20.1	13.8	-0.8	4.3	4.6	4.3	4.6	5.5	2.8	8.6	4.9	4.8

Source: Company data, Mirae Asset Securities Research

Raise TP to W210,000 and maintain Buy

We raise our target price for Hanwha Aerospace to W210,000 (from W150,000) and maintain our Buy rating on the stock. We derived our target price by applying a P/B of 2.6x to our 2024F BPS of W81,259. Our target multiple represents a 20% discount to the average 2024F P/B of global peers.

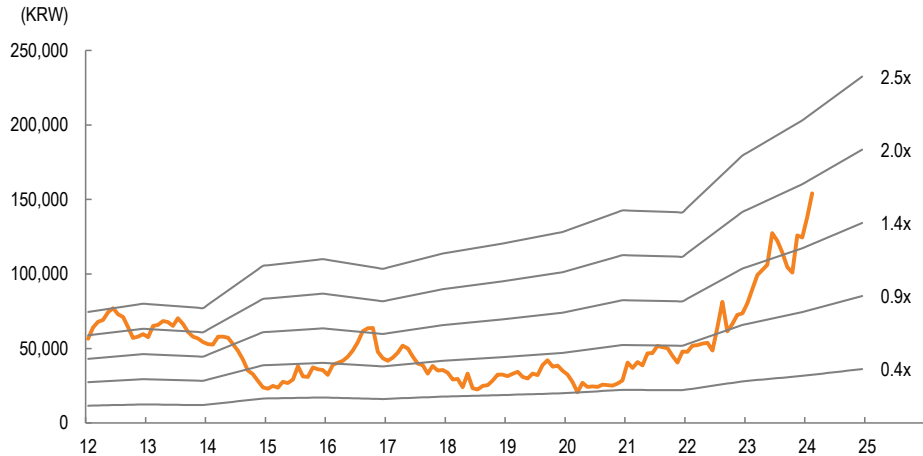
We believe the defense market boom has just begun. As growing geopolitical risks fuel an accelerating arms race, Hanwha Aerospace continues to field a large number of export inquiries from both new and existing customers in Europe, the Middle East, and Asia. In particular, the K9 self-propelled howitzer has been expanding its global market share thanks to key competitive advantages (faster delivery time and cost effectiveness). We also note that the K9 boasts solid margins thanks to its high localization ratio (80-90%).

Table 4. TP calculation

	Value	Notes
TP (W)	210,000	Raise TP to W210,000 from W150,000
CP (W)	154,100	
Upside (%)	36.3	
Target P/B (x)	2.6	20% discount to the avg. 2024F P/B of global peers (previously 2x)
24F BPS (W)	81,259	Raised 2024F BPS from W77,277 to W81,259
24F ROE (%)	14.0	

Source: Mirae Asset Securities Research

Figure 1. 12-month forward P/B band chart



Source: QuantiWise, Mirae Asset Securities Research

Hanwha Aerospace (012450 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	7,060	9,370	11,130	13,572
Cost of revenue	5,190	7,140	8,430	10,091
GP	1,870	2,230	2,700	3,481
SG&A expenses	972	1,524	1,698	2,275
OP (adj.)	404	705	1,002	1,206
OP	404	705	1,002	1,206
Non-operating profit	-229	519	-117	-145
Net financial income	-33	-86	-108	-108
Net income from associates	-21	-58	-8	-37
Pretax profit	175	1,224	885	1,061
Income tax	60	244	156	186
Profit from continuing operations	115	980	730	875
Profit from discontinued operations	37	0	0	0
NP	152	980	730	875
Attributable to owners	201	806	541	649
Attributable to minority interests	-49	174	188	226
Total comprehensive income	109	977	730	875
Attributable to owners	218	644	-93	-112
Attributable to minority interests	-109	333	823	987
EBITDA	634	1,043	1,401	1,666
FCF	1,328	1,647	934	618
EBITDA margin (%)	9.0	11.1	12.6	12.3
OP margin (%)	5.7	7.5	9.0	8.9
Net margin (%)	2.8	8.6	4.9	4.8

