

[2H24 Outlook]

Defense/Aerospace (Overweight)

A new chapter

Mirae Asset Securities Co., Ltd.
Dong-ho Jeong
dongho.jeong@miraeasset.com





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Hyundai Rotem (064350 KS)	
Hanwha Aerospace (012450 KS)	
Korea Aerospace Industries (047810 KS)	
LIG Nex1 (079550 KS)	
Hanwha Systems (272210 KS)	

[Summary] Market boom

2H24 defense sector investment strategy: Numbers and momentum

- Maintain Overweight on defense; key share price variables (earnings, valuations, and exports) all remain favorable
- [Earnings visibility] The sector's 1Q24 operating profit beat the consensus by 3%; the 2024 operating profit consensus was revised up 7.9%; earnings visibility is highest for Hanwha Systems, followed by Hyundai Rotem and Korea Aerospace Industries (KAI)
- [Valuation] The sector's valuation is at the historical average level; the most undervalued stock is Hyundai Rotem, followed by Hanwha Aerospace and LIG Nex1
- [Export momentum] Contracts for 2024 to exceed those in 2022; export momentum is strongest for Hyundai Rotem, followed by Hanwha Aerospace and LIG Nex1
- [Foreign buying] Foreign ownership has expanded to 22.8% in 2024 (from 8.3% in 2021); foreign inflows have been led by medium/long-term long-only funds

Defense budgets continue to expand, offering ample export opportunities

- The defense market boom continues; amid robust global demand, Korean players continue to benefit from a seller's market
- [Market trends] Global defense budgets to continue growing due to escalating threats and shortages of military supplies; Korean defense firms to continue structural earnings growth
- [Supply] With sufficient production capacity for key export products, Korean defense firms are expected to: 1) quickly convert their massive order backlogs into revenue; and 2) secure additional overseas orders
- [Demand] Potential global demand is estimated at W66tr for tanks, W42tr for self-propelled artillery, and W36tr for advanced trainer aircraft

Top pick: Hyundai Rotem

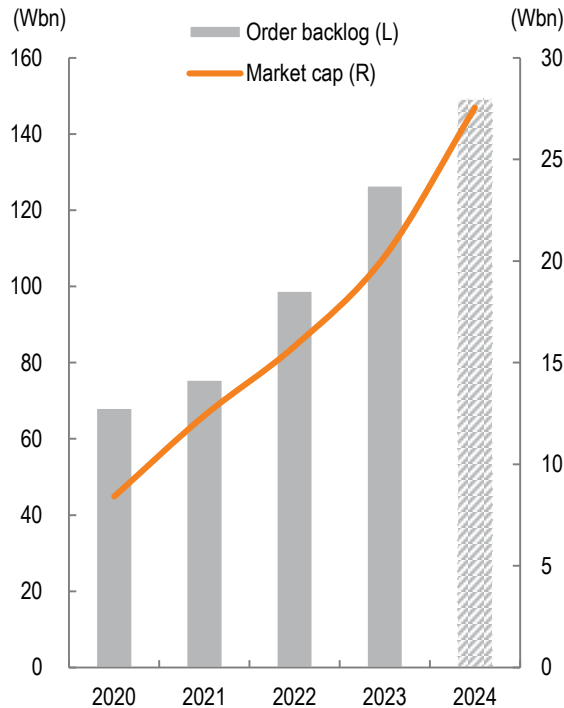
- [Hyundai Rotem is our top pick; Hanwha Aerospace is our second-most preferred stock](#)
- Investment points for Hyundai Rotem include: 1) likely earnings growth in 2024-25; 2) the prospect of additional defense exports worth up to W27.5tr; 3) a likely turnaround in the rail solutions business in 2025.
- Investment points for Hanwha Aerospace include: 1) the ability to sustain growth over the medium/long term; 2) a well-diversified defense export product portfolio; and 3) likely momentum from the establishment of the Korea Aerospace Administration.

I. Overview: Off to a good start; high expectations for 2H24

Global defense sector has performed strongly in 1H24

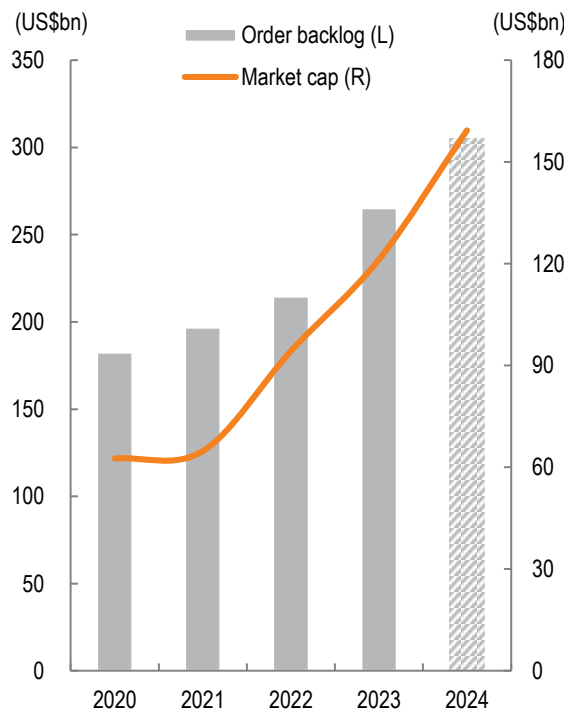
- Despite unfavorable seasonality in 1H24, global defense stocks have continued to perform well (+30% YTD overall; +33% for Korean defense stocks, +47% for European defense stocks, and +11% for US defense stocks).
- Standout stocks include Hanwha Aerospace (+78%) and Hyundai Rotem (+42%) domestically, Rheinmetall (+87%) and Kongsberg (+82%) in Europe, and General Dynamics (+15%) and Oshkosh (+13%) in the US.
- Amid ongoing wars, demand for land systems (self-propelled howitzers, tanks, armored vehicles, etc.) and precision-guided weapons has remained strong.

Korean defense industry: Order backlog and market cap trends



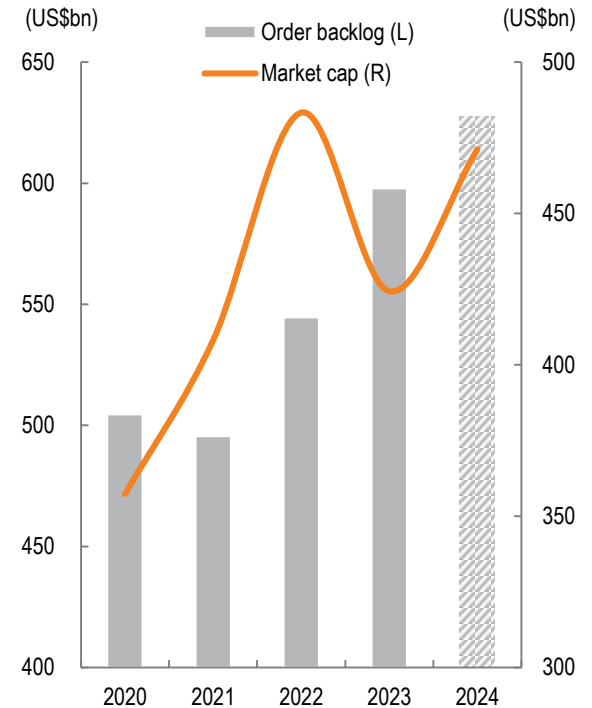
Source: Bloomberg, Mirae Asset Securities Research

European defense industry: Order backlog and market cap trends



Source: Bloomberg, Mirae Asset Securities Research

US defense industry: Order backlog and market cap trends



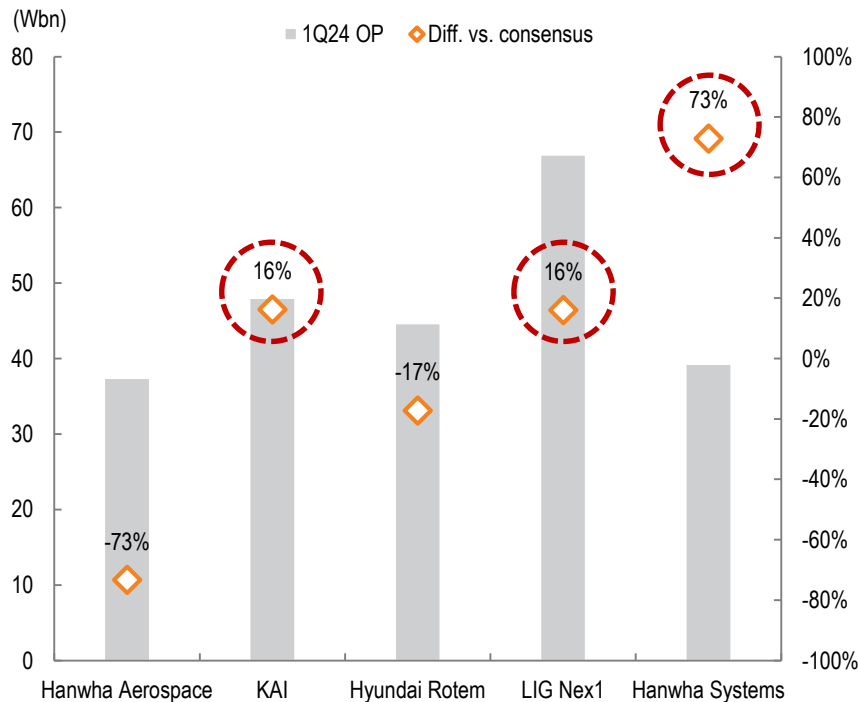
Source: Bloomberg, Mirae Asset Securities Research

II. Investment strategy and valuation: High earnings visibility

2024 earnings moving in a positive direction; focus on firms seeing upward consensus revisions

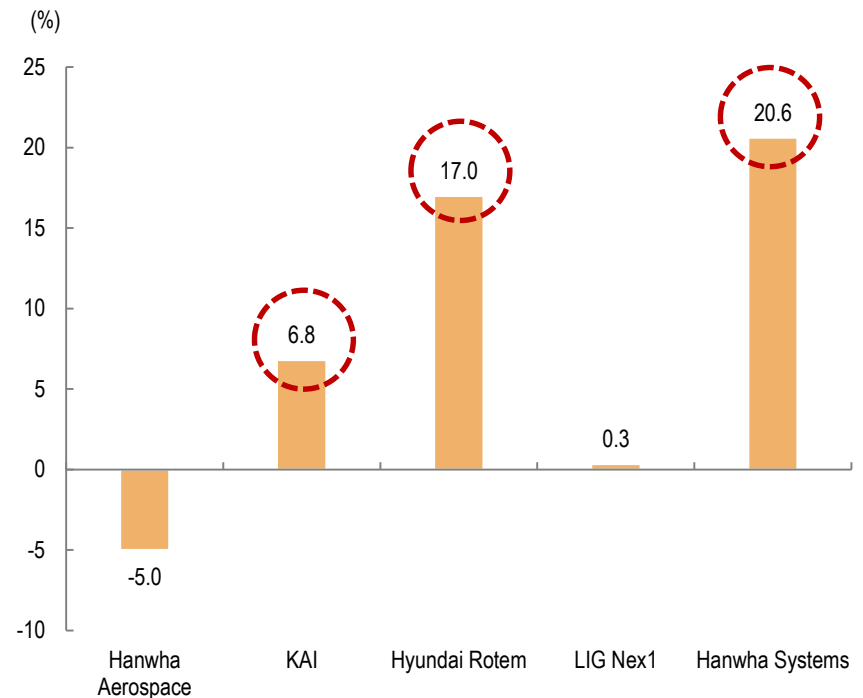
- The combined 1Q24 operating profit of the five major domestic defense players beat the consensus by 3%, and their combined operating profit consensus for 2024 has been lifted by 7.9%.
- For 1Q24, Hanwha Systems beat the operating profit consensus by 73%, while KAI and LIG Nex1 each exceeded the consensus by 16%.
- The 2024 operating profit consensus was lifted 21% for Hanwha Systems and 17% for Hyundai Rotem.
- Earnings visibility in 2024 is highest for Hanwha Systems, followed by Hyundai Rotem and KAI.

