Initiation Report | September 30, 2026

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Defense/Aerospace (Overweight/Initiate)

Korean contractors poised to fill the supply gap



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Executive summary

Beyond a short-term war-driven trade: Stronger long-term demand ahead

The current rise in global defense spending extends beyond immediate wartime support. Rather, it reflects medium/long-term investment to address shifts in US security posture and persistent external threats. Capability gaps exposed during recent conflicts should translate into orders and ultimately earnings, strengthening defense industry fundamentals.

The gap between strong order intake and earnings growth has weighed on global defense valuations. However, defense procurement typically takes several years from order placement to delivery, and deliveries of weapons ordered since the onset of recent conflicts should gradually increase. Korean defense companies also have substantial export pipelines across land, aerospace, and air defense systems, while revenue recognition from existing contracts should accelerate further. The earnings growth outlook and order momentum remain solid.

Global defense spending growth to continue beyond current conflicts

The current rise in global defense spending is driven primarily by medium/long-term efforts to replenish depleted stockpiles and prepare for future threats, rather than by immediate wartime support needs. Geopolitical tensions remain elevated amid: 1) concerns over further Russian aggression in Europe; 2) conflicts in the Middle East; and 3) territorial disputes in the South China Sea. The US, the world's largest defense spender, has also requested a US$1.45tr FY2027 defense budget (+44% vs. FY2026), preparing for weapons modernization and stockpile replenishment over the next five to 10 years.

Europe is rearming amid a shift in US security posture. We forecast defense spending by NATO's European members to reach US$1.19tr in 2035, representing a 2025-35F CAGR of 7.3%. In the Middle East, arms trade rose structurally following both the Gulf War and the Arab Spring, increasing 42% from the early to the late 1990s and 139% from the early to the late 2010s. This precedent suggests that arms trade will continue expanding for several years after current hostilities end.

Capacity tight relative to replenishment needs; shortages to persist

Europe's defense industry weakened considerably during the three decades of defense cuts following the Soviet Union's collapse in 1991. Defense spending fell from 2.6% of GDP in 1992 to 1.7% in 2022, leaving the region poorly positioned to meet the current surge in demand. We estimate lead times for key European land weapons systems at 5.5 years. Major systems have only recently entered series production, and output has yet to ramp up sufficiently. Together with suppliers' prioritization of domestic requirements, this means that more time will be needed to address export demand.

The US has already expended substantial quantities of military supplies in the war with Iran, with its Patriot interceptor inventory estimated to have fallen by as much as 67% as of July. We expect strong demand to replenish US stockpiles over the coming years, as reflected in the seven-year agreements with Lockheed Martin for large-scale purchases of Patriot and THAAD interceptors. Based on the US Department of Defense's missile procurement plans, we estimate that Patriot interceptor inventories will not return to pre-war levels until 3Q29. Disruptions to Patriot deliveries to overseas customers are therefore likely unavoidable over the near to medium term. Although US suppliers are significantly expanding capacity, the effects should take time to materialize, as production capacity must increase across the entire value chain.

Local production becoming a key factor in winning orders

Demand for local production in defense procurement is growing, driven by the limitations of geographically distant supply chains (as exposed during recent conflicts) and governments' efforts to support domestic economies. The EU aims to source 60% of defense procurement within the bloc by 2035, while Middle Eastern countries are also pursuing localization programs to develop their own defense industries.

Against this backdrop, concerns have grown over barriers to entering NATO markets. However, Spain's adoption of the K9 platform and the planned integration of Chunmoo guided missiles with Thales' multiple launch rocket system (MLRS) show that Europe still needs Korean technology and that multiple routes into local supply chains remain open. LIG Defense & Aerospace (LIG D&A) plans to enter Europe's air defense network through joint missile development with Rheinmetall. All in all, Korean defense companies are responding to importing countries' requirements with a more open approach to local production and technology sharing than competing suppliers.

K-defense competitiveness: Robust industrial base

The unresolved conflict with North Korea has been a fundamental driver of the Korean defense industry's competitiveness for more than 70 years. The K9, developed to counter North Korea's 170mm long-range artillery deployed near the DMZ, has become the world's leading tracked self-propelled howitzer. Cheongung, developed to counter North Korean ballistic missiles, has also demonstrated its capabilities through Cheongung-II's performance in the US-Iran war. With its strong industrial base, Korea differs fundamentally from Europe, where production lines were largely dormant for three decades.

Uninterrupted production has supported not only strong system performance but also shorter delivery times. The first batch of K2 tanks for Poland was delivered just four months after the contract was signed, and the second batch was delivered six months ahead of schedule. Large-scale domestic orders have also created economies of scale, supporting price competitiveness. Another advantage is that procuring weapons from Korea carries relatively few political sensitivities for importing countries.

We estimate that Korea's four major defense systems integrators will generate combined revenue of W62.68tr and operating profit of W10.02tr in 2028, representing respective 2025-28 CAGRs of 15.6% and 29.2%. With global demand rising and competitors facing persistent supply shortages, the tailwinds for Korea's defense industry continue to strengthen. Following the initial phase of export growth in the early to mid-2020s, we believe the industry is entering an export expansion phase in 2026-30.

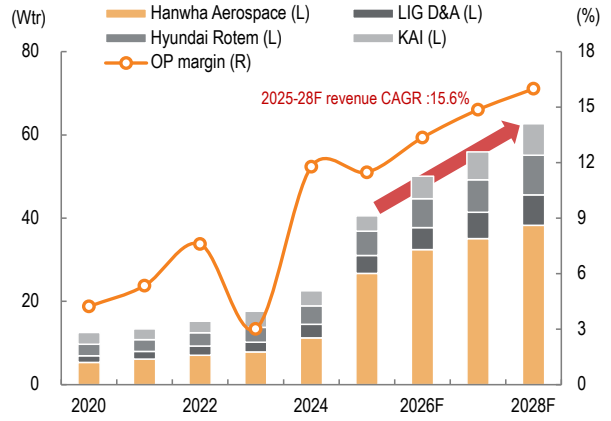
LIG D&A is our top pick with a TP of W1,120,000

We derive our target price of W1,120,000 for LIG D&A by applying the stock's average 12-month forward P/E of 33.8x over the past year to our 2028F EPS of W33,034. We believe the past year provides the most appropriate basis for valuation, capturing the rise in global defense spending amid shifting US security policy along with missile shortages and stronger order momentum following the US-Iran war.

The company has an extensive order pipeline. We expect Cheongung-II exports to expand to additional Middle Eastern countries such as Qatar and Kuwait and the export lineup to broaden to include L-SAM. Procurement discussions are also underway in Southeast Asia, where significant gaps in medium/long-range air defense capabilities remain. Amid missile supply shortages, the company is also steadily pursuing entry into Europe through its partnership with Rheinmetall. We view its ongoing domestic capacity expansion as a sign of confidence in potential demand.

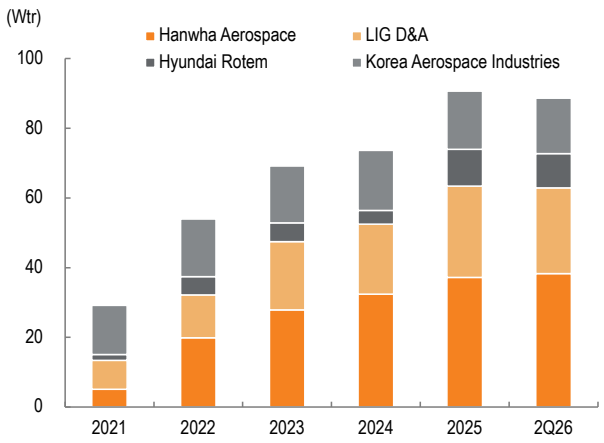
Key charts and tables

Figure 1. Major Korean defense contractors: Earnings trends



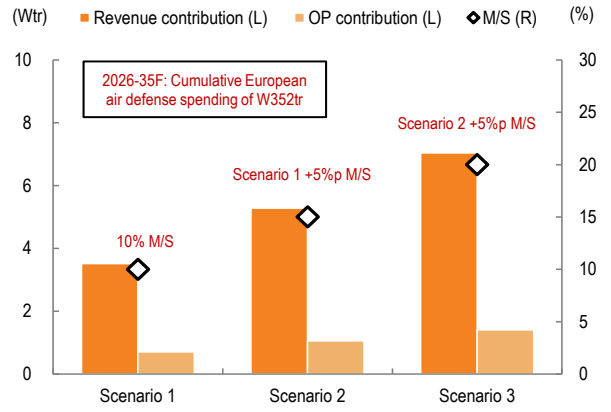
Source: Company data, Mirae Asset Securities Research

Figure 2. Major Korean defense contractors: Defense backlog



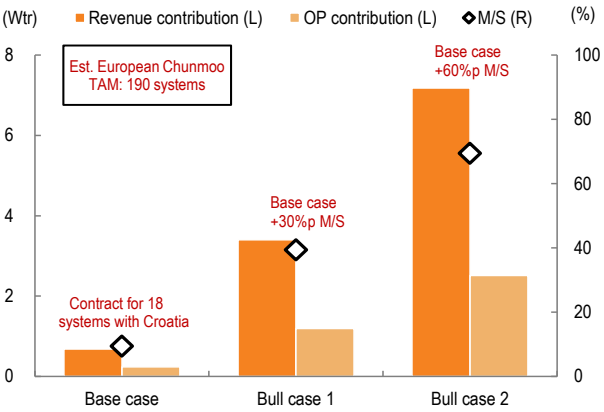
Source: Company data, Mirae Asset Securities Research

Figure 3. LIG D&A: Est. earnings under European air defense M/S scenarios



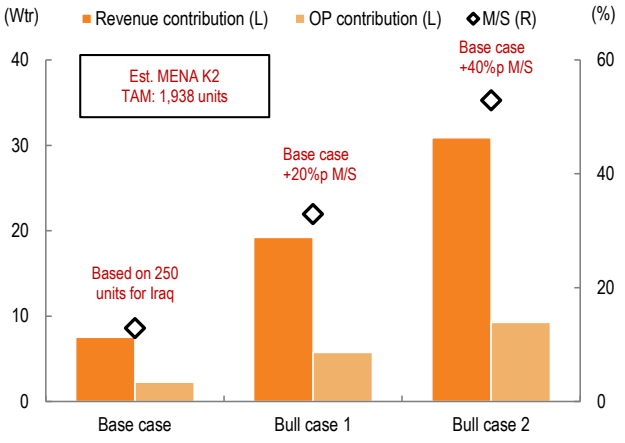
Notes: Assuming direct exports, as in the Middle East, and a 20% OP margin; scenario 1 assumes 10% M/S, with each subsequent scenario increasing in 5%p increments
Source: Mirae Asset Securities Research

Figure 4. Hanwha Aerospace: Est. earnings contribution under European Chunmoo export scenarios



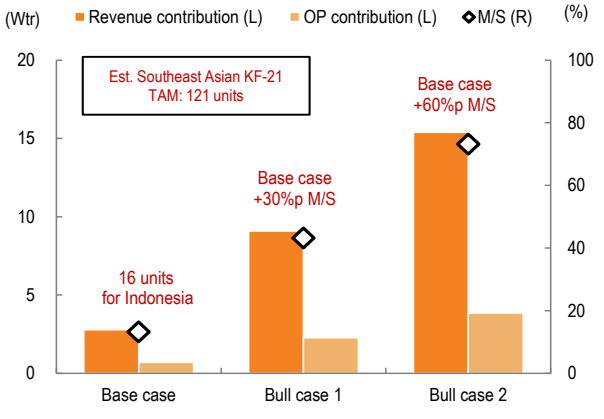
Notes: ASP is based on the Croatian Chunmoo contract (increased by 20% at each successive scenario); OP margin is assumed at 35% (land systems export OP margin)
Source: Mirae Asset Securities Research

Figure 5. Hyundai Rotem: Est. earnings contribution under Middle Eastern K2 export scenarios



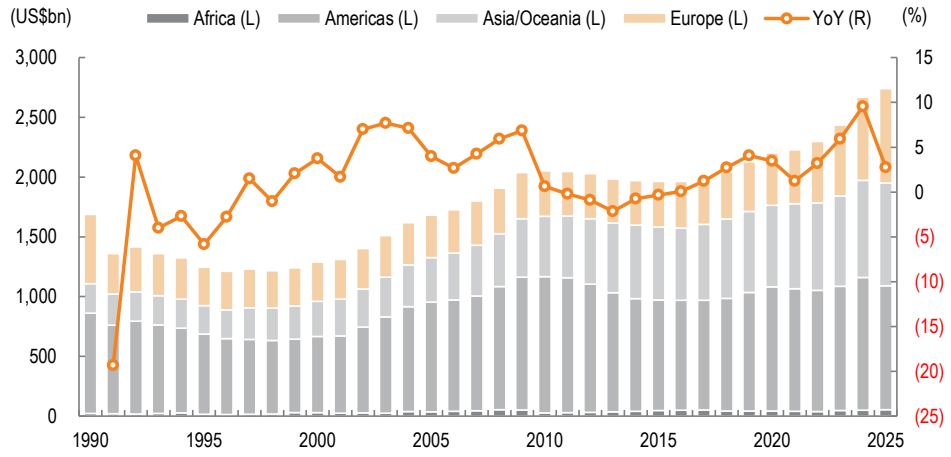
Notes: Based on EC1; one support vehicle for every seven tanks; 30% OP margin
Source: Mirae Asset Securities Research

Figure 6. KAI: Est. earnings contribution under Southeast Asian KF-21 export scenarios



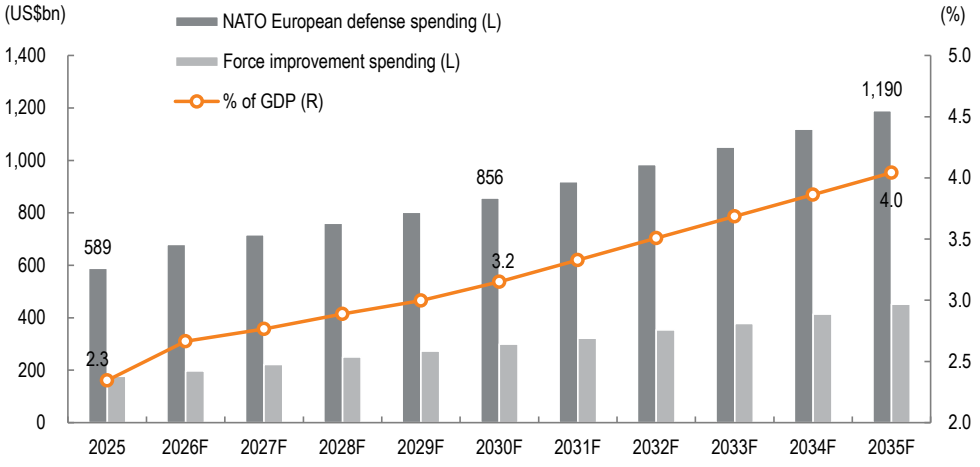
Notes: Assuming ASP 40% above est. KF-21 Block I domestic price and 25% gross margin
Source: Mirae Asset Securities Research

Figure 7. Global defense spending trend



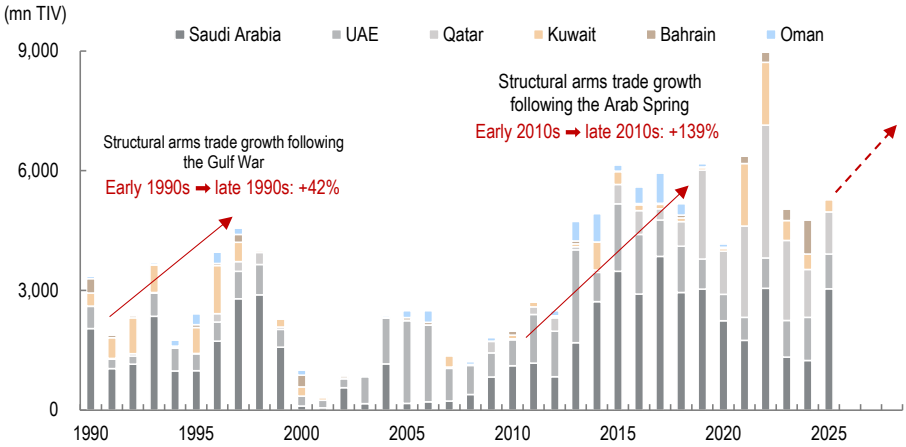
Source: SIPRI, Mirae Asset Securities Research

Figure 8. NATO European defense spending trend and outlook



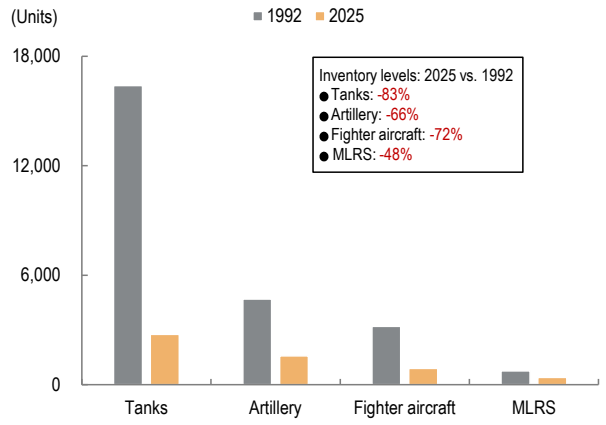
Source: NATO, ICDS, Bloomberg, Mirae Asset Securities Research

Figure 9. Annual arms trade trends in the six Gulf Cooperation Council countries



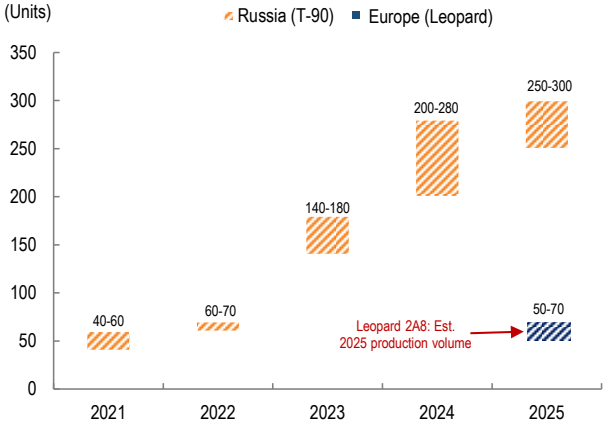
Note: Annual arms trade values may vary depending on the volume of weapons delivered in a given year
Source: SIPRI, Mirae Asset Securities Research

Figure 10. End of Cold War led to shrinking stockpiles, fewer orders, and erosion of Europe's defense industrial base



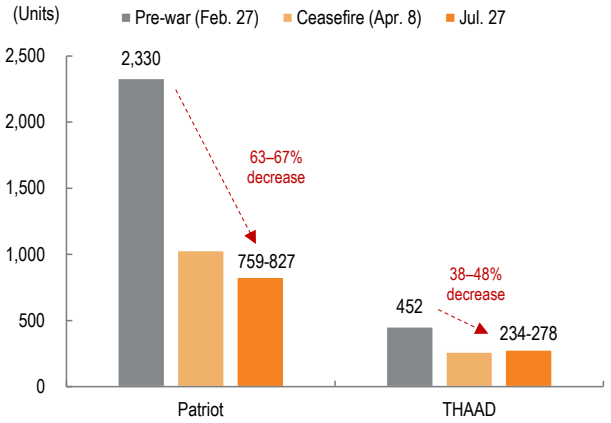
Source: UNROCA, Mirae Asset Securities Research

Figure 11. Widening production gap between Russian and European tanks



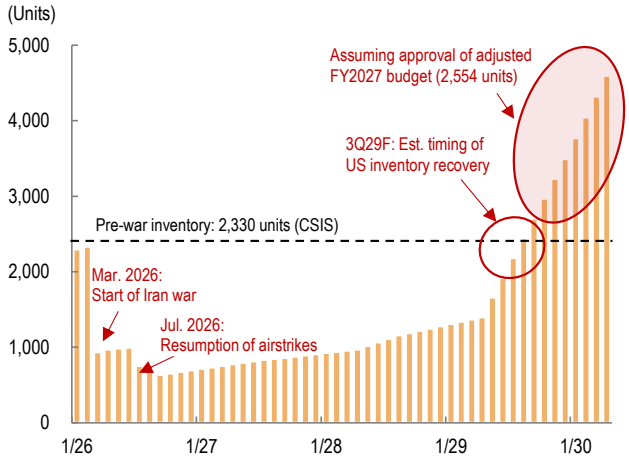
Source: CIT, media reports, Mirae Asset Securities Research

Figure 12. Sharp depletion of US missile inventory



Source: CSIS, Mirae Asset Securities Research

Figure 13. US Patriot interceptor inventories expected to return to pre-war levels in 3Q29



Source: US DoD, Mirae Asset Securities Research

Table 1. Est. lead times for major European land systems: 5.5 years on avg. (EURmn, units)

	Customer (country)	Units ordered	Contract value	Unit price	Order year	End of contract	Lead time (years)	Notes
Leopard 2A8 (series production began in 2025)	Czech Republic	44	1,340	30.5	2025	2031	6	Initial deliveries scheduled for 2028
	Netherlands	46	1,000	21.7	2025	2031	6	Initial deliveries scheduled for 2028
	Lithuania	44	950	21.6	2024	2030	6	Initial deliveries scheduled for 2028
	Sweden	44	1,740	39.5	2025	2031	6	Initial deliveries scheduled for 2028
	Germany	123	3,425	27.8	2023	2030	7	Initial deliveries scheduled for 2027
	Norway	54	-	-	2023	2028	3	Initial deliveries in Apr. 2026
CAESAR MK-II (6x6; series production began in 2026)	Croatia	18	328	18.2	2025	2030	5	Initial deliveries scheduled for mid-2029
	Slovenia	18	-	-	2025	2030	5	First 12 expected in 2028; remaining six by 2030
	Belgium	28	-	-	2022	2028*	6	Initial deliveries scheduled for 2027
	France	109	350	3.2	2024	2030	6	Initial deliveries scheduled for 2026
	Lithuania (2nd)	30	252	8.4	2025	2030	5	Initial deliveries scheduled for 2027
	Lithuania (1st)	18	150	8.3	2022	2028*	6	Initial deliveries delayed from 2026 to 2027
Archer (HX2 8x8; series production began in 2025)	Sweden (2nd)	18	300	16.7	2025	2027*	2	Intended for aid to Ukraine; initial deliveries set for 2026
	Sweden (1st)	48	420	8.8	2023	2030*	7	Initial deliveries in 2026
RCH-155 (8x8)	UK	72	1,150	16.0	2026	2032	6	Initial deliveries scheduled for 2028
	Germany	84	1,200	14.3	2025	2029	4	Initial deliveries scheduled for 2027
Donar (10x10; series production expected in 2031)	Switzerland	32			2026	2032	6	Initial deliveries scheduled for 2031; currently in the prototype development stage

Notes: Asterisks denote estimates; shaded rows indicate domestic procurement; final/initial delivery timing is based on company announcements and media reports
Source: Company data, media reports, Mirae Asset Securities Research

Investment strategy and valuation

Combined OP likely to grow at 29.2% CAGR over 2025-28

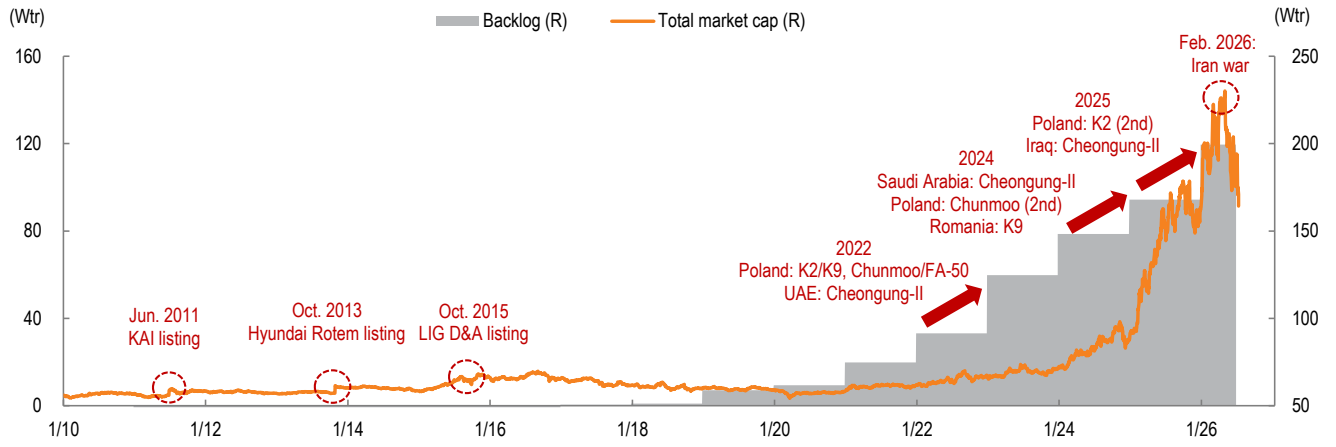
We initiate coverage of the Korean defense/aerospace sector with an Overweight rating. Since the comprehensive defense agreements with Poland in 2022 covering the K2, K9, Chunmoo, and FA-50, Korean defense stocks have trended upward, supported by continued export momentum (e.g., Cheongung-II in the Middle East and the K9 and Chunmoo in Europe) and growing earnings contributions from export contracts. In 2025, the four major defense contractors' combined year-end order backlog was 114% higher than at end-2021, while their annual revenue was 224% higher than in 2021.

We expect Korean defense exports and earnings growth to accelerate further amid a structural increase in global defense spending. Export volumes should grow as established systems with proven performance and delivery capabilities secure further orders and the export portfolio broadens to include L-SAM, the KF-21, and Chunmoo guided missiles. At end-2Q26, the combined order backlog of the four major defense contractors stood at W88.7tr—4.4x their combined revenue over the preceding four quarters. Order pipelines remain solid across a broad range of weapon systems.

For 2028, we forecast the four major defense contractors to generate combined revenue of W62.68tr and operating profit of W10.02tr, implying 2025-28 CAGRs of 15.6% and 29.2%, respectively. Earnings should continue to grow as revenue recognition from existing export contracts accelerates. We expect their operating profit growth to outpace the 12% CAGR forecast for global peers over the same period.

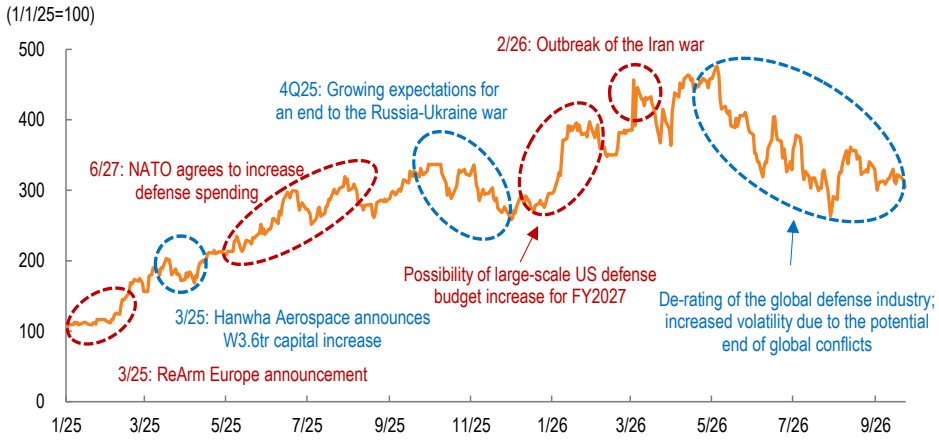
Korean defense stocks have declined 27.8% from their levels immediately after the outbreak of the US-Iran war. While volatility surrounding the possibility of an end to the war and a global defense sector de-rating likely contributed to the decline, the main factor has been the absence of major new orders in 2026. However, we view this as a temporary delay caused by geopolitical factors and believe the Korean defense sector still stands to benefit from rising weapons demand and persistent supply shortages. We expect order visibility to improve meaningfully from 2H26 through 1H27. Valuations also appear attractive relative to global peers, considering the sector's strong earnings and order outlooks.