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	8,589	8,943	9,996	11,269
Cash & equivalents	3,043	1,802	2,345	2,475
AR & other receivables	1,428	2,040	2,226	2,489
Inventory	2,014	2,869	2,987	3,641
Other current assets	2,104	2,232	2,438	2,664
Non-current assets	6,568	11,078	11,853	12,348
Investments in associates	88	3,915	4,074	4,240
PP&E	2,987	3,480	3,996	4,211
Intangible assets	2,121	2,283	2,325	2,367
Total assets	15,157	20,021	21,849	23,617
Current liabilities	8,270	12,383	13,456	14,346
AP & other payables	853	1,165	1,247	1,368
Short-term financial liabilities	1,653	2,726	2,666	2,607
Other current liabilities	5,764	8,492	9,543	10,371
Non-current liabilities	2,963	2,784	2,872	2,929
Long-term financial liabilities	1,854	1,620	1,664	1,641
Other non-current liabilities	1,109	1,164	1,208	1,288
Total liabilities	11,234	15,167	16,328	17,274
Equity attributable to owners	2,863	3,633	4,112	4,707
Capital stock	266	266	266	266
Capital surplus	217	225	213	210
Retained earnings	2,020	2,681	3,172	3,771
Minority interests	1,061	1,221	1,409	1,635
Shareholders' equity	3,924	4,854	5,521	6,342

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	1,524	2,351	1,814	1,268
NP	152	980	730	875
Non-cash income/expenses	673	-117	671	791
Depreciation	176	255	316	376
Amortization	82	83	84	84
Other	415	-455	271	331
Chg. in working capital	794	1,471	677	-104
Chg. in AR & other receivables	-305	-381	-174	-249
Chg. in inventory	-277	-721	-118	-655
Chg. in AP & other payables	226	233	49	83
Income tax	-147	-132	-156	-186
Cash flow from investing activities	-1,225	-2,927	-1,026	-800
Chg. in PP&E	-192	-703	-831	-591
Chg. in intangible assets	-148	-256	-126	-126
Chg. in financial assets	-48	-8	-20	-29
Other	-837	-1,960	-49	-54
Cash flow from financing activities	216	395	-398	-535
Chg. in financial liabilities	727	777	-16	-82
Chg. in equity	-212	8	-12	-3
Dividends	-35	-51	-51	-51
Other	-264	-339	-319	-399
Chg. in cash	515	-1,267	542	130
Beginning balance	2,528	3,043	1,802	2,345
Ending balance	3,043	1,802	2,345	2,475

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

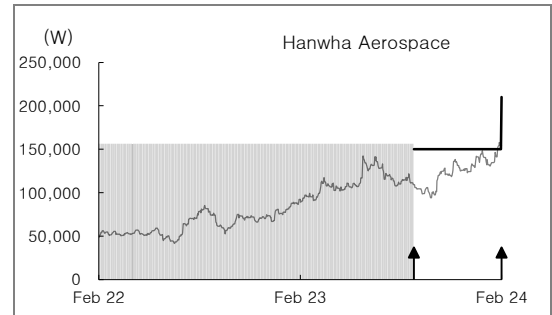
	2022	2023F	2024F	2025F
P/E (x)	18.6	7.8	14.4	12.0
P/CF (x)	4.5	7.3	5.6	4.7
P/B (x)	1.3	1.7	1.9	1.7
EV/EBITDA (x)	8.1	6.4	5.6	4.4
EPS (W)	3,967	15,915	10,694	12,823
CFPS (W)	16,292	17,049	27,672	32,900
BPS (W)	56,587	71,800	81,259	93,024
DPS (W)	1,000	1,000	1,000	1,000
Dividend payout ratio (%)	33.3	5.2	6.9	5.8
Dividend yield (%)	1.4	0.8	0.6	0.6
Revenue growth (%)	10.1	32.7	18.8	21.9
EBITDA growth (%)	23.3	64.4	34.3	18.9
OP growth (%)	45.9	74.3	42.1	20.4
EPS growth (%)	-20.5	301.2	-32.8	19.9
AR turnover (x)	6.0	5.7	5.6	6.2
Inventory turnover (x)	3.9	3.8	3.8	4.1
AP turnover (x)	10.6	9.3	8.4	9.4
ROA (%)	1.2	5.6	3.5	3.8
ROE (%)	7.0	24.8	14.0	14.7
ROIC (%)	6.1	16.5	22.2	25.2
Debt-to-equity ratio (%)	286.3	312.5	295.8	272.4
Current ratio (x)	103.9	72.2	74.3	78.6
Net debt-to-equity ratio (%)	8.4	-17.3	-25.0	-32.9
Interest coverage ratio (x)	5.0	4.1	4.9	6.0

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
Hanwha Aerospace (012450)	02/26/24	Buy	210,000
	09/20/23	Buy	150,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	88.55%	6.63%	4.22%	0.6%
Investment banking services	84.62%	15.38%	0%	0%

* Based on recommendations in the last 12-months (as of December 31, 2023)

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