1Q24 OP and diff. vs. consensus



Source: Bloomberg, Mirae Asset Securities Research

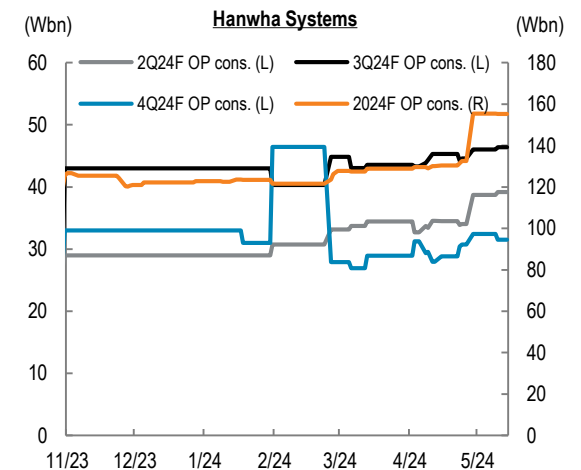
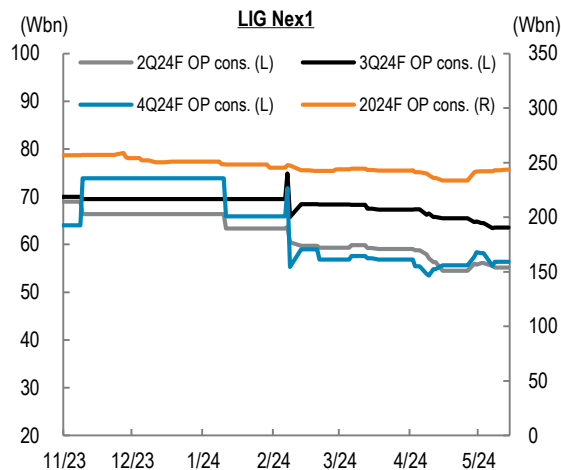
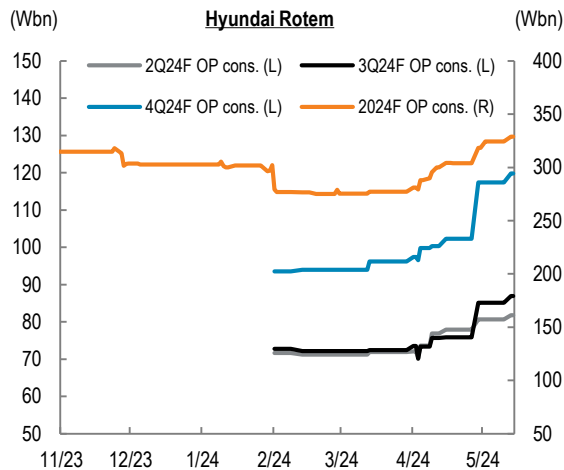
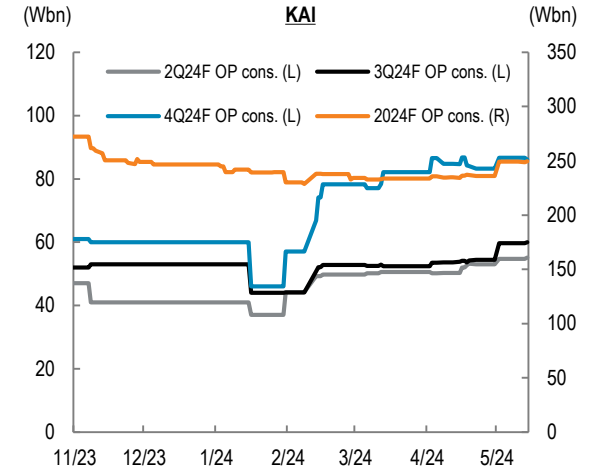
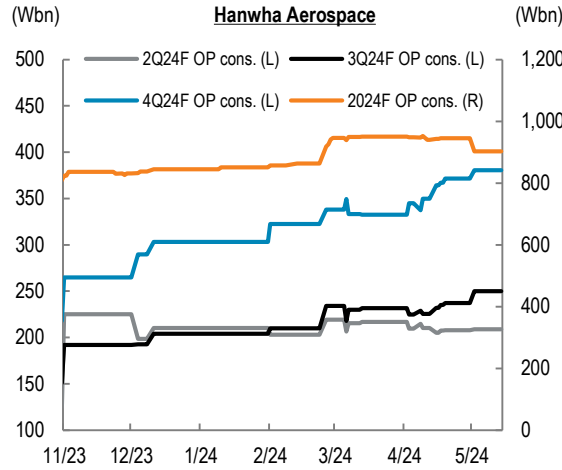
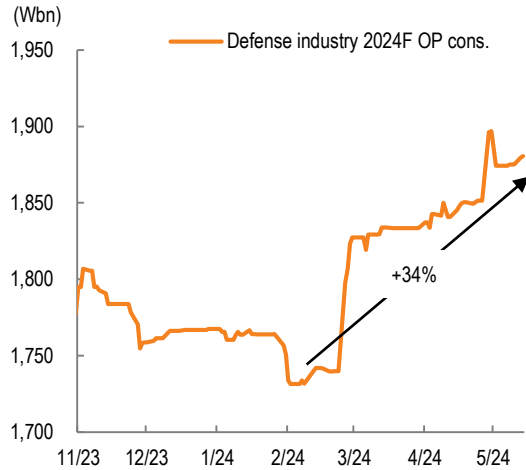
Chg. in 2024 OP consensus following 1Q24 earnings releases



Source: Bloomberg, Mirae Asset Securities Research

II. Investment strategy and valuation: High earnings visibility

Korean defense firms' quarterly/annual OP consensus trends



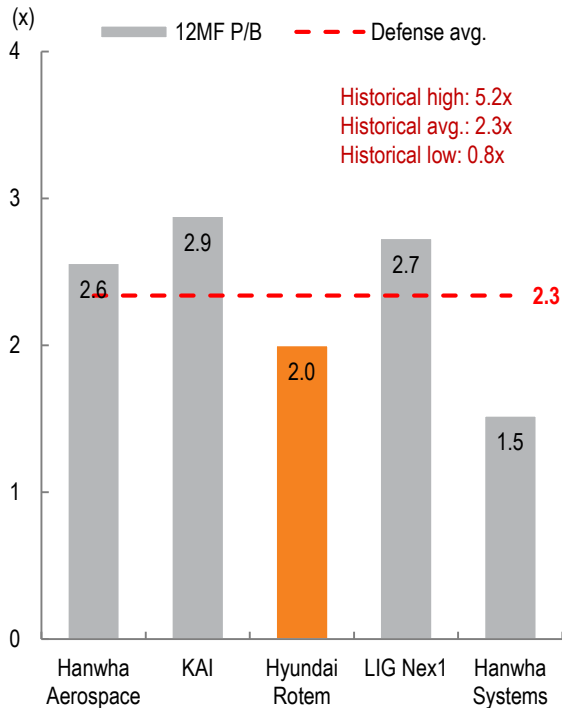
Source: Mirae Asset Securities Research

II. Investment strategy and valuation: Valuation analysis

Identifying undervalued stocks

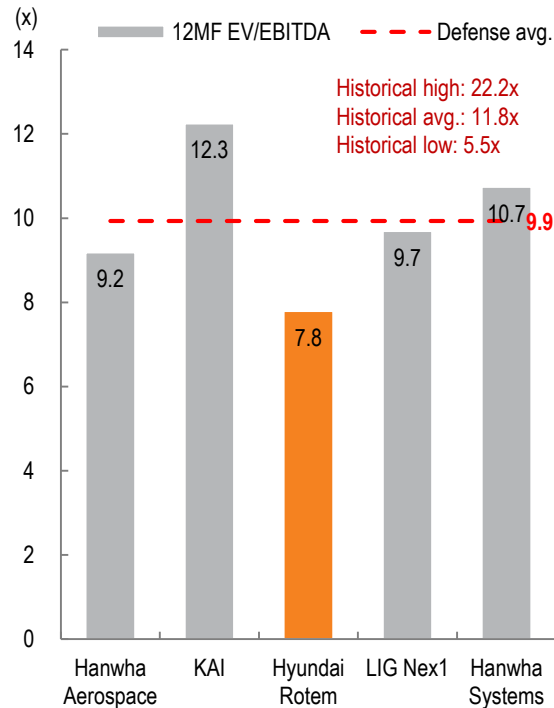
- The defense sector is trading at a 12-month forward P/B of 2.3x and 12-month forward EV/EBITDA of 9.9x, which are both close to historical average levels.
- However, with companies seeing exceptional order backlog growth and a fast-rising share of exports, we believe valuations one standard deviation above historical average levels are appropriate.
- We believe Hyundai Rotem is currently the most undervalued stock, while Hanwha Aerospace and LIG Nex1 also have valuation appeal.
- We maintain our Overweight opinion on the defense sector. We expect stocks to continue to advance in line with structural industry growth.

Five major defense stocks: 12MF P/B



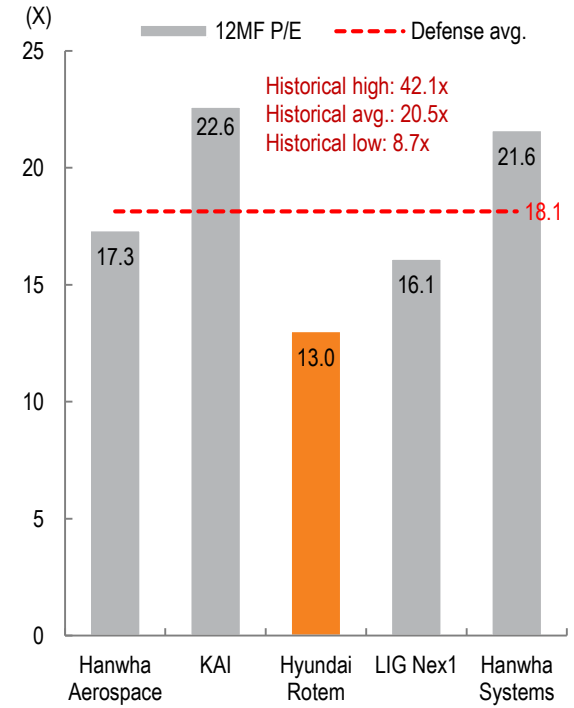
Source: QuantiWise, Mirae Asset Securities Research

Five major defense stocks: 12MF EV/EBITDA



Source: QuantiWise, Mirae Asset Securities Research

Five major defense stocks: 12MF P/E

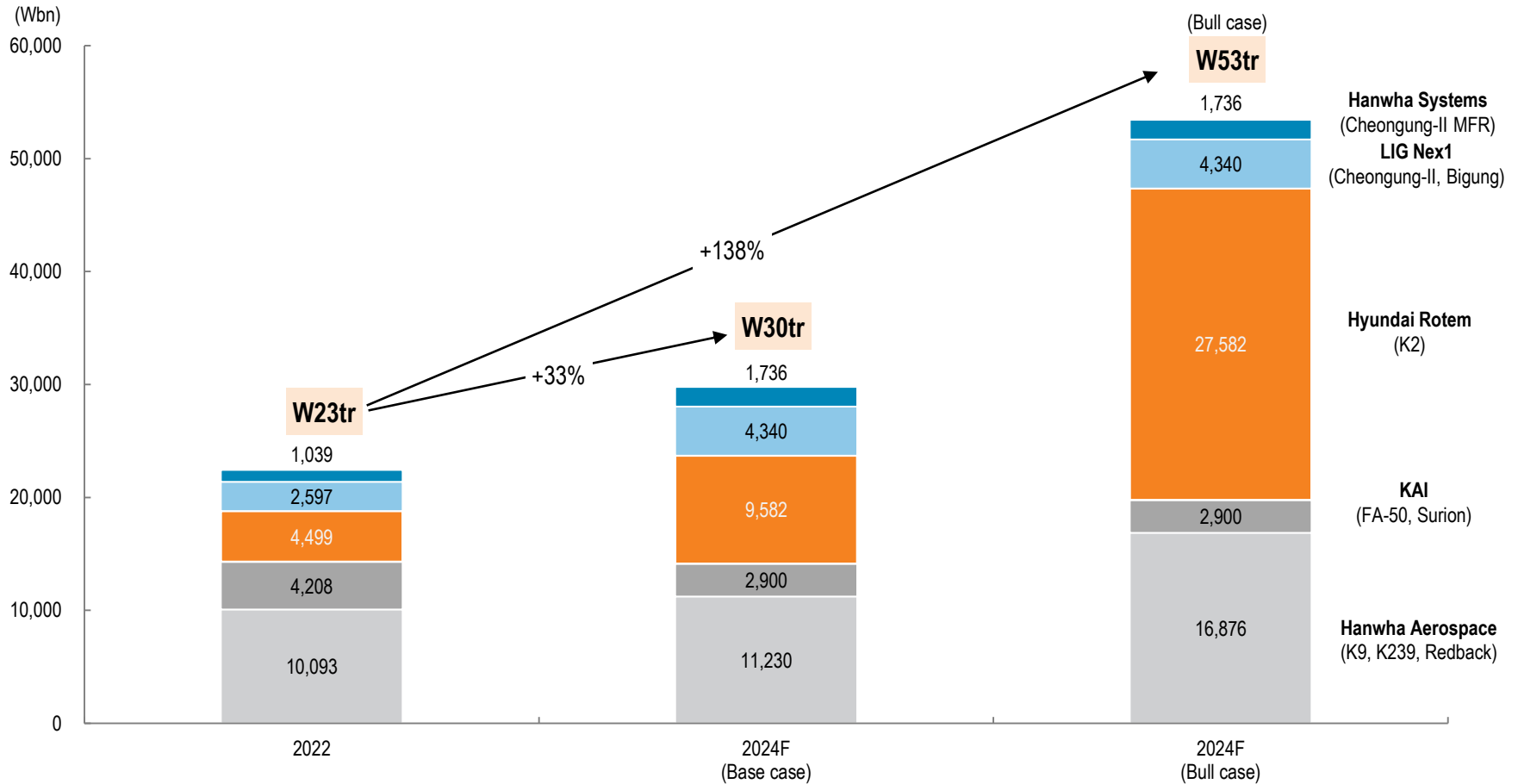


Source: QuantiWise, Mirae Asset Securities Research

II. Investment strategy and valuation: Export momentum is key

Export momentum comparison: Hyundai Rotem > Hanwha Aerospace > LIG Nex1 > KAI > Hanwha Systems

Export momentum of Korean defense players: 2024 vs. 2022 (based on contract value)