Figure 14. Four major Korean defense contractors: Combined order backlog and market cap



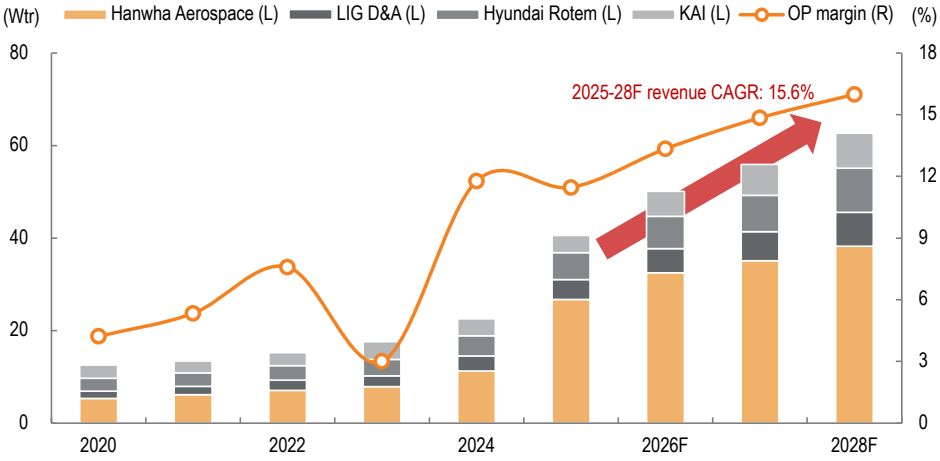
Note: Each company's order backlog is included from its listing date onward.
Source: Company data, QuantiWise, Mirae Asset Securities Research

Figure 15. Four major Korean defense contractors: Market cap since the start of 2025



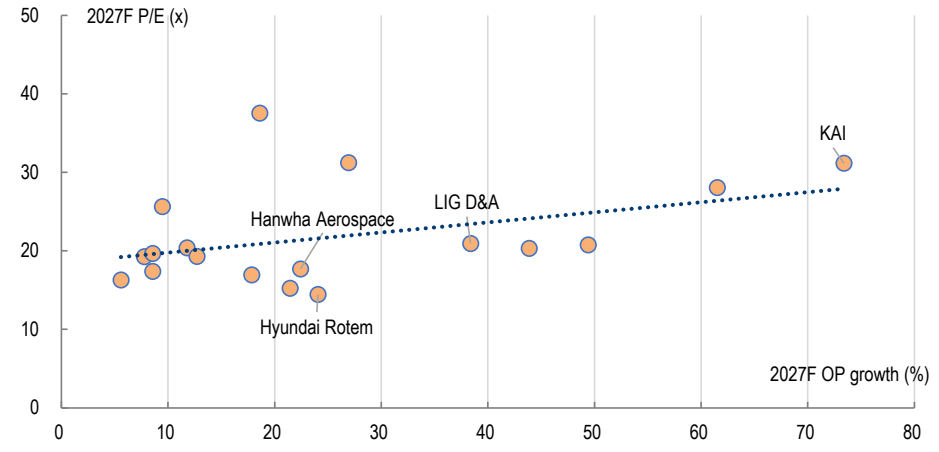
Source: QuantiWise, Mirae Asset Securities Research

Figure 16. Korea's four major defense contractors: Earnings trends and outlook



Source: Company data, Mirae Asset Securities Research

Figure 17. Defense peer group: P/E vs. OP growth (2027F)



Source: Bloomberg, company data, Mirae Asset Securities Research

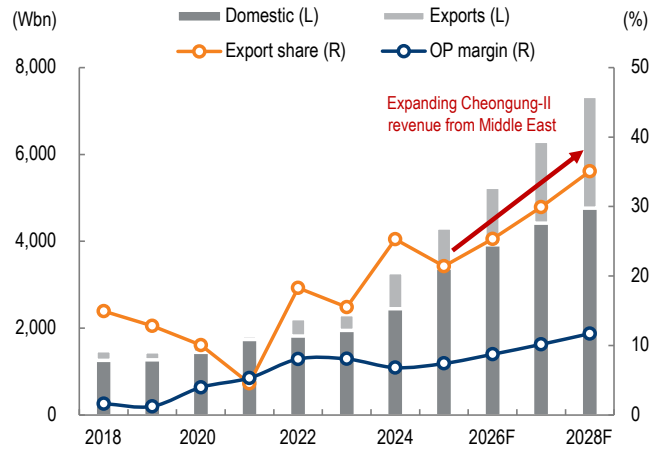
LIG D&A is our top pick with a TP of W1,120,000

We believe rising demand and tight supply will continue to support a valuation premium for missile manufacturers. We derive our target price of W1,120,000 for LIG D&A by applying the stock's average 12-month forward P/E of 33.8x over the past year to our 2028F EPS of W33,034. We believe the past year provides an appropriate basis for valuation, capturing the company's strengthening order momentum. We use 2028 as our earnings base because all three Middle Eastern Cheongung-II export contracts should contribute to revenue concurrently that year, while the capacity expansion currently underway should begin contributing meaningfully to earnings.

Growing revenue contributions from the Saudi and Iraqi Cheongung-II programs (from 2027 and 2028, respectively) should support steady growth. We forecast total revenue to grow at 19.4% CAGR over 2025-28, with the export share increasing structurally from 21.4% in 2025 to 35.1% in 2028. OP margin should also widen from 7.4% in 2025 to 11.8% in 2028, bringing it in line with global peer levels.

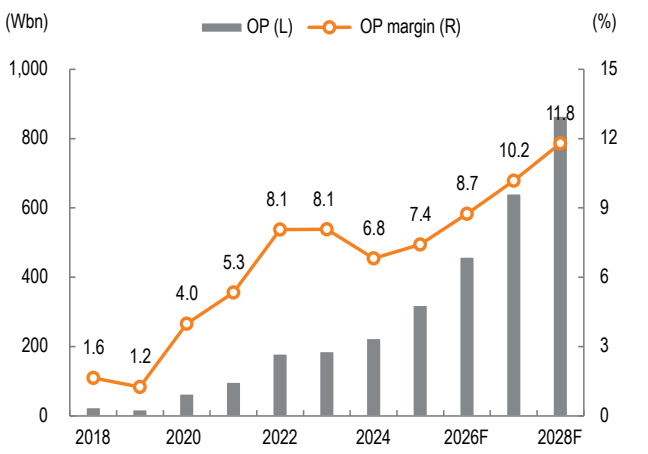
The company has an extensive order pipeline. We expect Cheongung-II exports to expand to additional Middle Eastern countries such as Qatar and Kuwait and the export lineup to broaden to include L-SAM. Cheongung-II procurement discussions are also gaining momentum in Southeast Asia, where gaps in medium/long-range air defense capabilities are particularly pronounced. Missile supply shortages also create opportunities for expansion into Europe. LIG D&A is steadily preparing to enter the market, including through joint development of short-range missiles with Rheinmetall. Greater visibility on European exports should be a re-rating driver. We view ongoing capacity expansion in Korea as a sign of the company's confidence in future demand.

Figure 18. LIG D&A: Annual earnings trend and outlook



Source: LIG D&A, Mirae Asset Securities Research

Figure 19. LIG D&A: Annual OP and OP margin



Source: LIG D&A, Mirae Asset Securities Research

Table 2. Coverage overview (W, Wbn, %, x)

Company			Market cap	Investment points	Year	Revenue	OP margin	ROE	P/E
LIG D&A 079550 KS	Rating	Buy	14,916	1) Strengthening presence in the Middle Eastern air defense market	2026F	5,245	8.7%	19.5	41.8
	TP	1,120,000		2) Europe beginning to view Korean air defense systems as a potential alternative	2027F	6,302	10.2%	22.1	28.2
	Upside	65.2%		3) Expanding missile export portfolio in Southeast Asia	2028F	7,336	11.8%	24.6	20.5
Hanwha Aerospace 012450 KS	Rating	Buy	52,182	1) K9, world's leading self-propelled howitzer, enters DMs	2026F	32,463	14.8%	21.2	21.2
	TP	1,550,000		2) Expansion of the European customer base for Chunmoo	2027F	35,082	16.4%	21.0	16.6
	Upside	53.2%		3) Biggest beneficiary of L-SAM exports	2028F	38,258	17.5%	20.6	14.0
Hyundai Rotem 064350 KS	Rating	Buy	12,257	1) Expanding further in Europe beyond Poland	2026F	6,986	15.7%	24.6	14.3
	TP	167,000		2) K2 gaining traction in South America	2027F	7,822	16.8%	22.8	12.4
	Upside	48.7%		3) Middle East emerging as a new market for K2	2028F	9,501	17.3%	23.1	9.9
KAI 047810 KS	Rating	Buy	12,418	1) KF-21 entering a phase of global expansion	2026F	5,398	6.3%	12.0	53.4
	TP	186,000		2) FA-50/T-50 export pipelines remain solid	2027F	6,691	8.7%	20.1	27.4
	Upside	46.0%			2028F	7,581	10.8%	23.9	18.8

Source: QuantiWise, Mirae Asset Securities Research

Table 3. Global defense contractors: Valuation comparison (Wbn, x, %)

Country	Company	Market cap	Revenue		OP		P/E		P/B		Returns		
			26F	27F	26F	27F	26F	27F	26F	27F	1W	1M	YTD
Korea	Hanwha Aerospace	52,182	32,463	35,082	4,789	5,764	21.2	16.6	3.8	3.2	-4.3	-9.2	7.1
	LIG D&A	14,916	5,245	6,302	459	641	41.8	28.2	6.8	5.7	-3.7	-3.3	54.1
	Hyundai Rotem	12,257	6,986	7,822	1,097	1,313	14.3	12.4	3.2	2.6	-4.1	-18.1	-41.7
	KAI	12,418	5,398	6,691	339	582	53.4	27.4	6.0	5.1	-2.2	-3.7	9.3
US	Lockheed Martin	162,365	109,990	116,109	13,167	13,909	17.0	15.8	11.1	9.4	-0.8	-7.1	6.1
	RTX	343,435	130,637	140,548	17,552	19,227	25.9	23.8	3.7	3.6	-1.7	-9.7	1.3
	Northrop Grumman	97,571	59,831	63,919	6,284	6,829	17.5	16.7	3.8	3.4	-0.8	-6.3	-12.6
	L3Harris	60,104	32,071	34,271	5,105	5,495	19.6	17.4	2.1	2.0	-0.9	-10.3	-21.0
	General Dynamics	122,765	75,886	79,649	7,983	8,666	19.7	18.0	3.2	3.0	-2.7	-10.0	-1.4
Europe	Rheinmetall	69,134	21,565	29,074	3,874	5,596	26.2	17.8	7.1	5.5	-3.3	-13.7	-39.5
	BAE Systems	106,213	60,145	66,017	6,519	7,285	23.0	20.3	4.7	4.3	-1.2	-2.4	13.5
	Leonardo	43,982	34,358	37,843	3,317	3,921	20.4	16.5	2.7	2.4	-1.1	-4.6	-2.4
	Dassault Aviation	34,335	13,694	15,177	1,280	1,550	18.9	15.6	3.2	2.8	0.4	1.7	4.7
	Saab	45,410	13,493	16,454	1,458	1,852	40.9	32.0	6.5	5.6	0.1	-2.8	10.0
	Thales	71,922	36,851	40,096	4,711	5,302	21.1	18.5	5.3	4.6	-4.0	-7.0	-2.3
	Kongsberg	38,094	6,103	9,062	1,022	1,644	42.6	28.5	14.8	11.6	-4.9	-3.7	38.1
	Aselsan	45,081	7,780	12,401	1,718	2,643	28.9	16.9	4.5	0.2	-4.8	-7.7	55.0
Israel	Elbit Systems	44,815	12,219	13,641	1,249	1,463	43.5	38.3	7.4	6.6	-5.4	0.5	19.3
Korean avg.							32.6	22.7	5.6	4.6			
Global avg.							26.1	21.1	5.7	4.7			

Note: Figures for Korean defense contractors are based on our estimates
Source: QuantiWise, Bloomberg, Mirae Asset Securities Research

Table 4. Korean defense industry value chain (Wbn, x, %)

Category	Segment	Company	Market cap	Revenue		OP		P/E		P/B		Returns		
				26F	27F	26F	27F	26F	27F	26F	27F	1W	1M	YTD
Integrated systems (prime contractors)	Land firepower and guided weapons	Hanwha Aerospace	52,182	32,463	35,082	4,789	5,764	21.2	16.6	3.8	3.2	-4.3	-9.2	7.1
		LIG D&A	14,916	5,245	6,302	459	641	41.8	28.2	6.8	5.7	-3.7	-3.3	54.1
		Hyundai Rotem	12,257	6,986	7,822	1,097	1,313	14.3	12.4	3.2	2.6	-4.1	-18.1	-41.7
	Aerospace	KAI	12,418	5,398	6,691	339	582	53.4	27.4	6.0	5.1	-2.2	-3.7	9.3
	Naval	Hanwha Ocean	24,084	15,833	15,310	2,254	2,496	12.2	12.2	2.9	2.4	-3.7	-10.5	-31.5
		HD HHI	45,028	24,752	26,650	4,054	4,742	14.0	12.1	3.9	3.2	-5.8	-4.8	-13.6
Subsystems/ components	Communication/ electronics	Hanwha Systems	13,583	4,552	5,173	250	453	96.7	31.3	2.5	2.1	-7.1	-2.4	30.1
		Victek	90	-	-	-	-	-	-	-	-	5.7	10.1	-14.8
		Huneed Technologies	63	-	-	-	-	-	-	-	-	1.2	-2.6	-42.8
	Mobility, firepower, ammunition	Poongsan	2,183	6,179	6,513	434	397	7.2	8.1	0.8	0.8	-1.4	-5.9	-26.0
		Hyundai Wia	1,444	-	-	-	-	-	-	-	-	-0.6	-11.5	-32.4
		SNT Dynamics	1,031	808	915	112	136	11.3	9.4	0.8	0.8	14.2	4.6	-30.0
		STX Engine	857	904	989	100	119	10.1	8.8	2.0	1.6	-6.4	-14.1	-36.5
		MNC Solution	494	413	501	57	73	10.8	8.4	2.4	2.0	0.9	-2.5	-61.9
		Samyang Comtech	300	158	176	29	33	12.0	10.7	1.7	1.4	12.3	5.8	-45.5
	Guided weapons and sensors	Wave Electronics	62	-	-	-	-	-	-	-	-	4.7	6.8	-6.7
		RF Systems	115	45	63	5	10	0.0	0.0	0.0	0.0	-6.4	-14.1	-36.5
		Firstec	301	-	-	-	-	-	-	-	-	2.0	25.2	-32.0
		i3system	498	143	175	20	25	24.8	20.1	3.2	2.9	14.2	4.6	-30.0
		RFHIC	1,536	262	351	55	80	29.2	22.4	4.0	3.5	-6.4	-14.1	-36.5
		FiberPro	417	59	0	16	0	28.8	0.0	7.5	0.0	0.9	-2.5	-61.9
	Aerospace	Kencoa Aerospace	175	-	-	-	-	-	-	-	-	2.0	25.2	-32.0
		Genohco	125	-	-	-	-	-	-	-	-	-0.3	-0.2	-33.9
	Naval	Daeyang Electric	174	245	256	30	32	6.1	5.6	0.6	0.5	-4.5	-0.6	-32.2
		SPECO	23	0	0	0	0	0.0	0.0	0.0	0.0	-1.0	-4.9	-36.1
	Precision parts	Hanil Forging	72	-	-	-	-	-	-	-	-	-1.4	4.1	0.9
		Shinhwa Pretech	121	-	-	-	-	-	-	-	-	0.1	-1.8	-14.0
		Sammi Metal	265	82	0	8	0	100.2	0.0	2.8	0.0	-15.2	30.5	30.6

Notes: Figures for prime contractors are our estimates; blank cells indicate that consensus estimates are unavailable
Source: QuantiWise, Mirae Asset Securities Research

Company analysis

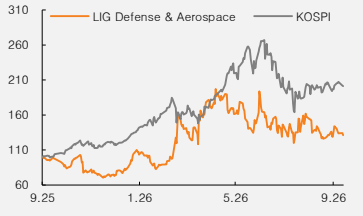
MIRAE ASSET Securities

Equity Research
September 30, 2026

(Initiate)	**Buy**
Target price	**W1,120,000**
Current price (9/29/26)	W678,000
Upside	65.2%

OP (26F, Wbn)	459
Consensus OP (26F, Wbn)	449
EPS growth (26F, %)	40.9
Market EPS growth (26F, %)	283.0
P/E (26F, x)	41.8
Market P/E (26F, x)	6.8
KOSPI	6,870.81
Market cap (Wbn)	14,916
Shares (mn)	22
Free float (%)	60.9
Foreign ownership (%)	27.2
Beta (12M)	-0.17
52-week low (W)	364,500
52-week high (W)	1,020,000

(%)	1M	6M	12M
Absolute	-7.6	-7.8	33.7
Relative	-8.7	-27.0	-33.2



Mirae Asset Securities Co., Ltd.

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079550 KS · Defense/Aerospace

LIG Defense & Aerospace

Key beneficiary of rising missile demand

Initiate coverage at Buy with a TP of W1,120,000; our top pick in the sector

We initiate coverage of LIG Defense & Aerospace (LIG D&A) with a Buy rating and target price of W1,120,000, applying a target P/E of 33.8x—the stock's average 12-month forward P/E over the past year—to our 2028F EPS of W33,034. We believe rising demand and tight supply will continue to support a valuation premium for missile manufacturers. With their performance proven in the US-Iran war, LIG D&A's guided weapons are beginning to gain traction in Southeast Asia and Europe. Given the typically cautious approach to capacity expansion in the guided weapons industry, we view the company's ongoing facility investments in Gumi and Gimcheon as a sign of its confidence in strong future demand.

Growing global interest in Korean air defense systems

Cheongung-II has established itself as a key air defense system in the Middle East. We expect LIG D&A to expand Cheongung-II exports beyond its existing Middle Eastern markets to countries such as Qatar and Kuwait, while broadening its air defense export portfolio to include L-SAM. Discussions on acquiring Cheongung-II are also progressing in Southeast Asian countries such as the Philippines and Indonesia, where gaps in medium/long-range air defense capabilities are particularly pronounced. For these countries, whose defense budgets are relatively limited, Cheongung-II offers a compelling combination of competitive pricing and strong performance.

We expect greater visibility on entry into the European market to be a key re-rating catalyst. European air defense manufacturers face clear capacity constraints, while US efforts to replenish domestic stockpiles are further tightening global supply. Existing European systems also have limitations in ballistic missile interception, making LIG D&A's guided weapons an attractive alternative. The company is steadily preparing to enter Europe, including through joint development of short-range missiles with Rheinmetall. Korean air defense systems are increasingly being considered as potential alternatives in Switzerland and Eastern Europe. Assuming a 10% share of estimated annual European air defense spending of W35tr, we estimate an operating profit contribution of W703.9bn—roughly 120% higher than the company's total operating profit in 2025.

Rising export share to drive margin expansion

We expect Cheongung-II revenue to resume growth in 2H26 after slowing in 2Q26. We estimate revenue from the UAE Cheongung-II program at roughly W530bn in 2026, with contributions from Saudi Arabia (2027) and Iraq (2028) supporting steady growth thereafter. We forecast total revenue to grow at a CAGR of 19.4% over 2025-28, with the revenue share of exports structurally increasing to 35.1% by 2028. As the export share increases, we expect OP margin to widen from 7.4% in 2025 to 11.8% in 2028, bringing it in line with global peer levels.

(Dec.)	2024	2025	2026F	2027F	2028F
Revenue (Wbn)	3,276	4,307	5,245	6,302	7,336
OP (Wbn)	223	319	459	641	865
OP margin (%)	6.8	7.4	8.7	10.2	11.8
NP (Wbn)	219	253	361	556	765
EPS (W)	9,974	11,516	16,222	24,030	33,034
ROE (%)	19.4	19.2	19.5	22.1	24.6
P/E (x)	22.1	36.6	41.8	28.2	20.5
P/B (x)	4.0	6.5	6.8	5.7	4.5
Dividend yield (%)	1.1	0.7	0.4	0.4	0.4

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research estimates

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the US.
Please see analyst certifications and important disclosures & disclaimers in Appendix 1 at the end of the report.

Initiate at Buy with a TP of W1,120,000; our top pick in the sector

We initiate coverage of LIG D&A with a Buy rating and target price of W1,120,000 and select it as our top pick in the sector. We derived our target price by applying a P/E of 33.8x—the stock's average 12-month forward P/E over the past year—to our 2028F EPS of W33,034. We believe the past year provides the most appropriate basis for valuation, capturing the rise in global defense spending amid shifting US security policy along with missile shortages and stronger order momentum for LIG D&A following the US-Iran war.

Additional revenue from Middle Eastern Cheongung-II programs in 2027–28 provides clear visibility on earnings growth, while the company also has an extensive order pipeline. Cheongung-II has established itself as a key air defense system in the Middle East, and we expect exports to expand beyond existing markets to other countries in the region. Opportunities in Southeast Asia are also rapidly gaining visibility. In addition, Europe offers promising export opportunities for LIG D&A, given capacity constraints among competing suppliers and depleted US stockpiles. European countries have already begun to consider Korean air defense systems as potential alternatives, and the company is steadily preparing to enter the market through initiatives such as its collaboration with Rheinmetall. We expect greater visibility on European exports to support a share price re-rating.

Table 5. LIG D&A: TP calculation (W, x)

	Value	Notes
2028F EPS	33,034	Reflects the full benefits of capacity expansion and a higher revenue contribution from Middle East-bound Cheongung-II exports
Target P/E	33.8x	Avg. 12MF P/E over the past year
Fair value/share	1,116,549	
TP	**1,120,000**	
CP	678,000	Sep. 29
Upside	65.2%	Buy rating

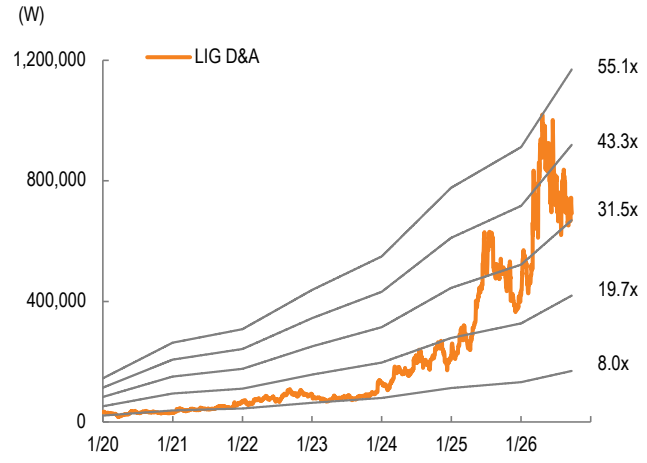
Source: Mirae Asset Securities Research

Table 6. Global peer valuations (Wtr, x, %)

Company	Country	Market cap	Revenue		OP		P/E		P/B		EV/EBITDA		Returns					
			26F	27F	26F	27F	26F	27F	26F	27F	26F	27F	1W	1M	3M	6M	1Y	YTD
LIG D&A	Korea	15	5.2	6.3	0.4	0.6	41.8	28.2	6.8	5.7	25.3	19.3	-4	-3	-10	1	34	54
Lockheed Martin	US	162	110	116	13	14	17.0	15.8	11.1	9.4	12.1	11.4	-1	-7	4	-12	8	6
RTX	US	343	131	141	18	19	25.9	23.8	3.7	3.6	18.4	16.5	-2	-10	1	1	16	1
L3Harris	US	60	32	34	6	7	19.6	17.4	2.1	2.0	9.9	12.0	-1	-6	2	-24	-13	-13
Kongsberg	Norway	39	6	9	1	2	43.4	29.1	15.1	11.8	32.0	21.0	-3	-2	6	-5	18	41
Peer avg.							26.5	21.5	8.0	6.7	18.1	15.2						

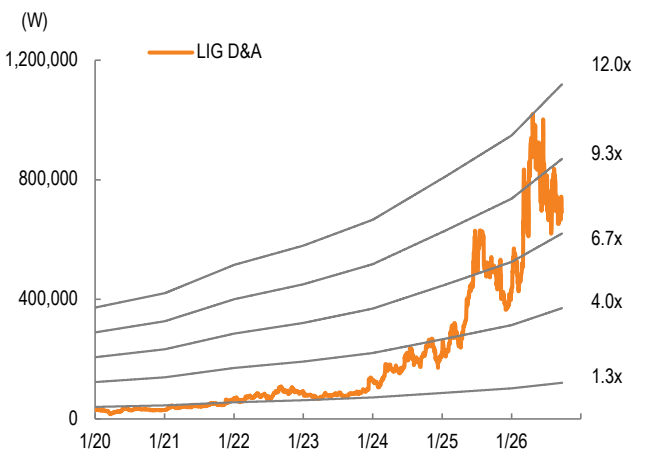
Notes: LIG D&A figures are based on our estimates; global peer figures are sourced from Bloomberg
Source: Bloomberg, QuantiWise, Mirae Asset Securities Research

Figure 20. LIG D&A: 12-month forward P/E band chart



Source: QuantiWise, Mirae Asset Securities Research

Figure 21. LIG D&A: 12-month forward P/B band chart



Source: QuantiWise, Mirae Asset Securities Research

Middle East exports to drive revenue CAGR of 19.4% over 2025-28

For 3Q26, we estimate revenue at W1.29tr (+23% YoY), operating profit at W112.6bn (+26% YoY), and OP margin at 8.7% (+0.2%p YoY). In 2Q26, Cheongung-II revenue fell 42% QoQ to W99bn, following early deliveries that boosted revenue in 1Q26. We expect growth to resume in 2H26.

We estimate revenue from the UAE Cheongung-II program at W530bn in 2026, up from approximately W300bn in 2025. However, consistent with historical patterns, we expect higher costs in 2H due to loss provisions associated with newly awarded domestic development projects and increased R&D spending. For the full year, we forecast revenue at W5.24tr (+22% YoY), operating profit at W458.7bn (+44% YoY), and OP margin at 8.7% (+1.3%p YoY).

We expect steady revenue growth as the Saudi and Iraqi Cheongung-II programs begin to make substantial contributions in 2027 and 2028, respectively. The company should also be able to secure more favorable margins on these contracts, drawing on its experience with the UAE (its first Cheongung-II export customer). We forecast total revenue to grow at 19.4% CAGR over 2025-28, with the export share rising structurally from 21.4% in 2025 to 35.1% in 2028. As exports account for a larger share of revenue, OP margin should also widen from 7.4% in 2025 to 11.8% in 2028, bringing it in line with global peer levels.

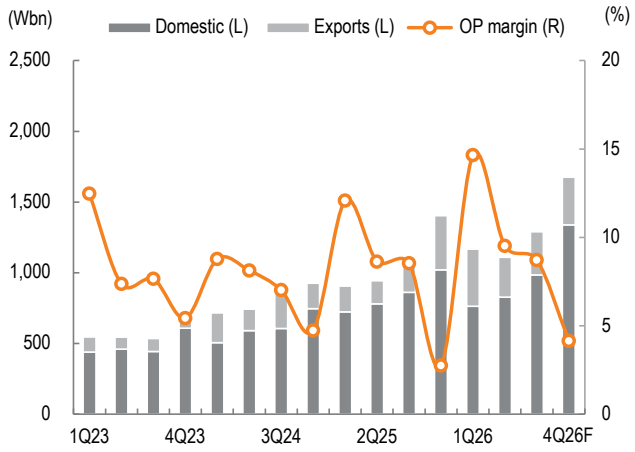
The company is actively investing in production capacity at its Gumi and Gimcheon plants. By 2028, this additional capacity should contribute meaningfully to earnings. Given that guided weapons manufacturers need to secure stable demand before committing to capacity expansion, we view these investments as a sign of the company's strong confidence in future demand.

