Korea Electrical Equipment

3Q26 preview: Earnings likely to miss on FX and delays in order delivery

Electrical Equipment and Power Infrastructure

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We expect divergent trends for Korean electrical equipment companies' 3Q results. Hyundai Electric/Hyosung Heavy may miss consensus operating profit by ~10% on average as a function of FX headwinds (for HD Electric) and delays in order delivery in some regions, like the Middle East. Core trends in the US market were likely in line (on margin, new orders, etc.). We expect lead time/pricing trends for HV equipment to remain similar qoq. For LS Electric, we expect a ~5% beat in operating profit on the back of sustained delivery for the US. AIDC orders and the company's new orders during the quarter were likely in line, making its FY26 guidance achievable, at W6tn-6.5tn. All in all, the sector has pulled back by a sharp ~20% on average over the past month (KOSPI -13%), and we believe the negatives on 3Q trends are likely priced in and that the headwinds are unlikely to be structural. The recent decline is reminiscent of the sharp pullback in late July, creating an attractive entry point for long-term investors with patience, particularly for names with exposure to HV equipment with a structural upcycle and high barriers to entry, like Hyundai Electric and Hyosung Heavy. Estimate and PT changes on page 4.

- **Hyundai Electric:** We forecast 3Q operating profit of W288bn (8% below consensus); KRW appreciation and delays in order delivery to the Middle East market are likely the reasons for the miss, on our estimates. The company hedges against only ~50% of its FX exposure. For the Middle East market, where new orders accounted for ~10% of the total last year, the company is likely to face continued delays in order delivery. We estimate a sequential decline for new orders in 3Q on the back of seasonality and a high base. On the positive side, the company will likely continue to see order growth next year, as the AIDC orders are not completely reflected in the order numbers, and the company is still in discussions with multiple hyperscalers for long-term supply contracts for both HV and LV products. The company is also contemplating capacity expansion, which could be a catalyst for the name.
- **Hyosung Heavy:** We forecast OP of W267bn, >10% below consensus. We believe there are a few reasons for a miss: (1) the company may report lower profit from construction on the back of rising labor and raw material costs for specific projects; and (2) delays in order delivery in the Middle East and other regions (non-US), as project construction for some of Hyosung's customers may have been delayed. On the positive front, operating margin for the heavy industries segment should remain stable qoq, and US deliveries for HV equipment should be on track during the quarter. We forecast stable new orders qoq (and more than double yoy). Core operating trends were likely robust, with US order momentum intact. The company has obtained HV orders from data centers directly in the US, signaling penetration into new customers, which could signal medium- to long-term revenue upside. Excluding the construction impact, 3Q profit would have been >W300bn, <5% below consensus.
- **LS Electric:** We forecast OP of W203bn, 5% ahead of consensus. The company has hedged against most of the FX portfolio, and KRW appreciation should have a limited impact on margins, per our estimates. The Middle East accounted for only low single digits of orders, so the disruption in that market should have a minimal impact on LS Electric.

See page 17 for analyst certification and important disclosures, including non-US analyst disclosures.

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price CCY	Price	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
HD Hyundai Electric	267260 KS	14,992	KRW	555,000	OW	n/c	1,130,000	Jun-27	1,375,000	n/c
Hyosung Heavy Industries	298040 KS	14,982	KRW	2,144,000	OW	n/c	3,800,000	Jun-27	4,100,000	n/c
LS Electric	010120 KS	20,048	KRW	178,350	N	n/c	190,000	Jun-27	200,000	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 13 Oct 26.

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3Q26 results preview

Table 1: 3Q26 results preview

KRW bn	3Q25	2Q26	3Q26E	YoY	QoQ	Consensus	Difference
HD Hyundai Electric							
Revenue	995	1,142	1,131	14%	-1%	1,174	-4%
Operating profit	247	287	288	17%	0%	314	-8%
OP margin	24.8%	25.1%	25.5%	0.6ppt	0.3ppt	26.7%	-1.2ppt
NP	191	207	215	13%	4%	234	-8%
Hyosung Heavy							
Revenue	1,624	1,687	1,840	13%	9%	1,900	-3%
Operating profit	220	264	267	21%	1%	313	-15%
OP margin	13.5%	15.7%	14.5%	1.0ppt	-1.2ppt	16.5%	-2.0ppt
NP	150	173	196	30%	13%	229	-15%
LS Electric							
Revenue	1,216	1,577	1,682	38%	7%	1,673	1%
Operating profit	101	179	203	102%	14%	194	5%
OP margin	8.3%	11.3%	12.1%	3.8ppt	0.8ppt	11.6%	0.5ppt
NP	66	119	149	124%	25%	143	4%

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

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Electric. In terms of order growth, we forecast ~W1.5tn, and the company is on track to deliver its annual guidance of W6tn-6.5tn. The company might receive refunds from previous tariffs paid, as well.

Estimate and PT changes

Table 2: Estimate and PT changes

	Previous			Current			Change		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Hyundai Electric (KRW bn)									
Revenue	4,955	5,813	6,654	4,828	5,601	6,398	-2.6%	-3.7%	-3.9%
Operating profit	1,322	1,723	2,041	1,248	1,620	1,917	-5.6%	-6.0%	-6.1%
Attributable profit	999	1,343	1,603	916	1,245	1,487	-8.3%	-7.3%	-7.2%
PT (KRW/sh)			**1,375,000**			**1,130,000**			**-17.8%**
Rating			**OW**			**OW**			
Hyosung Heavy (KRW bn)									
Revenue	7,224	8,641	10,052	7,168	8,628	10,030	-0.8%	-0.2%	-0.2%
Operating profit	1,107	1,505	1,866	1,092	1,503	1,863	-1.3%	-0.1%	-0.2%
Attributable profit	834	1,138	1,457	780	1,111	1,424	-6.5%	-2.4%	-2.2%
PT (KRW/sh)			**4,100,000**			**3,800,000**			**-7.3%**
Rating			**OW**			**OW**			
LS Electric (KRW bn)									
Revenue	6,321	7,450	8,476	6,677	7,921	9,100	5.6%	6.3%	7.4%
Operating profit	729	1,001	1,232	750	1,032	1,267	2.8%	3.1%	2.9%
Attributable profit	505	700	869	520	721	895	2.9%	3.1%	3.0%
PT (KRW/sh)			**200,000**			**190,000**			**-5.0%**
Rating			**N**			**N**			

Source: J.P. Morgan estimates.