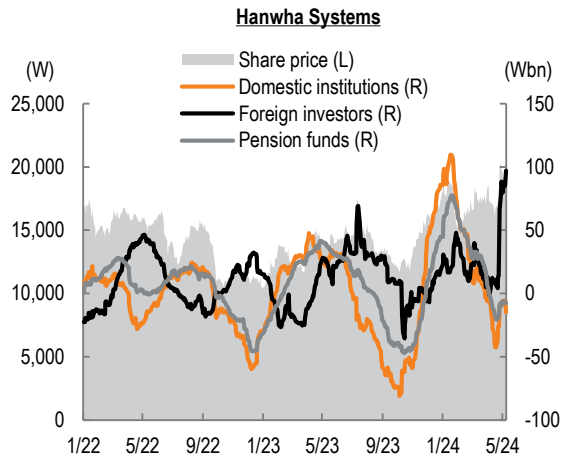
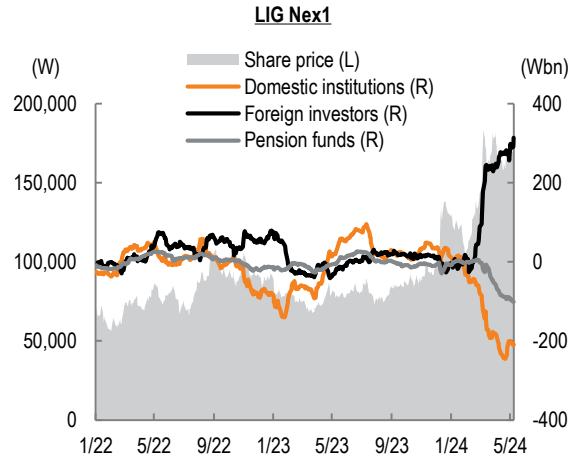
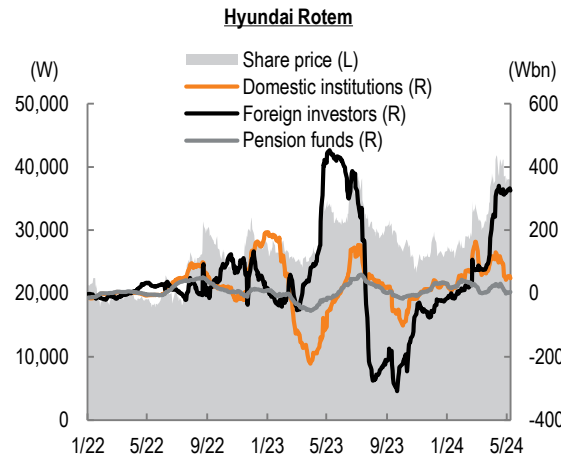
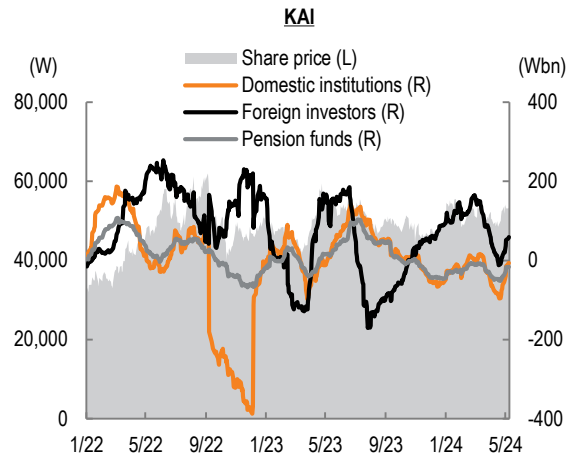
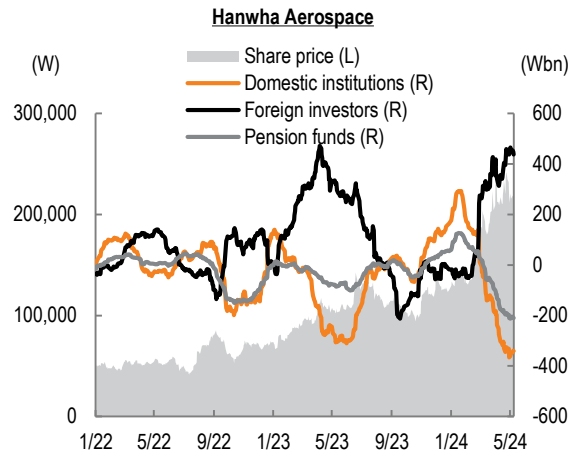
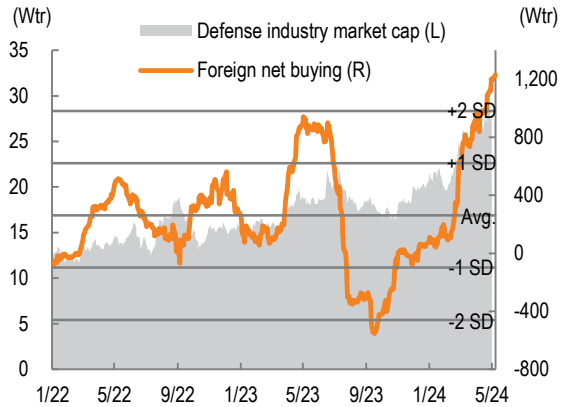
Note: Based on Korean defense companies' combined export contracts; base (bull) case assumes lowest (highest) possible values of Poland (follow-up) and Romania contracts

Source: Media reports, Mirae Asset Securities Research

II. Investment strategy and valuation: Foreign inflows

Foreign ownership: 14.8% in 2022 → 22.8% in 2024; foreign inflows led by medium/long-term long-only funds

Five major defense stocks: 60-day cumulative net buying by investor type



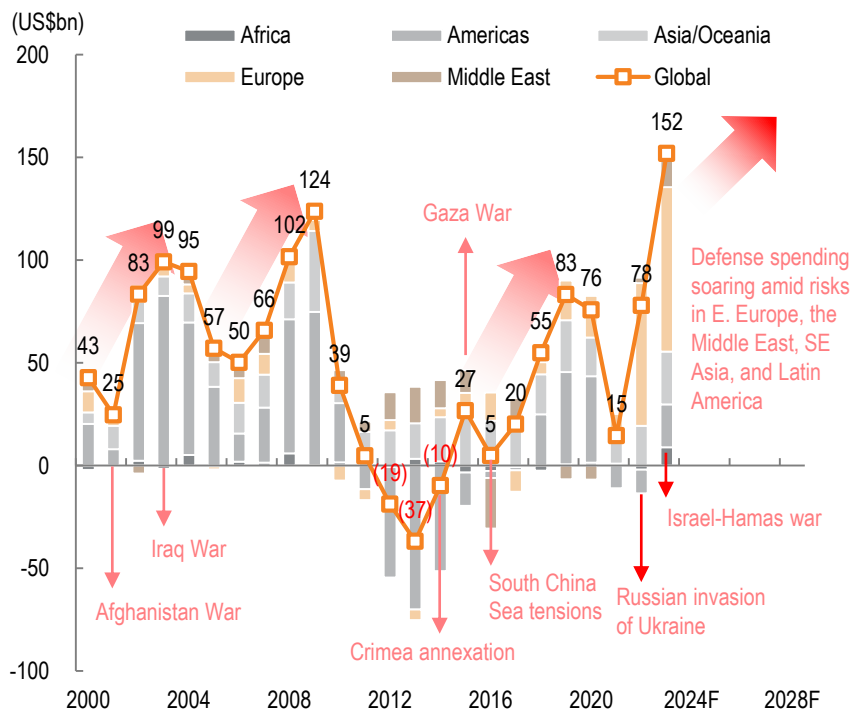
Source: QuantiWise, Mirae Asset Securities Research

III. Defense market trends: Defense budgets continue to grow

Military buildup just beginning; defense budgets increasing in earnest

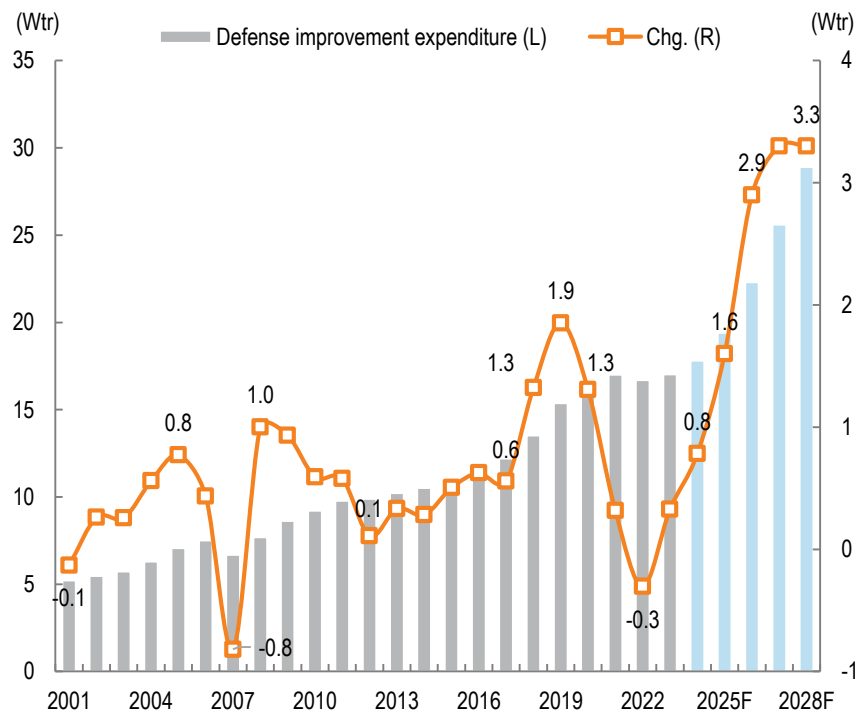
- Defense spending should continue rising globally due to escalating threats and shortages of military supplies.
- Global defense spending picked up in the early 2000s, led by the US (Afghanistan and Iraq wars). In the early to mid-2010s, events such as the 2014 Gaza War and South China Sea tensions caused defense spending to be centered around the Middle East and Asia.
- Since the early 2020s, Europe and the Middle East have led military spending amid the Russian invasion of Ukraine and the Israel-Hamas war.
- Amid deepening global military conflicts and the possibility of North Korea provocations, Korea is also expected to expand its defense budget.

Global defense spending



Source: SIPRI, Mirae Asset Securities Research

Korea's defense spending trend



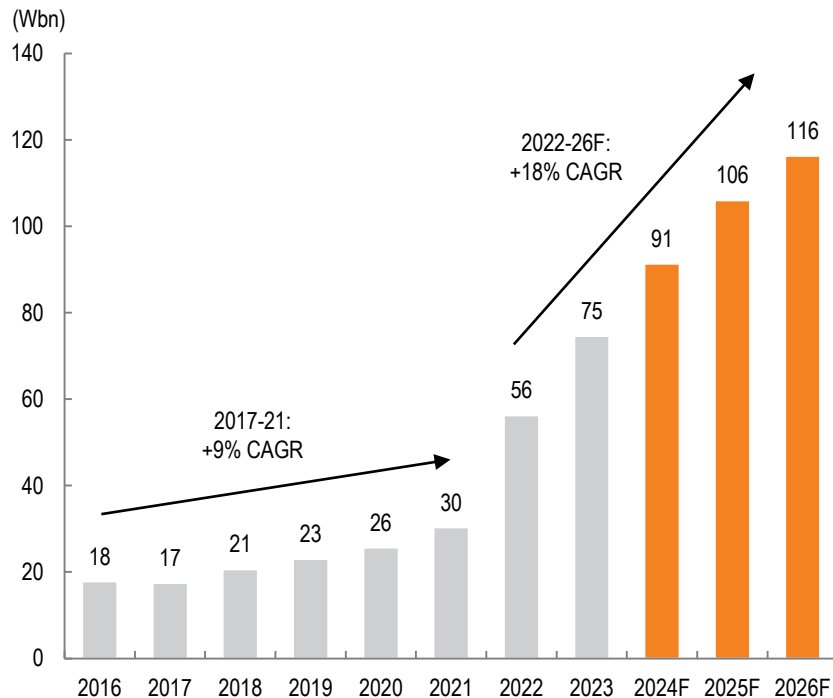
Source: MND, Mirae Asset Securities Research

III. Defense market trends: Robust backlog and earnings flows

Korean defense industry to sustain earnings growth

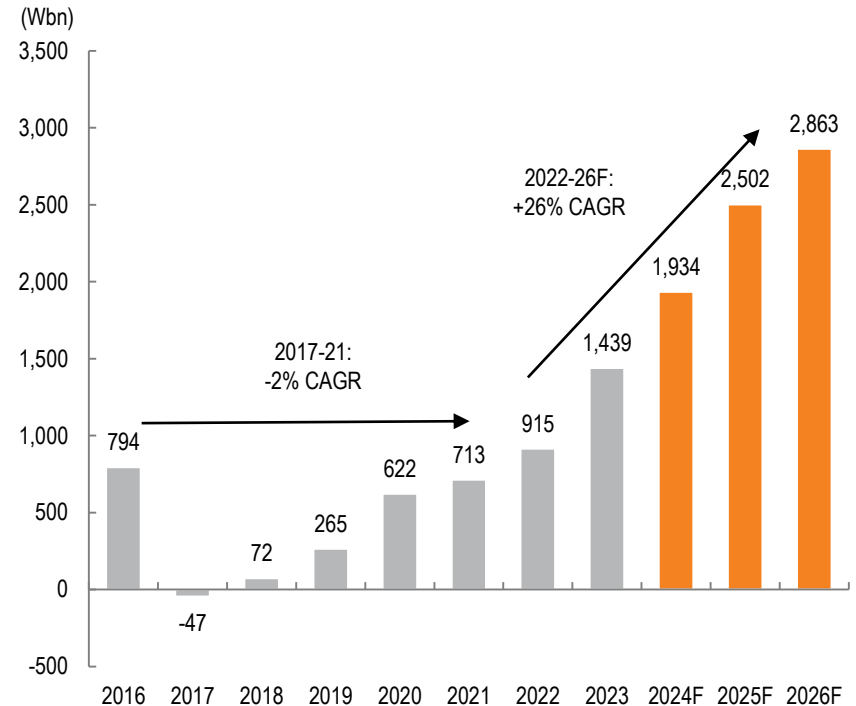
- The combined order backlog of Korea's five major defense players grew more than four-fold from 2016 (W18tr) to 2023 (W75tr) and is likely to break above W100tr within two years.
- We see order backlog growth accelerating going forward (CAGR of 18% in 2022-26F vs. 9% in 2017-21).
- In addition, the combined operating profit of the five major defense players expanded around 80% from 2016 (W793.9bn) to 2023 (W1.4tr), with the contribution of exports reaching approximately 40%.
- Major defense players should continue structural growth, with combined operating profit likely to reach nearly W3tr in 2026 (2022-26F CAGR of 26%).