Table 7. LIG D&A: Quarterly and annual earnings (Wbn)

		1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26F	4Q26F	2025	2026F	2027F
Revenue	Total	908	945	1,049	1,405	1,168	1,110	1,291	1,676	4,307	5,245	6,302
	Domestic	723	781	862	1,020	763	828	985	1,339	3,385	3,916	4,416
	Exports	185	165	187	385	405	282	306	336	922	1,329	1,886
Growth (%)	Total	18.9	56.3	41.7	20.3	28.7	17.4	23.1	19.3	31.5	21.8	20.2
	Domestic	42.9	32.2	42.4	36.7	5.5	6.1	14.3	31.3	38.3	15.7	12.8
	Exports	-12.8	8.2	-34.0	113.1	119.0	71.1	63.4	-12.6	11.3	44.2	41.9
Share (%)	Domestic	79.6	82.6	82.2	72.6	65.3	74.6	76.3	79.9	78.6	74.7	70.1
	Exports	20.4	17.4	17.8	27.4	34.7	25.4	23.7	20.1	21.4	25.3	29.9
OP		110	82	90	39	171	106	113	69	319	459	641
YoY (%)		63.6	66.0	72.5	-30.2	56.1	29.5	25.6	79.6	43.0	43.6	39.8
OP margin (%)		12.1	8.6	8.5	2.7	14.7	9.5	8.7	4.1	7.4	8.7	10.2
NP		82	107	59	5	140	83	89	50	253	361	556
YoY (%)		35.9	134.5	38.0	-93.4	69.9	-22.8	49.5	976.7	15.5	42.5	54.1
Net margin (%)		9.1	11.3	5.7	0.3	12.0	7.4	6.9	3.0	5.9	6.9	8.8

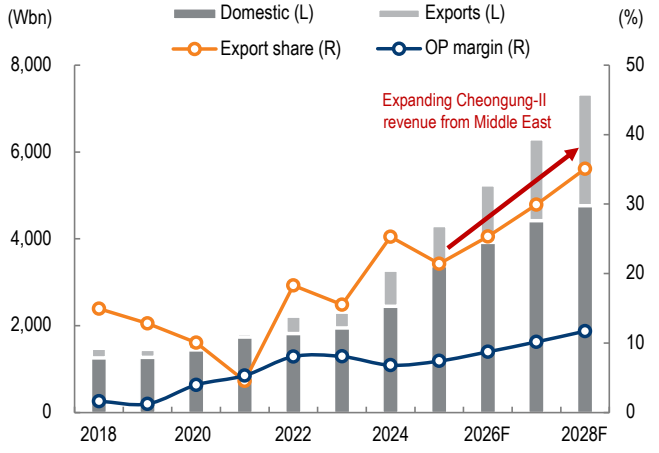
Source: Company data, Mirae Asset Securities Research

Figure 22. LIG D&A: Quarterly revenue and OP margin



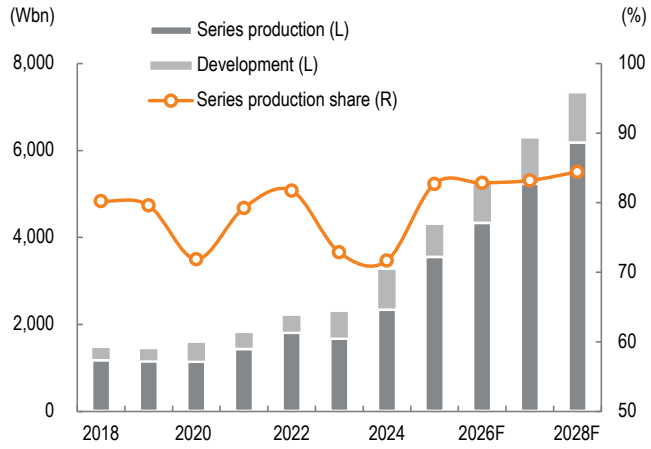
Source: Company data, Mirae Asset Securities Research

Figure 23. LIG D&A: Annual revenue and OP margin



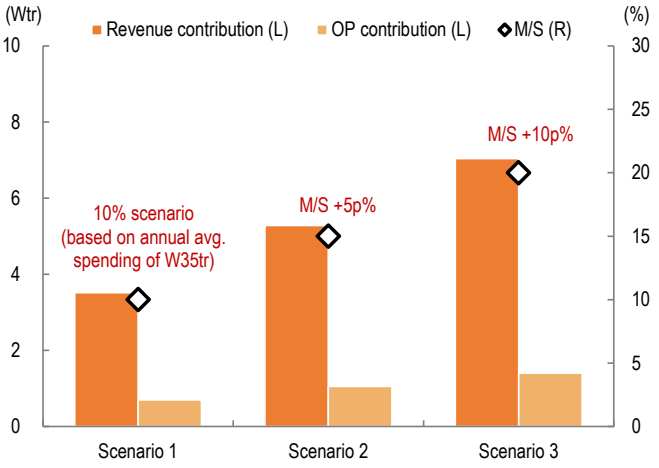
Source: Company data, Mirae Asset Securities Research

Figure 24. LIG D&A: Development vs. series production revenue



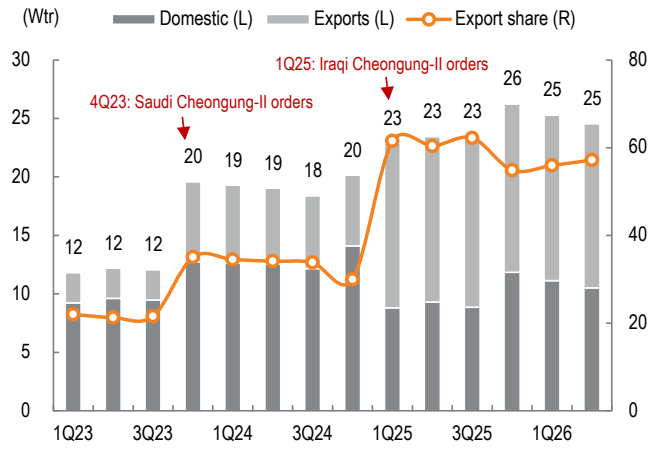
Source: Company data, Mirae Asset Securities Research

Figure 25. LIG D&A: Est. earnings contribution under European expansion scenarios



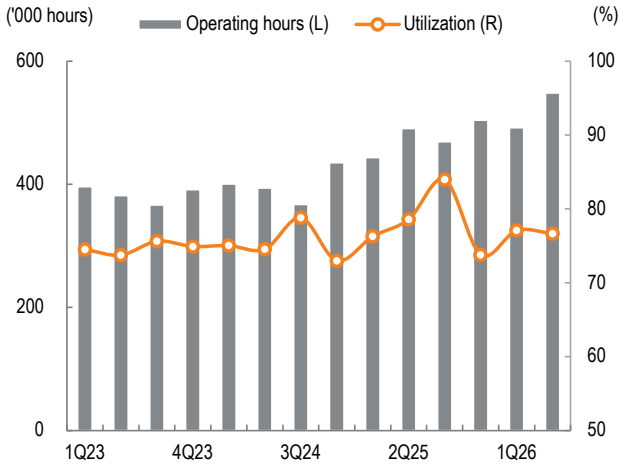
Notes: Assumes direct exports, as in the Middle East, and a 20% OP margin; scenario 1 assumes a 10% M/S, with each subsequent scenario increasing in 5%p increments
Source: IISS, Mirae Asset Securities Research

Figure 26. LIG D&A: Quarterly order backlog trend



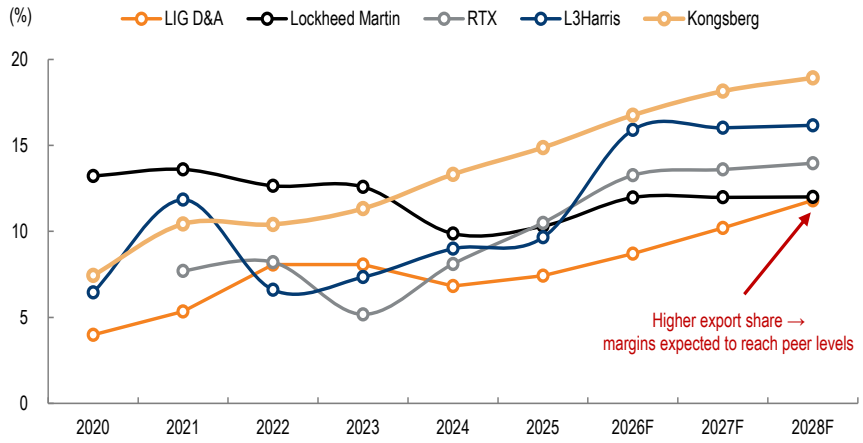
Source: Company data, Mirae Asset Securities Research

Figure 27. LIG D&A: Available defense operating hours and utilization rate



Source: Company data, Mirae Asset Securities Research

Figure 28. LIG D&A vs. other missile suppliers: Annual OP margin trends



Source: Bloomberg, Mirae Asset Securities Research

Investment points

The growing role of missiles in modern warfare has underscored the importance of air defense systems. Accordingly, demand for systems to counter missile threats should persist even after the war ends. However, the US must prioritize replenishing its own stockpiles, while Europe still lacks sufficient production capacity to meet demand. We therefore forecast structural growth in demand for LIG D&A's air defense systems, led by Cheongung-II, which has proven its performance during the US-Iran war. We expect the company to develop into a global supplier serving Europe and Southeast Asia as well as the Middle East.

Solidifying position in the Middle East

We expect new orders from countries that have yet to adopt Cheongung-II, including Qatar and Kuwait, alongside potential follow-on orders from existing customers to replenish heavily depleted missile stockpiles. Cheongung-II has already established itself as a key air defense system in the Middle East, with major export contracts secured with the UAE (W2.6tr) in 2022 and Saudi Arabia (W4.34tr) and Iraq (W3.7tr) in 2024. Revenue growth has accelerated since Middle Eastern Cheongung-II programs began to be recognized in 2024.

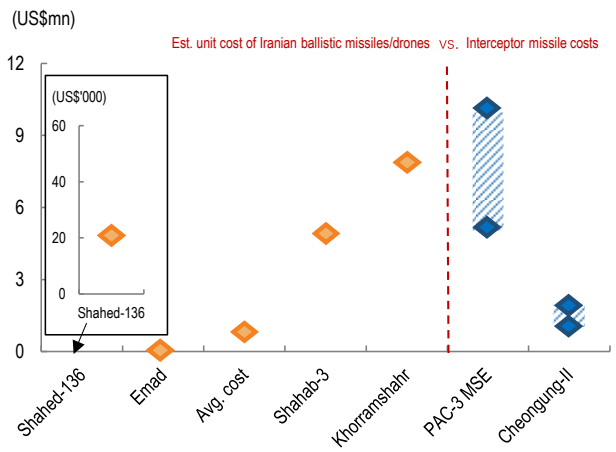
Even after initial guided weapons export contracts are signed, geopolitical developments can generate recurring demand to replenish missile stockpiles. We estimate that Cheongung-II customer countries expended substantial quantities of missiles during the Iran war, creating opportunities for follow-on orders. Major media outlets and military sources estimate that Gulf countries held roughly 2,800 interceptor missiles before the war and expended about 2,400—85% of those stocks—within the first month of hostilities. Missile expenditure likely increased further as the war continued.

On Mar. 5, reports emerged that Cheongung-II had successfully intercepted 29 out of 30 targets (a 96% interception rate), demonstrating the strong performance of Korean air defense systems to a global audience. The UAE subsequently took early delivery of some Cheongung-II shipments in 1Q26, and Saudi Arabia and Iraq are also believed to be seeking expedited delivery as well. In addition to its strong performance, Cheongung-II's competitive price of US$1mn per missile (vs. US$4mn for a US Patriot interceptor) is emerging as a key advantage. For Middle Eastern nations facing delayed Patriot deliveries and steep costs, Cheongung-II presents a compelling alternative.

LIG D&A is also actively addressing the Middle East's localization requirements. Following an MOU signed last year with UAE defense company Calidus to manufacture missiles locally, the company signed another MOU in May with Tawazun, the authority responsible for defense localization, covering cooperation across the full weapons life cycle, from R&D to MRO. All in all, we see no significant barriers to further expansion in the Middle East.

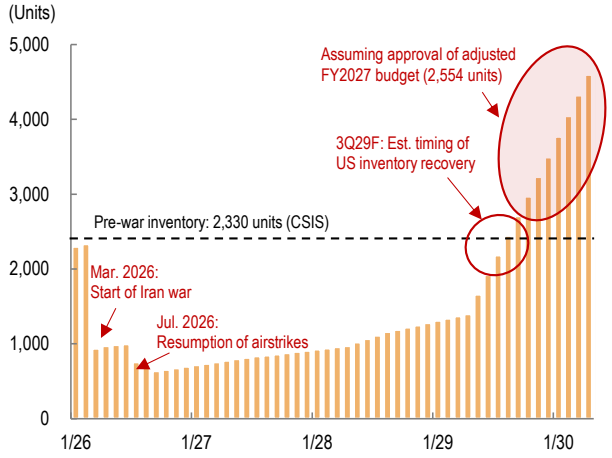
Kuwait and Qatar are moving closer to adopting Cheongung-II. Kuwait's minister of foreign affairs reportedly visited Korea recently to discuss specific avenues for cooperation on procuring the system. Securing exports to both countries would bring Cheongung-II's Middle Eastern customer base to five, reinforcing its position as a core air defense system in the region. This would also provide a strong selling point when pursuing exports to other regions.

Figure 29. Est. unit costs of Iranian missiles and drones vs. interceptor costs



Notes: Ballistic missile unit costs are JINSA estimates; shaded areas indicate the cost range assuming two interceptor missiles are fired per target
Source: JINSA, media estimates, Mirae Asset Securities Research

Figure 30. Est. US Patriot interceptor inventory (recovery expected by 3Q29)



Source: US DoD, Mirae Asset Securities Research

Table 8. System comparison: Cheongung-II vs. Patriot

	Cheongung-II	Patriot
Country of origin	Korea	US
Image		
Manufacturers	Integration/missiles/control: LIG D&A Launchers/propulsion: Hanwha Aerospace Multifunction radar (MFR): Hanwha Systems	System integration: RTX Missiles: Lockheed Martin
System classification	Medium-range surface-to-air	Medium/long-range surface-to-air
Intercept altitude	Around 20km	Around 40km
Maximum range	40-50km	60km (160km for PAC-2 GEM-T)
Maximum speed	Mach 5.0	Mach 4.5
Targets	Aircraft, cruise missiles, ballistic missiles	Aircraft, cruise missiles, ballistic missiles
Interception method	Hit-to-kill	Hit-to-kill
Price per interceptor missile	Approx. US$1mn	Approx. US$4mn
Battery configuration	Four launchers + one control station + one MFR	Up to eight launchers + one control station + one radar
Operators	Korea, UAE, Iraq, Saudi Arabia	US and 17+ other countries
Strengths	- Combat-proven in the Iran war - Cold-launch capability - Shorter delivery queue than Patriot - 1/4 of Patriot's price per missile - Fully homegrown system	- Extensive combat track record - Mixed missiles for different threats - 18+ operators; mature MRO ecosystem - Superior range and intercept altitude
Weaknesses	- No upper-tier defense - Shorter track record than Patriot (limited reliability/MRO data)	- High cost - Capacity bottlenecks and long delivery queue

Note: Patriot missile performance and pricing are based on PAC-3 MSE data
Source: Media reports, Mirae Asset Securities Research

Figure 31. Cheongung-II deployed in the UAE



Source: *Arab Times*, Mirae Asset Securities Research

Export portfolio to broaden to L-SAM; LIG D&A to benefit as system integrator

Iran's increasingly sophisticated ballistic missile threats are increasing the need for multilayered air defense systems in the Middle East. Combined with supply shortages of the US Terminal High Altitude Area Defense (THAAD) system, this is raising expectations for L-SAM exports. We expect LIG D&A to benefit through its responsibility for L-SAM system integration, anti-aircraft missile (AAM) production, and engagement control.

As of end-July, the US is estimated to have expended up to 48% of its THAAD interceptor inventory during the Iran war—equivalent to more than two years of production volume at Lockheed Martin (based on 2025 production of 96 interceptors). More than 150 THAAD interceptors were also reportedly used during last year's 12-day Israel–Iran war, suggesting a sharp depletion of US stockpiles. This should drive demand for replenishment and affect the availability of missiles for export. Notably, the FY2027 budget request brings forward THAAD deliveries to the US military substantially compared with the schedule in the FY2026 request, while supplemental funding has also increased requested quantities.

The US government recently awarded Lockheed Martin a seven-year contract worth up to US$35bn to increase annual THAAD production to 400 interceptors. However, reaching full capacity will require infrastructure expansion across the component supply chain, making the shortage difficult to resolve in the near term. With recent THAAD deliveries concentrated on Middle Eastern export customers, we view this production expansion agreement as further evidence of strong US stockpile replenishment demand.

The high cost of relying solely on THAAD is another key factor supporting L-SAM export opportunities. Each THAAD interceptor is estimated to cost US$12–15mn, compared with US$0.5–1mn for the Fateh-110, Iran's most widely used ballistic missile during the war. Assuming two interceptors are fired per incoming ballistic missile, the cost disparity can reach 60:1.

Table 9. US THAAD delivery schedules and quantities: FY2026 vs. FY2027

	FY2026 budget request (Jun. 2025) →		FY2027 budget request (Apr. 2026)	
	First delivery	Quantity	First delivery	Quantity
FY2023 request	Jan. 2028	18	Nov. 2025	18
FY2024 request	Apr. 2028	11	Feb. 2026	11
FY2025 request	Jun. 2028	12	Mar. 2026	62
FY2026 request	Oct. 2028	25	Aug. 2028	55

Source: US Missile Defense Agency (MDA), Mirae Asset Securities Research

Middle Eastern countries have also expended substantial numbers of THAAD interceptors during the war, creating a clear need to replenish medium/long-range surface-to-air missiles. Moreover, as demand for systems that can reduce the cost imbalance between incoming missiles and the interceptors used against them grows, we expect L-SAM to emerge as a compelling alternative.

L-SAM uses separate interceptors for ballistic missiles and aircraft, allowing it to respond flexibly to aerial threats. As part of the same Korean air defense architecture as Cheongung-II, L-SAM also offers the structural advantage of enabling an integrated architecture encompassing radar, engagement control, and data links. Meanwhile, Israel's competing Arrow 3 system faces significant barriers to entering Middle Eastern markets, including uncertainty over US State Department approval and delicate political and religious dynamics.

Table 10. Long-range air defense systems: L-SAM vs. THAAD

	L-SAM	THAAD
Country of origin	Korea	US
Manufacturers	System integration/AAMs/engagement control: LIG D&A Anti-ballistic missiles (ABMs): Hanwha Aerospace Multifunction radar: Hanwha Systems	System integration/missiles: Lockheed Martin Radar: RTX
Intercept altitude	40-70km	40-150km
Targets	Aircraft, cruise missiles, ballistic missiles	Ballistic missiles
Interception method	Hit-to-kill	Hit-to-kill
Price per interceptor	Undisclosed	US$12–15mn
Battery configuration	Four launchers (two ABM, two AAM) One MFR, one engagement control station, one operations control station	Six launchers One radar, two fire control stations
Operators	Korea (series production began in 2025)	US, UAE, Saudi Arabia
Strengths	- No US approval risk - Interoperability with Cheongung-II - Competitive pricing	- Higher intercept altitude - Combat-proven - Advanced radar; integrated engagement with Patriot/Aegis
Weaknesses	- No combat/export track record - Lower intercept altitude than THAAD	- Long delivery lead times - US approval risk - Limited localization/technology transfer

Source: Media reports, Mirae Asset Securities Research

Europe starting to view Korean air defense as a potential alternative

European demand for air defense systems is growing in response to the threat from Russian ballistic missiles. Major suppliers are expanding capacity and developing integrated air defense missiles, but large existing order backlogs and the time needed to bring additional capacity online limit their ability to meet near-term demand. The resulting supply delays are prompting discussions about procuring Korean air defense systems.

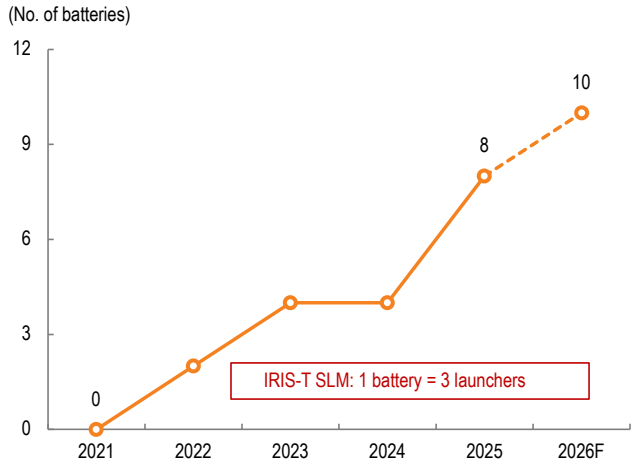
Cheongung-II offers clear advantages over existing European air defense systems in terms of technical capabilities. IRIS-T SLM and NASAMS III can engage aircraft and cruise missiles, but their ability to intercept ballistic missiles is limited. As the Russian ballistic missile threat grows, demand for systems capable of countering it is inevitable. Apart from Cheongung-II, the principal options with this capability are SAMP/T and Patriot. Meanwhile, most European air defense systems use high-explosive fragmentation warheads, which detonate near the target and destroy it with dispersed fragments. Cheongung-II instead uses hit-to-kill technology, destroying the target through direct impact without detonating a warhead. This enables much more precise interception.

We estimate that the IRIS-T SLM backlog stands at 34 batteries, with delivery slots filled through 2030. Italy received its first SAMP/T NG shipment only in January. Existing SAMP/T NG orders from France (eight batteries; first delivery scheduled for 2027) and Italy (10 batteries), along with commitments to support Ukraine, leave limited capacity for exports. Even Denmark, the system's first customer outside France and Italy (contract signed in Apr. 2026), is not scheduled to receive its first delivery until 2028. We therefore believe there is limited scope to meet near-term demand.

At least 24 European nations now participate in the European Sky Shield Initiative (ESSI), which promotes joint procurement of air defense systems. We believe Cheongung-II, which proved its performance in the Iran war, and L-SAM represent attractive options for these countries. LIG D&A is steadily preparing to enter Europe's air defense network through co-development of a short-range surface-to-air missile with Rheinmetall. We expect Rheinmetall's established capabilities in meeting NATO air defense standards and its strong brand to help lower barriers to entry.

We estimate cumulative European air defense spending over 2026-35 at roughly W352tr, or W35tr annually on average. Assuming LIG D&A captures a 10% share of annual spending, we estimate an operating profit contribution of W703.9bn—approximately 120% higher than the company's total operating profit in 2025.

Figure 32. IRIS-T SLM: Annual capacity trend and outlook



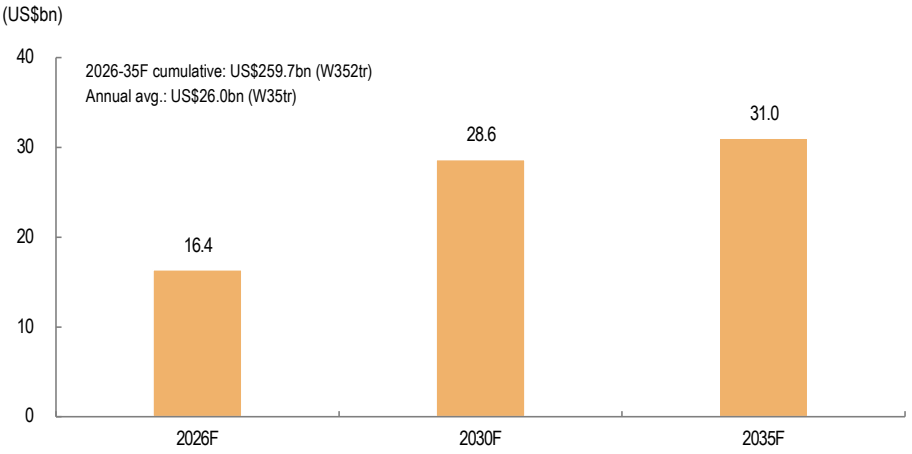
Note: 2026F figure is the company's target
Source: Kiel Institute, Diehl Defence, Mirae Asset Securities Research

Figure 33. LIG D&A and Rheinmetall pursue a joint venture



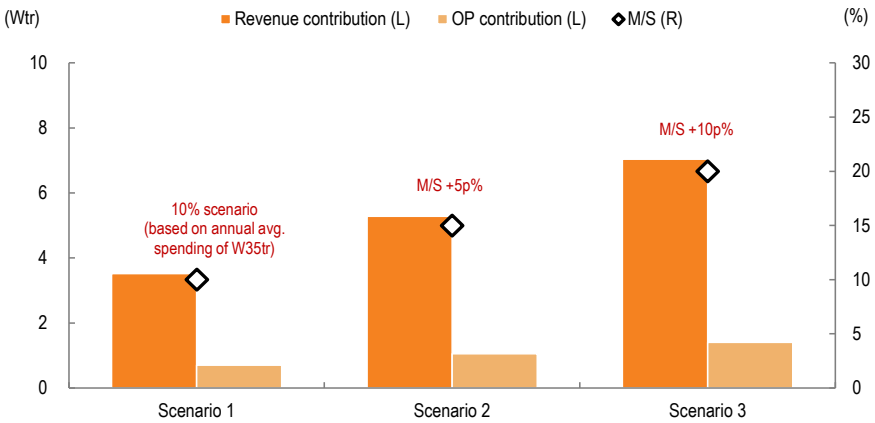
Source: Rheinmetall, Mirae Asset Securities Research

Figure 34. Est. size of European air defense market in 2026–35



Source: IISS, Mirae Asset Securities Research

Figure 35. LIG D&A: Est. earnings contribution under European air defense M/S scenarios



Notes: Assumes direct exports, as in the Middle East, and a 20% OP margin; scenario 1 assumes a 10% M/S, with each subsequent scenario increasing in 5%p increments
Source: Mirae Asset Securities Research

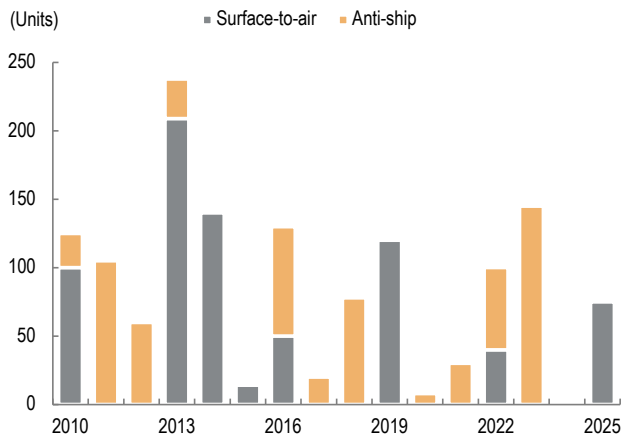
A broader missile export portfolio in Southeast Asia

Demand for missiles in Southeast Asia is increasing steadily as countries seek to strengthen maritime deterrence against China. Given the substantial gap in military capabilities, missiles offer these countries the most efficient means of deterring Chinese forces from approaching. We expect LIG D&A's exports to the region to broaden from small/mid-sized guided weapons such as Haeseong and Haegung to include Cheongung-II. The company has already built an operational track record in guided weapons and electronic systems across Southeast Asia, alongside solid relationships with regional governments. We believe this gives it an edge over new entrants in contract negotiations.

Southeast Asian countries have been key customers for LIG D&A for over two decades, starting with exports of PRC-999K radios to Indonesia in 2006. The company established a local presence by opening an Indonesian office in 2013 and has steadily strengthened its presence as a guided weapons supplier in the region. Its export programs include Blue Shark torpedoes and Haeseong and Hyungung missiles for the Philippines, Shingung (Chiron) missiles for Indonesia, and Haegung missiles for Malaysia.

Small/mid-sized guided weapons contribute less to revenue than Cheongung-II and L-SAM but offer higher margins because they require less customization. Their less demanding requirements for compatibility with other weapons systems also allow sales volumes to increase rapidly. We believe these systems offer an effective way to broaden the market for Korean defense exports and see a strong possibility of additional orders from Southeast Asia.

Figure 36. Acquisition trends for surface-to-air and anti-ship missiles among South China Sea countries



Source: SIPRI, Mirae Asset Securities Research

Figure 37. Haeseong ship-to-ship missile



Source: DAPA, Mirae Asset Securities Research

Southeast Asia's air defense capabilities are more limited in the medium/long-range segment than in the very short/short-range segment. Even the interceptor systems currently in service have limitations in altitude coverage and ballistic missile interception. We believe Cheongung-II is the most attractive option, given its ability to intercept ballistic missiles at altitudes of up to 20km and strong price competitiveness. The Philippines, Indonesia, and Malaysia are currently showing strong interest in the system.

Key export opportunities

Philippines**:** The Philippines is considering acquiring a medium-range air defense system as part of a program to procure additional ground-based air defense systems (GBADS) and upgrade existing capabilities. The country is believed to have operated three SPYDER-MR batteries since 2022, but as Chinese provocations in the South China Sea and Luzon Strait escalate, relying solely on this system—which has limited coverage above 15km—would leave gaps in the country's air defense network.

Cheongung-II is competing with MBDA's VL MICA NG and Diehl Defence's IRIS-T SLM. Given the substantial backlog of IRIS-T SLM deliveries to European customers and Ukraine, it remains uncertain how quickly Diehl Defence could fulfill an order from the Philippines. Meanwhile, VL MICA NG is scheduled to begin series production this year and has no combat track record. Both competing systems also have limited ballistic missile interception capabilities. We therefore expect Cheongung-II to have a competitive edge. Local interest is already strong, as illustrated by the Philippine defense secretary's recent sharing of content about Cheongung-II on social media.

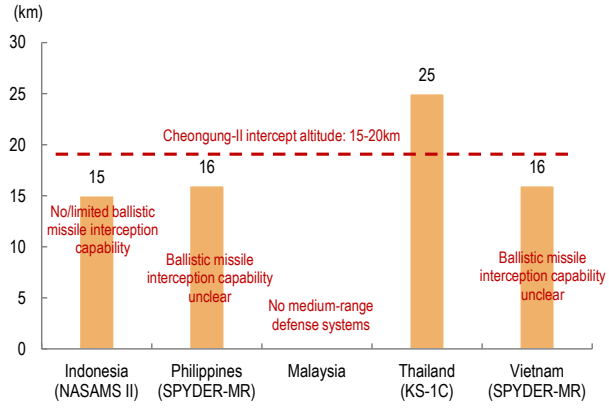
Indonesia: Indonesia's defense procurement agency issued a letter of intent to purchase Cheongung-II in May. The country is considering acquiring two batteries, with the potential contract value estimated at W0.9–1tr. Indonesia is increasing investment in missile systems as part of its defense modernization efforts, while the relocation of its capital is also creating demand to protect new strategic assets.