Hyundai Electric: We trim our 2026E-28E earnings by 7-8% to reflect higher assumptions on KRW vs. USD and lower revenue growth assumptions on the power equipment business on the back of the recent delay in data center grid connections. We lower our valuation multiple for power equipment earnings to ~30x from ~35x to reflect the recent pullback of global peers. In view of these, we trim our Jun-27 PT to W1,130k from W1,375k and maintain an OW rating.

Hyosung Heavy: We trim our 2026E/2027E-28E earnings by >5%/2-3% to reflect higher assumptions on KRW vs. USD, lower revenue growth assumptions on the power equipment business on the back of the recent delay in data center grid connections (though the degree of earnings cut is milder than that of HD Electric due to Hyosung's lighter exposure to the data center business), and lower margins for the construction business. We lower our valuation multiple for US LPT earnings to ~30x from ~35x to reflect the recent pullback in global peers. In view of these, we trim our Jun-27 PT to W3,800k from W4,100k and maintain our OW rating.

LS Electric: We lift our 2026E-28E earnings estimates by ~3% on average to reflect strong order wins for the company (from W4tn of new orders guidance at the beginning of the year to W6tn-6.5tn) on faster-than-expected market share gains, and we believe such strength can more than offset headwinds from the recent delay in data center connections. However, we trim our earnings multiples for the Electric businesses to ~38x from ~40x to reflect the recent pullback in global peers. As a result, we trim our Jun-27 PT to W190k (from W200k) and maintain our Neutral rating.

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HD Hyundai Electric

Overweight

267260.KS, 267260 KS
Price (13 Oct 26):W555,000

▼ **Price Target (Jun-27):W1,130,000**
Prior (Jun-27):W1,375,000

Trim estimates and PT to reflect latest assumptions on FX and revenue growth

We trim our 2026E-28E earnings by 7-8% to reflect higher assumptions on KRW vs. USD and lower revenue growth assumptions on the power equipment business on the back of the recent delay in data center grid connections. We lower our valuation multiple for power equipment earnings to ~30x from ~35x to reflect the recent pullback of global peers. In view of these, we trim our Jun-27 PT to W1,130k from W1,375k and maintain an OW rating.

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (W)	27,718	25,412	-8.3%
Adj. EPS - 27E (W)	37,264	34,542	-7.3%

Quarterly Forecasts (FYE Dec)

Adj. EPS (W)

	2025A	2026E	2027E
Q1	4,274	5,772A	8,742
Q2	3,951	5,732A	8,632
Q3	5,301	5,973	7,797
Q4	6,797	7,935	9,371
FY	20,324	25,412	34,542

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	75	76	73	51	31
Growth	8	16	14	40	86
Momentum	60	17	27	17	28
Quality	1	2	4	12	84
Low Vol	73	77	96	89	93

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

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Price Performance



	YTD	1m	3m	12m
Abs	-28.8%	-25.8%	-30.2%	-17.0%
Rel	-80.3%	-18.2%	-24.0%	-95.1%

Company Data

Shares O/S (mn)	36
52-week range (W)	1,449,000-531,000
Market cap ($ mn)	14,992
Exchange rate	1,334.44
Free float (%)	56.6%
3M ADV (mn)	0.19
3M ADV ($ mn)	104.8
Volatility (90 Day)	87
Index	KOSPI
BBG ANR (Buy | Hold | Sell)	26|2|0

Key Metrics (FYE Dec)

W in billions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	4,080	4,828	5,601	6,398
Adj. EBITDA	1,069	1,341	1,730	2,042
Adj. EBIT	995	1,248	1,620	1,917
Adj. net income	733	916	1,245	1,487
Adj. EPS	20,324	25,412	34,542	41,256
BBG EPS	19,460	26,168	33,343	40,465
Cashflow from operations	960	932	1,304	1,576
FCFF	713	633	995	1,252
Margins and Growth				
Revenue Growth Y/Y (%)	22.8%	18.3%	16.0%	14.2%
EBITDA margin	26.2%	27.8%	30.9%	31.9%
EBITDA Growth Y/Y (%)	45.6%	25.4%	29.0%	18.0%
EBIT margin	24.4%	25.9%	28.9%	30.0%
Net margin	18.0%	19.0%	22.2%	23.2%
Adj. EPS growth	46.1%	25.0%	35.9%	19.4%
Ratios				
Adj. tax rate	23.5%	23.5%	23.5%	23.5%
Interest cover	NM	NM	NM	NM
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM
ROCE	38.0%	38.4%	39.4%	36.3%
ROE	41.5%	39.4%	41.1%	37.9%
Valuation				
FCFF yield	3.6%	3.2%	5.0%	6.3%
Dividend yield	1.3%	1.6%	2.2%	2.6%
EV/Revenue	5.0	4.2	3.6	3.1
EV/EBITDA	18.9	15.0	11.6	9.9
Adj. P/E	27.3	21.8	16.1	13.5

Summary Investment Thesis and Valuation

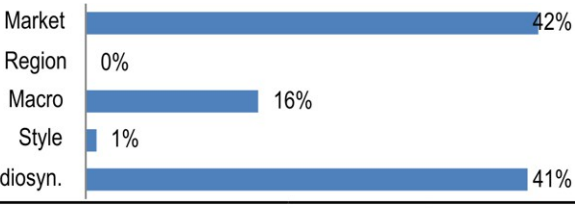
Investment Thesis

HD Hyundai Electric (HDE) is one of the largest large power transformer (LPT) manufacturers in the US. With over a decade of experience serving US utilities, HDE should be a major beneficiary of structural demand growth for LPT in the US, in our view, amid rising ASPs and new orders. In addition to the US market, the company is also seeing increasing opportunities in other regions (e.g., Europe). We have an OW rating on HDE because of the revenue visibility we see backed by a strong order backlog, decent ROE and multiple growth drivers across the globe.

