

The Korea Defense Industry Index introduction

Hanwha Asset Management

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Prologue.

What Really Moves The World?

CMO, Young Jin Choi

Dawn of the Old Cold War: Rise of Two Giants

From the ashes of World War II emerged a new global order. The United States and Soviet Union—two superpowers with opposing ideologies—divided the world and launched an "invisible war."

Core Values of Two Camps

United States (Free World)

Individual freedom
Capitalist market economy
Multi-party democracy

VS

Soviet Union (Communist Bloc)

Equality and collectivism
Centrally planned economy
Single-party rule
(proletariat)

Causes and Background

1. **Ideological clash:** US (capitalism/liberal democracy) vs. USSR (communism/socialism)
2. **Power vacuum:** Post-WWII decline of UK, France, Germany
→ Rise of US and USSR
3. **Mutual distrust:** Yalta Conference disputes, nuclear arms race, Iron Curtain speech, Truman Doctrine



Leaders at the Yalta Conference, Source: UN Photo Archive

The End of Globalization and the Dawn of an Era of Conflict

- The era of peace that began with the fall of the Berlin Wall and German reunification in 1989, followed by the collapse of the Soviet Union in 1991, has gradually given way to an age of conflict.
- Starting with Russia's invasion of Georgia in 2008, followed by the annexation of Crimea in 2014, and culminating in the Russia-Ukraine war in 2022, the post-Cold War peace has unraveled.

Fall of the Berlin Wall (November 9, 1989)



Source : Chosun Ilbo

Putin's Ambitions Ignite a New Era of Conflict



Source : CSIC, Miraeasset-sec Research center

Two Photos: China's Victory Day 2015 vs. 2025

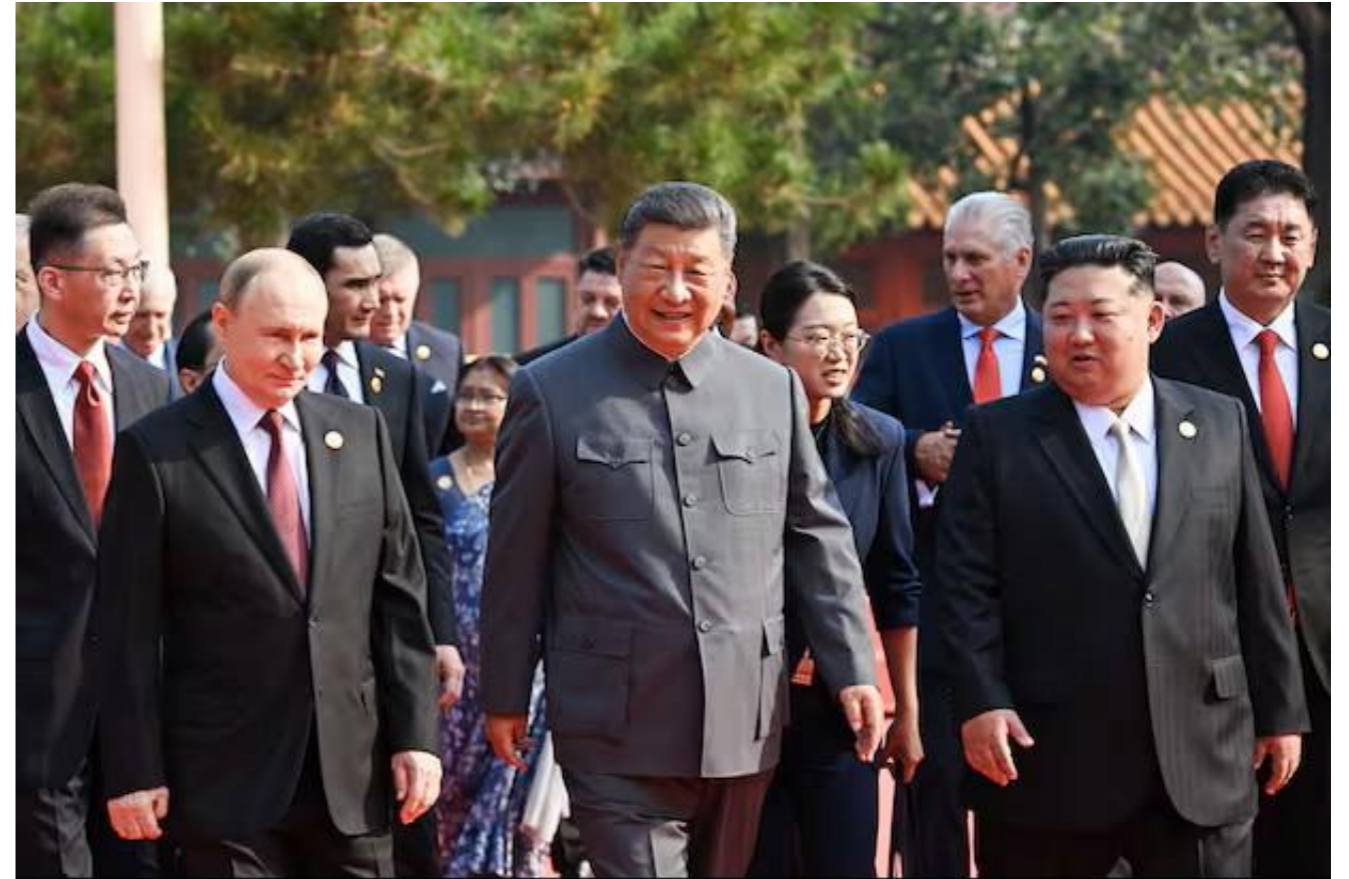
- 2015: Putin-Xi-Park → Era of balanced diplomacy, strategic ambiguity viable
- 2025: Putin-Xi-Kim → Clear bloc confrontation structure