Figure 38. Philippine defense secretary shares Cheongung-II content on Facebook



Source: Facebook (Gilbert Teodoro, Jr.'s official page), Mirae Asset Securities Research

Figure 39. Surface-to-air missile systems by country: Altitude coverage and ballistic missile interception capability



Source: IISS, media reports, Mirae Asset Securities Research

Capacity expansion signals strong confidence in demand

In September, LIG D&A announced a W532bn capital increase through a preferred share issuance. Under the financing structure, the Advanced Strategic Industry Fund under the National Growth Fund and private financial institutions will invest in K-Defense Growth No. 1, which will subscribe for W532bn of preferred shares issued by LIG D&A. All proceeds will be allocated to capex, including expansion of existing facilities in Gumi and Gimcheon and construction of Gimcheon House 2 and Gumi House 3, rather than working capital or debt repayment.

The company has already invested actively in R&D centers and production facilities, including a W112.6bn investment in its second Gimcheon plant announced in 2024. We estimate cumulative capex over the past 10 years at approximately W1.8tr. Unlike land and aerial weapons systems, guided weapons generate relatively little demand for component replacement and depot-level maintenance. As a result, manufacturers tend to be cautious about expanding capacity unless they have clear visibility on sustained demand. Against this backdrop, we view the latest large-scale capex plan as a sign of the company's strong confidence in future demand. We expect the investment to begin contributing meaningfully to earnings from 2028.

LIG Defense & Aerospace (079550 KS)

Income statement (summarized)

(Wbn)	2025	2026F	2027F	2028F
Revenue	**4,307**	**5,245**	**6,302**	**7,336**
Cost of revenue	**3,644**	**4,325**	**5,164**	**5,895**
GP	**663**	**920**	**1,138**	**1,441**
SG&A expenses	**343**	**461**	**496**	**576**
OP (adj.)	**319**	**459**	**641**	**865**
OP	**319**	**459**	**641**	**865**
Non-operating profit	**-41**	**-33**	**-15**	**-14**
Net financial income	-8	-23	17	42
Net income from associates	1	-18	-22	-47
Pretax profit	278	426	626	851
Income tax	41	83	88	105
Profit from continuing operations	237	343	538	746
Profit from discontinued operations	0	0	0	0
NP	**237**	**343**	**538**	**746**
Attributable to owners	253	361	556	765
Attributable to minority interests	-16	-18	-18	-18
Total comprehensive income	**242**	**354**	**538**	**746**
Attributable to owners	261	368	557	765
Attributable to minority interests	-19	-14	-19	-19
EBITDA	444	615	799	1,048
FCF	-754	-18	226	445
EBITDA margin (%)	10.3	11.7	12.7	14.3
OP margin (%)	7.4	8.8	10.2	11.8
Net margin (%)	5.9	6.9	8.8	10.4

Balance sheet (summarized)

(Wbn)	2025	2026F	2027F	2028F
Current assets	**5,622**	**7,639**	**8,815**	**10,800**
Cash & equivalents	125	1,234	1,711	2,372
AR & other receivables	553	628	726	817
Inventory	593	587	631	716
Other current assets	4,351	5,190	5,747	6,895
Non-current assets	**2,443**	**2,855**	**3,201**	**3,405**
Investments in associates	10	11	13	15
PP&E	1,533	1,923	2,247	2,433
Intangible assets	647	709	728	741
Total assets	**8,065**	**10,494**	**12,016**	**14,205**
Current liabilities	**6,216**	**7,460**	**8,081**	**9,195**
AP & other payables	637	486	536	680
Short-term financial liabilities	733	1,194	1,145	1,106
Other current liabilities	4,846	5,780	6,400	7,409
Non-current liabilities	**373**	**732**	**1,160**	**1,553**
Long-term financial liabilities	320	668	1,089	1,471
Other non-current liabilities	53	64	71	82
Total liabilities	**6,589**	**8,192**	**9,241**	**10,748**
Equity attributable to owners	**1,430**	**2,266**	**2,757**	**3,458**
Capital stock	110	116	116	116
Capital surplus	153	680	680	680
Retained earnings	1,106	1,403	1,894	2,595
Minority interests	**46**	**36**	**18**	**-1**
Shareholders' equity	**1,476**	**2,302**	**2,775**	**3,457**

Cash flow statement (summarized)

(Wbn)	2025	2026F	2027F	2028F
Operating cash flow	**-584**	**460**	**676**	**777**
NP	237	343	538	746
Non-cash income/expenses	334	252	229	246
Depreciation	89	116	126	147
Amortization	35	41	32	37
Other	210	95	71	62
Chg. in working capital	-1,105	-38	-19	-153
Chg. in AR & other receivables	-759	-594	-93	-82
Chg. in inventory	-234	8	-45	-85
Chg. in AP & other payables	162	-232	33	117
Income tax	-38	-74	-88	-105
Cash flow from investing activities	**-276**	**-589**	**-506**	**-392**
Chg. in PP&E	-166	-477	-450	-332
Chg. in intangible assets	-74	-78	-50	-50
Chg. in financial assets	-14	-9	-6	-10
Other	-22	-25	0	0
Cash flow from financing activities	**439**	**1,236**	**307**	**279**
Chg. in financial liabilities	559	810	371	343
Chg. in equity	11	532	0	0
Dividends	-52	-64	-64	-64
Other	-79	-42	0	0
Chg. in cash	**-422**	**1,109**	**476**	**662**
Beginning balance	547	125	1,234	1,711
Ending balance	125	1,234	1,711	2,372

Key valuation metrics/ratios

	2025	2026F	2027F	2028F
P/E (x)	36.6	41.8	28.2	20.5
P/CF (x)	16.2	25.4	20.5	15.8
P/B (x)	6.5	6.8	5.7	4.5
EV/EBITDA (x)	23.0	25.3	19.3	14.4
EPS (W)	11,516	16,222	24,030	33,034
CFPS (W)	25,994	26,703	33,126	42,848
BPS (W)	65,186	99,216	119,288	149,538
DPS (W)	2,950	2,950	2,950	2,950
Dividend payout ratio (%)	27.1	18.8	12.0	8.6
Dividend yield (%)	0.7	0.4	0.4	0.4
Revenue growth (%)	31.5	21.8	20.2	16.4
EBITDA growth (%)	43.5	38.6	30.0	31.2
OP growth (%)	43.0	43.6	39.8	34.8
EPS growth (%)	15.5	40.9	48.1	37.5
AR turnover (x)	9.8	9.6	10.1	10.3
Inventory turnover (x)	9.0	8.9	10.4	10.9
AP turnover (x)	8.4	10.3	14.8	13.9
ROA (%)	3.3	3.7	4.8	5.7
ROE (%)	19.2	19.5	22.1	24.6
ROIC (%)	15.5	15.1	17.9	21.9
Debt-to-equity ratio (%)	446.4	355.9	333.0	310.9
Current ratio (%)	90.5	102.4	109.1	117.5
Net debt-to-equity ratio (%)	60.7	25.6	17.4	4.5
Interest coverage ratio (x)	25.3	8.7	9.4	10.8

Source: Company data, Mirae Asset Securities Research estimates

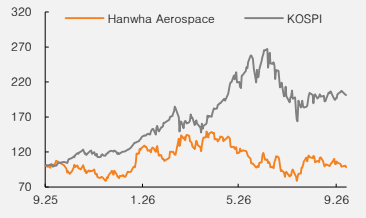
MIRAE ASSET Securities

Equity Research
September 30, 2026

(Initiate)	**Buy**
Target price	**W1,550,000**
Current price (9/29/26)	W1,012,000
Upside	53.2%

OP (26F, Wbn)	4,789
Consensus OP (26F, Wbn)	4,645
EPS growth (26F, %)	67.3
Market EPS growth (26F, %)	283.0
P/E (26F, x)	21.2
Market P/E (26F, x)	6.8
KOSPI	6,870.81
Market cap (Wbn)	52,182
Shares (mn)	52
Free float (%)	62.7
Foreign ownership (%)	45.3
Beta (12M)	0.08
52-week low (W)	810,000
52-week high (W)	1,537,000

(%)	1M	6M	12M
Absolute	-12.5	-24.2	-4.4
Relative	-13.6	-40.0	-52.3



Mirae Asset Securities Co., Ltd.

Sehoon Jung
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012450 KS · Defense/Aerospace

Hanwha Aerospace

Expanding reach across markets and systems

Initiate coverage at Buy with a TP of W1,550,000

We initiate coverage of Hanwha Aerospace with a Buy rating and target price of W1,550,000. We use an SOTP valuation, applying target P/Es of 30.8x and 25.6x to the land systems and aerospace divisions' respective 2027F NOPLAT. The K9 self-propelled howitzer's entry into the US and Spain marks a breakthrough for Korean defense exports into advanced markets. With long delivery backlogs for competing US systems creating export opportunities, we expect exports to expand across Hanwha Aerospace's weapons portfolio.

Broad export portfolio, led by K9, Chunmoo, and L-SAM

We expect Hanwha Aerospace's participation in the US wheeled self-propelled howitzer program to strengthen its military relationships and generate operational data, positioning the company to compete for the US tracked howitzer program, which we estimate could cover 670 units. Its breakthrough into the US market should also provide strong marketing credentials in Europe and the Middle East. Meanwhile, most European wheeled howitzer systems have only recently entered series production, leaving capacity constrained, and suppliers are likely to prioritize domestic requirements. Cooperation on local production in the UAE and the establishment of a Saudi subsidiary should also support expansion into the Middle East.

The Chunmoo deal with Croatia demonstrates that long delivery backlogs for US systems and missile shortages are creating opportunities for Korean defense suppliers. With a maximum strike range of 500km and competitive delivery lead times, Chunmoo is likely to gain further ground in Europe, where we estimate its total addressable market at 190 launchers. Once operational, the joint guided missile production facility in Poland should help meet recurring missile demand from European Chunmoo operators, further increasing the program's earnings contribution.

We also expect L-SAM exports to gain momentum as countries increasingly seek to build layered air defense systems. Hanwha Aerospace, which supplies the system's ballistic missile interceptors (57.5% share of domestic production), should be the largest beneficiary. We expect greater clarity on a potential L-SAM export order from the UAE before year-end. The pipeline of further export opportunities also remains solid.

Defense exports continue to rise

In 2H26, the land systems division should benefit from typical seasonal strength in domestic demand and growing contributions from the K9EGY (Egypt) and AS9 (Australia) export programs. We also anticipate earnings growth at key subsidiaries Hanwha Ocean and Hanwha Systems. For 3Q26, we estimate consolidated revenue at W7.61tr (+17.4% YoY) and OP margin at 16.9% (+3.7%p YoY). Multiple export programs (Chunmoo for Croatia and Estonia, K9 for the US and Spain, and Redback infantry fighting vehicles for Australia) should sustain growth in land systems revenue, which we forecast to rise from W9.6tr in 2026 to W11.7tr in 2027 (+22% YoY).

(Dec.)	2024	2025	2026F	2027F	2028F
Revenue (Wbn)	11,240	26,703	32,463	35,082	38,258
OP (Wbn)	1,732	3,089	4,789	5,764	6,693
OP margin (%)	15.4	11.6	14.8	16.4	17.5
NP (Wbn)	2,299	1,405	2,465	3,147	3,716
EPS (W)	46,183	28,573	47,799	61,033	72,060
ROE (%)	53.9	19.1	21.2	21.0	20.6
P/E (x)	7.0	32.9	21.2	16.6	14.0
P/B (x)	3.0	5.0	3.8	3.2	2.6
Dividend yield (%)	1.1	0.7	0.7	0.7	0.7

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research estimates

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the US.
Please see analyst certifications and important disclosures & disclaimers in Appendix 1 at the end of the report.

Initiate coverage at Buy with a TP of W1,550,000

We initiate coverage of Hanwha Aerospace with a Buy rating and target price of W1,550,000. We use an SOTP valuation, applying target P/Es of 30.8x and 25.6x to the land systems and aerospace divisions' respective 2027F NOPLAT (calculated using a 20% tax rate). The land systems multiple represents a 30% premium to global land system peers' average 2027F P/E, while the aerospace multiple is based on global aerospace peers' average 2027F P/E. We apply a 40% discount to the value of the company's stakes in key subsidiaries.

We believe 2027 will provide a clearer picture of Hanwha Aerospace's earnings fundamentals as a global defense supplier as export programs outside Poland (including those in Northern and Eastern Europe) make a growing contribution to earnings. We apply a 30% premium to global ground defense peers' average 2027F P/E to reflect the company's solid W38.3tr order backlog and large-scale order opportunities, including the US wheeled self-propelled howitzer program and Poland's K9 EC3 contract.

Table 11. Hanwha Aerospace: TP calculation (Wbn, x)

	Item	Value	Notes
Operating value	Total (A)	74,645	Excl. Hanwha Systems, Hanwha Ocean, and Satrec Initiative
	Land systems	74,154	
	NOPLAT	2,405	2027F OP x (1- 20% tax rate)
	Target P/E	30.8	30% premium to avg. 2027F P/E of global peers
	Aerospace	491	
	NOPLAT	19	20% tax rate
	Target P/E	25.6	Global peer avg.
Non-operating value	Total (B)	8,421	
	Hanwha Systems	3,848	
	Market cap	13,583	
	Stake	46.7%	Sep. 29 closing price
	Discount rate	40%	
	Hanwha Ocean	4,399	
	Market cap	24,084	
	Stake	30.4%	Sep. 29 closing price
	Discount rate	40%	
	Satrec Initiative	174	
	Market cap	864	
	Stake	33.6%	Sep. 29 closing price
	Discount rate	40%	
Net debt (C)		3,251	
Shareholder value (A +B - C)		79,775	
No. of shares ('000)		51,563	
Fair price (W)		1,547,129	
TP (W)		**1,550,000**	
CP (W)		1,012,000	
Upside (%)		53.2%	Buy rating

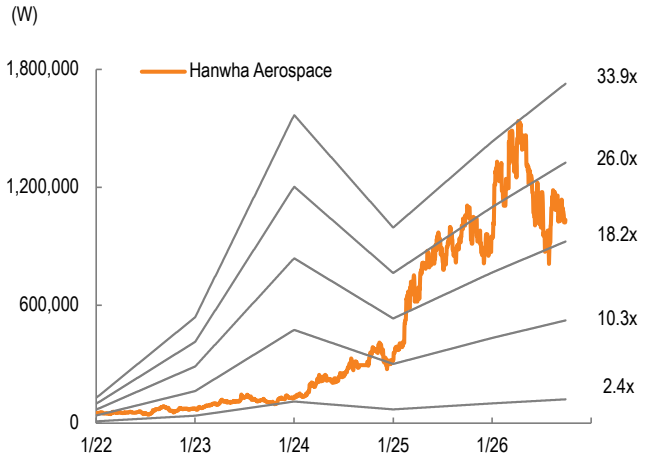
Source: Mirae Asset Securities Research

Table 12. Global peer valuations (Wtr, x, %)

Category	Company	Market cap	Revenue		OP		P/E		P/B		EV/EBITDA		Returns					
			26F	27F	26F	27F	26F	27F	26F	27F	26F	27F	1W	1M	3M	6M	1Y	YTD
	Hanwha Aerospace	52	32.4	35.1	4.6	5.7	21.2	16.6	3.8	3.2	11.3	9.6	-4	-9	-1	-22	-4	7
Land systems	General Dynamics	123	76	80	8	9	19.7	18.0	3.2	3.0	13.6	12.3	-3	-10	-4	-1	2	-1
	Rheinmetall	70	22	29	4	6	26.4	17.9	7.1	5.5	14.3	10.1	-3	-13	0	-31	-51	-39
	BAE Systems	106	60	66	7	7	23.0	20.3	4.7	4.3	13.2	11.9	-1	-3	9	-7	-2	13
	Elbit Systems	44	35	38	3	4	43.5	38.3	7.4	6.6	-	-	-5	1	-4	-14	42	19
Aerospace	GE Aerospace	448	69	76	15	17	40.3	35.1	18.3	17.3	31.5	27.8	0	-5	-15	17	9	-1
	RTX (P&W)	343	131	141	18	19	25.9	23.8	3.7	3.6	18.4	16.5	-2	-10	1	1	16	1
	MTU Aero Engines	31	15	16	2	2	19.7	18.0	3.9	3.4	10.4	9.5	3	5	3	25	0	0
Land systems peer avg.							**28.1**	**23.6**	**5.6**	**4.9**	**13.7**	**11.4**						
Aerospace peer avg.							**28.6**	**25.6**	**8.6**	**8.1**	**20.1**	**17.9**						

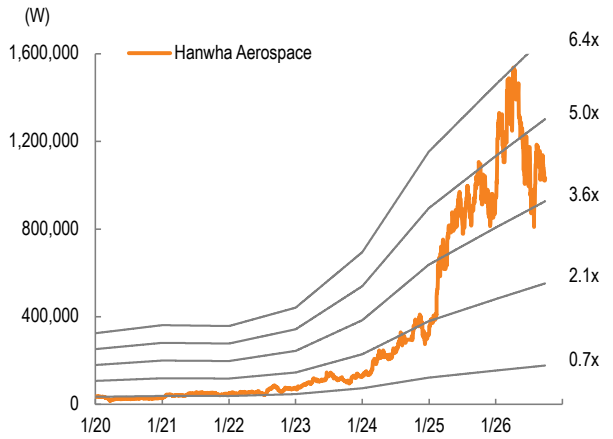
Source: Bloomberg, QuantiWise, Mirae Asset Securities Research

Figure 40. Hanwha Aerospace: 12-month forward P/E band chart



Source: QuantiWise, Mirae Asset Securities Research

Figure 41. Hanwha Aerospace: 12-month forward P/B band chart



Source: QuantiWise, Mirae Asset Securities Research

Earnings outlook: Further growth ahead for land systems

We expect earnings to grow further after Hanwha Aerospace posted quarterly operating profit above W1tr for the first time in 2Q26. For 3Q26, we estimate consolidated revenue at W7.61tr (+17.4% YoY), operating profit at W1.29tr (+50.5% YoY), and OP margin at 16.9% (+3.7%p YoY). In 2H26, the land systems division should benefit from typical seasonal strength in domestic demand and growing contributions from the K9EGY (Egypt) and AS9 (Australia) export programs. We also anticipate earnings growth at key subsidiaries Hanwha Ocean and Hanwha Systems.

For 2026, we forecast consolidated revenue at W32.46tr (+21.6% YoY), operating profit at W4.79tr (+56.7% YoY), and OP margin at 14.8% (+3.4%p YoY). We expect land systems and aerospace revenue to reach W9.57tr (+17.6% YoY) and W2.93tr (+16.2% YoY), respectively. K9 orders from Spain and the US, together with the Chunmoo deal with Croatia, should significantly increase the order backlog, while a potential third K9 contract with Poland offers additional upside. At end-2Q26, the land systems order backlog stood at W38.31tr, equivalent to 4.5 years of revenue based on sales over the preceding four quarters.

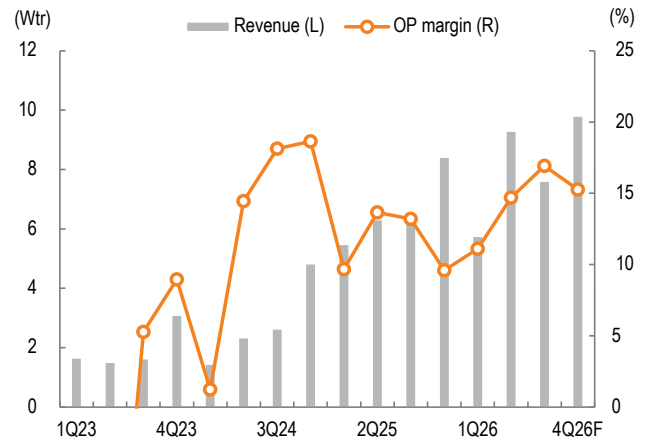
This substantial backlog provides a solid foundation for future growth. Multiple export programs are set to contribute to earnings, including Chunmoo (Croatia and Estonia), K9 (US and Spain), and Redback (Australia). In aerospace, domestic KF-21 series production should sustain sales of related components and engines. For 2027, we forecast consolidated revenue at W35.08tr (+8.1% YoY), operating profit at W5.76tr (+20.4% YoY), and OP margin at 16.4% (+1.6%p YoY). We expect land systems revenue to reach W11.65tr (+22% YoY).

Table 13. Hanwha Aerospace: Quarterly and annual earnings (Wbn, %)

		1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26F	4Q26F	2025	2026F	2027F
Revenue	Revenue	5,484	6,311	6,486	8,421	5,751	9,293	7,613	9,806	26,703	32,463	35,082
	Aerospace	531	649	604	737	661	760	686	821	2,521	2,928.5	3,587
	Land systems	1,157	1,773	2,110	3,093	1,221	2,108	2,417	3,820	8,133	9,565.2	11,651
	Domestic	405	690	913	1,464	570	875	903	1,774	3,471	4,122	4,953
	Exports	752	1,083	1,197	1,629	651	1,232	1,515	2,045	4,662	5,444	6,698
	Hanwha Systems	690	768	808	1,398	807	1,118	1,095	1,536	3,664	4,556	5,116
	Hanwha Ocean	3,143	3,294	3,023	3,323	3,210	5,443	3,518	3,703	12,784	15,874	15,109
	Satrec Initiative	40	44	50	72	37	52	61	86	207	236	298
Growth	Total	278%	170%	147%	75%	5%	47%	17%	16%	138%	21.6%	8.1%
	Aerospace	24%	20%	26%	24%	25%	17%	14%	11%	23%	16%	22%
	Land systems	76%	33%	27%	-9%	5%	19%	15%	24%	16%	18%	22%
	Domestic	15%	21%	33%	-5%	41%	27%	-1%	21%	10%	19%	20%
	Exports	147%	42%	23%	-12%	-13%	14%	27%	26%	20%	17%	23%
	Hanwha Systems	27%	12%	26%	50%	17%	45%	36%	10%	31%	24%	12%
	Hanwha Ocean	38%	30%	12%	2%	2%	65%	16%	11%	19%	24%	-5%
	Satrec Initiative	26%	-6%	15%	49%	-7%	16%	20%	20%	21%	14%	26%
OP		530	861	856	808	639	1,366	1,289	1,496	3,055	4,789	5,764
YoY (%)		2887%	155%	79%	-10%	21%	59%	51%	85%	76%	57%	20%
OP margin		9.7	13.6	13.2	9.6	11.1	14.7	16.9	15.3	11.4	14.8	16.4

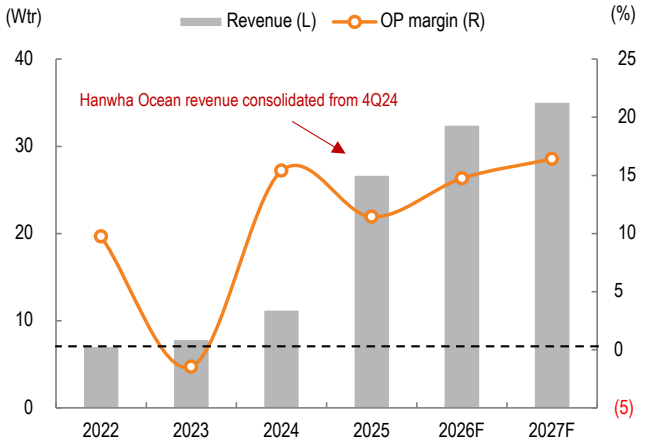
Source: Company data, Mirae Asset Securities Research

Figure 42. Hanwha Aerospace: Quarterly revenue and OP margin



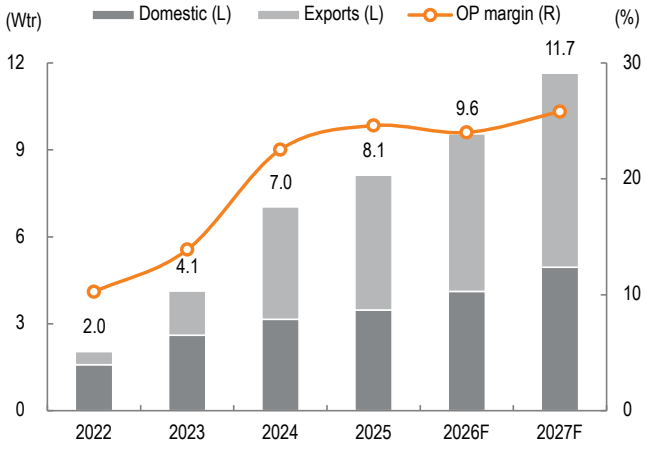
Source: Company data, Mirae Asset Securities Research

Figure 43. Hanwha Aerospace: Annual revenue and OP margin



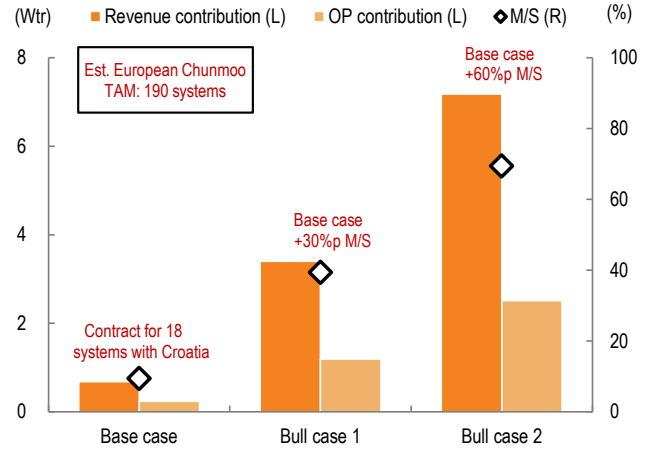
Source: Company data, Mirae Asset Securities Research

Figure 44. Hanwha Aerospace: Annual land systems earnings



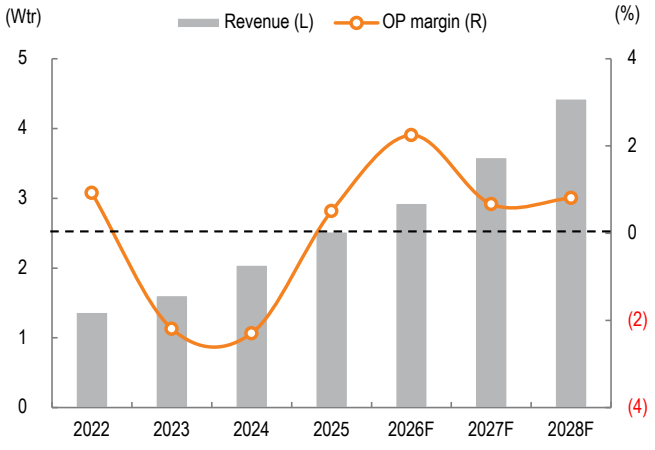
Source: Company data, Mirae Asset Securities Research

Figure 45. Hanwha Aerospace: Chunmoo earnings contribution under European market entry scenarios



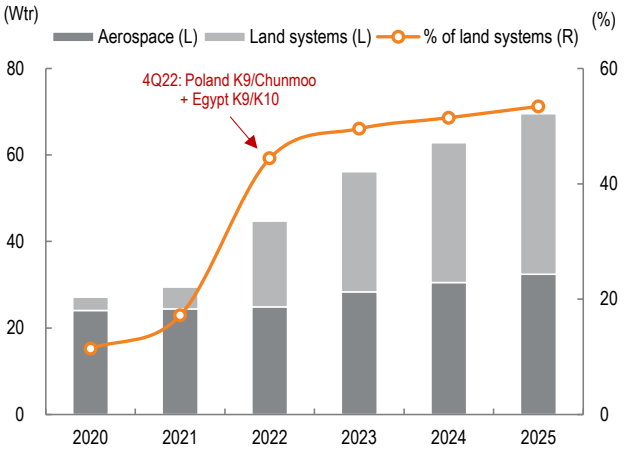
Notes: ASP is based on the Croatian Chunmoo contract (increased by 20% at each successive scenario); OP margin is assumed at 35% (land systems export OP margin)
Source: Mirae Asset Securities Research

Figure 46. Hanwha Aerospace: Annual revenue and OP margin



Source: Company data, Mirae Asset Securities Research

Figure 47. Hanwha Aerospace: Annual order backlog trend (standalone)



Source: Company data, Mirae Asset Securities Research

Investment points

We expect Hanwha Aerospace's exports to expand further, supported by its broad portfolio spanning combat vehicles, artillery, and air defense—the widest among Korean defense suppliers. The K9's entry into the US and Spain marks a breakthrough into advanced defense markets, while long delivery backlogs for competing US systems are creating further export opportunities. The company is also responding actively to customer countries' increasingly demanding localization requirements.

K9 enters advanced markets

US: In August, Hanwha Aerospace's K9MH, the wheeled variant of the K9 self-propelled howitzer, was selected as the sole prototype system for the US Army's wheeled Mobile Tactical Cannon (MTC-W) program. The company is set to deliver six prototypes within one year, with an option for 12 additional units, bringing the maximum contract value to US$262.9mn. The prototypes will undergo three to four years of testing to verify their performance before a potential production contract and large-scale deployment. We estimate the production requirement at around 500 units, translating into a potential program value of over W10tr based on the value of the prototype contract.