Valuation

Our Jun-27 PT of W1,130k is based on a sum-of-the-parts valuation and implies a ~33x and 12x FY27E P/E and P/B, respectively. Our SOTP model assigns a ~30x 2027E-28E forward P/E to North America, ~30x to other Power Equipment and ~20x to the other equipment segments (Rotating and Distribution).

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.63	0.65
Region: Korea	0.04	0.11
Macro:		
Generic 1st 'CO' Future	-0.40	-0.35
Citi Economic Surprise - EM	0.24	0.31
JPM Forecast Revision EM	0.16	0.23
Quant Styles:		
Quality	0.16	0.13
Momentum	0.11	0.11
Growth	0.06	0.05

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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Investment Thesis, Valuation and Risks

HD Hyundai Electric *(Overweight; Price Target: W1,130,000)*

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Segment	Target P/E multiple (x)	NAV
North America	30x	783,179
other region/product		
Power Equipment	30x	260,401
Rotating Equipment	20x	49,101
Distribution Equipment	20x	36,061
	Jun-27 PT	**1,130,000**

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks include: (1) slower-than-expected US LPT demand and expansion into Europe; (2) higher raw material costs/copper prices and US tariffs; and (3) a slowdown in demand for rotating and distribution equipment.

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HD Hyundai Electric: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**3,322**	**4,080**	**4,828**	**5,601**	**6,398**
COGS	(2,278)	(2,687)	(3,097)	(3,420)	(3,841)
Gross profit	**1,045**	**1,393**	**1,731**	**2,181**	**2,557**
SG&A	(241)	(237)	(288)	(332)	(379)
Adj. EBITDA	**734**	**1,069**	**1,341**	**1,730**	**2,042**
D&A	(65)	(74)	(93)	(110)	(125)
Adj. EBIT	**669**	**995**	**1,248**	**1,620**	**1,917**
Net Interest	(16)	8	18	30	50
Adj. PBT	**650**	**956**	**1,196**	**1,625**	**1,941**
Tax	(152)	(225)	(281)	(382)	(456)
Minority Interest	3	1	1	1	2
Adj. Net Income	**502**	**733**	**916**	**1,245**	**1,487**
Reported EPS	13,914	20,324	25,412	34,542	41,256
Adj. EPS	**13,914**	**20,324**	**25,412**	**34,542**	**41,256**
DPS	**5,350**	**7,100**	**8,864**	**12,049**	**14,391**
Payout ratio	38.4%	34.9%	34.9%	34.9%	34.9%
Shares outstanding	36	36	36	36	36

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	570	951	1,223	1,778	2,579
Accounts receivable	831	772	874	999	1,124
Inventories	1,081	1,267	1,375	1,425	1,495
Other current assets	282	437	437	437	437
Current assets	**2,764**	**3,426**	**3,909**	**4,639**	**5,634**
PP&E	730	943	1,136	1,313	1,473
LT investments	-	-	-	-	-
Other non current assets	302	401	400	400	399
Total assets	**3,796**	**4,770**	**5,446**	**6,351**	**7,506**
Short term borrowings	127	139	98	77	99
Payables	501	608	743	868	1,027
Other short term liabilities	1,374	1,802	1,802	1,802	1,802
Current liabilities	**2,001**	**2,549**	**2,643**	**2,746**	**2,927**
Long-term debt	167	47	33	26	33
Other long term liabilities	120	141	141	141	141
Total liabilities	**2,288**	**2,737**	**2,817**	**2,913**	**3,102**
Shareholders' equity	1,502	2,029	2,625	3,436	4,404
Minority interests	6	4	3	2	0
Total liabilities & equity	**3,796**	**4,770**	**5,446**	**6,351**	**7,506**
BVPS	**41,662**	**56,281**	**72,829**	**95,322**	**122,186**
y/y Growth	*43.3%*	*35.1%*	*29.4%*	*30.9%*	*28.2%*
Net debt/(cash)	(276)	(765)	(1,092)	(1,675)	(2,447)

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**1,034**	**960**	**932**	**1,304**	**1,576**
o/w Depreciation & amortization	65	74	93	110	125
o/w Changes in working capital	361	193	(75)	(50)	(35)
Cash flow from investing activities	**(143)**	**(226)**	**(286)**	**(286)**	**(286)**
o/w Capital expenditure	(137)	(240)	(286)	(286)	(286)
as % of sales	*4.1%*	*5.9%*	*5.9%*	*5.1%*	*4.5%*
Cash flow from financing activities	**(518)**	**(350)**	**(374)**	**(463)**	**(490)**
o/w Dividends paid	(76)	(221)	(320)	(434)	(519)
o/w Shares issued/(repurchased)	0	0	0	0	0
o/w Net debt issued/(repaid)	(442)	(127)	(55)	(28)	29
Net change in cash	**394**	**381**	**272**	**555**	**800**
Adj. Free cash flow to firm	**909**	**713**	**633**	**995**	**1,252**
y/y Growth	*(1193.0%)*	*(21.5%)*	*(11.2%)*	*57.1%*	*25.8%*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	31.4%	34.1%	35.9%	38.9%	40.0%
EBITDA margin	22.1%	26.2%	27.8%	30.9%	31.9%
EBIT margin	20.1%	24.4%	25.9%	28.9%	30.0%
Net profit margin	15.1%	18.0%	19.0%	22.2%	23.2%
ROE	39.3%	41.5%	39.4%	41.1%	37.9%
ROA	15.0%	17.1%	17.9%	21.1%	21.5%
ROCE	28.8%	38.0%	38.4%	39.4%	36.3%
SG&A/Sales	7.3%	5.8%	6.0%	5.9%	5.9%
Net debt/Equity	NM	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM	NM
Sales/Assets (x)	1.0	1.0	0.9	0.9	0.9
Assets/Equity (x)	2.6	2.4	2.2	1.9	1.8
Interest cover (x)	47.0	NM	NM	NM	NM
Operating leverage	489.6%	214.0%	138.4%	186.3%	128.5%
Tax rate	23.3%	23.5%	23.5%	23.5%	23.5%
Revenue y/y Growth	22.9%	22.8%	18.3%	16.0%	14.2%
EBITDA y/y Growth	99.7%	45.6%	25.4%	29.0%	18.0%
EPS y/y Growth	93.5%	46.1%	25.0%	35.9%	19.4%