Combined order backlog of five major defense players



Source: Company data, Mirae Asset Securities Research estimates

Combined OP of five major defense players



Source: Company data, Mirae Asset Securities Research estimates

III. Defense market trends: Abundant overseas order potential

Korean firms seeing abundant overseas order potential

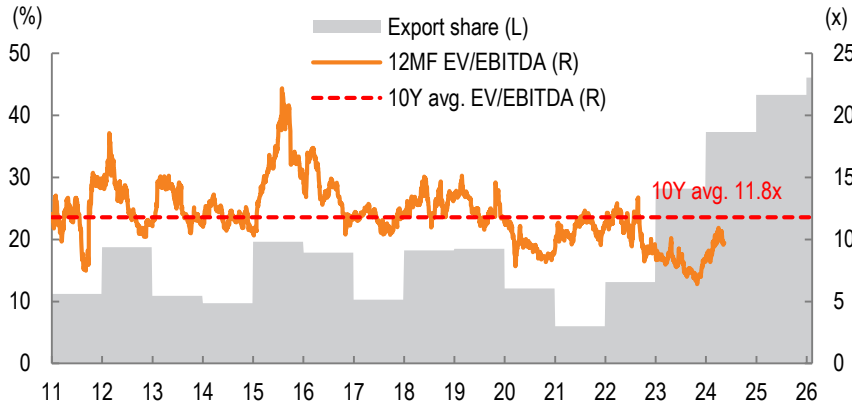
Timeline for potential overseas order awards

Company	Product	1H24	2H24	1H25	2H25	1H26	2H26	TBD
Hanwha Aerospace	K9	Romania	Poland (follow-up)					Vietnam
	Chunmoo	Poland (follow-up)						Malaysia
	Redback		Romania					
	K21		Latvia					UAE
	K30 Biho							Saudi Arabia, India
KAI	FA-50		Uzbekistan	Slovakia, Philippines	Colombia, Egypt, US Air Force UJTS	US Air Force ATT	US Navy TSA	Malaysia, Bulgaria, Ireland, Senegal
	Surion	Iraq	UAE					Malaysia
	KF-21							Poland, Saudi Arabia, Philippines, Malaysia
Hyundai Rotem	K2		Romania, Poland (follow-up)					Egypt, Saudi Arabia, Oman
	Wheeled armored vehicle	Peru						Poland (joint development)
LIG Nex1	Cheongung-II		Romania					Malaysia, Iraq, Saudi Arabia (follow-up)
	KM-SAM	Romania						
	Bigung			US (FCT)				
	Hyungung							

Source: Media reports, Mirae Asset Securities Research

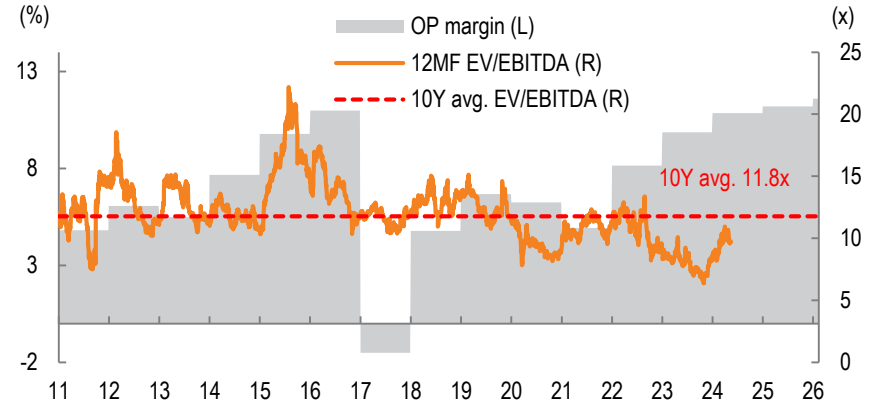
III. Defense market trends: Exports create valuation upside

Five major defense firms: Export share and 12MF EV/EBITDA



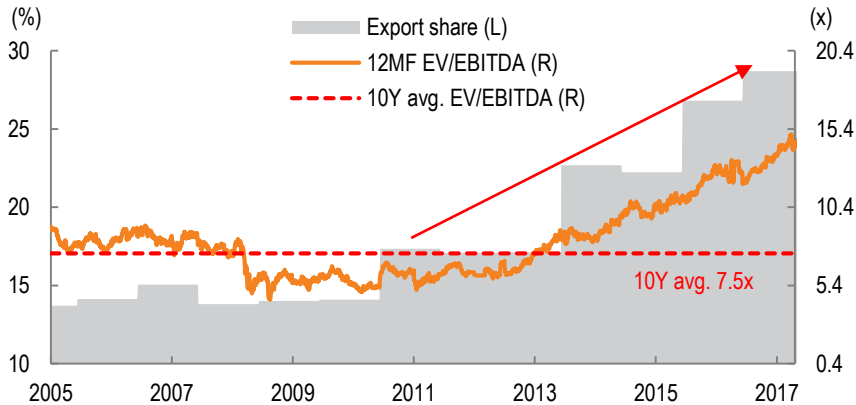
Source: QuantiWise, Mirae Asset Securities Research

Five major defense firms: OP margin and 12MF EV/EBITDA



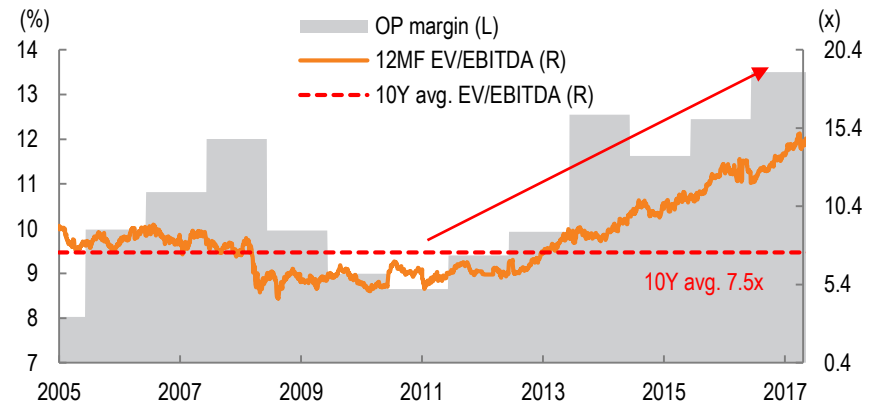
Source: QuantiWise, Mirae Asset Securities Research

Lockheed Martin: Export share and 12MF EV/EBITDA



Source: Bloomberg, Mirae Asset Securities Research

Lockheed Martin: OP margin and 12MF EV/EBITDA



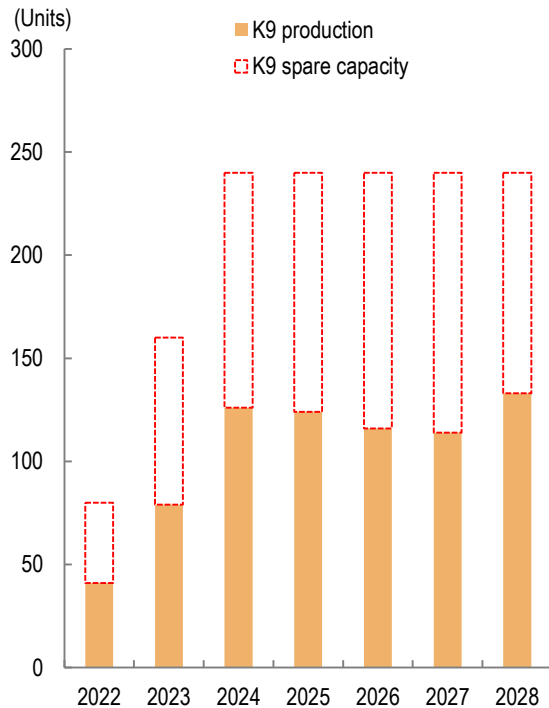
Source: Bloomberg, Mirae Asset Securities Research

IV. Supply/demand: Capacity outlook

Production capacity is sufficient to meet demand; Korean firms to retain competitive edge in delivery times

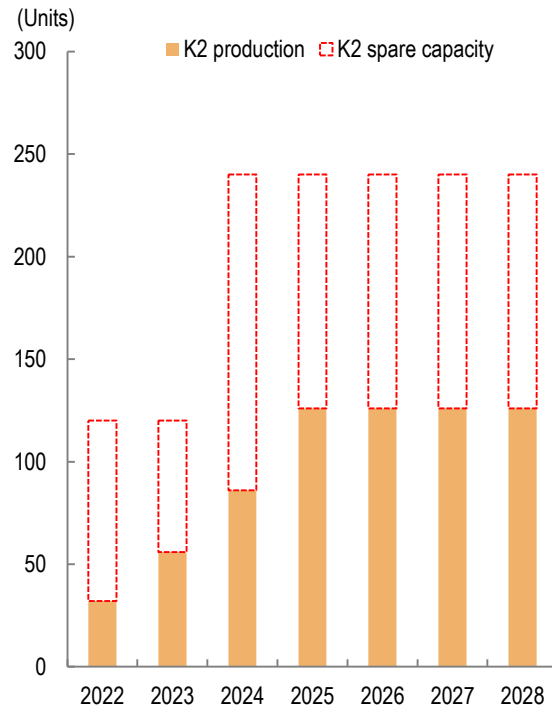
- For defense products, production capacity is a key variable determining: 1) the pace at which large order backlogs can be converted into revenue; and 2) the availability of spare capacity to accommodate additional orders.
- We believe domestic defense players have enough spare capacity to process more orders, based on a review of domestic/export contracts and delivery schedules.
- Going forward, it should be feasible for companies to process orders equivalent to 70-80% of initial contracts with Poland (W21-24tr).
- Domestic companies should continue to be able to offer faster delivery times than their US/European rivals; however, political factors remain a variable.