The US Army shifted toward the rapid acquisition of mature systems from allied countries after discontinuing its Extended Range Cannon Artillery (ERCA) program, which aimed to develop a self-propelled howitzer capable of firing at ranges of 70km. The program encountered cost issues and excessive barrel wear associated with its longer gun barrel. The growing importance of highly mobile wheeled howitzers in modern warfare also helped drive the current procurement program.

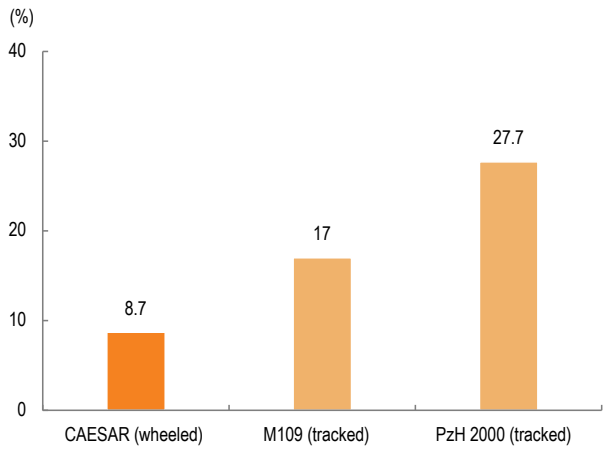
Hanwha Aerospace's system must still undergo several years of rigorous US Army testing covering mobility, firepower, and maintainability. However, the Army is pursuing rapid deployment, targeting initial fielding in 2030. Furthermore, we believe its decision to select a single supplier for the multi-year prototype evaluation suggests that the selection was made with the subsequent production phase already in mind. Even if a production contract does not materialize, selection by the US Army—with its exceptionally high performance standards—should provide a powerful credential for future exports to other countries. Data gathered during US Army testing could also help Hanwha Aerospace tailor its offerings for other NATO customers.

Figure 48. Hanwha Aerospace secures US Army contract for K9MH prototype



Source: Company materials, Mirae Asset Securities Research

Figure 49. Howitzer losses in Russia-Ukraine war: Wheeled vs. tracked



Source: Industry data, Mirae Asset Securities Research

Beyond technical performance, key evaluation criteria for the MTC-W program included compatibility with US ammunition, local production, ammunition supply capacity, and the provision of technical data. Six systems reportedly competed, including Germany's RCH-155, Sweden's Archer, and Israel's Sigma. The selection of the K9MH, which only completed development in Mar. 2026, over competing systems from established global players demonstrates Korean defense suppliers' competitiveness in technology, delivery lead times, pricing, and localization capabilities.

The K9MH met all key requirements, including a wheeled chassis, a 155mm gun with a 49-56-caliber barrel, compatibility with US 155mm ammunition, and maximum ranges of 58km for concentrated fire and 70km for precision strikes. With rising US war costs making pricing increasingly important, we believe the K9's price advantage over competing systems was also a significant factor in its selection.

Integration with the K10, the K9's dedicated automated armored ammunition resupply vehicle, demonstrated the rapid resupply capability required by the US Army. Hanwha Aerospace also demonstrated its commitment to US production through its Alabama facility (leased for three years to support K9MH prototype production) and its planned US$2.2bn munitions manufacturing campus at Pine Bluff Arsenal in Arkansas.

Figure 50. Pine Bluff Arsenal in Arkansas



Source: Company materials, Mirae Asset Securities Research

Figure 51. K10 conducting automated rear ammunition resupply



Source: ROKA, Mirae Asset Securities Research

Following the wheeled howitzer award, attention now turns to the US Army's tracked howitzer program (MTC-T), announced in August. The program is intended to replace the Army's existing tracked systems and is separate from the MTC-W program. The Army's current M109 howitzers have 39-caliber barrels, leaving them at a disadvantage in range and accuracy relative to most modern 52-caliber systems and creating a strong need for modernization. While the procurement quantity has not been disclosed, we estimate the US Army's M109 fleet at approximately 670 units (330 M109A6s and 340 M109A7s).

We expect Hanwha Aerospace to compete for the program with its K9A2. Unlike the K9A1, the K9A2 features an automatic loading system that increases the firing rate from six to eight or nine rounds per minute. It also requires a smaller crew (three vs. five).

BAE Systems' M109-52, considered a leading contender, combines the existing M109A7 chassis with a 155mm 52-caliber gun. Its ability to leverage the US Army's existing M109A7 maintenance infrastructure and parts supply network, together with established US production facilities, presents a competitive challenge for Hanwha Aerospace. However, the K9A2 can share components, operating manuals, and maintenance facilities with the K9MH, enabling more efficient operation if both systems are adopted. The company should also be able to draw on the military relationships established through the K9MH prototype contract and apply insights into US Army requirements gained during testing to its tracked howitzer offering.

Europe: With K9 exports to Europe previously concentrated in Northern and Eastern Europe, the deal with Spain marks a milestone in terms of entry into Western Europe. Under Spain's EUR4.55bn artillery modernization program, Indra will use key K9 components and technology transferred by Hanwha Aerospace to develop self-propelled howitzers for the Spanish military at its Gijón plant. The program covers 128 tracked howitzers and a combined 208 ammunition resupply, recovery, and command-and-control vehicles. Although Hanwha Aerospace's contract value and duration have not been disclosed, we estimate its value at more than W2tr. Amid Europe's growing preference for regional suppliers, this contract demonstrates that Korean defense companies can become key partners in European supply chains by supplying platforms and technology rather than finished systems.

Spain brings the number of European K9 customers to seven (including Turkiye), and we expect further expansion in the region. In Poland, 308 units remain under the 672-unit framework agreement, following contracts for 212 units in the first phase and 152 in the second. Deliveries under existing contracts should continue through 2028, while contracts for the remaining units should support steady revenue generation.

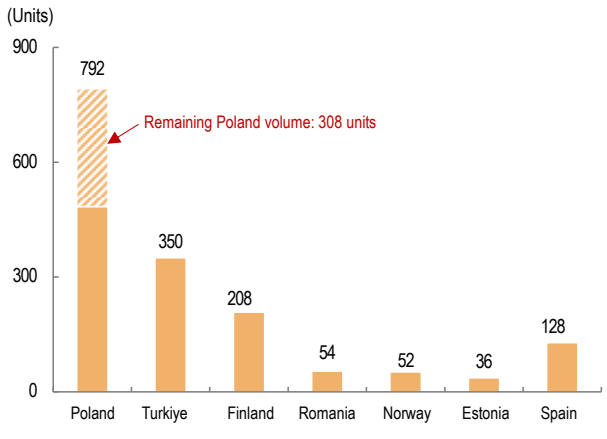
The K9MH also has scope to gain market share in Europe, where demand for wheeled howitzers is growing, supported by its selection for the US Army program. Most European wheeled howitzer systems have only recently entered series production, leaving capacity constrained, and suppliers are likely to prioritize domestic requirements. Initial deliveries of CAESAR MK-II, a leading European wheeled howitzer, are believed to have begun this year. With orders from France (home market) and Lithuania (development partner) already in the backlog, deliveries to Croatia—which placed its order in Dec. 2025—are not scheduled to begin until mid-2029.

Table 14. CAESAR MK-II delivery schedule

	2022	2023	2024	2025	2026	2027	2028	2029	2030
Croatia				Ordered				First batch	
Belgium	Ordered						First batch		
France			Ordered		First batch				
Lithuania (second)				Ordered		First batch			
Lithuania (first)	Ordered					First batch			

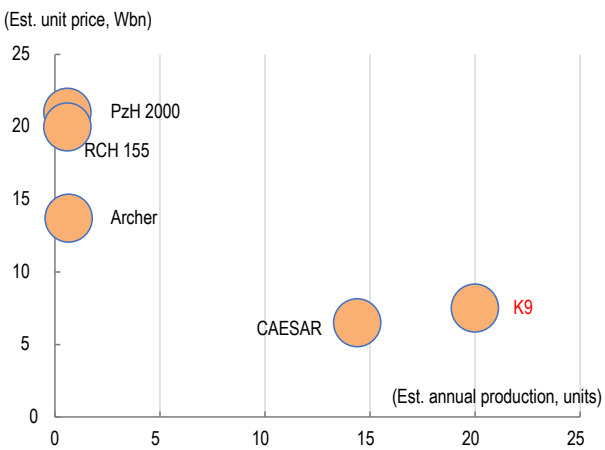
Source: KNDS, defense ministries, media reports, Mirae Asset Securities Research

Figure 52. Cumulative K9 contracts in Europe



Note: Includes Poland's Krab howitzers and Turkiye's T-155s, which are produced locally using K9 designs and technology
Source: Mirae Asset Securities Research

Figure 53. European self-propelled howitzers: Est. production volume and unit price



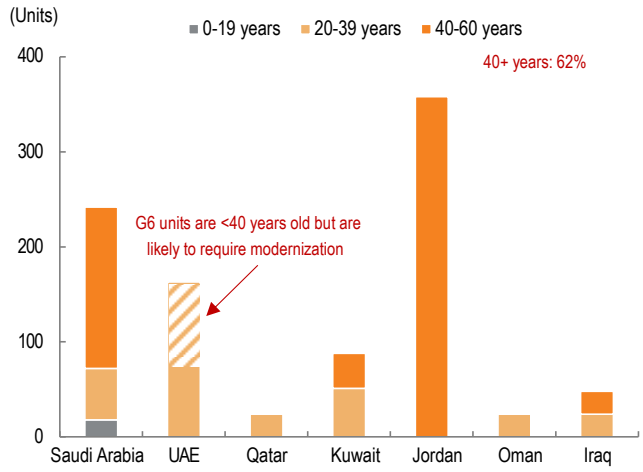
Source: Kiel institute, media reports, Mirae Asset Securities Research

Middle East: Persistent civil wars and border conflicts, including threats from Houthi artillery attacks and Iran-aligned militias in Iraq, continue to fuel demand for self-propelled howitzers. At the same time, most systems acquired during the 20th century are aging, creating significant modernization needs. BAE Systems' M109 howitzer, widely deployed across the Middle East, uses a 39-caliber barrel and is outmatched by modern competing systems, creating an urgent need for replacement.

Having discontinued ERCA and shifted toward procuring foreign-developed howitzers, the US lacks a suitable new system to meet Middle Eastern demand. This gap should create an opportunity for the K9 to expand in the region.

The K9 is an attractive replacement option, having demonstrated its suitability for desert operations through exports to Egypt (K9EGY) and India (K9 Vajra). The Tatra 815 truck platform used by the K9MH is already in service in the UAE and Saudi Arabia, providing an advantage in terms of maintenance infrastructure and chassis compatibility. Hanwha Aerospace is also strengthening its local capabilities through production cooperation with UAE defense company Generation 5 and the establishment of a subsidiary in Saudi Arabia. We believe these developments put the company in a strong position to expand in the Middle East.

Figure 54. 155mm howitzer inventories in Gulf states



Source: IISS, media reports, Mirae Asset Securities Research

Figure 55. K9: Proven performance in desert operations



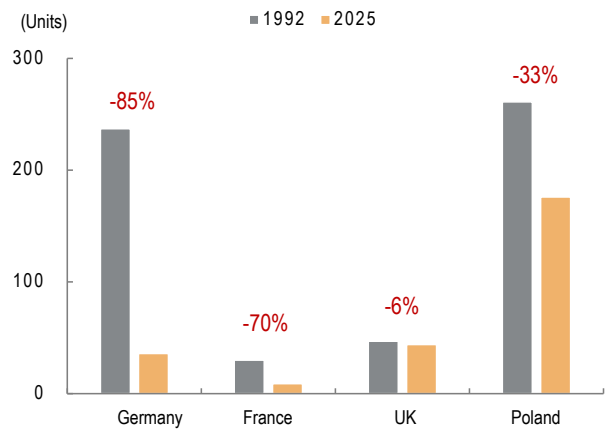
Source: Company materials, Mirae Asset Securities Research

Chunmoo's European customer base begins to expand

European orders for MLRS are increasing, as the Russia-Ukraine war has demonstrated the importance of long-range precision strikes. By Jul. 2022, Ukraine had reportedly struck more than 100 high-value Russian targets using eight HIMARS launchers. MLRS inventories have declined particularly sharply since the end of the Cold War compared with other systems: between 1992 and 2025, holdings fell by approximately 80% in Germany and 70% in France. Aging first-generation systems also account for a large share of existing fleets. With European rearmament plans prioritizing long-range precision strike systems, we expect MLRS orders to increase further.

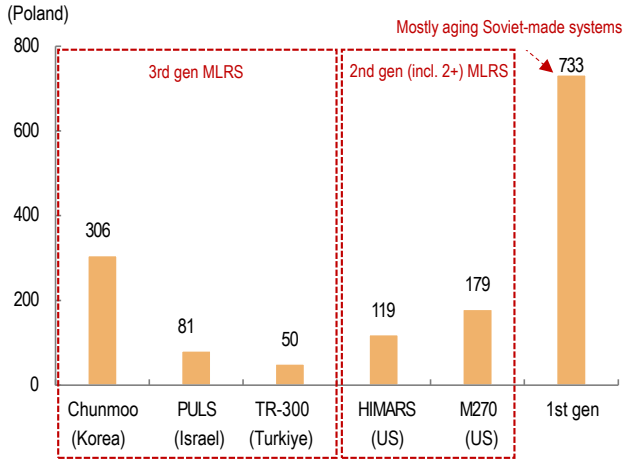
We believe production capacity for US-made HIMARS, a widely adopted system globally, is currently fully utilized. Orders have surged since the outbreak of the Russia-Ukraine war, while US domestic demand has also increased, with planned deliveries to the US Army rising from 46 units in 2025 to 62 in 2026. The prioritization of deliveries to Ukraine is also limiting availability for other customers. Latvia's first deliveries are scheduled for 2027 following its 2023 order, highlighting the long lead times for HIMARS. Chunmoo exports to countries such as Estonia and Croatia provide further evidence that this backlog and US missile export restrictions are creating opportunities for Hanwha Aerospace.

Figure 56. MLRS inventory in Europe: 1992 vs. 2025



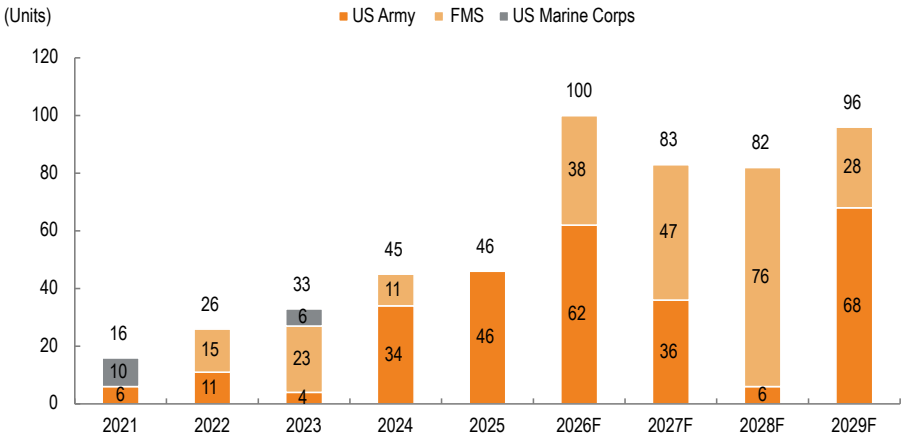
Source: IISS, Mirae Asset Securities Research

Figure 57. MLRS inventory in Europe by generation



Source: IISS, Mirae Asset Securities Research

Figure 58. HIMARS delivery schedule



Source: US DoD, Mirae Asset Securities Research

European MLRS systems are still in development, limiting their ability to meet near-term demand. The first five EuroPULS launchers, jointly developed by Israel's Elbit Systems and Germany's KNDS, are scheduled for delivery to Germany in 2027. France selected MBDA and Safran's Thundart for its long-range land-strike program in Jun. 2026, with the system expected to become available in 2030. Meanwhile, Hanwha Aerospace plans to complete 85% of deliveries under the Croatian Chunmoo contract by 2028, again highlighting its strong delivery capabilities.

Chunmoo's long-range strike capabilities are becoming an increasingly important advantage. Missile shortages and US export restrictions on missiles with ranges of 300km or more have left some European HIMARS customers with a strike range of just 80km. Chunmoo's CTM-290 can strike targets at 290km, while the CTM-X has a maximum range of 500km. These capabilities were a key factor in securing the Croatian order. Chunmoo also carries two launch pods accommodating up to 12 missiles—twice the six-missile capacity of HIMARS' single pod. The joint guided missile factory under construction in Poland should enable local procurement and, over the medium to long term, serve demand from other European Chunmoo customers, including Estonia, Croatia, and Norway.

Figure 59. Guided missiles for Chunmoo



Source: Company materials, Mirae Asset Securities Research

Figure 60. Chunmoo guided missile plant under construction in Poland (deliveries scheduled to begin in 2030)



Source: Hanwha Europe, Mirae Asset Securities Research

Table 15. Est. potential European demand for MLRS

Group	Demand category	Country	Potential adversary	Est. artillery force structure	Chunmoo adoption history	Existing fleet	Est. demand	Planned deliveries	Remaining demand
Group 1 Border distance to potential adversary of 0–100km	New demand	Latvia	Russia	No MLRS units	X	0	6	6	0
		Lithuania	Russia	One artillery regiment planned	X	0	12	12	0
		Spain	Morocco	One MLRS regiment	X	0	12	0	12
	Replacement demand	Finland	Russia		X	56	75	41	34
		RM-70 ➡ 50+ years old				34	34	0	
		M270 ➡ 40+ years old				41	41	0	
		M270 ➡ M270A2 upgrade contract for entire fleet signed in Dec. 2023				0	0	41	
		Croatia	Serbia		O	27	27	8	18
		BM-21 Grad ➡ 60+ years old; est. acquisition in early/mid-1990s				21	21	0	
		M-91 Vulkan ➡ 50+ years old; est. acquisition in early 1990s				6	6	0	
		HIMARS ➡ Contract signed for eight launchers in Dec. 2024				0	0	8	
		Bosnia	Serbia		X	24	24	0	24
		APRA-40 ➡ 40-50 years old; est. acquisition in late 1990s				24	24	0	24
		Montenegro	Serbia		X	18	18	0	18
		M63 Plamen ➡ 60+ years old; equipment inherited in phases in the mid-2000s				18	18	0	18
		Greece	Turkiye		X	151	151	151	0
		RM-70 ➡ 50+ years old; est. acquisition in early 1990s				115	115	In progress	0
		M270 ➡ 40+ years old; est. acquisition in late 1990s				36	36	0	0
		PULS ➡ Contract signed for 36 launchers in Apr. 2026				0	0	36	
Group 2 Border distance to potential adversary of 100–300km	New demand	Sweden	Russia	One MLRS battalion	X	0	20	10+10	0
	Replacement demand	Slovakia	Russia		X	24	24	24	0
		RM-70 ➡ 50+ years old				24	24	0	
		HIMARS ➡ Defense minister announced intention to purchase in Feb. 2026				0	0	24	
		Romania	Russia		X	207	132	72	60
		HIMARS ➡ 20+ years old: contract signed for 54 launchers in 2018				36	0	18	
		APRA-40 ➡ 40-50 years old				114	78	0	
		LAROM ➡ 30-40 years old				54	54	0	
		LAROM ➡ Elbit Systems proposed upgrade in May 2026				0	0	54	
Group 3 Border distance to potential adversary of 300–600km	New demand	Czech Republic	Russia	No MLRS units since 2011	X	-	-	-	-
		Denmark	Russia	One artillery regiment	X	8	0	0	0
		Hungary	Russia	One MLRS battalion planned	X	-	18	18	0
		Austria	Russia	Two MLRS batteries planned	X	-	12	0	12
	Replacement demand	Bulgaria	Russia		X	24	24	12	12
		BM-21 Grad ➡ 60+ years old				24	24	0	
		EuroPULS ➡ Planned procurement using SAFE funding				0	0	12	
		Germany	Russia		X	36	36	5+@	0
		M270 ➡ 30+ years old				36	36	0	
		EuroPULS ➡ 500-launcher framework agreement announced in 2026				0	0	5+@	
Potential addressable demand (incl. Croatia)									190

Notes: Croatia has already signed a contract for 18 Chunmoo units; LAROM is excluded from the remaining demand estimate to maintain a conservative forecast
Source: IISS, media reports, Mirae Asset Securities Research

Table 16. Estimated earnings contributions under European Chunmoo export scenarios (Wbn)

Category	M/S	Launchers sold	Chunmoo ASP	Est. revenue	Assumed OP margin	Est. OP	Assumptions
Base case	9%	18	38	680	35%	238	18 launchers ordered by Croatia
Bull case 1	39%	75	45	3,400	35%	1,190	M/S 30%p above base case (1-2 additional orders)
Bull case 2	69%	132	54	7,181	35%	2,513	M/S 60%p above base case (3-4 additional orders)

Notes: Missile content varies by contract; ASP is benchmarked to the Croatian contract and increased by 20% at each successive bull case scenario; OP margin of 35% is assumed, benchmarked to land systems exports
Source: Mirae Asset Securities Research

Largest beneficiary of L-SAM exports

Hanwha Aerospace, which produces L-SAM's anti-ballistic missiles (ABMs), should be the largest beneficiary of growing L-SAM exports. The company accounts for 57.5% of the total contract value for domestic L-SAM series production, compared with 13.4% for systems integrator LIG D&A. We believe the higher share and contract pricing for ABMs reflect both their greater technological complexity and the primary purpose of procuring long-range interception systems—i.e., defending against ballistic missiles.

As of end-July, the US is estimated to have expended up to 48% of its THAAD inventory during the Iran war—equivalent to more than two years of production capacity at Lockheed Martin (based on 2025 capacity of 96 THAAD interceptors). The US also reportedly supplied more than 150 THAAD interceptors to Israel during the 12-day Israel-Iran war in 2025, suggesting substantial depletion of its stockpiles. The US's replenishment needs should inevitably constrain the availability of interceptors for export. Notably, the FY2027 budget request significantly pulls forward THAAD deliveries to the US military compared with the FY2026 request, while supplemental funding has also increased procurement quantities.

The US government recently awarded Lockheed Martin a seven-year procurement contract worth up to US$35bn to support an increase in annual THAAD interceptor production to 400 units. However, the seven-year timeframe underscores that the expansion will take place over the medium/long term. Moreover, production infrastructure across the component supply chain must also expand, making a near-term resolution of tight supply unlikely. With THAAD deliveries until recently concentrated on exports to the Middle East, we view the expansion agreement as further evidence of strong US demand to replenish domestic stockpiles.

Table 17. L-SAM beneficiary breakdown (Wbn)

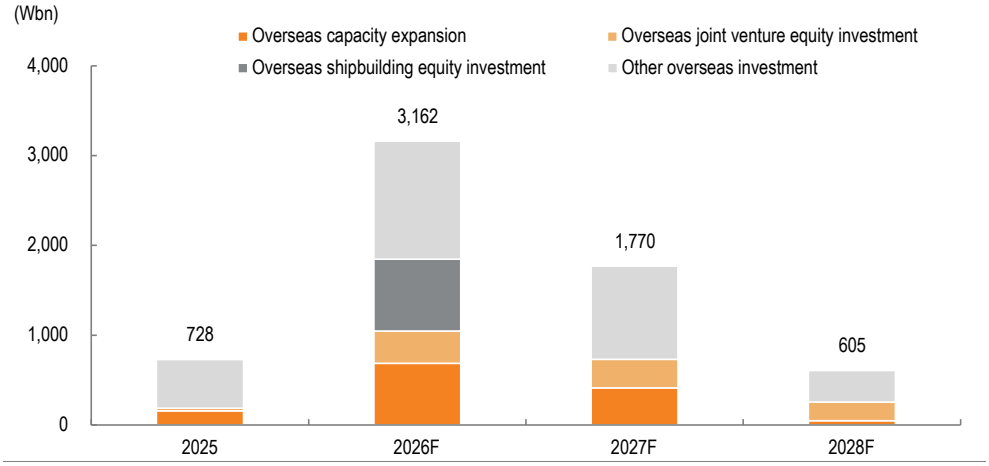
Company	Description	Contract value	% of total contract value
LIG D&A	System integration AAM Engagement control	163.9	13.4%
Hanwha Aerospace	ABM	705.4	57.5%
Hanwha Systems	MFR	357.3	29.1%

Source: DART, Mirae Asset Securities Research

Relying solely on THAAD for high-altitude interception also has clear cost limitations. Each THAAD interceptor is estimated to cost US$12–15mn, compared with US$0.5–1mn for Iran's Fateh-110 ballistic missile, which has been used extensively in the current war. Assuming two interceptors are launched against each incoming ballistic missile, the cost gap can reach as much as 60x.

Demand should inevitably grow for interceptor systems that can provide high-altitude interception while reducing this cost imbalance. L-SAM's lower cost relative to THAAD makes it an attractive alternative. Israel's Arrow 3 is another competing system, but its export prospects in the Middle East face constraints due to the need for US State Department approval and Israel's relations with countries in the region.