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	39.9	27.3	21.8	16.1	13.5
P/BV (x)	13.3	9.9	7.6	5.8	4.5
EV/EBITDA (x)	27.7	18.9	15.0	11.6	9.9
Dividend Yield	1.0%	1.3%	1.6%	2.2%	2.6%

Source: Company reports and J.P. Morgan estimates.
Note: W in billions (except per-share data).Fiscal year ends Dec. o/w - out of which

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Hyosung Heavy Industries

Overweight

298040.KS, 298040 KS
Price (13 Oct 26):W2,144,000

▼**Price Target (Jun-27):W3,800,000**
Prior (Jun-27):W4,100,000

Trim estimates and PT to reflect latest assumptions on FX, revenue growth and construction margin

We trim our 2026E/2027E-28E earnings by >5%/2-3% to reflect higher assumptions on KRW vs. USD, lower revenue growth assumptions on the power equipment business on the back of the recent delay in data center grid connections (though the degree of earnings cut is milder than that of HD Electric due to Hyosung's lighter exposure to the data center business), and lower margins for the construction business. We lower our valuation multiple for US LPT earnings to ~30x from ~35x to reflect the recent pullback in global peers. In view of these, we trim our Jun-27 PT to W3,800k from W4,100k and maintain our OW rating.

Electrical Equipment and Power Infrastructure

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (W)	89,575	83,765	-6.5%

Quarterly Forecasts (FYE Dec)

Adj. EPS (W)

	2025A	2026E	2027E
Q1	10,971	9,371A	20,482
Q2	9,935	18,534A	25,443
Q3	16,130	21,008	29,061
Q4	18,794	34,852	44,275
FY	55,829	83,765	119,261

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	53	50	44	24	8
Growth	5	8	5	24	3
Momentum	25	7	3	1	43
Quality	9	32	29	82	13
Low Vol	82	79	98	94	97

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

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Price Performance



	YTD	1m	3m	12m
Abs	19.8%	-24.9%	-19.7%	47.2%
Rel	-31.7%	-17.3%	-13.5%	-31.0%

Company Data

Shares O/S (mn)	9
52-week range (W)	4,865,000-1,420,000
Market cap ($ mn)	14,982
Exchange rate	1,334.44
Free float (%)	46.6%
3M ADV (mn)	0.07
3M ADV ($ mn)	140.6
Volatility (90 Day)	95
Index	KOSPI
BBG ANR (Buy | Hold | Sell)	25|0|0

Key Metrics (FYE Dec)

W in billions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	5,969	7,168	8,628	10,030
Adj. EBITDA	833	1,183	1,611	1,973
Adj. EBIT	747	1,092	1,503	1,863
Adj. net income	520	780	1,111	1,424
Adj. EPS	55,829	83,765	119,261	152,916
BBG EPS	53,055	84,127	121,521	160,277
Cashflow from operations	493	708	1,036	1,360
FCFF	332	23	890	1,176
Margins and Growth				
Revenue Growth Y/Y (%)	21.9%	20.1%	20.4%	16.3%
EBITDA margin	14.0%	16.5%	18.7%	19.7%
EBITDA Growth Y/Y (%)	91.3%	42.0%	36.2%	22.5%
EBIT margin	12.5%	15.2%	17.4%	18.6%
Net margin	8.7%	10.9%	12.9%	14.2%
Adj. EPS growth	133.5%	50.0%	42.4%	28.2%
Ratios				
Adj. tax rate	19.6%	19.6%	19.6%	19.6%
Interest cover	40.1	NM	63.5	NM
Net debt/Equity	0.2	0.2	NM	NM
Net debt/EBITDA	0.6	0.4	NM	NM
ROCE	20.4%	24.9%	27.4%	27.3%
ROE	24.4%	28.8%	31.2%	30.3%
Valuation				
FCFF yield	1.7%	0.1%	4.5%	5.9%
Dividend yield	0.3%	0.5%	0.7%	1.0%
EV/Revenue	0.1	0.1	0.0	NM
EV/EBITDA	0.8	0.6	0.0	NM
Adj. P/E	38.4	25.6	18.0	14.0

Summary Investment Thesis and Valuation

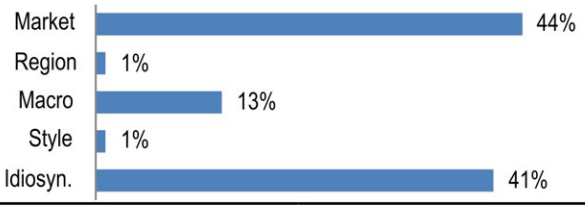
Investment Thesis

Hyosung Heavy is one of the largest large power transformer (LPT) manufacturers in the US and Korea and is likely to be a major beneficiary of secular growth in HV transformer demand globally. With capacity expansions in the next two to three years, we believe the company is set to enjoy rising transformer demand and sharp ASP hikes. We believe Hyosung is also poised to capture rising power equipment demand in Europe, with a >5x surge in revenue in 2022-25. We believe credit risk concerns for Hyosung's residential construction business are overdone amid government support measures on project financing and an improving housing market. We have an OW rating on Hyosung Heavy.