Est. production and spare capacity: K9



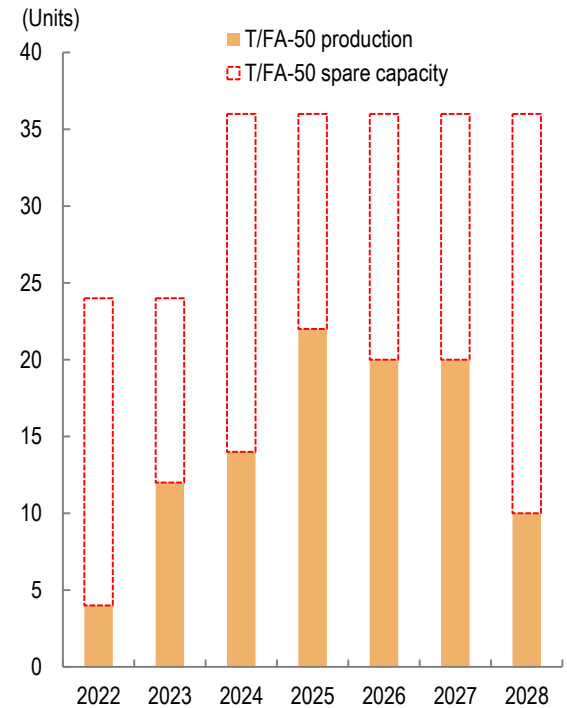
Source: Mirae Asset Securities Research

Est. production and spare capacity: K2



Source: Mirae Asset Securities Research

Est. production and spare capacity: T/FA-50

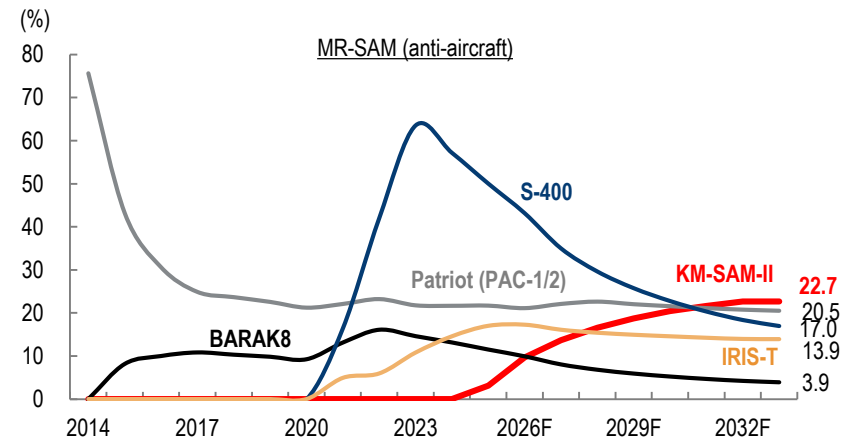
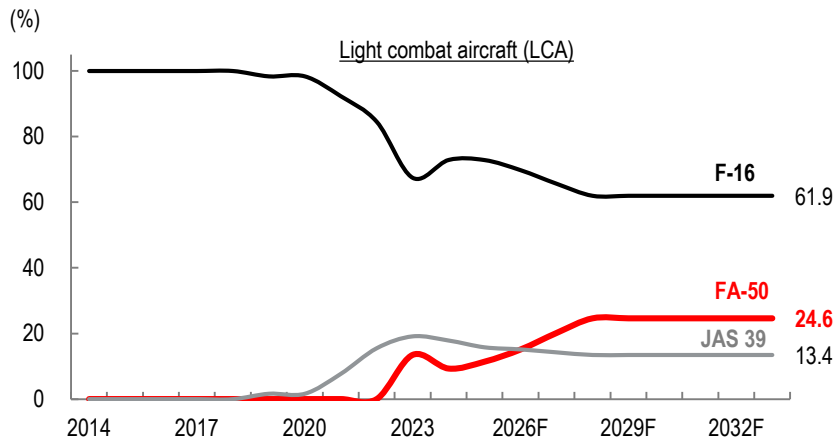
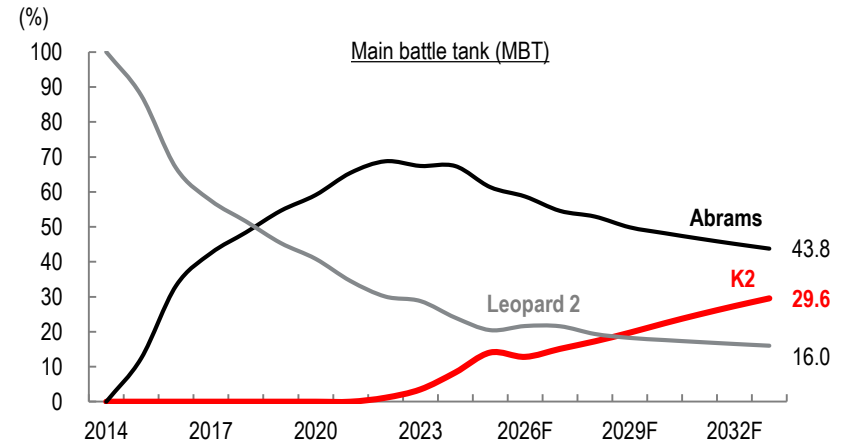
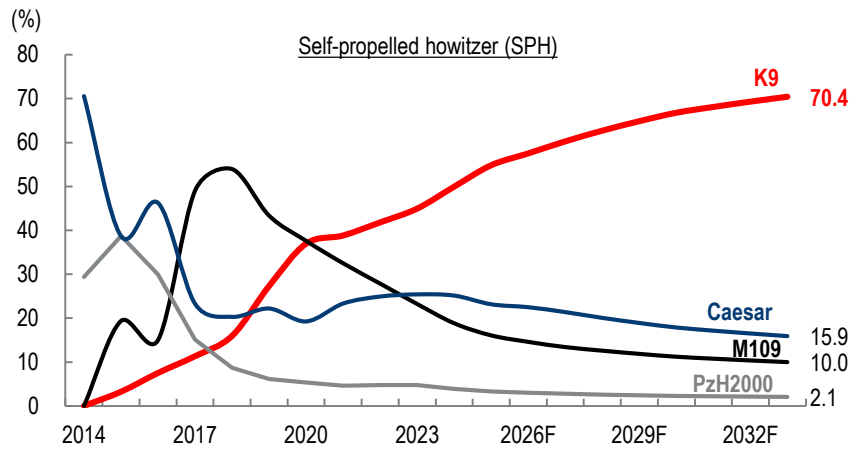


Source: Mirae Asset Securities Research

IV. Supply/demand: Global M/S to expand smoothly

Flagship domestic export items poised to become top-tier products in their respective segments

Global defense export M/S trends and forecasts by product (based on cumulative delivery volume)



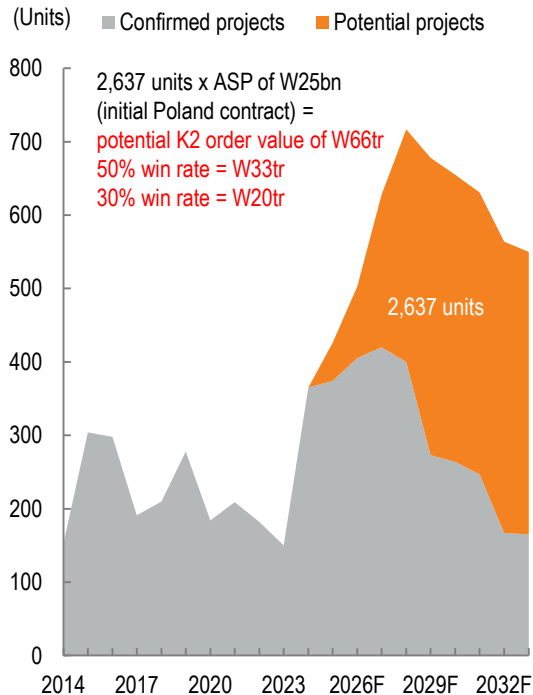
Note: Cumulative delivery volumes since 2014; excl. domestic deliveries and products made in China/Russia; based on new production only (excl. R&D, repair, and maintenance)
 Source: Janes, Mirae Asset Securities Research

IV. Supply/demand: Increasing focus on defense capabilities

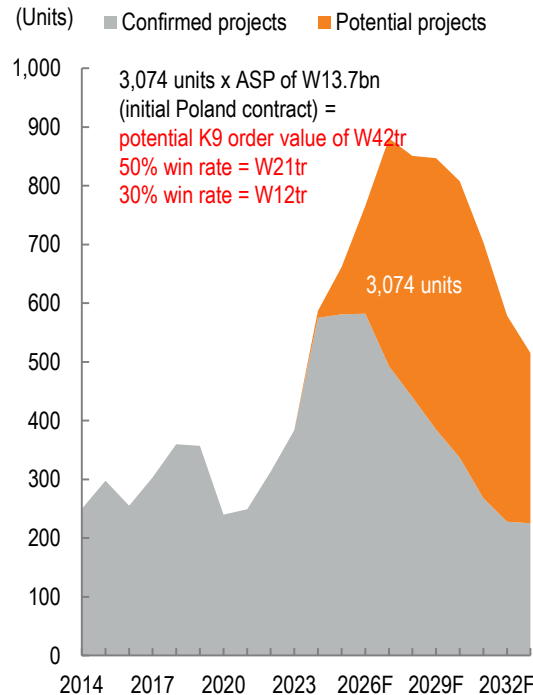
Increased defense spending presents significant export opportunities

- The outlook for global defense demand remains robust, given deepening military threats and increased military spending across the globe.
- From 2024 to 2032, Janes forecasts potential demand for main battle tanks, self-propelled howitzers, and advanced trainer aircraft in the global market (excluding China and Russia) to reach 2,637 units, 3,074 units, and 1,201 units, respectively.
- Applying the ASPs of Korea's K2 battle tank, K9 self-propelled howitzer, and T-50 trainer jet to these demand projections, we estimate total potential order values at W66tr, W42tr, and W36tr, respectively. We see ample export opportunities for Korean defense products going forward.

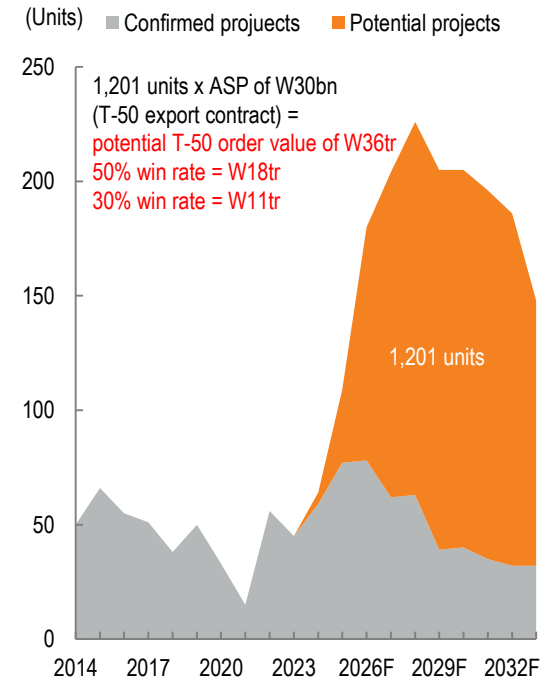
Potential global demand for battle tanks



Potential global demand for self-propelled howitzers



Potential global demand for advanced trainer aircraft



Note: Excl. China and Russia due to export restrictions
Source: Janes, Mirae Asset Securities Research

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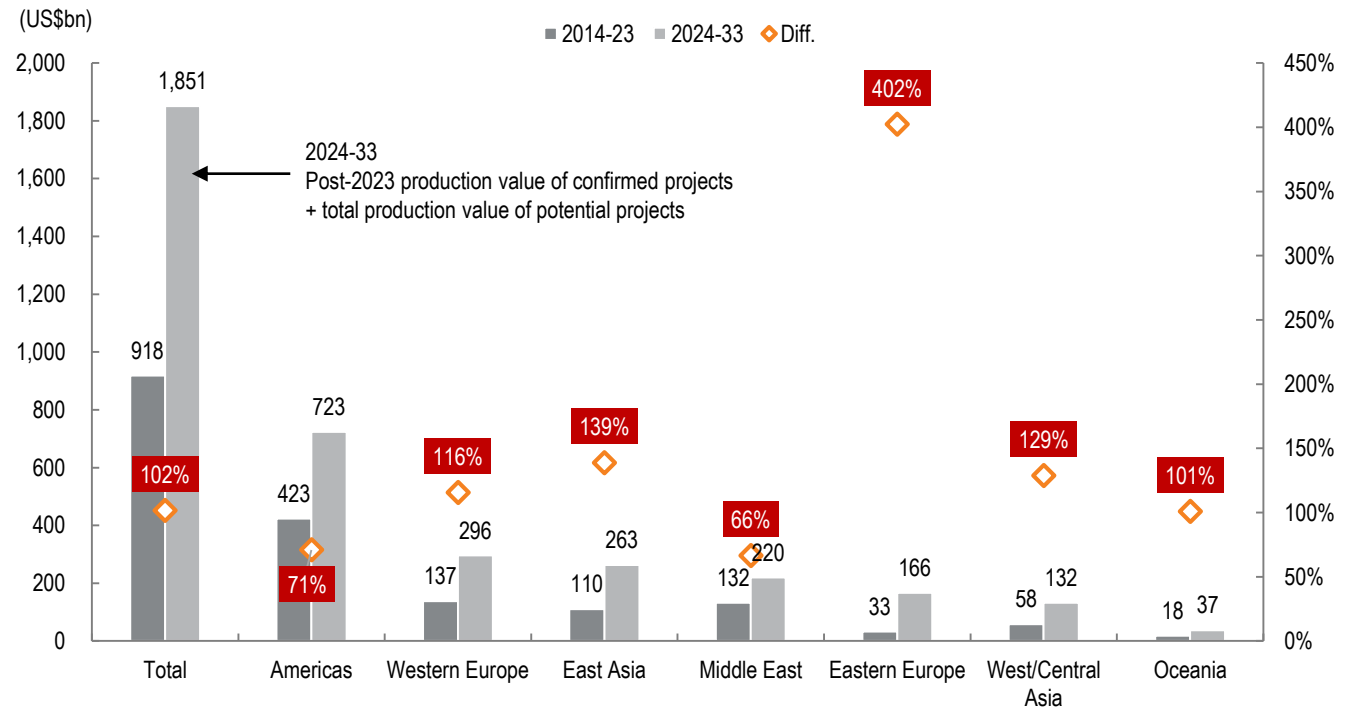
Note: Excl. China and Russia due to export restrictions
Source: Janes, Mirae Asset Securities Research

IV. Supply/demand: Large-scale weapons procurement

Rapid increase in the scale/value of weapons procurement projects

- We expect the combined production value (i.e., units delivered multiplied by ASP) of global weapons procurement projects over the next 10 years to more than double compared to the 2014-23 level.
- By region, Eastern Europe should see the most dramatic growth in project value (+402%). Other regions are also likely to show meaningful changes.
- Key drivers behind project value growth are: 1) escalating geopolitical threats; and 2) military modernization (i.e., replacement of obsolete weapons).
- With the Russian invasion of Ukraine entering its third year, growing defense demand has translated into growth in defense budgets and the value of weapons procurement projects.