Figure 61. Hanwha Aerospace: Medium/long-term overseas investment plans



Source: Company data, Mirae Asset Securities Research

Table 18. Hanwha Aerospace: Localization strategies

	Structure	Location	Local subsidiary or partner	Products/production scope	Localization status and plans	Notes
Hanwha Aerospace	CKD	India	L&T	Local production of 90 of 100 K9 units under first contract; 100 K9 units under 2025 contract	First contract: 50% local component content Second contract: local production share increased to 60% Follow-on contracts could extend cooperation to technology transfer	
	CKD	Egypt	Factory 200 (affiliated with Egypt's Ministry of Defense)	216 K9A1 EGY howitzers 39 K10 vehicles 51 K11 vehicles	Targeting 67% localization; potential for technology transfer; set to serve as production/MRO hub for MENA states	To use Abrams tank production line; deliveries began in 1Q26
	IP/design rights transfer	Spain	Indra	Overall program: 128 tracked howitzers; Hanwha supplies K9 vehicles and components to Indra	K9 design rights to be transferred to Indra, with Hanwha participating as a parts supplier	Agreement allows Indra's technologies to be used in Hanwha Aerospace's vehicles
	CKD (planned)	UAE	Generation 5	Local K9 production and MRO hub	Localization level and partnership structure yet to be disclosed	Second Middle East base after Egypt
	Subsidiary	Romania	H-ACE Europe (European subsidiary)	36 of 54 K9 units 24 of 36 K10 units Potential expansion to Redback and UGVs	Partnership with 30+ local firms Targeting 80% localization Production and MRO hub in Europe	First production base established by a Korean defense company in Europe; construction began in Feb. 2026; deliveries expected in 2027-28
	Subsidiary	Australia	H-ACE (Australian subsidiary)	28 of 30 AS9 units 14 of 15 AS10 units 129 Redbacks	Working with 45 Australian companies; MRO base for the Indo-Pacific region	First production base established by a Korean defense company overseas Completed in Aug. 2024 Redback line expansion completed in Mar. 2025
	Subsidiary	Germany	HDD (German subsidiary)		Subsidiary established in Apr. 2026; plant site selection underway	Third production base planned, following Australia and Romania
	Joint venture	Poland	HWB (joint venture with WB Group)	Polish Chunmoo (HOMAR-K) CGR-080 guided missiles	Missiles (HWB) and vehicles (Jelcz) to be produced by local partners; potential to address missile demand from Chunmoo operators in Europe	Ownership: Hanwha Aerospace 51%, WB 49% Targeting supply of 10,000 missiles in 2030-33 Hanwha Aerospace retains key parts supply rights and receives technology licensing revenue (accruing to the company from 2030)
	US investment	Alabama	HDUSA (US subsidiary)	K9MH prototype (to be produced)	Production and supply chain in the US	Leased an idle plant in Alabama; potential expansion if a series production contract is secured
	US investment	Arkansas	HDUSA (US subsidiary)	Propellant and explosive materials for 155mm artillery shells	Plans to invest US$2.2bn over seven years and build a vertically integrated ammunition production system	First large-scale overseas ammunition production facility

Source: Media reports, Mirae Asset Securities Research

Hanwha Aerospace (012450 KS)

Income statement (summarized)

(Wbn)	2025	2026F	2027F	2028F
Revenue	**26,703**	**32,463**	**35,082**	**38,258**
Cost of revenue	**21,252**	**25,399**	**26,452**	**28,263**
GP	**5,451**	**7,064**	**8,630**	**9,995**
SG&A expenses	**2,361**	**2,274**	**2,865**	**3,302**
OP (adj.)	**3,089**	**4,789**	**5,764**	**6,693**
OP	**3,089**	**4,789**	**5,764**	**6,693**
Non-operating profit	**-879**	**-130**	**95**	**210**
Net financial income	-267	-303	-241	-184
Net income from associates	-83	26	189	198
Pretax profit	2,210	4,659	5,859	6,903
Income tax	8	416	453	534
Profit from continuing operations	2,202	4,243	5,406	6,368
Profit from discontinued operations	0	0	0	0
NP	**2,202**	**4,243**	**5,406**	**6,368**
Attributable to owners	1,405	2,465	3,147	3,716
Attributable to minority interests	797	1,779	2,259	2,653
Total comprehensive income	**2,306**	**4,804**	**5,406**	**6,368**
Attributable to owners	1,437	2,737	3,010	3,546
Attributable to minority interests	869	2,066	2,396	2,822
EBITDA	3,962	5,793	6,879	7,853
FCF	2,339	1,283	3,095	5,971
EBITDA margin (%)	14.8	17.8	19.6	20.5
OP margin (%)	11.6	14.8	16.4	17.5
Net margin (%)	5.3	7.6	9.0	9.7

Balance sheet (summarized)

(Wbn)	2025	2026F	2027F	2028F
Current assets	**30,705**	**37,912**	**42,207**	**47,081**
Cash & equivalents	7,713	10,285	10,725	14,030
AR & other receivables	3,417	3,969	4,497	4,711
Inventory	7,742	9,094	10,304	10,794
Other current assets	11,833	14,564	16,681	17,546
Non-current assets	**23,248**	**25,914**	**26,415**	**26,624**
Investments in associates	2,190	2,550	2,890	3,027
PP&E	9,524	10,597	11,018	11,373
Intangible assets	7,498	7,343	7,063	6,770
Total assets	**53,954**	**63,826**	**68,622**	**73,705**
Current liabilities	**29,976**	**33,359**	**34,480**	**35,369**
AP & other payables	4,396	4,562	5,048	5,329
Short-term financial liabilities	7,178	9,802	9,832	9,845
Other current liabilities	18,402	18,995	19,600	20,195
Non-current liabilities	**7,189**	**8,004**	**8,214**	**8,299**
Long-term financial liabilities	5,765	6,424	6,424	6,424
Other non-current liabilities	1,424	1,580	1,790	1,875
Total liabilities	**37,165**	**41,363**	**42,694**	**43,668**
Equity attributable to owners	**9,685**	**13,599**	**16,386**	**19,741**
Capital stock	270	270	270	270
Capital surplus	3,604	5,020	5,020	5,020
Retained earnings	5,983	8,067	10,854	14,210
Minority interests	**7,103**	**8,865**	**9,542**	**10,296**
Shareholders' equity	**16,788**	**22,464**	**25,928**	**30,037**

Cash flow statement (summarized)

(Wbn)	2025	2026F	2027F	2028F
Operating cash flow	**4,050**	**2,704**	**4,170**	**7,013**
NP	2,202	4,243	5,406	6,368
Non-cash income/expenses	2,151	1,826	1,819	1,878
Depreciation	495	602	654	687
Amortization	378	402	461	472
Other	1,278	822	704	719
Chg. in working capital	571	-2,784	-2,384	-539
Chg. in AR & other receivables	-1,029	-624	-475	-192
Chg. in inventory	-1,108	-971	-1,211	-490
Chg. in AP & other payables	2,099	-2,388	227	146
Income tax	-572	-313	-453	-534
Cash flow from investing activities	**-4,021**	**-3,714**	**-1,434**	**-1,287**
Chg. in PP&E	-1,691	-1,420	-1,075	-1,043
Chg. in intangible assets	-263	-130	-180	-180
Chg. in financial assets	386	-719	-192	-78
Other	-2,453	-1,445	13	14
Cash flow from financing activities	**4,682**	**3,829**	**-354**	**-372**
Chg. in financial liabilities	1,818	3,205	30	12
Chg. in equity	3,428	1,416	0	0
Dividends	-195	-411	-360	-360
Other	-369	-381	-24	-24
Chg. in cash	**4,746**	**2,572**	**440**	**3,305**
Beginning balance	2,968	7,713	10,285	10,725
Ending balance	7,713	10,285	10,725	14,030

Key valuation metrics/ratios

	2025	2026F	2027F	2028F
P/E (x)	32.9	21.2	16.6	14.0
P/CF (x)	10.6	8.6	7.2	6.3
P/B (x)	5.0	3.8	3.2	2.6
EV/EBITDA (x)	15.2	11.3	9.6	8.0
EPS (W)	28,573	47,799	61,033	72,060
CFPS (W)	88,520	117,699	140,114	159,923
BPS (W)	188,233	264,140	318,189	383,265
DPS (W)	7,000	7,000	7,000	7,000
Dividend payout ratio (%)	16.4	8.5	6.7	5.7
Dividend yield (%)	0.7	0.7	0.7	0.7
Revenue growth (%)	137.6	21.6	8.1	9.1
EBITDA growth (%)	92.1	46.2	18.8	14.2
OP growth (%)	78.4	55.0	20.4	16.1
EPS growth (%)	-38.1	67.3	27.7	18.1
AR turnover (x)	8.8	9.8	9.2	9.2
Inventory turnover (x)	3.8	3.9	3.6	3.6
AP turnover (x)	10.9	12.2	12.7	12.4
ROA (%)	4.5	7.2	8.2	8.9
ROE (%)	19.1	21.2	21.0	20.6
ROIC (%)	17.3	21.2	23.0	24.8
Debt-to-equity ratio (%)	221.4	184.1	164.7	145.4
Current ratio (%)	102.4	113.6	122.4	133.1
Net debt-to-equity ratio (%)	27.7	20.8	15.8	2.4
Interest coverage ratio (x)	6.3	7.9	9.2	10.7

Source: Company data, Mirae Asset Securities Research estimates

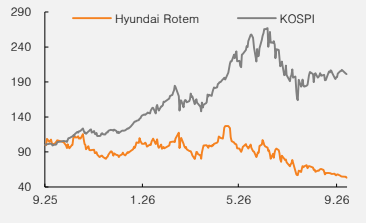
MIRAE ASSET Securities

Equity Research
September 30, 2026

(Initiate)	**Buy**
Target price	**W167,000**
Current price (9/29/26)	W112,300
Upside	48.7%

OP (26F, Wbn)	1,097
Consensus OP (26F, Wbn)	1,081
EPS growth (26F, %)	11.1
Market EPS growth (26F, %)	283.0
P/E (26F, x)	14.3
Market P/E (26F, x)	6.8
KOSPI	6,870.81
Market cap (Wbn)	12,257
Shares (mn)	109
Free float (%)	66.2
Foreign ownership (%)	39.1
Beta (12M)	0.32
52-week low (W)	112,300
52-week high (W)	269,000

(%)	1M	6M	12M
Absolute	-19.3	-39.0	-47.9
Relative	-20.2	-51.7	-74.0



Mirae Asset Securities Co., Ltd.

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064350 KS · Defense/Aerospace

Hyundai Rotem

Poised for a broader role in the global tank market

Initiate coverage at Buy with a TP of W167,000

We initiate coverage of Hyundai Rotem with a Buy rating and target price of W167,000, derived by applying the global peer group's average 2027F P/E of 18.4x to our 2027F EPS of W9,032. We expect the company to strengthen its position in the global tank market by expanding its customer base beyond Poland to countries including Romania, Peru, and Iraq. A sustained share price correction in 2Q–3Q26 has also made the company's valuation increasingly attractive relative to global peers.

K2 tanks entering a global expansion phase

The Middle East war and a change in political leadership in a prospective customer country have delayed contracts beyond initial expectations, but the order pipeline remains solid. With the K2 having demonstrated superior delivery lead times and strong performance, Hyundai Rotem should begin converting delayed export opportunities into firm orders in 2H26, with further progress expected through 2027.

The Peru export contract appears close to being finalized. Romania also represents a promising opportunity, given its planned use of funding outside the EU's Security Action for Europe (SAFE) program (avoiding restrictions on non-European sourcing). Hyundai Rotem's ability to support local production has already gained recognition in the region. Securing an additional European order despite the region's continued preference for local suppliers would mark a major milestone in the company's global expansion.

We expect Hyundai Rotem to enter the Middle Eastern market with the K2ME, its tank variant developed for the region. Starting with Iraq, which needs to replace aging Soviet-made tanks, we expect opportunities to expand to countries such as Saudi Arabia and the UAE. Although the Iraqi contract has been delayed due to local cabinet formation and the war in the region, order visibility should improve as geopolitical risks ease. We estimate potential Middle East tank modernization demand at 1,938 units.

Margins poised to recover as export business advances

With work under Poland's second execution contract (EC2) accelerating in 2H26, we forecast full-year revenue at W6.99tr (+19.6% YoY), operating profit at W1.1tr (+9.1% YoY), and OP margin at 15.7% (-1.5%p YoY). Some initial margin compression is inevitable as the Poland business transitions from EC1 to EC2. Nevertheless, we currently estimate export margins at 32–33%, above the levels seen in the early stages of EC1, with ample scope for QoQ improvements over subsequent quarters. Including the anticipated Peru export contract, we estimate the year-end order backlog at W32.2tr (4.6x annual revenue). If major pipeline opportunities translate into orders in 2027, the backlog-to-revenue ratio could rise to 8.2x. Growth visibility remains intact.

(Dec.)	2024	2025	2026F	2027F	2028F
Revenue (Wbn)	4,377	5,839	6,986	7,822	9,501
OP (Wbn)	457	1,006	1,097	1,313	1,643
OP margin (%)	10.4	17.2	15.7	16.8	17.3
NP (Wbn)	407	770	855	986	1,244
EPS (W)	3,728	7,055	7,838	9,032	11,397
ROE (%)	21.8	30.1	24.6	22.8	23.1
P/E (x)	13.3	26.6	14.3	12.4	9.9
P/B (x)	2.7	6.7	3.2	2.6	2.1
Dividend yield (%)	0.4	0.3	0.5	0.5	0.5

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research estimates

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the US.
Please see analyst certifications and important disclosures & disclaimers in Appendix 1 at the end of the report.

Initiate coverage at Buy with a TP of W167,000

We initiate coverage of Hyundai Rotem with a Buy rating and target price of W167,000, derived by applying the global peer group's average 2027F P/E of 18.4x to our 2027F EPS of W9,032. We expect the company to strengthen its position in the global tank market by expanding its customer base beyond Poland to countries including Romania, Peru, and Iraq. A sustained share price correction in 2Q–3Q26 has also made the company's valuation increasingly attractive relative to global peers.

The stock has fallen 42% YTD. There has been growing debate over whether tanks are becoming obsolete, and the absence of new export contracts this year has heightened those concerns. Near-term margin pressure from the transition between Poland's EC1 and EC2 contracts also appears to have contributed to the decline.

However, we believe tanks are undergoing a period of adaptation to evolving battlefield requirements, with demand for tanks themselves likely to persist. The order pipeline remains solid, with the lack of new orders this year mainly reflecting temporary delays arising from geopolitical risks. Starting with the anticipated final contract with Peru in 2H26, export opportunities in countries including Poland (EC3), Romania, and Iraq should gain greater visibility. We also expect margins to improve as Poland's EC2 program progresses and high-margin rail projects contribute to earnings.

Table 19. Hyundai Rotem: TP calculation (W, x)

	Value	Notes
2027F EPS	9,032	
Target P/E	18.4x	Avg. 2027F P/E of global peers (General Dynamics, Rheinmetall, BAE Systems, and Aselsan)
Fair value	166,514	
TP	**167,000**	
CP	112,300	Sep. 29
Upside	48.7%	Buy

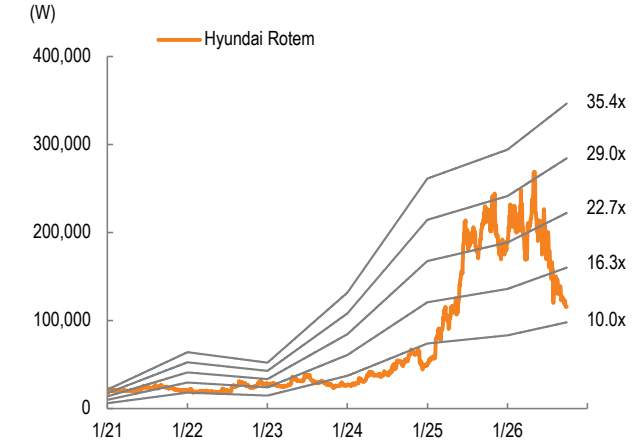
Source: Mirae Asset Securities Research

Table 20. Global peer valuations (Wtr, x, %)

Company	Country	Market cap	Revenue		OP		P/E		P/B		EV/EBITDA		Returns					
			26F	27F	26F	27F	26F	27F	26F	27F	26F	27F	1W	1M	3M	6M	1Y	YTD
Hyundai Rotem	Korea	12	7.0	7.8	1.1	1.3	14.3	12.4	3.2	2.6	9.4	7.5	-4	-18	-39	-37	-48	-42
General Dynamics	US	123	76	80	8	9	19.7	18.0	3.2	3.0	13.6	12.3	-3	-10	-4	-1	2	-1
Rheinmetall	Germany	70	22	29	4	6	26.4	17.9	7.1	5.5	14.3	10.1	-3	-13	0	-31	-51	-39
BAE Systems	UK	106	60	66	7	7	23.0	20.3	4.7	4.3	13.2	11.9	-1	-3	9	-7	-2	13
Aselsan	Türkiye	46	8	12	2	3	29.8	17.4	4.6	0.2	24.6	15.3	-2	-5	3	15	70	60
Peer avg.							24.7	18.4	4.9	3.3	16.4	12.4						

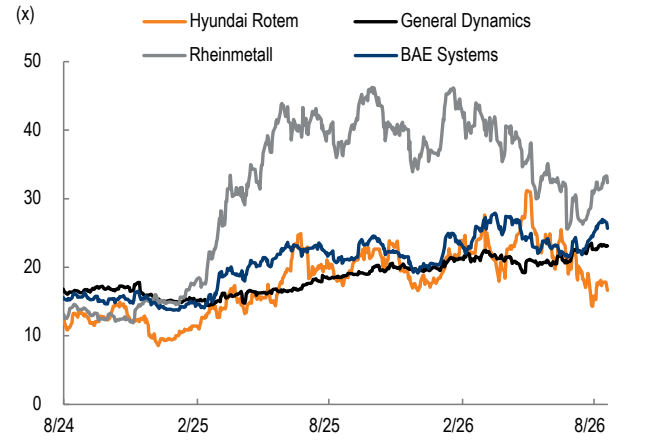
Notes: Hyundai Rotem data are based on QuantiWise; global peer data are based on Bloomberg
Source: Bloomberg, QuantiWise, Mirae Asset Securities Research

Figure 62. Hyundai Rotem: 12-month forward P/E band chart



Source: QuantiWise, Mirae Asset Securities Research

Figure 63. Global peers' 12-month forward P/E trends



Source: Bloomberg, Mirae Asset Securities Research

Poland EC2 program accelerates; margins to recover from 2Q trough

For 3Q26, we expect Hyundai Rotem to post revenue of W1.87tr (+15.7% YoY), operating profit of W305.7bn (+10.1% YoY), and an OP margin of 16.3% (-0.8%p YoY, +1.8%p QoQ). In 2Q26, operating profit missed the consensus due to a higher domestic sales mix in the defense business and a tough comparison stemming from the recognition of remaining EC1 volumes in 2025. However, we expect margins to recover from the 2Q trough as Poland's EC2 program accelerates. Based on 2Q operating profit, we estimate the export margin at 32–33%, indicating that profitability in the export business remains sound.

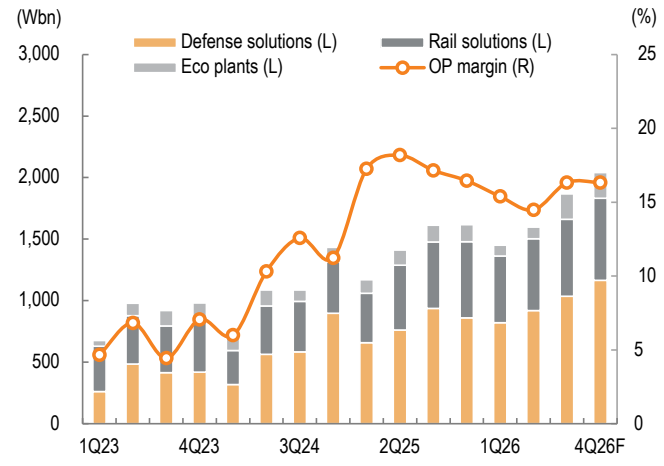
With Poland's EC2 program accelerating in 2H26, we expect the company to post full-year revenue of W6.99tr (+19.6% YoY), operating profit of W1.1tr (+9.1% YoY), and an OP margin of 15.7% (-1.5%p YoY). Assuming the Peru export contract is secured in 4Q26, we estimate year-end order backlog at W32.2tr, equivalent to 4.6x annual revenue. While some initial margin compression is inevitable as the Poland business transitions from EC1 to EC2, we expect full-year OP margin to recover to 16.8% in 2027 as execution of the EC2 project becomes more efficient and high-margin projects—including the electric multiple-unit (EMU) rail project in Morocco—contribute to earnings.

Table 21. Hyundai Rotem: Quarterly and annual earnings (Wbn, %)

	Division	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26F	4Q26F	2025	2026F	2027F
Revenue	Total	1,176	1,418	1,620	1,626	1,458	1,606	1,874	2,048	5,839	6,986	7,822
	Defense solutions (AD/RH)	658	761	936	860	820	919	1,035	1,166	3,215	3,940	4,226
	Rail solutions (RS)	403	527	541	619	543	585	626	667	2,090	2,420	2,879
	Eco plants (EP)	116	129	143	147	95	102	213	216	534	625	717
YoY (%)	Total	57.3	29.5	48.1	12.8	23.9	13.3	15.7	26.0	33.4	19.6	12.0
	Defense solutions (AD/RH)	106.9	34.9	60.1	-4.3	24.6	20.7	10.6	35.6	35.9	22.5	7.3
	Rail solutions (RS)	45.6	34.7	32.4	47.6	35.0	10.9	15.7	7.7	39.7	15.8	19.0
	Eco plants (EP)	-24.6	-6.9	42.2	18.9	-18.1	-20.7	49.0	47.0	3.5	17.1	14.6
OP		203	258	278	267	224	232	306	334	1,006	1,097	1,313
OP margin (%)		17.2	18.2	17.1	16.5	15.4	14.5	16.3	16.3	17.2	15.7	16.8
YoY (%)		353.6	128.5	102.1	65.4	10.6	-9.8	10.1	25.0	120.2	9.1	19.7
NP attr. to owners of the parent		158	191	198	222	201	185	224	245	770	855	986
Net margin (%)		13	13	12	14	14	12	12	12	13.2	12.2	12.6
YoY (%)		181.6	88.1	90.5	53.2	27.1	-2.8	12.8	9.9	89.2	11.1	15.2

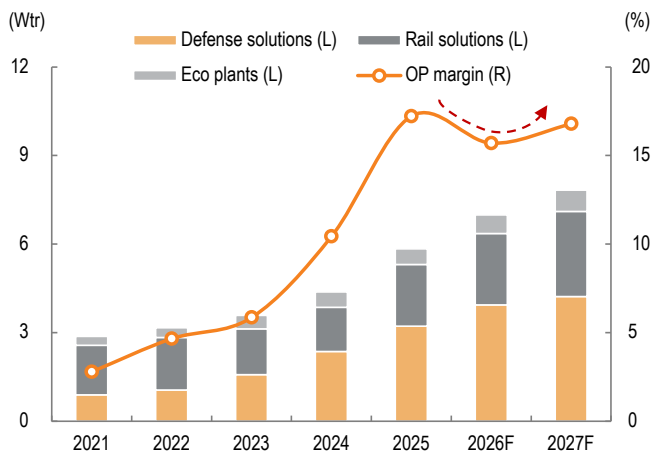
Source: Company data, Mirae Asset Securities Research

Figure 64. Hyundai Rotem: Quarterly earnings by division



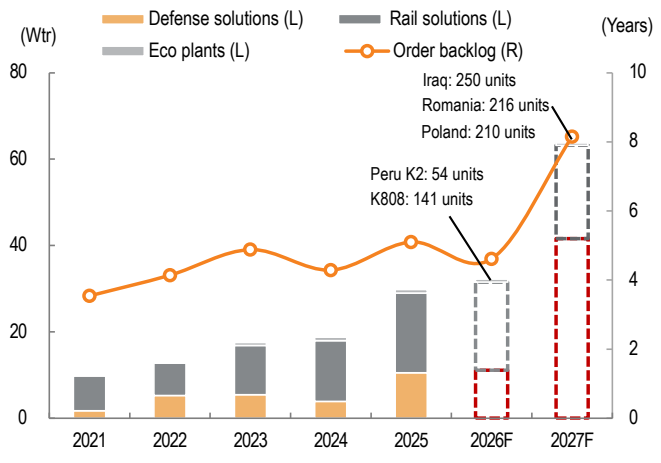
Source: Company data, Mirae Asset Securities Research

Figure 65. Hyundai Rotem: Annual earnings by division



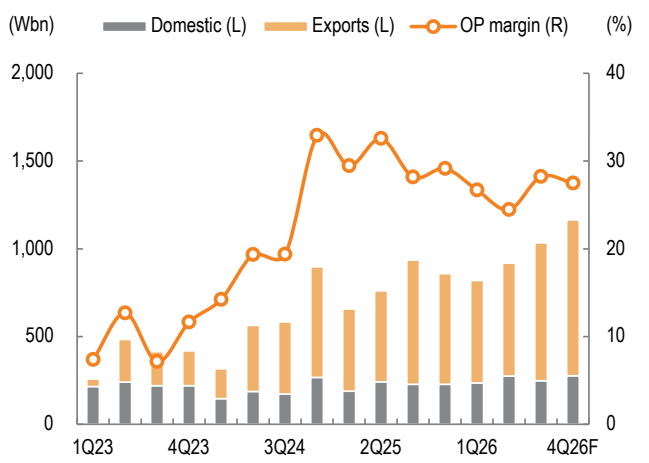
Source: Company data, Mirae Asset Securities Research

Figure 66. Hyundai Rotem: Order backlog trend and outlook



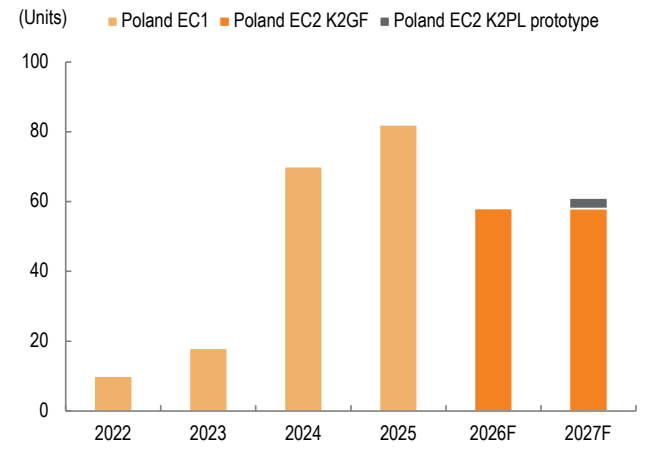
Source: Company data, Mirae Asset Securities Research

Figure 67. Hyundai Rotem: Quarterly defense solutions earnings trend and outlook



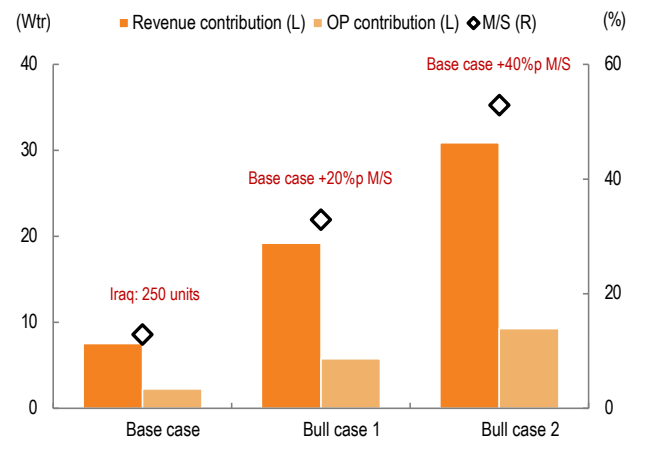
Source: Company data, Mirae Asset Securities Research

Figure 68. Hyundai Rotem: K2 deliveries to Poland through 2027 (est.)



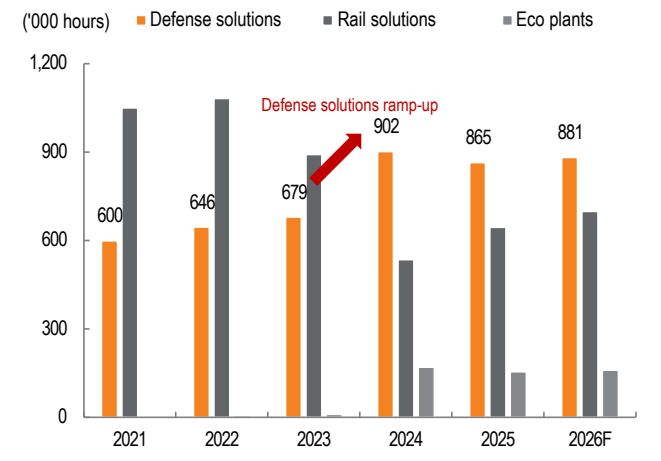
Note: The remaining 61 K2PL tanks under the follow-on contract are scheduled for delivery from 2029.
Source: Company data, Mirae Asset Securities Research

Figure 69. Hyundai Rotem: K2 earnings contribution under Middle East scenarios



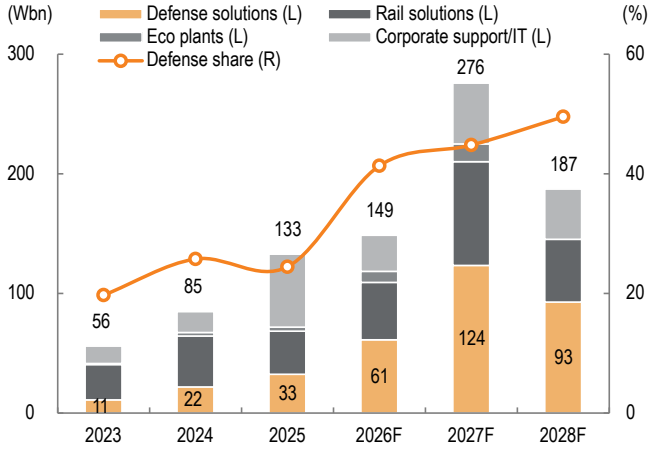
Notes: ASP based on Poland EC1; assumes one support vehicle for every seven K2 tanks and a 30% OP margin (benchmarked to Poland EC1)
Source: Mirae Asset Securities Research

Figure 70. Hyundai Rotem: Available operating hours



Source: Mirae Asset Securities Research

Figure 71. Hyundai Rotem: Investment plans by division



Source: Company data, Mirae Asset Securities Research

Investment points: K2's expanding global footprint

We expect the K2 customer base to expand beyond Poland into the Middle East, South America, and other European markets. Political developments and the war have delayed progress toward securing orders, but the pipeline remains solid. We expect these delayed export opportunities to begin translating into firm orders from late 2026 through 1H27.

The K2 has already demonstrated superior delivery competitiveness through exports to Poland. Initial EC1 deliveries were completed just four months after contract signing, while EC2 gap-filler units were delivered six months ahead of schedule. With competing systems facing capacity constraints, we expect the K2 to gain market share. Variants optimized for local climates, such as the K2ME for the Middle East, allow Hyundai Rotem to meet customer-specific requirements, while its openness to local production is another advantage. Other key strengths include a small crew requirement, a hydropneumatic suspension system that provides superior mobility, and counter-drone defenses (to be introduced with the K2PL variant).

Table 22. Major K2 tank export opportunities (US$mn, units)

Country	Est. value	Est. K2 units	Est. timeline	Notes
Peru	2,000	54	2H26	141 K808 wheeled armored vehicles
Iraq	6,500	250	2027	
Romania	7,500	216	1H27	76 support vehicles
Poland EC3	Approx. 6,000	210	1H27	120 GF + 90 PL + 35 recovery vehicles
Poland EC4–6	-	430	2028–32	

Source: Mirae Asset Securities Research

European expansion beyond Poland

Poland (EC3–6): In response to a parliamentary inquiry in June, the Polish government reaffirmed its commitment to the 2022 framework agreement to procure 1,000 K2 tanks. Contracts signed to date cover 180 tanks under EC1, with deliveries completed in 2025, and another 180 under EC2, comprising 116 K2GF and 64 K2PL units. We expect follow-on contracts for the remaining 640 tanks to be signed over time.

The planned EC3 contract would cover 210 K2 tanks (120 K2GF and 90 K2PL) and 35 armored recovery vehicles. If signed, this would bring cumulative Polish K2 orders to 570 units, leaving 430 under the framework agreement. We expect the definitive contract to be signed in 2027. With a general election scheduled for autumn 2027, we see a strong likelihood that the current government will seek to conclude the agreement before its term ends.

Romania: In Sep. 2025, Romania announced plans to replace its aging T-55 and TR-85 tanks to prepare for a potential land conflict with Russia. The US$7.5bn program envisages the procurement of 216 tanks and 76 support vehicles. The K2 is competing for the program, with Rheinmetall's KF51 Panther and KNDS's Leopard 2A8 also cited as contenders.