Valuation

Our Jun-27 PT of W3,800k is based on a sum-of-the-parts valuation, implying a ~32x and ~9x FY27E P/E and P/B, respectively. We assign a ~30x 2027E-28E P/E to the US LPT business, supported by strong profit growth over 2026E-28E. We assume a ~30x P/E for Other Heavy Industries sales, given the rising opportunities for HV equipment sales (such as switchgear) to nuclear projects, data centers and others. We assign a ~5x P/E to the residential construction segment, reflecting a modest earnings growth outlook.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.70	0.67
Region: Korea	0.08	0.17
Macro:		
Generic 1st 'CO' Future	-0.42	-0.33
Citi Economic Surprise - EM	0.30	0.30
JPM Forecast Revision EM	0.22	0.23
Quant Styles:		
Momentum	0.18	0.14
Growth	0.20	0.12
Value	-0.16	-0.12

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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Investment Thesis, Valuation and Risks

Hyosung Heavy Industries *(Overweight; Price Target: W3,800,000)*

Investment Thesis

Hyosung Heavy is one of the largest large power transformer (LPT) manufacturers in the US and Korea and is likely to be a major beneficiary of secular growth in HV transformer demand globally. With capacity expansions in the next two to three years, we believe the company is set to enjoy rising transformer demand and sharp ASP hikes. We believe Hyosung is also poised to capture rising power equipment demand in Europe, with a >5x surge in revenue in 2022-25. We believe credit risk concerns for Hyosung's residential construction business are overdone amid government support measures on project financing and an improving housing market. We have an OW rating on Hyosung Heavy.

Valuation

Our Jun-27 PT of W3,800k is based on a sum-of-the-parts valuation, implying a ~32x and ~9x FY27E P/E and P/B, respectively. We assign a ~30x 2027E-28E P/E to the US LPT business, supported by strong profit growth over 2026E-28E. We assume a ~30x P/E for Other Heavy Industries sales, given the rising opportunities for HV equipment sales (such as switchgear) to nuclear projects, data centers and others. We assign a ~5x P/E to the residential construction segment, reflecting a modest earnings growth outlook.

Segement	Target P/E multiple (x)	NAV
Residential Construction	5x	45,709
Heavy Industries		
U.S. LPT	30x	1,758,596
Other heavy industries sales	30x	2,052,486
	Jun-27 PT	**3,800,000**

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks include: (1) weaker-than-expected LPT demand in the US and globally; (2) a surge in copper and freight costs; and (3) delays in construction progress for Hyosung's project, which may lead to off-balance-sheet risk.

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Hyosung Heavy Industries: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**4,895**	**5,969**	**7,168**	**8,628**	**10,030**
COGS	(4,103)	(4,716)	(5,506)	(6,440)	(7,372)
Gross profit	**792**	**1,253**	**1,661**	**2,187**	**2,659**
SG&A	(312)	(366)	(414)	(499)	(596)
Adj. EBITDA	**435**	**833**	**1,183**	**1,611**	**1,973**
D&A	(73)	(86)	(90)	(108)	(110)
Adj. EBIT	**362**	**747**	**1,092**	**1,503**	**1,863**
Net Interest	(26)	(21)	24	(25)	23
Adj. PBT	**224**	**626**	**1,017**	**1,447**	**1,856**
Tax	(1)	(123)	(200)	(284)	(365)
Minority Interest	(0)	17	(37)	(52)	(67)
Adj. Net Income	**223**	**520**	**780**	**1,111**	**1,424**
Reported EPS	23,907	55,829	83,765	119,261	152,916
Adj. EPS	**23,907**	**55,829**	**83,765**	**119,261**	**152,916**
DPS	**5,000**	**7,500**	**11,252**	**16,021**	**20,541**
Payout ratio	20.9%	13.4%	13.4%	13.4%	13.4%
Shares outstanding	9	9	9	9	9

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	262	250	390	1,044	2,075
Accounts receivable	1,330	1,626	1,933	2,303	2,664
Inventories	885	1,278	1,477	1,710	1,947
Other current assets	559	585	585	585	585
Current assets	**3,036**	**3,738**	**4,385**	**5,641**	**7,271**
PP&E	2,172	2,307	2,884	2,942	2,998
LT investments	-	-	-	-	-
Other non current assets	1,011	1,183	1,182	1,181	1,181
Total assets	**6,219**	**7,228**	**8,450**	**9,764**	**11,449**
Short term borrowings	332	272	329	291	286
Payables	1,437	1,652	1,959	2,326	2,683
Other short term liabilities	1,324	1,638	1,652	1,643	1,642
Current liabilities	**3,093**	**3,561**	**3,939**	**4,260**	**4,611**
Long-term debt	563	464	562	497	489
Other long term liabilities	507	712	712	712	712
Total liabilities	**4,163**	**4,738**	**5,214**	**5,469**	**5,812**
Shareholders' equity	1,909	2,352	3,062	4,068	5,343
Minority interests	147	138	175	227	294
Total liabilities & equity	**6,219**	**7,228**	**8,450**	**9,764**	**11,449**
BVPS	**204,949**	**252,543**	**328,807**	**436,816**	**573,711**
y/y Growth	*76.7%*	*23.2%*	*30.2%*	*32.8%*	*31.3%*
Net debt/(cash)	633	486	500	(256)	(1,300)