Weapons procurement project production value by region: 2014-23 vs. 2024-33



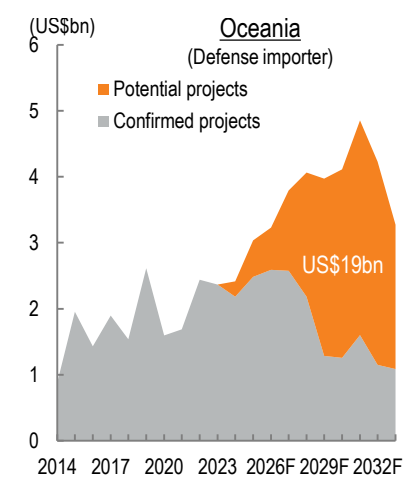
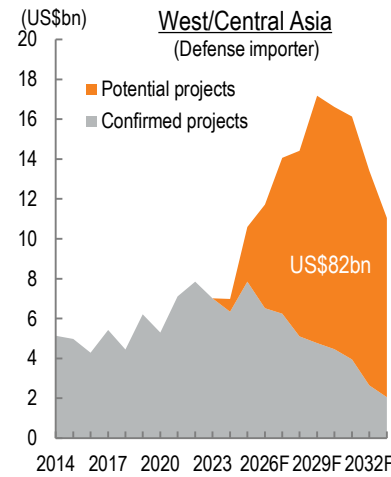
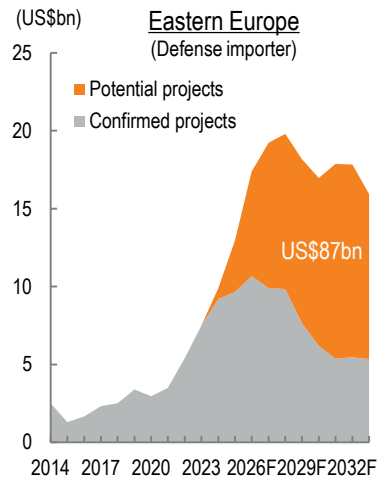
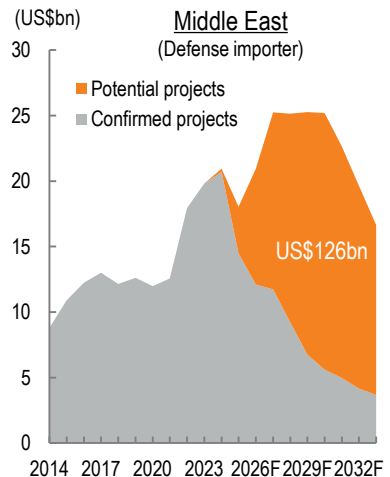
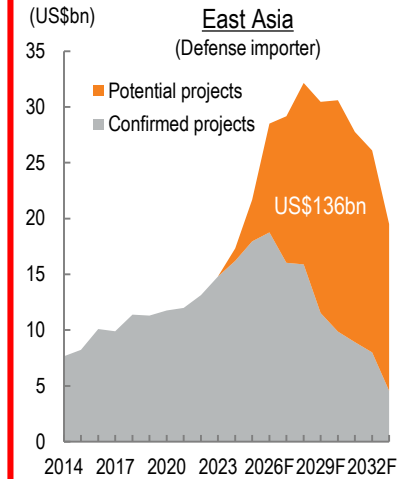
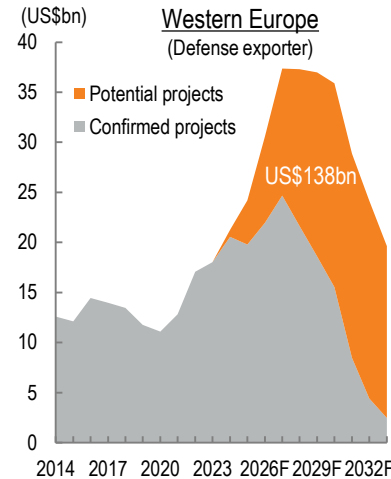
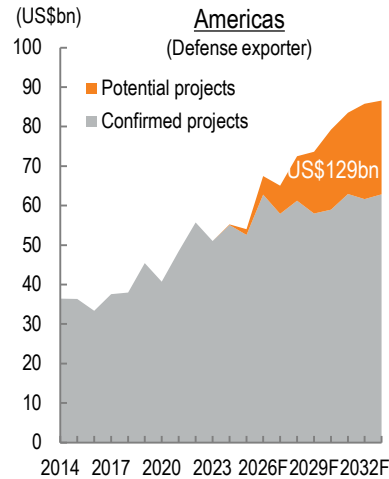
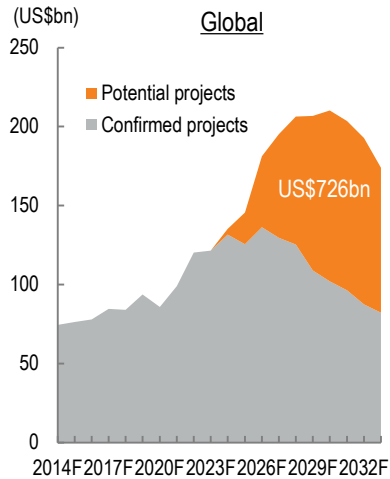
Note: Excl. procurement projects in China and Russia; projects incl. land vehicles, military aircraft, and missiles (excl. bombs, avionics systems)
Source: Janes, Mirae Asset Securities Research

IV. Supply/demand: E. Europe/Middle East/Asia driving demand

Future growth to hinge on potential demand in major markets

Value of potential weapons procurement projects by region

Korea's target export destinations



Note: Procurement projects in China and Russia excluded; projects include ground vehicles, military aircraft, and missiles (excl. bombs, avionics systems)

Source: Janes, Mirae Asset Securities Research



Company analysis

Undemanding valuation

(Maintain)	Buy
Target price	W48,000
Current price (5/16/24)	W38,400
Upside	25.0%

OP (24F, Wbn)	337		
Consensus OP (24F, Wbn)	329		
EPS growth (24F, %)	103.9		
Market EPS growth (24F, %)	75.9		
P/E (24F, x)	12.8		
Market P/E (24F, x)	11.1		
KOSPI	2,753.00		
Market cap (Wbn)	4,191		
Shares (mn)	109		
Free float (%)	65.9		
Foreign ownership (%)	21.1		
Beta (12M)	0.06		
52-week low (W)	23,250		
52-week high (W)	41,850		
(%)	1M	6M	12M
Absolute	-0.3	48.3	16.5
Relative	-5.5	34.0	5.0

Recommendation

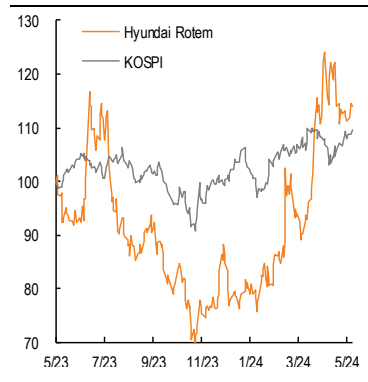
- We retain our Buy rating and target price of W48,000 on Hyundai Rotem.
- The stock is trading at a 12-month forward EV/EBITDA of 7.8x, near its historical bottom; valuation looks undemanding given expectations for additional export contract wins.

Investment points

- For the defense unit, we forecast revenue to grow at an average rate of 35% through 2025, supported by the deliveries of 180 K2GF units to Poland.
- The firm may also secure orders from Romania (300-500 K2 units; W5-7tr) and Poland (follow-up order for 180-820 K2PL units; W4.5-20.5tr).
- Moreover, we expect the rail solutions business to turn around from 2025, further strengthening the firm's fundamentals.
- For 2024, we look for revenue of W4tr (+13.9% YoY) and operating profit of W337.3bn (+60.5% YoY; OP margin of 8.2%).

Risks

- Potential delays to Romania and Poland (follow-up) export contracts



(Dec.)	2021	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	2,873	3,163	3,587	4,087	4,843	5,541
OP (Wbn)	80	147	210	337	472	478
OP margin (%)	2.8	4.6	5.9	8.2	9.7	8.6
NP (Wbn)	67	198	161	328	441	495
EPS (W)	609	1,812	1,475	3,008	4,045	4,531
ROE (%)	5.0	14.1	10.1	17.9	20.0	18.5
P/E (x)	34.1	15.7	18.0	12.8	9.5	8.5
P/B (x)	1.8	2.0	1.7	2.1	1.7	1.4
Dividend yield (%)	0.0	0.0	0.4	0.3	0.3	0.3

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

Source: Company data, Mirae Asset Securities Research estimates

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	3,587	4,087	4,843	5,541
Cost of revenue	3,123	3,524	4,162	4,741
GP	464	563	681	800
SG&A expenses	254	226	209	321
OP (adj.)	210	337	472	478
OP	210	337	472	478
Non-operating profit	-29	10	-4	48
Net financial income	0	19	26	48
Net income from associates	0	11	0	0
Pretax profit	181	347	468	526
Income tax	24	22	31	37
Profit from continuing operations	157	325	437	489
Profit from discontinued operations	0	0	0	0
NP	157	325	437	489
Attributable to owners	161	328	441	495
Attributable to minority interests	-4	-4	-5	-5
Total comprehensive income	156	325	437	489
Attributable to owners	160	330	444	497
Attributable to minority interests	-4	-5	-7	-8
EBITDA	250	381	519	529
FCF	680	334	364	562
EBITDA margin (%)	7.0	9.3	10.7	9.5
OP margin (%)	5.9	8.2	9.7	8.6
Net margin (%)	4.5	8.0	9.1	8.9

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	3,690	4,137	4,467	5,119
Cash & equivalents	396	534	681	1,063
AR & other receivables	402	512	532	640
Inventory	269	315	300	337
Other current assets	2,623	2,776	2,954	3,079
Non-current assets	1,551	1,624	1,711	1,783
Investments in associates	0	1	0	1
PP&E	1,234	1,287	1,352	1,388
Intangible assets	92	100	110	125
Total assets	5,241	5,761	6,178	6,902
Current liabilities	3,205	3,419	3,462	3,674
AP & other payables	528	666	618	716
Short-term financial liabilities	339	270	182	154
Other current liabilities	2,338	2,483	2,662	2,804
Non-current liabilities	390	384	332	366
Long-term financial liabilities	256	227	199	170
Other non-current liabilities	134	157	133	196
Total liabilities	3,595	3,803	3,794	4,040
Equity attributable to owners	1,680	1,994	2,425	2,909
Capital stock	546	546	546	546
Capital surplus	520	520	520	520
Retained earnings	317	635	1,065	1,549
Minority interests	-33	-36	-41	-47
Shareholders' equity	1,647	1,958	2,384	2,862

Key valuation metrics/ratios

	2023	2024F	2025F	2026F
P/E (x)	18.0	12.8	9.5	8.5
P/CF (x)	9.3	11.3	8.6	7.9
P/B (x)	1.7	2.1	1.7	1.4
EV/EBITDA (x)	9.8	9.1	6.0	5.0
EPS (W)	1,475	3,008	4,045	4,531
CFPS (W)	2,864	3,407	4,485	4,846
BPS (W)	15,391	18,273	22,218	26,649
DPS (W)	100	100	100	100
Dividend payout ratio (%)	7.0	3.4	2.5	2.2
Dividend yield (%)	0.4	0.3	0.3	0.3
Revenue growth (%)	13.4	13.9	18.5	14.4
EBITDA growth (%)	34.5	52.5	36.2	1.9
OP growth (%)	42.4	60.5	39.9	1.4
EPS growth (%)	-18.6	103.9	34.5	12.0
AR turnover (x)	11.8	10.6	11.3	12.0
Inventory turnover (x)	14.2	14.0	15.7	17.4
AP turnover (x)	7.7	6.7	7.3	8.0
ROA (%)	3.1	5.9	7.3	7.5
ROE (%)	10.1	17.9	20.0	18.5
ROIC (%)	10.8	22.9	30.2	29.5
Debt-to-equity ratio (%)	218.2	194.3	159.2	141.2
Current ratio (%)	115.1	121.0	129.0	139.3
Net debt-to-equity ratio (%)	-25.1	-35.7	-42.7	-52.9
Interest coverage ratio (x)	7.3	16.0	28.1	39.2

Source: Company data, Mirae Asset Securities Research estimates

Hanwha Aerospace (012450 KS)

Opportune time to Buy

(Maintain)	Buy
Target price	W270,000
Current price (5/16/24)	W215,000
Upside	25.6%

OP (24F, Wbn)	933		
Consensus OP (24F, Wbn)	907		
EPS growth (24F, %)	-36.4		
Market EPS growth (24F, %)	75.9		
P/E (24F, x)	20.9		
Market P/E (24F, x)	11.1		
KOSPI	2,753.00		
Market cap (Wbn)	10,885		
Shares (mn)	51		
Free float (%)	65.9		
Foreign ownership (%)	36.2		
Beta (12M)	0.27		
52-week low (W)	94,000		
52-week high (W)	241,500		
(%)	1M	6M	12M
Absolute	1.9	78.4	107.7
Relative	-3.4	61.3	87.1

Recommendation

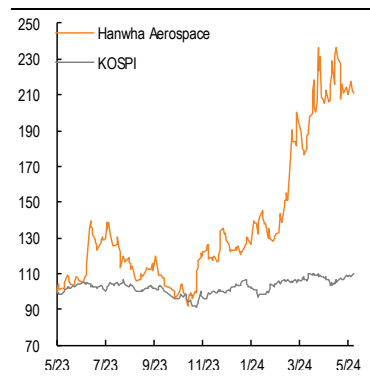
- We reiterate our Buy call and target price of W270,000 on Hanwha Aerospace.
- We expect the stock to rebound on an earnings recovery in 2H24.

Investment points

- We expect the defense business to continue robust top-line growth (+20% YoY) in 2026 and beyond, driven by Poland-bound exports (152 K9 howitzers and 72 Chunmoo rocket artillery systems).
- We also note potential deals to supply: 1) K9 units (W1.2tr) and Redback infantry fighting vehicles (IFVs) to Romania; 2) Chunmoo systems to Malaysia; and 3) K21 IFVs to Latvia
- We advise paying attention to the firm's vertical integration with group affiliates in the aerospace business and potential participation in national projects after the establishment of the Korea Aerospace Administration.
- For 2024, we look for revenue of W11.1tr (+18.7% YoY) and operating profit of W932.8bn (+35% YoY; OP margin of 8.4%).