Although Romania's recent defense procurement has shown a clear preference for European suppliers, this program is not planned to be financed through SAFE, leaving a meaningful opportunity for the K2. Hyundai Rotem has also proposed the most extensive industrial cooperation package among the competing suppliers and has earned recognition for its localization capabilities. The long delivery lead times and high acquisition costs for competing Western systems should further strengthen the K2's appeal. We expect a request for proposals (RFP) to be issued in 2H26 once Romania's cabinet formation is complete, followed by final vendor selection in 1H27.

South American demand for the K2

Peru: The Peru export contract appears close to being finalized. A framework agreement covering 54 K2 tanks and 141 K808 armored vehicles was signed in Dec. 2025, but the change in government delayed the final contract signing. Political uncertainty has since been resolved with the July inauguration of President Fujimori, who supports defense investment. In addition, in September, Hyundai Rotem completed a live K2 demonstration for Peru's defense minister and senior military officials.

Peru urgently needs to replace its aging Soviet-made T-55 tanks after several unsuccessful procurement attempts. We believe the K2 is the most suitable option, given Hyundai Rotem's proven ability to deliver quickly, as demonstrated by its exports to Poland. The company also has experience serving the Peruvian military, having secured a contract for 30 K808 White Tiger armored vehicles in 2024. In addition, the K2's hydropneumatic suspension allows operators to adjust the hull's height and attitude, supporting stable mobility in Peru's mountainous Andes terrain.

We expect the initial procurement to comprise 54 K2 tanks and 141 K808 armored vehicles. Based on pricing under previous export contracts, we estimate the program's value at W2.9tr. Peru's longer-term procurement plans target a total of 150 K2 tanks by 2040 and 280 K808 vehicles by 2034, supporting expectations for follow-on orders over the medium to long term. To meet localization requirements, Hyundai Rotem has also proposed establishing a US$270mn assembly plant in Peru. We see potential for Peru to serve as a starting point for broader expansion in Latin America.

Figure 72. K2 tank demonstration in Peru (Sep. 2026)



Source: Frontera Militar (YouTube channel), Mirae Asset Securities Research

The Middle East: A new market for the K2

We expect Hyundai Rotem to expand into the Middle East, where there is likely to be substantial demand to replace aging tanks. Persistent civil wars and border conflicts involving non-state armed groups continue to generate demand for ground combat systems.

Two key developments support the K2's prospects in the region: the completion of a fully Korean-made powerpack and the unveiling of the K2ME, a variant designed for Middle Eastern markets. Earlier K2 models used RENK's HSWL 295TM transmission, which is subject to German export restrictions that constrain sales to the Middle East. The development of a Korean-made transmission by SNT Dynamics has removed this particular barrier. With domestically sourced components accounting for approximately 90% of the K2, Hyundai Rotem should also be better positioned to meet localization requirements over the medium to long term.

Unveiled in March, the K2ME is optimized for the Middle East's desert climate, enhancing its appeal to customers in the region. Key features include cooling systems designed to withstand extreme heat and enhanced air-intake filters to protect against windblown sand. Tank engines, sensors, and other components generate significant heat during operation, making reliable performance in high-temperature desert environments a key procurement criterion in the region.

Iraq: Iraq's main battle tank fleet comprises a mix of Russian and US-made models. Its aging Soviet-made T-55 and T-72 tanks require replacement parts and maintenance, but disruptions to parts supply caused by the Russia-Ukraine war have reduced their operational readiness. The country has also struggled to operate its US-made tanks, as maintenance support has declined amid strained political relations with the US. These challenges are likely to have increased Iraq's need to procure tanks from alternative suppliers.

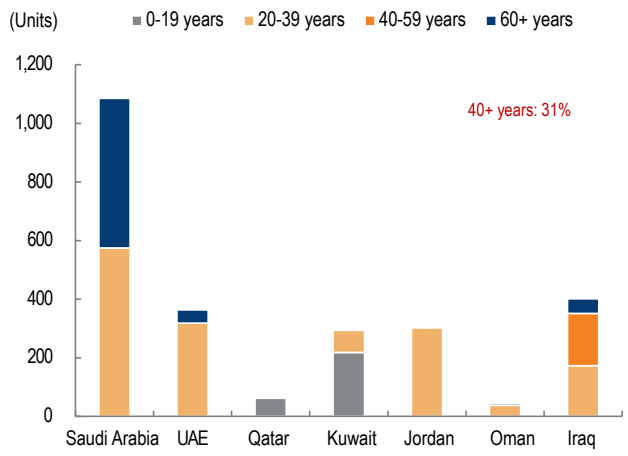
We estimate the potential contract at 250 tanks worth US$6.5bn. Negotiations have been delayed by the formation of Iraq's new cabinet and the ongoing Middle East war, but order visibility should improve as regional tensions and political uncertainty ease. That said, a deterioration in government finances due to oil export restrictions could affect the contract's size and timing.

Figure 73. K2ME tank designed for the Middle East



Source: Company materials, Mirae Asset Securities Research

Figure 74. Tank ages in major Middle Eastern countries



Source: IISS, media reports, Mirae Asset Securities Research

Table 23. Potential tank modernization demand in MENA

Country	Tank model	Model age (years)	First production year	Est. delivery period	Fleet size	Est. replacement demand	New orders	Assumptions/est.
Iraq	T-72M	53	1973	1980s	178	178		
	T-90S	34	1992	Early 2010s	73	0		Despite model age, no modernization demand is assumed given acquisition timing
	T-55	68	1958	1960s-70s	50	50		
	M1A1	41	1985	Early 2010s	100	-		Despite model age, no modernization demand is assumed given acquisition timing
				Total		228		
				Demand reported by media		250		
Saudi Arabia	AMX-30	61	1965	Early 1980s	140	140		
	M1A2	33	1993	Late 2000s	575	0		Est. to have been acquired in the late 2000s; no immediate replacement demand is assumed
	M60A3 Patton	64	1962	Early 1990s	370	370		
	M1 Abrams			Planned	300		300	Assumed to replace aging M60A3 tanks; deducted from est. replacement demand
				Total		140		
UAE	AMX-30	61	1965	1970s-80s	45	45		
	Leclerc	34	1992	Mid-1990s	318	159		Replacement demand est. at 50% of fleet, taking model age/acquisition timing into account
				Total		204		
Qatar	Leopard 2A7	12	2014	Mid-2010s	62	0		
				Total		-		
Egypt	M1A1 Abrams	41	1985	Early 1990s	1,130	580		Contract signed in 2025 to upgrade 550 units to M1A1 SA
	M60A1 Patton	64	1962	Early 1990s	300	-		No modernization demand is assumed; replacement through cascading as higher-tier models are upgraded
	M60A3 Patton	47	1979	1990s	850	-		
	T-54/T-55	68	1958	Mid-1960s	840	-		
	T-62	65	1961	Early 1970s	300	-		
					Total	580		
Morocco	M1A1 SA	18	2008	Early 2010s	222	0		
	M48A5 Patton	51	1975	Early 1980s	200	200		
	M60A1 Patton	64	1962	Mid-1980s	220	220		
	M60A3 Patton	47	1979	1980s–90s	120	120		
	T-72B	41	1985	Late 2000s	40	0		Despite model age, no modernization demand is assumed given acquisition timing
	ZTZ-90-II	35	1991	Early 2010s	54	0		Despite model age, no modernization demand is assumed given acquisition timing
				Total		540		
				Demand reported by media		400		Media reports indicate that Morocco is considering acquiring 400 K2 tanks
Kuwait	M1A2K	5	2021	Early 2020s	218	0		
	M-84AB	37	1989	Early 1990s	75	0		No modernization demand is assumed following the acquisition of 218 M1A2K tanks
				Total		-		
Jordan	Leclerc	34	1992	Early 2020s	70	0		Despite model age, no modernization demand is assumed given acquisition timing
	M60A3 Patton	47	1979	Late 1980s	182	182		
				Total		182		
Bahrain	M60A3 Patton	47	1979	Early 1990s	50	50		
	M1A2 SEPv3			Planned	50		50	US approved export of 50 M1A2 tanks in Mar. 2024; contract has yet to be signed
				Total		-		
Tunisia	M60A1 Patton	64	1962	Mid-1990s	30	30		
	M60A3 Patton	47	1979	Mid-1980s	54	54		
				Total		84		
Oman	Challenger 2	32	1994	Late 1990s	38	19		Replacement demand est. at 50% of fleet, taking model age/acquisition timing into account
	M60A1 Patton	64	1962	Early 1980s	6	6		
	M60A3 Patton	47	1979	Early 1990s	73	73		
				Total		98		
				Total		1,938		

Note: Replacement demand assumed at 100% of the fleet for models aged ≥40 years and 50% for models aged 30–39 years acquired before 2000
Source: IISS, media reports, Mirae Asset Securities Research

Table 24. Hyundai Rotem: Est. earnings contribution from K2 exports to the Middle East by scenario (Wbn)

Scenario	M/S	Tanks sold (units)	ASP	Additional revenue from support vehicles	Revenue contribution	OP margin	OP contribution	Notes
Base case	13%	250	25	1,286	7,536	30%	2,261	Based on 250 units for Iraq, the most visible opportunity
Bull case 1	33%	638	25	3,279	19,229	30%	5,766	M/S 20%p above base case
Bull case 2	53%	1,025	25	5,272	30,902	30%	9,271	M/S 40%p above base case

Notes: ASP based on Poland EC1; one support vehicle for every seven tanks; 30% OP margin assumption benchmarked to Poland EC1
Source: Mirae Asset Securities Research

Hyundai Rotem (064350 KS)

Income statement (summarized)

(Wbn)	2025	2026F	2027F	2028F
Revenue	**5,839**	**6,986**	**7,822**	**9,501**
Cost of revenue	**4,447**	**5,351**	**5,710**	**6,936**
GP	**1,392**	**1,635**	**2,112**	**2,565**
SG&A expenses	**386**	**538**	**799**	**922**
OP (adj.)	**1,006**	**1,097**	**1,313**	**1,643**
OP	**1,006**	**1,097**	**1,313**	**1,643**
Non-operating profit	**-2**	**63**	**9**	**19**
Net financial income	25	81	86	118
Net income from associates	0	-40	-77	-99
Pretax profit	1,004	1,160	1,322	1,662
Income tax	234	300	331	412
Profit from continuing operations	770	860	991	1,251
Profit from discontinued operations	0	0	0	0
NP	**770**	**860**	**991**	**1,251**
Attributable to owners	770	855	986	1,244
Attributable to minority interests	1	5	5	7
Total comprehensive income	**1,075**	**865**	**991**	**1,251**
Attributable to owners	1,077	863	988	1,247
Attributable to minority interests	-2	3	3	4
EBITDA	1,065	1,169	1,392	1,739
FCF	775	201	660	1,295
EBITDA margin (%)	18.2	16.7	17.8	18.3
OP margin (%)	17.2	15.7	16.8	17.3
Net margin (%)	13.2	12.2	12.6	13.1

Balance sheet (summarized)

(Wbn)	2025	2026F	2027F	2028F
Current assets	**7,163**	**8,833**	**9,844**	**12,439**
Cash & equivalents	908	939	1,519	2,642
AR & other receivables	3,438	2,553	2,793	3,037
Inventory	503	585	605	740
Other current assets	2,314	4,756	4,927	6,020
Non-current assets	**2,155**	**2,260**	**2,422**	**2,658**
Investments in associates	1	1	2	2
PP&E	1,820	1,955	2,140	2,397
Intangible assets	111	105	81	52
Total assets	**9,318**	**11,093**	**12,267**	**15,097**
Current liabilities	**5,776**	**6,645**	**6,875**	**8,398**
AP & other payables	794	860	883	1,086
Short-term financial liabilities	56	93	104	117
Other current liabilities	4,926	5,692	5,888	7,195
Non-current liabilities	**500**	**610**	**628**	**751**
Long-term financial liabilities	76	75	75	75
Other non-current liabilities	424	535	553	676
Total liabilities	**6,277**	**7,255**	**7,503**	**9,149**
Equity attributable to owners	**3,079**	**3,872**	**4,793**	**5,971**
Capital stock	546	546	546	546
Capital surplus	520	520	520	520
Retained earnings	1,434	2,224	3,144	4,323
Minority interests	**-38**	**-34**	**-29**	**-22**
Shareholders' equity	**3,041**	**3,838**	**4,764**	**5,949**

Cash flow statement (summarized)

(Wbn)	2025	2026F	2027F	2028F
Operating cash flow	**904**	**383**	**900**	**1,619**
NP	770	860	991	1,251
Non-cash income/expenses	369	374	324	389
Depreciation	40	50	55	67
Amortization	20	22	24	29
Other	309	302	245	293
Chg. in working capital	-120	-613	-170	272
Chg. in AR & other receivables	-2,453	855	-238	-231
Chg. in inventory	-196	-106	-20	-134
Chg. in AP & other payables	316	108	18	173
Income tax	-138	-314	-331	-412
Cash flow from investing activities	**-232**	**-417**	**-265**	**-443**
Chg. in PP&E	-129	-182	-240	-324
Chg. in intangible assets	-27	-18	0	0
Chg. in financial assets	-89	-117	-25	-119
Other	13	-100	0	0
Cash flow from financing activities	**-237**	**-36**	**-55**	**-52**
Chg. in financial liabilities	-219	36	11	13
Chg. in equity	0	0	0	0
Dividends	-22	-65	-65	-65
Other	4	-7	-1	0
Chg. in cash	**436**	**31**	**580**	**1,123**
Beginning balance	472	908	939	1,519
Ending balance	908	939	1,519	2,642

Key valuation metrics/ratios

	2025	2026F	2027F	2028F
P/E (x)	26.6	14.3	12.4	9.9
P/CF (x)	18.0	9.9	9.3	7.5
P/B (x)	6.7	3.2	2.6	2.1
EV/EBITDA (x)	18.1	9.4	7.5	5.3
EPS (W)	7,055	7,838	9,032	11,397
CFPS (W)	10,442	11,304	12,046	15,026
BPS (W)	28,211	35,479	43,911	54,708
DPS (W)	600	600	600	600
Dividend payout ratio (%)	8.5	7.6	6.6	5.2
Dividend yield (%)	0.3	0.5	0.5	0.5
Revenue growth (%)	33.4	19.6	12.0	21.5
EBITDA growth (%)	111.5	9.7	19.1	24.9
OP growth (%)	120.3	9.0	19.7	25.1
EPS growth (%)	89.2	11.1	15.2	26.2
AR turnover (x)	2.7	2.4	3.0	3.3
Inventory turnover (x)	14.3	12.8	13.1	14.1
AP turnover (x)	7.9	7.6	7.7	8.3
ROA (%)	10.6	8.4	8.5	9.1
ROE (%)	30.1	24.6	22.8	23.1
ROIC (%)	37.3	31.5	30.0	36.3
Debt-to-equity ratio (%)	206.4	189.0	157.5	153.8
Current ratio (%)	124.0	132.9	143.2	148.1
Net debt-to-equity ratio (%)	-37.6	-32.6	-38.7	-51.5
Interest coverage ratio (x)	127.7	254.9	282.5	329.9

Source: Company data, Mirae Asset Securities Research estimates

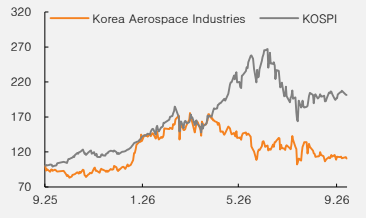
MIRAE ASSET Securities

Equity Research
September 30, 2026

(Initiate)	**Buy**
Target price	**W186,000**
Current price (9/29/26)	W127,400
Upside	46.0%

OP (26F, Wbn)	339
Consensus OP (26F, Wbn)	345
EPS growth (26F, %)	25.1
Market EPS growth (26F, %)	283.0
P/E (26F, x)	53.4
Market P/E (26F, x)	6.8
KOSPI	6,870.81
Market cap (Wbn)	12,418
Shares (mn)	97
Free float (%)	72.5
Foreign ownership (%)	24.0
Beta (12M)	0.34
52-week low (W)	95,600
52-week high (W)	202,000

(%)	1M	6M	12M
Absolute	-4.3	-31.7	17.1
Relative	-5.4	-45.9	-41.5



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047810 KS · Defense/Aerospace

Korea Aerospace Industries

KF-21 holds the key to growth

Initiate coverage at Buy with a TP of W186,000

We initiate coverage of Korea Aerospace Industries (KAI) with a Buy rating and target price of W186,000, applying a target P/E of 32.6x to our average 2027-28 EPS estimate of W5,716. This multiple represents the average 12-month forward P/E of competing aircraft manufacturers during periods in which export contract awards were concentrated. We believe these periods of export expansion/resumption provide a useful valuation benchmark for KAI as it prepares to take the KF-21 into global markets.

KF-21 poised for global expansion

We expect the KF-21's global expansion to gain traction, beginning with an export contract with Indonesia in 2H26. Its key competitive strengths include Korean-developed core components, such as its active electronically scanned array (AESA) radar, and the potential to evolve into a fifth-generation stealth fighter. It also offers attractive pricing relative to comparable aircraft. Long delivery backlogs for competing models (estimated wait for the Rafale: 8.5 years) further support its export prospects. Interest in the KF-21 is particularly strong in Southeast Asia, including the Philippines and Malaysia, where escalating tensions with China in the South China Sea are driving military modernization requirements. We estimate the KF-21's total addressable market in Southeast Asia (including Indonesia) at 121 aircraft.

FA-50 and T-50 exports likely to follow

The export pipelines for KAI's established FA-50 light attack aircraft and T-50 advanced trainer also remain solid. The FA-50 is undergoing extensive upgrades, including air-to-air missile integration, making it an attractive alternative for countries with limited budgets for more expensive fighters. Its high commonality with the widely used F-16 is another key advantage. We expect greater visibility on several FA-50 export opportunities through 2027-28, including Egypt, Peru, and a second order from Malaysia. KAI is also marketing the T-50 for trainer replacement programs worldwide, drawing on a delivery track record of more than 300 aircraft.

KF-21 revenue recognition to ramp up; LAH normalization is a key variable

For 2026, we forecast revenue at W5.4tr (+46.0% YoY), gross profit at W711.1bn (+16.9% YoY), and gross margin at 13.2% (-3.3%p YoY). The KF-21's contribution to domestic revenue should accelerate, starting with the delivery of eight units to the Korean Air Force in 2H26. Meanwhile, light armed helicopter (LAH) deliveries are likely to resume gradually, following a suspension in 2Q26 due to engine defects. We see scope for margin improvement as the Polish and Malaysian FA-50 export programs progress and the mix of other projects becomes more favorable. These FA-50 contracts currently generate mid- to high-single-digit margins, below those of previous export contracts.

(Dec.)	2024	2025	2026F	2027F	2028F
Revenue (Wbn)	3,634	3,696	5,398	6,691	7,581
OP (Wbn)	241	269	339	582	821
OP margin (%)	6.6	7.3	6.3	8.7	10.8
NP (Wbn)	172	186	233	453	662
EPS (W)	1,765	1,907	2,385	4,643	6,788
ROE (%)	10.4	10.5	12.0	20.1	23.9
P/E (x)	31.1	60.0	53.4	27.4	18.8
P/B (x)	3.1	6.1	6.0	5.1	4.0
Dividend yield (%)	0.9	0.4	0.4	0.4	0.4

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research estimates

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the US.
Please see analyst certifications and important disclosures & disclaimers in Appendix 1 at the end of the report.

Initiate coverage at Buy with a TP of W186,000

We initiate coverage of KAI with a Buy rating and target price of W186,000, applying a target P/E of 32.6x to our average 2027-28 EPS estimate of W5,716. This multiple represents the average 12-month forward P/E of competing aircraft manufacturers during periods in which export contract awards were concentrated: 2H21 for the Rafale and 2H25 for both the Gripen E/F and Eurofighter Typhoon. We believe these periods of export expansion/resumption provide a useful valuation benchmark for KAI as it prepares to take the KF-21 into global markets.

We expect two issues that have heightened investor concerns—the delay in finalizing the KF-21 contract with Indonesia and the suspension of LAH deliveries—to be resolved in 2H26. The KF-21's domestic revenue contribution should accelerate from 2H26 and continue through 2032, supporting medium/long-term earnings growth. Beyond the Indonesian KF-21 deal, multiple export opportunities should become clearer through 2028, including KF-21 sales to other Southeast Asian countries, FA-50 sales to Egypt and Peru, and a second FA-50 order from Malaysia. We therefore expect global order momentum across KAI's aircraft portfolio to remain strong.

Table 25. KAI: TP calculation (W, x)

	Value	Notes
Avg. 2027–28F EPS	5,716	2027F: Full-year contribution from domestic KF-21 sales; 2028F: KF-21 export revenue included in estimates
Target P/E	32.6x	Avg. 12MF P/E of global competing aircraft manufacturers during periods in which export orders were concentrated
Fair value	186,491	
TP	**186,000**	
CP	127,400	Sep. 29
Upside	46.0%	Buy rating

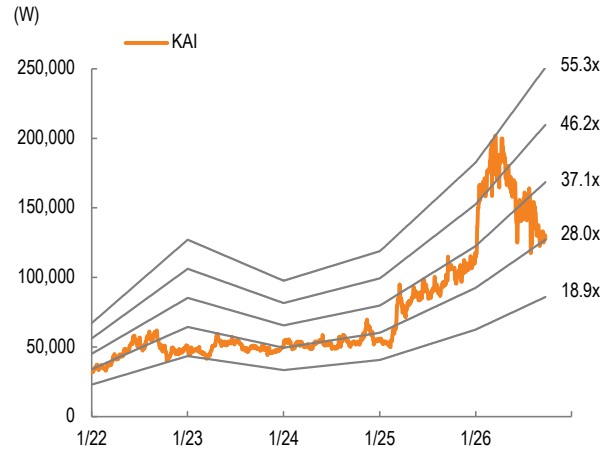
Source: Mirae Asset Securities Research

Table 26. Global peer valuations (Wtr, x, %)

Company	Country	Market cap	Revenue		OP		P/E		P/B		EV/EBITDA		Returns					
			26F	27F	26F	27F	26F	27F	26F	27F	26F	27F	1W	1M	3M	6M	1Y	YTD
KAI	Korea	12	5.4	6.7	0.3	0.6	53.4	27.4	6.0	5.1	29.2	18.2	-2	-4	-15	-26	18	9
Leonardo	Italy	44	35	38	3	4	20.3	16.5	2.7	2.4	10.8	9.2	-1	-5	7	-10	-8	-3
Dassault Aviation	France	35	14	15	1	2	19.1	15.8	3.2	2.9	12.4	11.7	1	2	3	-6	3	6
Saab	Sweden	46	13	16	1	2	41.0	32.1	6.5	5.6	23.3	18.6	0	-3	24	2	6	10
Peer average							26.8	21.4	4.1	3.6	15.5	13.2						

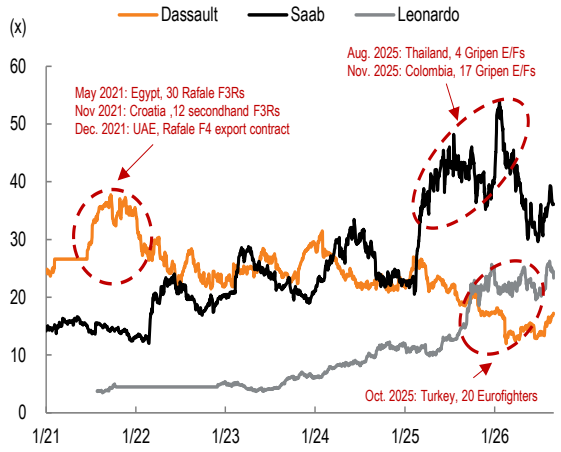
Notes: KAI figures are based on our estimates; global peer data are based on Bloomberg
Source: Bloomberg, QuantiWise, Mirae Asset Securities Research

Figure 75. KAI: 12-month forward P/E band chart



Source: QuantiWise, Mirae Asset Securities Research

Figure 76. 12-month forward P/E trends of European peers



Source: Bloomberg, Mirae Asset Securities Research

Earnings outlook: KF-21 revenue contribution to ramp up in 2H26

For 3Q26, we estimate revenue at W1.31tr (+86.4% YoY), gross profit at W180bn (+44.8% YoY), and gross margin at 13.7% (-4%p YoY). In 2Q26, earnings missed market expectations due to delayed LAH deliveries (one unit delivered vs. six scheduled), higher estimated project costs amid a weak won, and one-off expenses. However, deliveries of completed LAH units should resume gradually in 2H26, while more favorable FX rates in 3Q26 should lower estimated project costs and support margin expansion.

For 2026, we forecast revenue at W5.4tr (+46% YoY), gross profit at W711.1bn (+16.9% YoY), and gross margin at 13.2% (-3.3%p YoY). Revenue from domestic KF-21 deliveries should begin to make a meaningful contribution in 2H26 and provide a steady revenue stream through 2032. We also expect progress-based revenue recognition to accelerate for the Malaysian and Polish FA-50 programs, with initial deliveries scheduled for 2H26 and 2027, respectively.

The Polish and Malaysian FA-50 programs currently generate mid- to high-single-digit margins, below those of previous export contracts. However, we expect aircraft export margins to improve gradually as these programs progress and as higher-margin contracts, including Philippine FA-50 exports, account for a larger share of revenue. The amount of recurring development expenses could serve as the main variable for margins in 2H26. KAI initially budgeted W158bn for these expenses in 2026 but recognized only W36.9bn (23% of the annual budget) in 1H26. Spending could therefore increase in 2H26, although management stated during the 2Q26 earnings release that the full-year amount could fall below the initial budget.

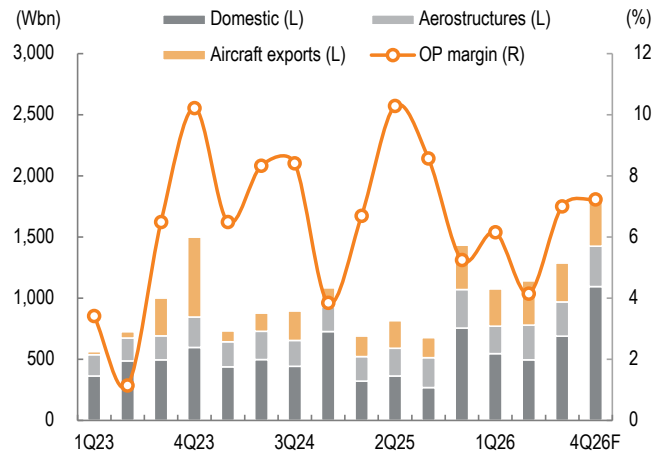
At the start of the year, the company guided new orders for 2026 at W10.4tr, comprising W2.4tr from domestic programs, W6.5tr from aircraft exports, and W1.4tr from aerostructures. In 1H26, new orders totaled W628.7bn (W232.5bn from domestic programs, W150.9bn from aircraft exports, and W245.3bn from aerostructures), representing only 6% of the full-year guidance. While meeting the guidance will be challenging, we expect order momentum to strengthen significantly in 2H26, backed by key programs such as the third LAH production batch and the KF-21 export contract with Indonesia. We estimate full-year order intake at W8.5tr.