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**412**	**493**	**708**	**1,036**	**1,360**
o/w Depreciation & amortization	73	86	90	108	110
o/w Changes in working capital	44	(281)	(199)	(235)	(241)
Cash flow from investing activities	**(215)**	**(213)**	**(666)**	**(166)**	**(166)**
o/w Capital expenditure	(97)	(178)	(666)	(166)	(166)
as % of sales	*2.0%*	*3.0%*	*9.3%*	*1.9%*	*1.7%*
Cash flow from financing activities	**(228)**	**(313)**	**99**	**(217)**	**(163)**
o/w Dividends paid	(23)	(47)	(70)	(105)	(149)
o/w Shares issued/(repurchased)	89	7	0	0	0
o/w Net debt issued/(repaid)	(294)	(274)	169	(112)	(13)
Net change in cash	**(29)**	**(32)**	**141**	**653**	**1,032**
Adj. Free cash flow to firm	**342**	**332**	**23**	**890**	**1,176**
y/y Growth	*(29.2%)*	*(2.9%)*	*(93.2%)*	*3832.2%*	*32.0%*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	16.2%	21.0%	23.2%	25.4%	26.5%
EBITDA margin	8.9%	14.0%	16.5%	18.7%	19.7%
EBIT margin	7.4%	12.5%	15.2%	17.4%	18.6%
Net profit margin	4.5%	8.7%	10.9%	12.9%	14.2%
ROE	14.9%	24.4%	28.8%	31.2%	30.3%
ROA	4.1%	7.7%	10.0%	12.2%	13.4%
ROCE	14.8%	20.4%	24.9%	27.4%	27.3%
SG&A/Sales	6.4%	6.1%	5.8%	5.8%	5.9%
Net debt/Equity	0.3	0.2	0.2	NM	NM
Net debt/EBITDA	1.5	0.6	0.4	NM	NM
Sales/Assets (x)	0.9	0.9	0.9	0.9	0.9
Assets/Equity (x)	3.7	3.2	2.9	2.6	2.3
Interest cover (x)	16.5	40.1	NM	63.5	NM
Operating leverage	293.7%	483.7%	230.2%	184.4%	147.4%
Tax rate	0.3%	19.6%	19.6%	19.6%	19.6%
Revenue y/y Growth	13.8%	21.9%	20.1%	20.4%	16.3%
EBITDA y/y Growth	27.0%	91.3%	42.0%	36.2%	22.5%
EPS y/y Growth	92.2%	133.5%	50.0%	42.4%	28.2%

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	89.7	38.4	25.6	18.0	14.0
P/BV (x)	10.5	8.5	6.5	4.9	3.7
EV/EBITDA (x)	2.1	0.8	0.6	0.0	NM
Dividend Yield	0.2%	0.3%	0.5%	0.7%	1.0%

Source: Company reports and J.P. Morgan estimates.
Note: W in billions (except per-share data).Fiscal year ends Dec. o/w - out of which

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LS Electric

Lift earnings estimates to reflect strong order wins; trim PT to reflect pullback in global peers

We lift our 2026E-28E earnings estimates by ~3% on average to reflect strong order wins for the company (from W4tn of new orders guidance at the beginning of the year to W6tn-6.5tn) on faster-than-expected market share gains, and we believe such strength can more than offset headwinds from the recent delay in data center connections. However, we trim our earnings multiples for the Electric businesses to ~38x from ~40x to reflect the recent pullback in global peers. As a result, we trim our Jun-27 PT to W190k (from W200k) and maintain our Neutral rating.

Neutral

010120.KS, 010120 KS
Price (13 Oct 26):W178,350

▼ **Price Target (Jun-27):W190,000**
Prior (Jun-27):W200,000

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 27E (W)	4,703	4,849	3.1%

Quarterly Forecasts (FYE Dec)

Adj. EPS (W)

	2025A	2026E	2027E
Q1	470	810A	1,094
Q2	451	797A	1,160
Q3	447	999	1,225
Q4	560	886	1,370
FY	1,927	3,492	4,849

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	90	81	69	46	46
Growth	20	23	34	30	57
Momentum	9	8	30	4	58
Quality	37	25	40	41	28
Low Vol	90	94	99	81	55
ESGQ	93	-	-	-	-

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

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Price Performance



	YTD	1m	3m	12m
Abs	91.6%	-13.4%	-5.4%	199.2%
Rel	40.1%	-5.8%	0.8%	121.1%

Company Data

Shares O/S (mn)	150
52-week range (W)	347,500-57,100
Market cap ($ mn)	20,048
Exchange rate	1,334.44
Free float (%)	41.2%
3M ADV (mn)	1.22
3M ADV ($ mn)	181.2
Volatility (90 Day)	100
Index	KOSPI
BBG ANR (Buy | Hold | Sell)	23|4|0

Key Metrics (FYE Dec)

W in billions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	4,966	6,677	7,921	9,100
Adj. EBITDA	559	897	1,214	1,480
Adj. EBIT	426	750	1,032	1,267
Adj. net income	287	520	721	895
Adj. EPS	1,927	3,492	4,849	6,015
BBG EPS	1,880	3,587	5,118	6,790
Cashflow from operations	300	408	746	981
FCFF	112	28	368	700
Margins and Growth				
Revenue Growth Y/Y (%)	9.1%	34.5%	18.6%	14.9%
EBITDA margin	11.3%	13.4%	15.3%	16.3%
EBITDA Growth Y/Y (%)	11.0%	60.6%	35.4%	21.9%
EBIT margin	8.6%	11.2%	13.0%	13.9%
Net margin	5.8%	7.8%	9.1%	9.8%
Adj. EPS growth	19.9%	81.3%	38.8%	24.1%
Ratios				
Adj. tax rate	30.7%	27.0%	27.0%	27.0%
Interest cover	18.5	29.0	36.2	50.8
Net debt/Equity	0.3	0.3	0.2	0.0
Net debt/EBITDA	1.1	0.8	0.4	0.0
ROCE	9.1%	14.8%	17.6%	18.5%
ROE	14.7%	22.7%	26.0%	26.4%
Valuation				
FCFF yield	0.4%	0.1%	1.4%	2.6%
Dividend yield	0.3%	0.6%	0.8%	1.0%
EV/Revenue	5.5	4.1	3.4	2.9
EV/EBITDA	49.0	30.6	22.5	18.1
Adj. P/E	92.6	51.1	36.8	29.7