Risks

- Wider operating losses from aircraft engines



(Dec.)	2021	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	6,415	7,060	9,359	11,110	13,528	15,550
OP (Wbn)	277	404	691	933	1,222	1,411
OP margin (%)	4.3	5.7	7.4	8.4	9.0	9.1
NP (Wbn)	253	195	818	520	701	823
EPS (W)	4,989	3,858	16,147	10,270	13,849	16,250
ROE (%)	9.2	6.8	25.6	14.0	16.7	16.9
P/E (x)	9.6	19.1	7.7	20.9	15.5	13.2
P/B (x)	0.8	1.3	1.8	2.8	2.4	2.1
Dividend yield (%)	1.5	1.4	1.4	0.8	0.8	0.8

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

Source: Company data, Mirae Asset Securities Research estimates

Hanwha Aerospace (012450 KS)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	9,359	11,110	13,528	15,550
Cost of revenue	7,221	8,530	10,563	11,936
GP	2,138	2,580	2,965	3,614
SG&A expenses	1,447	1,647	1,743	2,202
OP (adj.)	691	933	1,222	1,411
OP	691	933	1,222	1,411
Non-operating profit	524	-72	-143	-140
Net financial income	-85	-124	-134	-141
Net income from associates	16	9	-10	0
Pretax profit	1,215	861	1,079	1,271
Income tax	238	180	216	258
Profit from continuing operations	977	640	863	1,012
Profit from discontinued operations	0	0	0	0
NP	977	640	863	1,012
Attributable to owners	818	520	701	823
Attributable to minority interests	159	120	162	190
Total comprehensive income	819	640	863	1,012
Attributable to owners	750	1,196	1,613	1,892
Attributable to minority interests	69	-556	-750	-880
EBITDA	1,030	1,296	1,560	1,733
FCF	937	330	465	563
EBITDA margin (%)	11.0	11.7	11.5	11.1
OP margin (%)	7.4	8.4	9.0	9.1
Net margin (%)	8.7	4.7	5.2	5.3

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	9,192	9,997	11,061	12,673
Cash & equivalents	1,806	1,970	2,260	2,760
AR & other receivables	2,115	2,319	2,595	3,078
Inventory	2,869	3,084	3,340	3,690
Other current assets	2,402	2,624	2,866	3,145
Non-current assets	10,351	10,793	11,354	11,887
Investments in associates	3,204	3,301	3,435	3,574
PP&E	3,410	3,446	3,540	3,669
Intangible assets	2,203	2,437	2,668	2,900
Total assets	19,543	20,790	22,415	24,560
Current liabilities	12,077	12,632	13,217	14,008
AP & other payables	1,255	1,361	1,510	1,789
Short-term financial liabilities	2,616	2,733	2,846	3,006
Other current liabilities	8,206	8,538	8,861	9,213
Non-current liabilities	2,782	2,978	3,248	3,681
Long-term financial liabilities	1,580	1,806	1,996	2,196
Other non-current liabilities	1,202	1,172	1,252	1,485
Total liabilities	14,859	15,610	16,465	17,689
Equity attributable to owners	3,528	3,904	4,512	5,244
Capital stock	266	266	266	266
Capital surplus	192	180	177	177
Retained earnings	2,627	3,056	3,667	4,398
Minority interests	1,156	1,276	1,437	1,627
Shareholders' equity	4,684	5,180	5,949	6,871

Key valuation metrics/ratios

	2023	2024F	2025F	2026F
P/E (x)	7.7	20.9	15.5	13.2
P/CF (x)	6.9	8.4	7.0	6.3
P/B (x)	1.8	2.8	2.4	2.1
EV/EBITDA (x)	9.5	11.3	9.5	8.5
EPS (W)	16,147	10,270	13,849	16,250
CFPS (W)	17,957	25,658	30,821	34,222
BPS (W)	69,732	77,165	89,157	103,609
DPS (W)	1,800	1,800	1,800	1,800
Dividend payout ratio (%)	9.3	14.2	10.5	9.0
Dividend yield (%)	1.4	0.8	0.8	0.8
Revenue growth (%)	32.6	18.7	21.8	14.9
EBITDA growth (%)	55.4	25.8	20.4	11.0
OP growth (%)	70.9	35.0	31.0	15.5
EPS growth (%)	318.5	-36.4	34.9	17.3
AR turnover (x)	5.3	5.2	5.7	5.7
Inventory turnover (x)	3.7	3.7	4.2	4.4
AP turnover (x)	9.7	9.1	10.5	10.5
ROA (%)	5.6	3.2	4.0	4.3
ROE (%)	25.6	14.0	16.7	16.9
ROIC (%)	12.9	16.5	19.5	20.1
Debt-to-equity ratio (%)	317.2	301.3	276.8	257.5
Current ratio (%)	76.1	79.1	83.7	90.5
Net debt-to-equity ratio (%)	48.8	47.5	41.4	33.5
Interest coverage ratio (x)	4.1	4.7	5.8	6.3

Source: Company data, Mirae Asset Securities Research estimates

Korea Aerospace Industries (047810 KS)

Solid 2024F revenue and potential export momentum

(Maintain)	Buy
Target price	₩72,000
Current price (5/16/24)	₩54,900
Upside	31.1%

OP (24F, Wbn)	259		
Consensus OP (24F, Wbn)	250		
EPS growth (24F, %)	-13.5		
Market EPS growth (24F, %)	75.9		
P/E (24F, x)	27.6		
Market P/E (24F, x)	11.1		
KOSPI	2,753.00		
Market cap (Wbn)	5,351		
Shares (mn)	97		
Free float (%)	72.0		
Foreign ownership (%)	29.9		
Beta (12M)	0.22		
52-week low (W)	44,200		
52-week high (W)	57,300		
(%)	1M	6M	12M
Absolute	12.6	19.1	6.8
Relative	6.8	7.6	-3.8

Recommendation

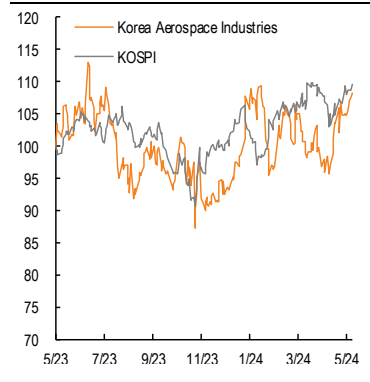
- We maintain our Buy call and target price of ₩72,000 on KAI.
- Conditions for share price gains: 1) higher visibility on the US trainer jet business; and 2) improvements in aircraft parts earnings

Investment points

- We expect the firm to deliver solid 2024 results, backed by revenue recognition for five Surion helicopters and the completion of the Iraqi base reconstruction project. In 2025, earnings will likely enter a growth trajectory.
- We see ample opportunities for fixed-wing/rotary-wing aircraft exports, given escalating arms races in the Middle East and Southeast Asia. Export momentum should build as the US trainer jet business gains visibility.
- For 2024, we look for revenue of ₩3.8tr (-0.3% YoY) and operating profit of ₩258.7bn (+4.5% YoY; OP margin of 6.8%).

Risks

- Slowdown in aircraft parts earnings recovery



(Dec.)	2021	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	2,562	2,787	3,819	3,807	4,706	5,501
OP (Wbn)	58	142	248	259	352	418
OP margin (%)	2.3	5.1	6.5	6.8	7.5	7.6
NP (Wbn)	64	118	224	194	278	347
EPS (W)	656	1,215	2,298	1,989	2,856	3,564
ROE (%)	5.2	8.8	14.8	11.6	15.0	16.4
P/E (x)	49.5	41.9	21.8	27.6	19.2	15.4
P/B (x)	2.5	3.5	3.1	3.1	2.7	2.4
Dividend yield (%)	0.6	0.5	1.0	0.9	0.9	0.9

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

Source: Company data, Mirae Asset Securities Research estimates

Korea Aerospace Industries (047810 KS)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	3,819	3,807	4,706	5,501
Cost of revenue	3,355	3,278	4,005	4,672
GP	464	529	701	829
SG&A expenses	216	270	349	411
OP (adj.)	248	259	352	418
OP	248	259	352	418
Non-operating profit	21	-17	-6	13
Net financial income	16	9	7	13
Net income from associates	0	0	0	0
Pretax profit	269	242	346	431
Income tax	47	49	69	86
Profit from continuing operations	221	193	277	346
Profit from discontinued operations	0	0	0	0
NP	221	193	277	346
Attributable to owners	224	194	278	347
Attributable to minority interests	-3	-1	-1	-2
Total comprehensive income	191	193	277	346
Attributable to owners	194	195	280	349
Attributable to minority interests	-3	-2	-2	-3
EBITDA	369	395	498	559
FCF	-778	317	444	423
EBITDA margin (%)	9.7	10.4	10.6	10.2
OP margin (%)	6.5	6.8	7.5	7.6
Net margin (%)	5.9	5.1	5.9	6.3

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	4,681	4,915	5,471	6,073
Cash & equivalents	658	623	727	851
AR & other receivables	421	378	439	472
Inventory	1,736	1,889	2,111	2,373
Other current assets	1,866	2,025	2,194	2,377
Non-current assets	2,459	2,618	2,763	2,868
Investments in associates	13	11	13	15
PP&E	815	900	969	1,004
Intangible assets	804	878	950	1,017
Total assets	7,140	7,532	8,235	8,941
Current liabilities	4,400	4,567	4,925	5,289
AP & other payables	427	353	410	447
Short-term financial liabilities	404	274	164	67
Other current liabilities	3,569	3,940	4,351	4,775
Non-current liabilities	1,119	1,201	1,317	1,362
Long-term financial liabilities	235	199	146	79
Other non-current liabilities	884	1,002	1,171	1,283
Total liabilities	5,520	5,768	6,242	6,651
Equity attributable to owners	1,597	1,742	1,973	2,271
Capital stock	487	487	487	487
Capital surplus	128	128	128	128
Retained earnings	1,003	1,148	1,377	1,676
Minority interests	23	22	20	19
Shareholders' equity	1,620	1,764	1,993	2,290

Key valuation metrics/ratios

	2023	2024F	2025F	2026F
P/E (x)	21.8	27.6	19.2	15.4
P/CF (x)	9.9	12.8	10.3	9.6
P/B (x)	3.1	3.1	2.7	2.4
EV/EBITDA (x)	12.9	13.0	9.7	8.1
EPS (W)	2,298	1,989	2,856	3,564
CFPS (W)	5,048	4,274	5,326	5,731
BPS (W)	16,388	17,877	20,233	23,297
DPS (W)	500	500	500	500
Dividend payout ratio (%)	22.0	25.2	17.6	14.1
Dividend yield (%)	1.0	0.9	0.9	0.9
Revenue growth (%)	37.0	-0.3	23.6	16.9
EBITDA growth (%)	33.1	7.2	26.0	12.2
OP growth (%)	74.8	4.5	36.1	18.9
EPS growth (%)	89.1	-13.5	43.6	24.8
AR turnover (x)	13.6	11.1	12.8	13.5
Inventory turnover (x)	2.3	2.1	2.4	2.5
AP turnover (x)	11.3	10.5	13.5	13.9
ROA (%)	3.0	2.6	3.5	4.0
ROE (%)	14.8	11.6	15.0	16.4
ROIC (%)	15.1	9.8	12.7	14.2
Debt-to-equity ratio (%)	340.7	326.9	313.3	290.5
Current ratio (%)	106.4	107.6	111.1	114.8
Net debt-to-equity ratio (%)	-8.2	-14.2	-27.1	-36.6
Interest coverage ratio (x)	8.5	14.7	30.1	50.9

Cruising along

(Maintain)	Buy
Target price	W208,000
Current price (5/16/24)	W162,000
Upside	28.4%

OP (24F, Wbn)	238
Consensus OP (24F, Wbn)	0
EPS growth (24F, %)	21.1
Market EPS growth (24F, %)	75.9
P/E (24F, x)	16.8
Market P/E (24F, x)	11.1
KOSPI	2,753.00

Market cap (Wbn)	3,564		
Shares (mn)	22		
Free float (%)	54.7		
Foreign ownership (%)	20.6		
Beta (12M)	0.89		
52-week low (W)	72,600		
52-week high (W)	183,300		
(%)	1M	6M	12M
Absolute	2.0	73.3	107.7
Relative	-3.3	56.6	87.1

Recommendation

- We reaffirm our Buy call and target price of W208,000 on LIG Nex1.
- The stock remains undervalued relative to global peers. A valuation re-rating is likely as the company gains market share globally.

Investment points

- The company is expected to export the Cheongung-II system to Malaysia and Romania (following exports to Saudi Arabia) and Bigung missiles to the US.
- The firm is also likely to benefit from government investments in the “three-axis system” intended to deter North Korean attacks. We expect the mass production of long-range surface-to-air missiles (L-SAM) and low-altitude missile defense (LAMD) systems to begin in 2025-26.
- For 2024, we expect LIG Nex1 to post revenue of W3.2tr (+37.1% YoY) and operating profit of W238bn (+27.7% YoY; OP margin of 7.5%).