Table 27. KAI: Quarterly and annual earnings (Wbn, %)

		1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26F	4Q26F	2025	2026F	2027F
Revenue	Total	699	828	702	1,467	1,093	1,168	1,309	1,828	3,696	5,398	6,691
	Domestic	322	363	269	755	548	497	689	1,096	1,710	2,829	3,586
	Aircraft exports	171	227	164	364	307	363	319	380	926	1,370	1,843
	Aerostructures	200	227	245	317	223	285	281	331	988	1,119	1,153
Growth (%)	Total	-5.5	-7.1	-22.6	34.0	56.3	41.0	86.4	24.7	1.7	46.0	24.0
	Domestic	-26.6	-27.1	-39.2	3.8	70.1	36.7	155.9	45.0	-18.8	65.4	26.8
	Aircraft exports	88.9	50.9	-32.7	133.3	79.5	59.8	94.6	4.7	44.6	47.9	34.5
	Aerostructures	-2.6	-1.8	16.0	55.1	11.6	25.5	14.7	4.5	16.1	13.3	3.0
GP		120	155	124	209	137	125	180	269	608	711	999
Gross margin (%)		17.2	18.7	17.7	14.2	12.5	10.7	13.7	14.7	16.5	13.2	14.9
YoY (%)		23.2	16.2	-7.1	78.6	13.8	-19.0	44.8	28.8	26.3	16.9	40.5
OP		47	85	60	77	67	48	92	132	269	340	582
OP margin		6.7	10.3	8.6	5.2	6.2	4.1	7.0	7.2	7.3	6.3	8.7
YoY (%)		-2.5	14.7	-21.1	82.7	43.7	-43.1	52.2	71.8	11.8	26.1	71.3
NP attr. to owners		30	56	39	61	42	36	72	83	186	233	453
Net margin		4.3	6.8	5.5	4.1	3.8	3.1	5.5	4.5	5.0	4.3	6.8
YoY (%)		-17.9	2.0	-43.2	412.5	39.7	-36.4	85.0	36.6	8.0	25.1	94.7

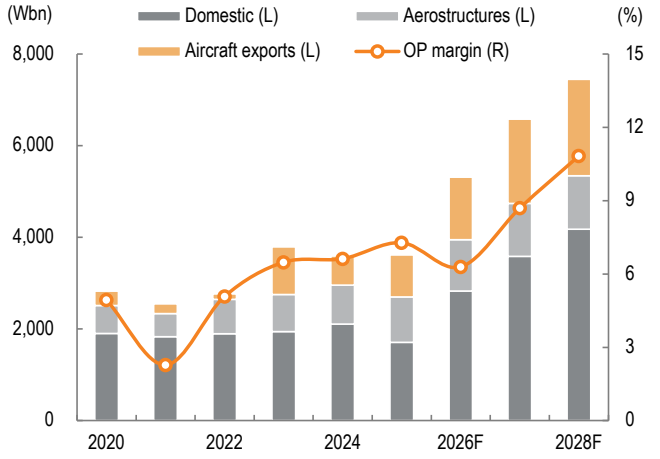
Source: Company data, Mirae Asset Securities Research

Figure 77. KAI: Quarterly earnings by division



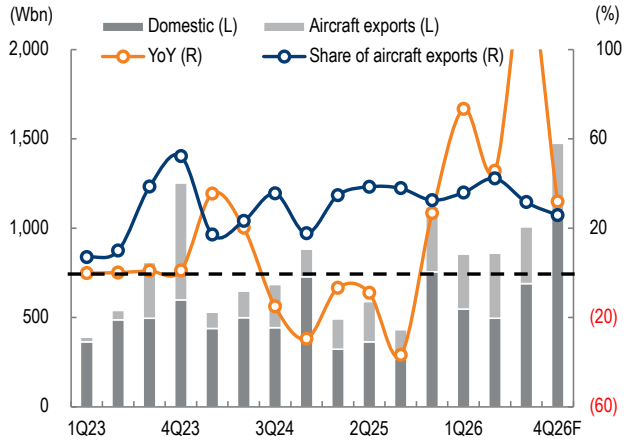
Source: Company data, Mirae Asset Securities Research

Figure 78. KAI: Annual earnings by division



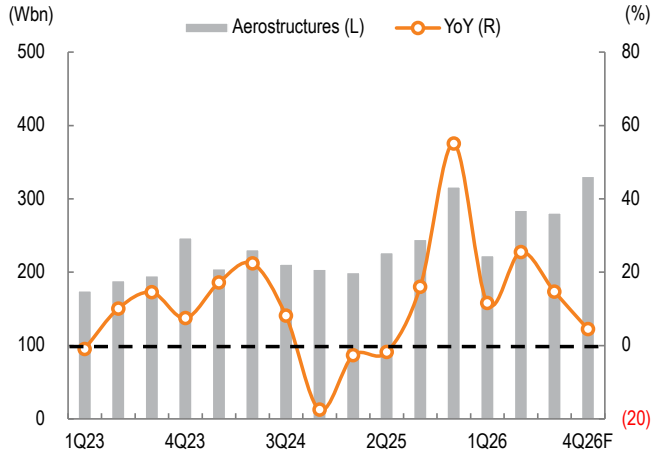
Source: Company data, Mirae Asset Securities Research

Figure 79. KAI: Defense revenue trend and outlook



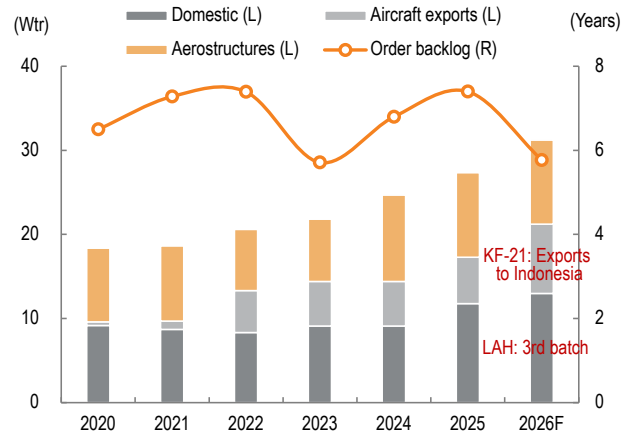
Source: Company data, Mirae Asset Securities Research

Figure 80. KAI: Aerostructures revenue trend and outlook



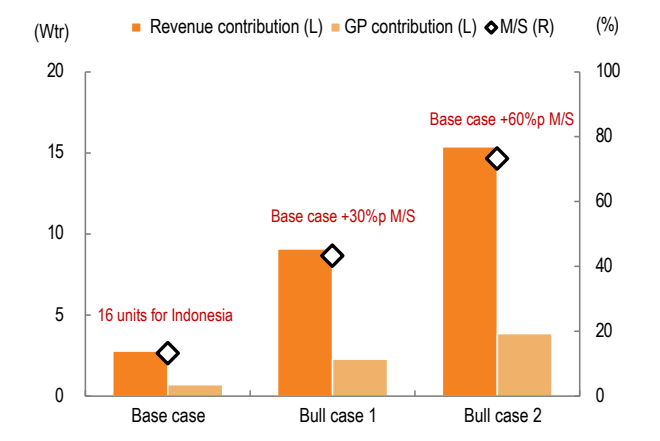
Source: Company data, Mirae Asset Securities Research

Figure 81. KAI: Annual order backlog trend and outlook



Source: Company data, Mirae Asset Securities Research

Figure 82. KAI: Est. earnings contributions under KF-21 Southeast Asian export scenarios



Notes: ASP is assumed to be 40% above the est. domestic delivery price of the KF-21 Block I; gross margin is assumed at 25%, benchmarked to the 2023 full-year margin on FA-50GF exports to Poland
Source: Mirae Asset Securities Research

Investment points

Aircraft exports should ultimately be the key driver of KAI's share price. Despite the earnings miss in 2Q26, the export pipeline remains solid. We anticipate export growth across the aircraft portfolio, led by the KF-21 (for which system development was formally completed in July) alongside the FA-50 and T-50.

Table 28. KAI: Major aircraft export opportunities (US$mn)

Aircraft	Country	Est. contract value	No. of aircraft	Notes
KF-21 (fighter)	Indonesia	2,000	16	16 units initially; potential expansion to 48 over the medium to long term
	Malaysia	-	Approx. 35	Considering KF-21 procurement
	Philippines		Approx. 20	Considering procurement of 12–20 units; KF-21 cited as one of five candidate models
	Thailand	-	-	
	UAE	-	-	Potential joint investment in Block III upgrades
	Saudi Arabia	-	-	Potential joint investment in Block III upgrades
	Poland	-	-	Potential joint investment in Block III upgrades
FA-50 (light attack aircraft)	Peru	780	20-24	Contract for local production of FA-50 components signed in Jun. 2026 as part of an offset arrangement
	Egypt	1,000	36	Potential expansion to 100 units
	Malaysia (second order)		18	Expected in 2027
T-50 (advanced trainer)	UK		50	Second RFI expected in 2027; KAI has proposed the T-50 to the Royal Air Force
	Australia	-	-	
	India		150	

Source: Media reports, Mirae Asset Securities Research

KF-21 poised for global expansion

The KF-21 development program, spanning more than a decade, officially concluded in July. With only a handful of countries having developed their own fighter aircraft, the start of KF-21 series production marks a major milestone demonstrating Korea's defense technology capabilities. Domestic deliveries will begin with eight units for the Korean Air Force in 2H26, with 40 Block I aircraft scheduled for delivery by 2028 and a further 80 Block II aircraft by 2032. Countries in Southeast Asia, the Middle East, and Europe are also actively considering the KF-21. We expect an export contract with Indonesia in 2H26 to pave the way for further orders.

The KF-21 demonstrated its technical maturity by completing 1,600 test flights without a single accident. Another key competitive strength is its potential to evolve into a fifth-generation stealth fighter—an upgrade path that was incorporated into its design. This gives it greater scope for future upgrades compared with competing models. Its attractive pricing should also strongly appeal to countries seeking combat capabilities comparable to the Rafale F4 or F-16 Block 70 at a more affordable price. We estimate that the KF-21 is priced 10–15% below the Gripen E/F, a key competitor.

The KF-21's Korean-developed core components, including its AESA radar, infrared search and track (IRST) equipment, and electronic warfare systems, also reduce its exposure to US export control risks. Additionally, plans are underway to develop a Korean-made engine to replace the GE engines currently used in the aircraft. Over the medium to long term, we expect the integration of Korean-developed long-range air-to-ground and air-to-air missiles.

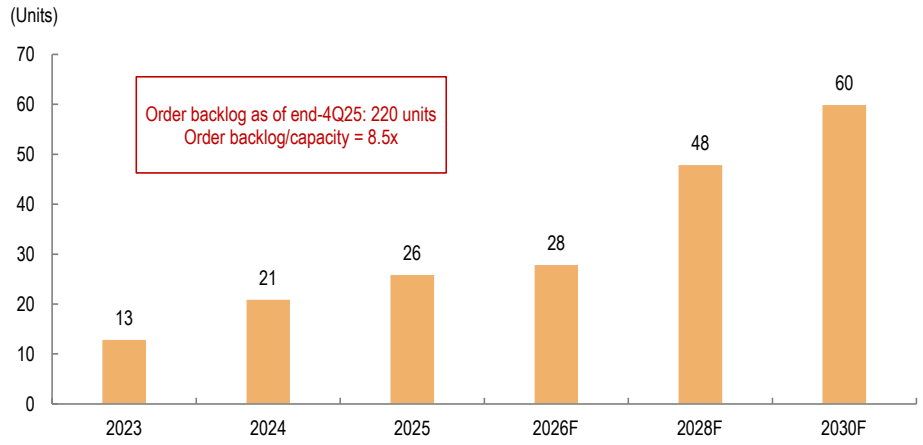
Supply constraints affecting competing models further support the KF-21's export prospects. The Rafale backlog stood at 220 aircraft at end-2025, equivalent to approximately 8.5 years of deliveries at the 2025 rate. As the KF-21 begins its export expansion, it should emerge as a compelling alternative for countries facing long waits for fighter deliveries.

Table 29. KF-21 vs. competing aircraft

Model	KF-21 Block II	Rafale F4	F-16 Block 70	Gripen E
Manufacturer (country)	KAI (Korea)	Dassault (France)	Lockheed Martin (US)	Saab (Sweden)
Image				
Generation	4.5	4.5	4.5	4.5
Length/span/height (m)	16.9/11.2/4.6	15.3/10.9/5.3	15.0/9.4/5.1	15.2/8.6/4.5
Engine	Twin-engine	Twin-engine	Single-engine	Single-engine
Maximum speed	Mach 1.8	Mach 1.8	Mach 2.0	Mach 2.0
Maximum takeoff weight (kg)	25,600	24,500	21,800	16,500
External payload (kg)	7,700	9,500	7,700	5,300
Service ceiling (ft)	50,000	50,000	50,000	52,000
Combat range (km)	2,900	3,700	4,200	4,000
Hardpoints	10	14	9	10
Air-to-ground weapons	KEPD 350K-2 Taurus (500 km) Cheonryong (development targeted for completion in 2028)	SCALP-EG (250-500km)	JASSM-ER (925km)	KEPD 350 Taurus
Air-to-air weapons	Meteor, IRIS-T Domestic long-range missile planned	Meteor, MICA EM/IR	AIM-120C-8 AMRAAM AIM-9X	Meteor, IRIS-T AIM-120
Operators	Korea (deliveries in 2H26), Indonesia (16 units under discussion)	France, Greece, Serbia, Croatia, Egypt Qatar, UAE, Indonesia, India	Taiwan, Bahrain, Jordan, Morocco, Bulgaria, etc. F-16 family: 25 countries	Sweden, Brazil, Peru, Colombia, Ukraine, Thailand
Strengths	- Compatible with FA-50 - Potential fifth-gen upgrade - Domestic AESA radar and IRST - Competitive pricing for its class - Capacity to offer timely delivery	- Most hardpoints - Largest external payload - Leading SPECTRA electronic warfare system - Non-US supply chain; outside US ITAR - Extensive combat experience in the Middle East	- Extensive operational track record - Extensive global logistics support - Easy access to US weapons - Largest combat radius - Access to US alliance network	- Low operating and maintenance costs - Strong electronic warfare capabilities - Strong delivery track record - Receptive to technology transfer (Brazil)
Weaknesses	- No operational track record - GE F414 engine subject to US ITAR controls - No homegrown air-to-ground/air-to-air missiles - Limited global logistics support	- High price - Long delivery queue - Limited technology transfer	- Single engine - Limited independent upgrade flexibility - High price - Subject to US ITAR controls	- Single engine - Smaller than competing aircraft - GE F414 engine subject to US ITAR controls - Low domestic content
Radar	AESA (developed by Hanwha Systems)	AESA	AESA	AESA

Source: Company data, media reports, Mirae Asset Securities Research

Figure 83. Rafale annual production trend and plans



Source: Dassault, FlightGlobal, Mirae Asset Securities Research

Interest in the KF-21 is strong in Southeast Asia, where countries face a growing need to strengthen their air forces in response to China's militarization of the South China Sea. We view the KF-21 as a highly attractive option for these countries, given their limited defense budgets. KAI also has a competitive edge thanks to the MRO infrastructure, logistics support, and pilot training systems it has established in the region through FA-50 exports to the Philippines and Malaysia and T-50 exports to Indonesia and Thailand.

We estimate the KF-21's total addressable market in Southeast Asia at 121 aircraft, based on media reports of procurement interest and the age of countries' existing fighter fleets. Beyond Southeast Asia, the UAE, Saudi Arabia, and Poland have also expressed interest in Block III joint development.

Table 30. Fighter procurement conditions in Southeast Asia

	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Replacement demand	High	High	High	Medium	High
Emphasis on supplier diversification	High	Medium	Low	Medium	Low
Budget constraints	High	High	High	Medium	Medium
Procurement urgency	Medium	High	High	Medium	Medium

Notes: Replacement demand reflects threat exposure and fleet age; emphasis on supplier diversification is assessed based on existing fleet composition and political circumstances; budget constraints reflect fiscal conditions and past instances in which funding limitations constrained weapons procurement; procurement urgency takes into account recent orders for other fighter models

Source: Mirae Asset Securities Research

Table 31. Est. potential demand for the KF-21 in Southeast Asia

Country	Aircraft model	Age (years)	Country of manufacture	First produced	Est. delivery	Fleet size	Replacement demand	New orders	Potential KF-21 demand	Notes
Indonesia									16-48	
Philippines									20	No fighter fleet since F-5 retirement in 2005
Malaysia	F/A-18	46	US	Early 1980s	Late 1990s	7	7			
	Su-30	34	Soviet Union	Early 1990s	Late 2000s	18	18			
	MiG-29	44	Soviet Union	Early 1980s	Mid-1990s	10	10			Retired; canceled purchase of secondhand Kuwaiti F/A-18s intended as replacements
							35		35	Similar to media reports of 36 aircraft (two MRCA squadrons)
Thailand	F-5	64	US	1962	Late 1960s	13	0			Air Force white paper calls for light attack replacements; no fighter demand assumed
	F-16A ADF	40+	US	Late 1980s	Early 2000s	10	10			Replacement by Gripen E/F
	F-16B ADF	40+	US	Late 1980s	Early 2000s	1	1			Replacement by Gripen E/F
	F-16A MLU	30+	US	Late 1990s	Mid-2010s	12	12			Replacement planned for 2037–46 (Air Force white paper)
	F-16B MLU	30+	US	Late 1990s	Mid-2010s	6	6			Replacement planned for 2037–46 (Air Force white paper)
	Gripen C/D	24	Sweden	Early 2000s	Early 2010s	11	0			
	Gripen E/F		Sweden	New orders				12		To replace F-16A/B ADF
							29	12	18	
Vietnam	Su-27	44	Soviet Union	1982	Late 1990s	10	10			
	Su-30	34	Soviet Union	1992	Early 2010s	35	35			
	Rafale		France				24~40			No contract signed yet, but Vietnam is considering the Rafale
									0	Potential KF-21 demand conservatively assumed at zero
Potential demand									121	

Source: IISS, media reports, Mirae Asset Securities Research

Table 32. KAI: Est. earnings contributions under KF-21 Southeast Asian export scenarios (Wbn)

Scenario	M/S	No. of units	ASP	Est. revenue	Est. gross margin	Est. GP	Notes
Base case	13%	16	173.6	2,778	25%	694	Base case: 16 aircraft for Indonesia, equivalent to an approximately 13% M/S
Bull case 1	43%	52	173.6	9,027	25%	2,270	M/S 30%p above base case
Bull case 2	73%	89	173.6	15,381	25%	3,845	M/S 60%p above base case

Notes: ASP is assumed to be 40% above the est. domestic delivery price of the KF-21 Block I; gross margin is assumed at 25%, benchmarked to the 2023 full-year margin on FA-50GF exports to Poland
Source: Mirae Asset Securities Research

FA-50 and T-50 export pipelines remain solid

We also expect further export growth for the FA-50 light attack aircraft and T-50 advanced trainer. The FA-50's key strengths include: 1) affordable pricing (aircraft-only price estimated at W25-40bn; hourly operating and maintenance costs estimated at W3.5-4.5mn, approximately 30% of those for a 4.5-generation fighter); 2) short delivery lead times; and 3) high commonality with the F-16 (reducing the time and cost of pilot transition training). Extensive upgrades are also bringing its capabilities closer to those of more advanced fighters.

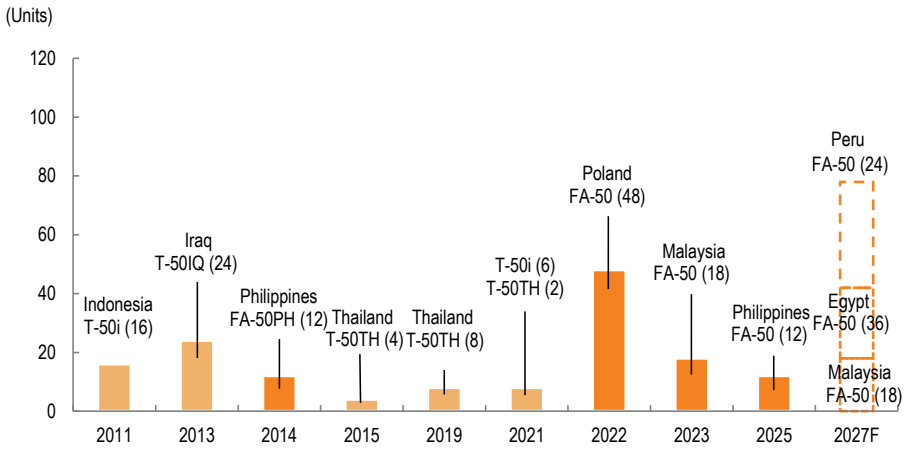
Starting with the FA-50M for Malaysia, the aircraft is set to incorporate Raytheon's PhantomStrike AESA radar, significantly improving its ability to detect and track multiple targets compared with the existing mechanically scanned radar. A single-seat variant is also under development, with completion targeted for 2028.

In April, the US approved integration of the AIM-120 AMRAAM air-to-air missile into the FA-50PL for Poland. The existing infrared-guided AIM-9 Sidewinder offers limited capability against distant targets without clear heat signatures. Integration of the active radar-guided AMRAAM should extend the aircraft's engagement range to as much as 100km. If the US approves AMRAAM integration for other customer countries, the FA-50 could evolve from an aircraft suited to lower-intensity missions into a multirole light fighter, attracting demand from countries unable to afford more expensive fighters.

In Jun. 2026, KAI signed an agreement for local production of FA-50 components in Peru. We believe this represents an industrial offset arrangement ahead of a potential aircraft purchase. Compatibility with the F-16, which Peru agreed to acquire in Apr. 2026, and Peru's experience operating the KT-1 should differentiate the FA-50 from competing aircraft. Other opportunities remain in the pipeline, including Egypt's potential purchase of 36 aircraft and a second Malaysian order for 18 aircraft.

The T-50's export prospects also remain solid. The T-50 family is an established platform with a delivery track record of 310 aircraft across seven countries. The T-50 shares its platform with the FA-50, allowing the family to cover advanced training, lead-in fighter training, and light attack roles while also supporting pilot transition training for the F-16. India is considering the TF-50 for its 150-aircraft Hawk replacement program, while the UK and Australia are also pursuing trainer replacements.

Figure 84. FA-50/T-50 exports: Historical trend and outlook



Source: KAI, media reports, Mirae Asset Securities Research

Korea Aerospace Industries (047810 KS)

Income statement (summarized)

(Wbn)	2025	2026F	2027F	2028F
Revenue	**3,696**	**5,398**	**6,691**	**7,581**
Cost of revenue	**3,088**	**4,687**	**5,692**	**6,282**
GP	**608**	**711**	**999**	**1,299**
SG&A expenses	**339**	**371**	**417**	**478**
OP (adj.)	**269**	**339**	**582**	**821**
OP	**269**	**339**	**582**	**821**
Non-operating profit	**-67**	**-77**	**-39**	**-42**
Net financial income	-61	-100	-91	-85
Net income from associates	-4	5	52	43
Pretax profit	202	262	543	779
Income tax	15	29	90	117
Profit from continuing operations	187	233	453	662
Profit from discontinued operations	0	0	0	0
NP	**187**	**233**	**453**	**662**
Attributable to owners	186	233	453	662
Attributable to minority interests	1	0	0	0
Total comprehensive income	**175**	**233**	**453**	**662**
Attributable to owners	173	228	439	641
Attributable to minority interests	2	5	14	20
EBITDA	380	494	778	1,042
FCF	-1,032	525	409	669
EBITDA margin (%)	10.3	9.2	11.6	13.7
OP margin (%)	7.3	6.3	8.7	10.8
Net margin (%)	5.0	4.3	6.8	8.7

Balance sheet (summarized)

(Wbn)	2025	2026F	2027F	2028F
Current assets	**7,595**	**10,005**	**12,695**	**14,899**
Cash & equivalents	61	1,061	1,327	1,873
AR & other receivables	750	903	1,119	1,268
Inventory	3,637	4,466	5,536	6,273
Other current assets	3,147	3,575	4,713	5,485
Non-current assets	**2,775**	**3,065**	**3,093**	**3,076**
Investments in associates	10	15	19	21
PP&E	994	1,018	1,007	964
Intangible assets	944	1,208	1,234	1,255
Total assets	**10,370**	**13,070**	**15,788**	**17,975**
Current liabilities	**6,351**	**8,018**	**10,253**	**11,758**
AP & other payables	745	831	1,065	1,212
Short-term financial liabilities	820	1,012	1,012	1,013
Other current liabilities	4,786	6,175	8,176	9,533
Non-current liabilities	**2,122**	**2,914**	**2,994**	**3,063**
Long-term financial liabilities	1,364	2,036	2,016	2,006
Other non-current liabilities	758	878	978	1,057
Total liabilities	**8,473**	**10,933**	**13,247**	**14,821**
Equity attributable to owners	**1,830**	**2,054**	**2,458**	**3,071**
Capital stock	487	487	487	487
Capital surplus	128	169	169	169
Retained earnings	1,235	1,419	1,823	2,436
Minority interests	**67**	**83**	**83**	**83**
Shareholders' equity	**1,897**	**2,137**	**2,541**	**3,154**

Cash flow statement (summarized)

(Wbn)	2025	2026F	2027F	2028F
Operating cash flow	**-903**	**672**	**559**	**809**
NP	187	233	453	662
Non-cash income/expenses	322	316	377	423
Depreciation	93	127	162	182
Amortization	18	28	34	39
Other	211	161	181	202
Chg. in working capital	-1,315	271	-90	-73
Chg. in AR & other receivables	-306	-131	-207	-142
Chg. in inventory	-1,266	-835	-1,070	-736
Chg. in AP & other payables	102	20	186	114
Income tax	-50	-60	-90	-117
Cash flow from investing activities	**-186**	**-534**	**-221**	**-203**
Chg. in PP&E	-128	-147	-150	-140
Chg. in intangible assets	-61	-285	-60	-60
Chg. in financial assets	2	-4	-2	-3
Other	1	-98	-9	0
Cash flow from financing activities	**1,030**	**867**	**-68**	**-58**
Chg. in financial liabilities	1,109	864	-20	-9
Chg. in equity	0	40	0	0
Dividends	-49	-49	-49	-49
Other	-30	12	1	0
Chg. in cash	**-54**	**1,000**	**266**	**546**
Beginning balance	115	61	1,061	1,327
Ending balance	61	1,061	1,327	1,873

Key valuation metrics/ratios

	2025	2026F	2027F	2028F
P/E (x)	60.0	53.4	27.4	18.8
P/CF (x)	21.9	22.6	15.0	11.4
P/B (x)	6.1	6.0	5.1	4.0
EV/EBITDA (x)	35.1	29.2	18.2	13.0
EPS (W)	1,907	2,385	4,643	6,788
CFPS (W)	5,222	5,634	8,510	11,132
BPS (W)	18,776	21,078	25,221	31,509
DPS (W)	500	500	500	500
Dividend payout ratio (%)	26.0	20.9	10.8	7.4
Dividend yield (%)	0.4	0.4	0.4	0.4
Revenue growth (%)	1.7	46.0	24.0	13.3
EBITDA growth (%)	10.3	29.9	57.5	34.0
OP growth (%)	11.8	26.1	71.4	41.2
EPS growth (%)	8.0	25.1	94.7	46.2
AR turnover (x)	6.6	6.8	6.9	6.7
Inventory turnover (x)	1.2	1.3	1.3	1.3
AP turnover (x)	5.6	7.6	7.9	7.2
ROA (%)	2.0	2.0	3.1	3.9
ROE (%)	10.5	12.0	20.1	23.9
ROIC (%)	6.8	7.3	10.5	14.3
Debt-to-equity ratio (%)	446.6	511.5	521.3	469.9
Current ratio (%)	119.6	124.8	123.8	126.7
Net debt-to-equity ratio (%)	111.5	89.3	63.9	33.8
Interest coverage ratio (x)	4.1	3.1	5.4	7.7

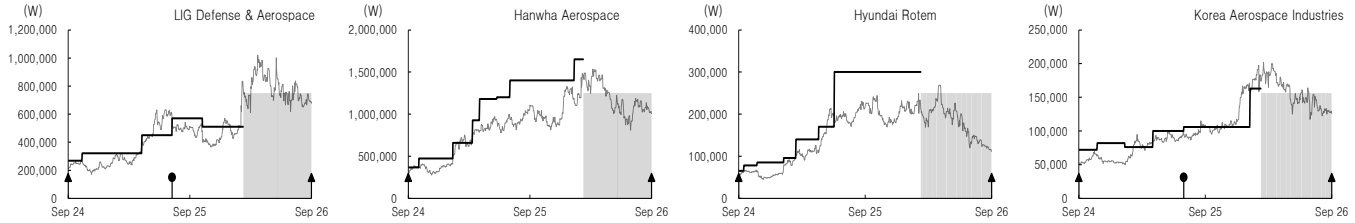
Source: Company data, Mirae Asset Securities Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
LIG Defense & Aerospace (079550)			
	09/30/26	Buy	1,120,000
	03/10/26	No Coverage	
	11/07/25	Hold	510,000
	08/08/25	Hold	570,000
	05/09/25	Buy	450,000
	11/11/24	Buy	321,000
	09/23/24	Buy	269,000
Hanwha Aerospace (012450)			
	09/30/26	Buy	1,550,000
	03/10/26	No Coverage	
	02/10/26	Buy	1,650,000
	08/01/25	Buy	1,400,000
	06/23/25	Buy	1,200,000
	05/02/25	Buy	1,181,647
	04/11/25	Buy	925,623
	02/11/25	Buy	659,753
	11/01/24	Buy	472,659
	08/01/24	Buy	366,718
Hyundai Rotem (064350)			
	09/30/26	Buy	167,000
	03/10/26	No Coverage	
	07/03/25	Buy	300,000
	05/19/25	Buy	170,000
	03/14/25	Buy	140,000
	02/07/25	Buy	96,000
	11/22/24	Buy	85,000
	10/15/24	Buy	78,000
	07/29/24	Buy	65,000
Korea Aerospace Industries (047810)			
	09/30/26	Buy	186,000
	03/10/26	No Coverage	
	02/06/26	Hold	163,000
	07/30/25	Hold	106,000
	05/02/25	Buy	100,000
	02/10/25	Buy	76,000
	11/22/24	Buy	82,000
	04/15/24	Buy	72,000



Stock ratings	
Buy	Expected 12-month return: +20% or greater
Hold	Expected 12-month return: Greater than -10% and less than +10%
Sell	Expected 12-month return: -10% or less

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

As of May 12, 2025, the Trading Buy rating category has been removed from our investment rating system.
Stocks expected to deliver a 12-month return between +10% and less than +20% may be rated either Buy or Hold at the discretion of the research analyst.

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	89.66%	0%	9.77%	0.57%
Investment banking services	92.86%	0%	7.14%	0%

* Based on recommendations in the last 12 months (as of September 30, 2026)

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