Summary Investment Thesis and Valuation

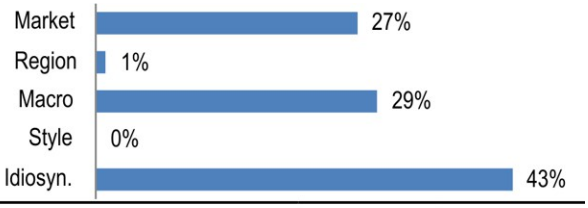
Investment Thesis

LS Electric is the largest distribution equipment maker in Korea, with a >60% market share, yet it has lower exposure to large power transformers (LPT) than its peers. We believe the company will likely enjoy stronger growth for LPT off a low base and capacity ramp-up. With a track record of supplying equipment to US hyperscalers, we see potential for the company to have new order wins from strong AI capex growth. We have a Neutral rating on LS Electric, as we believe its stock performance is likely to be in line with the broader index over the next 6-12 months after its strong performance YTD, despite our long-term positive view on the company.

Valuation

Our Jun-27 PT of W190k is based on a sum-of-the-parts valuation, implying a ~39x and ~9x FY27E P/E and P/B, respectively. We assign a ~38x FY27E-28E P/E to the High-Voltage Transformers, Electric Equipment and Other Electric Infra segments in our SOTP model, given the strong earnings outlook, in line with global players. We assign only a ~10x and ~15x P/E to the automation segment and LS's other subsidiaries, respectively, given a less favorable operating outlook than for other segments.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.53	0.54
Region: Korea	0.18	0.19
Macro:		
Citi Economic Surprise - EM	0.42	0.47
Generic 1st 'CO' Future	-0.38	-0.29
HSI Volatility Index	-0.20	-0.23
Quant Styles:		
Quality	-0.01	0.09
Size	0.01	0.07
Momentum	0.09	0.06

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price h
exact.

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Investment Thesis, Valuation and Risks

LS Electric *(Neutral; Price Target: W190,000)*

Investment Thesis

LS Electric is the largest distribution equipment maker in Korea, with a >60% market share, yet it has lower exposure to large power transformers (LPT) than its peers. We believe the company will likely enjoy stronger growth for LPT off a low base and capacity ramp-up. With a track record of supplying equipment to US hyperscalers, we see potential for the company to have new order wins from strong AI capex growth. We have a Neutral rating on LS Electric, as we believe its stock performance is likely to be in line with the broader index over the next 6-12 months after its strong performance YTD, despite our long-term positive view on the company.

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Segments	Valuation methodology	Multiple (x)	NAV (KRW bn)	NAV/sh (KRW)	% of total
Electric			24,756	166,388	90%
Electric equipment	P/E	38x	7,857	52,805	29%
High-voltage transformers	P/E	38x	5,872	39,465	21%
Electric infra-Others	P/E	38x	10,601	71,253	39%
Renewable	P/S	1x	426	2,865	2%
Automation	P/E	10x	156	1,046	1%
Subsidiaries	P/E	15x	2,617	17,587	10%
Jun-27 PT				**190,000**	

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks include: (1) a slower-than-expected increase in market share/a sharper decline in renewables demand for LPT in the US and other markets; (2) slower-than-expected order wins from AIDC; (3) a slowdown in electrical equipment demand in Korea for the renewables, automation and distribution grid segments; and (4) a rise in raw materials/freight costs and US tariffs.

Upside risks include: (1) a faster-than-expected increase in market share/a milder decrease in renewables demand for LPT in the US and other markets; (2) faster-than-expected order wins from AIDC; (3) an acceleration in electrical equipment demand in Korea for the renewables, automation and distribution grid segments; and (4) a decrease in raw materials/freight costs and US tariffs.

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LS Electric: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**4,552**	**4,966**	**6,677**	**7,921**	**9,100**
COGS	(3,644)	(3,914)	(5,093)	(5,924)	(6,751)
Gross profit	**908**	**1,051**	**1,583**	**1,997**	**2,349**
SG&A	(318)	(400)	(568)	(650)	(725)
Adj. EBITDA	**503**	**559**	**897**	**1,214**	**1,480**
D&A	(114)	(132)	(147)	(182)	(213)
Adj. EBIT	**390**	**426**	**750**	**1,032**	**1,267**
Net Interest	(22)	(30)	(31)	(34)	(29)
Adj. PBT	**333**	**410**	**719**	**998**	**1,238**
Tax	(91)	(126)	(194)	(270)	(334)
Minority Interest	(4)	2	(5)	(7)	(9)
Adj. Net Income	**239**	**287**	**520**	**721**	**895**
Reported EPS	1,607	1,927	3,492	4,849	6,015
Adj. EPS	**1,607**	**1,927**	**3,492**	**4,849**	**6,015**
DPS	**580**	**600**	**1,087**	**1,509**	**1,872**
Payout ratio	36.1%	31.1%	31.1%	31.1%	31.1%
Shares outstanding	149	149	149	149	149

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	660	763	764	1,032	1,628
Accounts receivable	1,070	1,036	1,374	1,609	1,823
Inventories	510	553	705	804	898
Other current assets	812	1,005	1,005	1,005	1,005
Current assets	**3,052**	**3,357**	**3,850**	**4,450**	**5,354**
PP&E	861	979	1,247	1,478	1,578
LT investments	-	-	-	-	-
Other non current assets	572	620	608	597	587
Total assets	**4,485**	**4,957**	**5,705**	**6,525**	**7,519**
Short term borrowings	630	597	634	671	733
Payables	638	707	934	1,102	1,275
Other short term liabilities	578	561	561	561	561
Current liabilities	**1,846**	**1,865**	**2,129**	**2,334**	**2,568**
Long-term debt	570	775	823	871	951
Other long term liabilities	178	176	176	176	176
Total liabilities	**2,595**	**2,815**	**3,128**	**3,381**	**3,696**
Shareholders' equity	1,839	2,070	2,500	3,060	3,730
Minority interests	51	72	77	84	93
Total liabilities & equity	**4,485**	**4,957**	**5,705**	**6,525**	**7,519**
BVPS	**12,382**	**13,920**	**16,806**	**20,565**	**25,071**
y/y Growth	*6.1%*	*12.4%*	*20.7%*	*22.4%*	*21.9%*
Net debt/(cash)	541	609	693	510	56