Risks

- Higher mix of the development business



(Dec.)	2021	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	1,820	2,216	2,303	3,158	3,523	4,205
OP (Wbn)	97	179	185	238	300	369
OP margin (%)	5.3	8.1	8.0	7.5	8.5	8.8
NP (Wbn)	105	123	175	212	257	326
EPS (W)	4,775	5,588	7,953	9,631	11,682	14,811
ROE (%)	14.6	14.5	17.6	18.6	19.3	20.6
P/E (x)	14.4	16.5	16.4	16.8	13.9	10.9
P/B (x)	2.0	2.2	2.7	2.9	2.5	2.1
Dividend yield (%)	1.7	1.6	1.5	1.2	1.2	1.2

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

Source: Company data, Mirae Asset Securities Research estimates

LIG Nex1 (079550 KS)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	2,303	3,158	3,523	4,205
Cost of revenue	1,959	2,705	2,984	3,550
GP	344	453	539	655
SG&A expenses	159	215	240	286
OP (adj.)	185	238	300	369
OP	185	238	300	369
Non-operating profit	0	13	2	14
Net financial income	-6	-7	-5	-5
Net income from associates	1	20	20	20
Pretax profit	185	251	302	383
Income tax	10	39	45	58
Profit from continuing operations	175	212	257	326
Profit from discontinued operations	0	0	0	0
NP	175	212	257	326
Attributable to owners	175	212	257	326
Attributable to minority interests	0	0	0	0
Total comprehensive income	150	212	257	326
Attributable to owners	150	212	257	326
Attributable to minority interests	0	0	0	0
EBITDA	254	309	378	459
FCF	416	102	179	145
EBITDA margin (%)	11.0	9.8	10.7	10.9
OP margin (%)	8.0	7.5	8.5	8.8
Net margin (%)	7.6	6.7	7.3	7.8

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	2,527	2,933	3,443	4,008
Cash & equivalents	444	538	674	809
AR & other receivables	308	373	469	573
Inventory	215	265	318	393
Other current assets	1,560	1,757	1,982	2,233
Non-current assets	1,278	1,607	1,808	2,111
Investments in associates	10	14	18	22
PP&E	882	1,195	1,337	1,597
Intangible assets	188	213	267	304
Total assets	3,805	4,540	5,251	6,119
Current liabilities	2,640	3,206	3,650	4,162
AP & other payables	179	244	286	344
Short-term financial liabilities	235	252	278	306
Other current liabilities	2,226	2,710	3,086	3,512
Non-current liabilities	113	112	165	237
Long-term financial liabilities	54	101	151	221
Other non-current liabilities	59	11	14	16
Total liabilities	2,753	3,318	3,814	4,400
Equity attributable to owners	1,052	1,222	1,436	1,720
Capital stock	110	110	110	110
Capital surplus	142	142	142	142
Retained earnings	728	897	1,112	1,395
Minority interests	0	0	0	0
Shareholders' equity	1,052	1,222	1,436	1,720

Key valuation metrics/ratios

	2023	2024F	2025F	2026F
P/E (x)	16.4	16.8	13.9	10.9
P/CF (x)	9.8	10.8	9.2	7.4
P/B (x)	2.7	2.9	2.5	2.1
EV/EBITDA (x)	10.6	10.9	8.7	7.1
EPS (W)	7,953	9,631	11,682	14,811
CFPS (W)	13,288	14,952	17,530	21,790
BPS (W)	48,076	55,775	65,526	78,405
DPS (W)	1,950	1,950	1,950	1,950
Dividend pay out ratio (%)	24.3	20.1	16.5	13.0
Dividend yield (%)	1.5	1.2	1.2	1.2
Revenue growth (%)	3.9	37.1	11.6	19.4
EBITDA growth (%)	9.3	21.7	22.5	21.5
OP growth (%)	3.6	28.5	26.0	22.9
EPS growth (%)	42.3	21.1	21.3	26.8
AR turnover (x)	10.0	10.4	9.3	8.9
Inventory turnover (x)	10.5	13.2	12.1	11.8
AP turnover (x)	24.2	18.1	16.2	16.4
ROA (%)	5.1	5.1	5.3	5.7
ROE (%)	17.6	18.6	19.3	20.6
ROIC (%)	18.7	22.4	24.7	25.3
Debt-to-equity ratio (%)	261.6	271.6	265.6	255.9
Current ratio (%)	95.7	91.5	94.3	96.3
Net debt-to-equity ratio (%)	-16.8	-17.3	-19.3	-18.8
Interest coverage ratio (x)	19.7	18.9	20.1	20.9

Source: Company data, Mirae Asset Securities Research estimates

Hanwha Systems (272210 KS)

Consistently exceeding expectations

(Maintain)	Buy
Target price	W26,000
Current price (5/16/24)	W18,860
Upside	37.9%

OP (24F, Wbn)	165		
Consensus OP (24F, Wbn)	155		
EPS growth (24F, %)	-46.0		
Market EPS growth (24F, %)	75.9		
P/E (24F, x)	18.9		
Market P/E (24F, x)	11.1		
KOSPI	2,753.00		
Market cap (Wbn)	3,563		
Shares (mn)	189		
Free float (%)	35.0		
Foreign ownership (%)	6.3		
Beta (12M)	1.28		
52-week low (W)	11,720		
52-week high (W)	20,350		
(%)	1M	6M	12M
Absolute	15.8	26.7	36.2
Relative	9.8	14.5	22.7

Recommendation

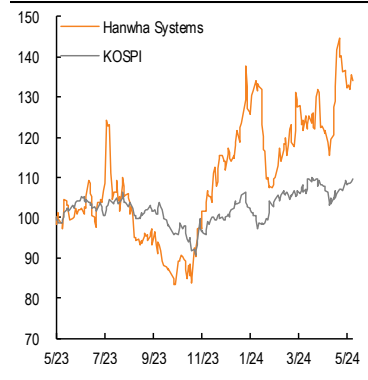
- We maintain our Buy rating and target price of W26,000 on Hanwha Systems.
- The stock is trading at a 12-month forward P/B of 1.5x (historical average). Over the medium to long term, the defense and aerospace businesses could command a valuation premium.

Investment points

- We expect the share of exports to jump from 8.5% in 2023 to 18% in 2024. The company may also directly export AESA radars to Europe.
- We also note upcoming large-scale orders (new orders in 2024 projected to exceed W4tr) and positive momentum from the May 27 launch of the Korea Aerospace Administration.
- For 2024, we look for revenue of W2.8tr (+13.6% YoY) and operating profit of W165.3bn (+78% YoY; OP margin of 5.9%).

Risks

- Higher costs associated with new businesses (UAM, etc.)



(Dec.)	2021	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	2,090	2,188	2,453	2,787	3,240	3,455
OP (Wbn)	112	39	93	165	200	168
OP margin (%)	5.4	1.8	3.8	5.9	6.2	4.9
NP (Wbn)	98	-77	349	189	212	189
EPS (W)	630	-405	1,849	999	1,121	998
ROE (%)	6.0	-3.6	16.9	8.7	9.4	7.8
P/E (x)	25.4	-	9.4	18.9	16.8	18.9
P/B (x)	1.3	1.0	1.5	1.6	1.5	1.4
Dividend yield (%)	1.0	2.4	1.6	1.5	1.5	1.5

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

Source: Company data, Mirae Asset Securities Research estimates

Hanwha Systems (272210 KS)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	2,453	2,787	3,240	3,455
Cost of revenue	2,149	2,437	2,844	3,026
GP	304	350	396	429
SG&A expenses	211	184	196	261
OP (adj.)	93	165	200	168
OP	93	165	200	168
Non-operating profit	320	55	47	52
Net financial income	12	-6	-8	-8
Net income from associates	-30	70	60	60
Pretax profit	413	220	247	220
Income tax	57	37	42	37
Profit from continuing operations	356	182	205	182
Profit from discontinued operations	-13	0	0	0
NP	343	182	205	182
Attributable to owners	349	189	212	189
Attributable to minority interests	-6	-6	-7	-6
Total comprehensive income	167	182	205	182
Attributable to owners	173	180	202	180
Attributable to minority interests	-6	3	3	3
EBITDA	215	310	346	314
FCF	-49	-56	-110	76
EBITDA margin (%)	8.8	11.1	10.7	9.1
OP margin (%)	3.8	5.9	6.2	4.9
Net margin (%)	14.2	6.8	6.5	5.5

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	1,890	1,998	2,292	2,570
Cash & equivalents	476	335	233	390
AR & other receivables	202	213	251	251
Inventory	501	619	812	791
Other current assets	711	831	996	1,138
Non-current assets	2,593	2,700	2,805	2,840
Investments in associates	993	1,002	1,014	1,026
PP&E	348	388	417	435
Intangible assets	559	558	559	562
Total assets	4,483	4,698	5,097	5,411
Current liabilities	1,951	2,085	2,291	2,457
AP & other payables	213	181	211	226
Short-term financial liabilities	191	227	262	264
Other current liabilities	1,547	1,677	1,818	1,967
Non-current liabilities	378	422	462	480
Long-term financial liabilities	139	139	139	139
Other non-current liabilities	239	283	323	341
Total liabilities	2,329	2,507	2,753	2,937
Equity attributable to owners	2,140	2,183	2,343	2,479
Capital stock	945	945	945	945
Capital surplus	1,100	1,100	1,100	1,100
Retained earnings	212	349	508	644
Minority interests	14	8	1	-5
Shareholders' equity	2,154	2,191	2,344	2,474

Key valuation metrics/ratios

	2023	2024F	2025F	2026F
P/E (x)	9.4	18.9	16.8	18.9
P/CF (x)	12.6	10.4	9.6	11.4
P/B (x)	1.5	1.6	1.5	1.4
EV/EBITDA (x)	14.5	11.5	10.7	11.2
EPS (W)	1,849	999	1,121	998
CFPS (W)	1,376	1,809	1,975	1,661
BPS (W)	11,507	11,737	12,581	13,302
DPS (W)	280	280	280	280
Dividend payout ratio (%)	15.3	28.7	25.6	28.7
Dividend yield (%)	1.6	1.5	1.5	1.5
Revenue growth (%)	12.1	13.6	16.3	6.6
EBITDA growth (%)	49.1	44.4	11.4	-9.2
OP growth (%)	137.6	78.0	20.9	-16.2
EPS growth (%)	-	-46.0	12.2	-10.9
AR turnover (x)	12.3	13.5	14.1	13.9
Inventory turnover (x)	5.6	5.0	4.5	4.3
AP turnover (x)	15.3	17.1	21.5	20.3
ROA (%)	8.1	4.0	4.2	3.5
ROE (%)	16.9	8.7	9.4	7.8
ROIC (%)	13.1	16.6	15.6	12.1
Debt-to-equity ratio (%)	108.1	114.4	117.5	118.7
Current ratio (%)	96.9	95.8	100.0	104.6
Net debt-to-equity ratio (%)	-8.3	-0.3	5.3	-1.3
Interest coverage ratio (x)	6.5	9.1	10.0	7.8

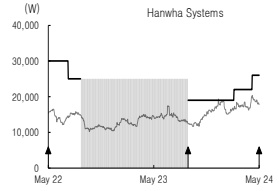
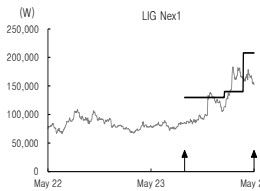
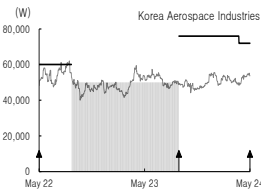
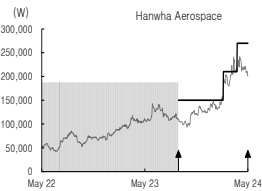
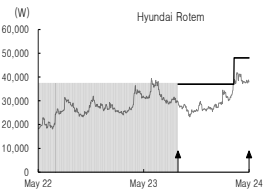
Source: Company data, Mirae Asset Securities Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)	Company	Date	Rating	TP (W)
Hyundai Rotem (064350)	04/01/24	Buy	48,000		04/15/24	Buy	208,000
	09/20/23	Buy	37,000		02/08/24	Buy	140,000
Hanwha Aerospace (012450)				Hanwha Systems (272210)	09/20/23	Buy	130,000
	04/15/24	Buy	270,000		04/29/24	Buy	26,000
	02/26/24	Buy	210,000		02/26/24	Buy	22,000
Korea Aerospace Industries (047810)	09/20/23	Buy	150,000	09/20/23	Buy	19,000	
				09/14/22	No Coverage		
	04/15/24	Buy	72,000	08/01/22	Buy	25,000	
	09/20/23	Buy	76,000	05/07/22	One year		
	09/14/22	No Coverage					
LIG Nex1 (079550)	05/04/22	Buy	60,000				



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 Daewoo 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	85.36%	9.15%	5.49%	0%
Investment banking services	80.96%	9.52%	9.52%	0%

* Based on recommendations in the last 12-months (as of March 31, 2024)

Appendix 1

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Mirae Asset Securities International Network

Mirae Asset Securities International Network

Mirae Asset Securities Co., Ltd. (Seoul)

One-Asia Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

PT. Mirae Asset Sekuritas Indonesia

District 8, Treasury Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-54
Jakarta Selatan 12190
Indonesia
Tel: 62-21-5088-7000

Mirae Asset Securities Mongolia UTsk LLC

#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area
Shanghai 200120
China

Tel: 86-21-5013-6392

Mirae Asset Securities (HK) Ltd.

Units 8501, 8507-8508, 85/F
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong
Tel: 852-2845-6332

Mirae Asset Wealth Management (USA) Inc.

555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA

Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building
Vila Olimpia
Sao Paulo - SP
04551-060
Brazil
Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)

Mirae Asset Capital Markets (India) Private Limited

Unit No. 506, 5th Floor, Windsor Bldg., Off CST Road,
Kalina, Santacruz (East), Mumbai - 400098
India

Tel: 91-22-62661336