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**230**	**300**	**408**	**746**	**981**
o/w Depreciation & amortization	114	132	147	182	213
o/w Changes in working capital	(225)	(175)	(264)	(165)	(136)
Cash flow from investing activities	**(256)**	**(250)**	**(402)**	**(402)**	**(302)**
o/w Capital expenditure	(150)	(209)	(402)	(402)	(302)
as % of sales	*3.3%*	*4.2%*	*6.0%*	*5.1%*	*3.3%*
Cash flow from financing activities	**82**	**59**	**(4)**	**(77)**	**(82)**
o/w Dividends paid	(83)	(87)	(89)	(162)	(225)
o/w Shares issued/(repurchased)	0	0	0	0	0
o/w Net debt issued/(repaid)	101	146	86	85	142
Net change in cash	**76**	**103**	**2**	**267**	**596**
Adj. Free cash flow to firm	**96**	**112**	**28**	**368**	**700**
y/y Growth	*(10.5%)*	*16.8%*	*(75.2%)*	*1221.3%*	*89.9%*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	19.9%	21.2%	23.7%	25.2%	25.8%
EBITDA margin	11.1%	11.3%	13.4%	15.3%	16.3%
EBIT margin	8.6%	8.6%	11.2%	13.0%	13.9%
Net profit margin	5.2%	5.8%	7.8%	9.1%	9.8%
ROE	13.4%	14.7%	22.7%	26.0%	26.4%
ROA	5.8%	6.1%	9.7%	11.8%	12.7%
ROCE	9.9%	9.1%	14.8%	17.6%	18.5%
SG&A/Sales	7.0%	8.0%	8.5%	8.2%	8.0%
Net debt/Equity	0.3	0.3	0.3	0.2	0.0
Net debt/EBITDA	1.1	1.1	0.8	0.4	0.0
Sales/Assets (x)	1.1	1.1	1.3	1.3	1.3
Assets/Equity (x)	2.3	2.4	2.3	2.2	2.1
Interest cover (x)	23.1	18.5	29.0	36.2	50.8
Operating leverage	262.8%	103.5%	220.1%	201.8%	153.5%
Tax rate	27.3%	30.7%	27.0%	27.0%	27.0%
Revenue y/y Growth	7.6%	9.1%	34.5%	18.6%	14.9%
EBITDA y/y Growth	17.9%	11.0%	60.6%	35.4%	21.9%
EPS y/y Growth	14.6%	19.9%	81.3%	38.8%	24.1%

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	111.0	92.6	51.1	36.8	29.7
P/BV (x)	14.4	12.8	10.6	8.7	7.1
EV/EBITDA (x)	54.2	49.0	30.6	22.5	18.1
Dividend Yield	0.3%	0.3%	0.6%	0.8%	1.0%

Source: Company reports and J.P. Morgan estimates.
Note: W in billions (except per-share data).Fiscal year ends Dec. o/w - out of which

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HD Hyundai Electric (267260.KS, 267260 KS) Price Chart



Date	Rating	Price (W)	Price Target (W)
17-Sep-24	OW	283500	370,000
25-Oct-24	OW	342000	385,000
03-Dec-24	OW	335000	390,000
14-Jan-25	OW	389000	440,000
08-Apr-25	OW	265000	365,000
05-Jun-25	OW	382000	430,000
07-Jul-25	OW	432000	510,000
02-Sep-25	OW	487000	550,000
01-Oct-25	OW	582000	650,000
23-Oct-25	OW	687000	815,000
18-Nov-25	OW	840000	1,050,000
08-Apr-26	OW	888000	1,100,000
28-Apr-26	OW	1329000	1,315,000
06-Jul-26	OW	947000	1,375,000

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 17, 2024. All share prices are as of market close on the previous business day.

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Hyosung Heavy Industries (298040.KS, 298040 KS) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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Date	Rating	Price (W)	Price Target (W)
17-Sep-24	OW	289500	385,000
31-Oct-24	OW	405000	450,000
03-Dec-24	OW	386000	460,000
14-Jan-25	OW	421500	500,000
08-Apr-25	OW	393500	475,000
05-Jun-25	OW	648000	700,000
07-Jul-25	OW	889000	970,000
27-Jul-25	OW	1125000	1,350,000
05-Sep-25	OW	1209000	1,450,000
01-Oct-25	OW	1340000	1,500,000
31-Oct-25	OW	2125000	2,500,000
18-Nov-25	OW	2160000	2,800,000
30-Jan-26	OW	2535000	3,000,000
08-Apr-26	OW	2603000	3,300,000
24-Apr-26	OW	3260000	3,900,000
06-Jul-26	OW	3354000	4,100,000

LS Electric (010120.KS, 010120 KS) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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Date	Rating	Price (W)	Price Target (W)
17-Sep-24	OW	29000	40,000
25-Oct-24	OW	29820	37,500
03-Dec-24	OW	29060	38,000
14-Jan-25	OW	35920	40,000
24-Jan-25	N	46400	48,000
08-Apr-25	N	30580	36,000
05-Jun-25	N	51300	43,000
07-Jul-25	N	52400	51,000
02-Sep-25	OW	54800	65,000
01-Oct-25	OW	56900	67,000
18-Nov-25	OW	94000	106,000
27-Jan-26	OW	100000	120,000
08-Apr-26	N	156000	160,000
24-Jun-26	N	224000	190,000
06-Jul-26	N	233000	200,000

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