China's 70th Victory Day Military Parade, 2015



Source: Newsis

China's 80th Victory Day Military Parade, 2025



Source: Yonhap News

The Cold War Returns: History Repeats

Parallels Between Old and New Cold Wars

Category	Old Cold War	New Cold War	Common Threads
Ideological Confrontation	Capitalism/Democracy vs. Communism	Democracy vs. Authoritarianism/State Capitalism	Both camps view the opposing system as a threat and seek to expand global influence
Nuclear Threat and Mutual Assured Destruction	Nuclear arms race and deterrence	Nuclear proliferation threats (Russia's nuclear warnings over Ukraine, China's arsenal expansion)	"Cold" nature maintained to avoid direct war; nuclear balance preserves peace
Proxy Wars and Indirect Conflict	Korean War, Vietnam War, etc.	Ukraine War, Syrian Civil War, etc.	Superpowers avoid direct confrontation, clashing through allies and regional conflicts
Geopolitical & Military Competition	NATO vs. Warsaw Pact	NATO reinforcement vs. China-Russia strategic partnership	Alliance-building and arms races continue as both sides expand spheres of influence
Diplomatic Management Efforts	Nuclear test ban treaties, etc.	Potential arms control negotiations	Diplomacy remains critical to prevent escalation

Three Pillars of Hegemonic Competition

Battleground	Old Cold War (1945-1991)	New Cold War (2025~)
Military	Arms race supremacy	Hypersonic missiles, nuclear & conventional deterrence
Technology	Apollo Program, Space Race	AI, semiconductors, quantum computing
Financial	Bretton Woods, dollar hegemony	Stablecoins, RWA tokenization

👉 The US secured dominance across all three pillars to win the Old Cold War. The New Cold War follows the same structural pattern—**investment must concentrate on sectors benefiting from these three battlegrounds.**

Three Pillars of Investment Strategy in the New Cold War Era

01

Defense

Normalization of Conflict &
Military Security Elevated to
essential asset status NATO 2%
spending mandate

02

Technology

Technology = National Power
Control critical choke points
Semiconductors · AI
infrastructure

03

Digital Asset

Defending Dollar Hegemony
Stablecoins · RWA tokenization
New financial architecture

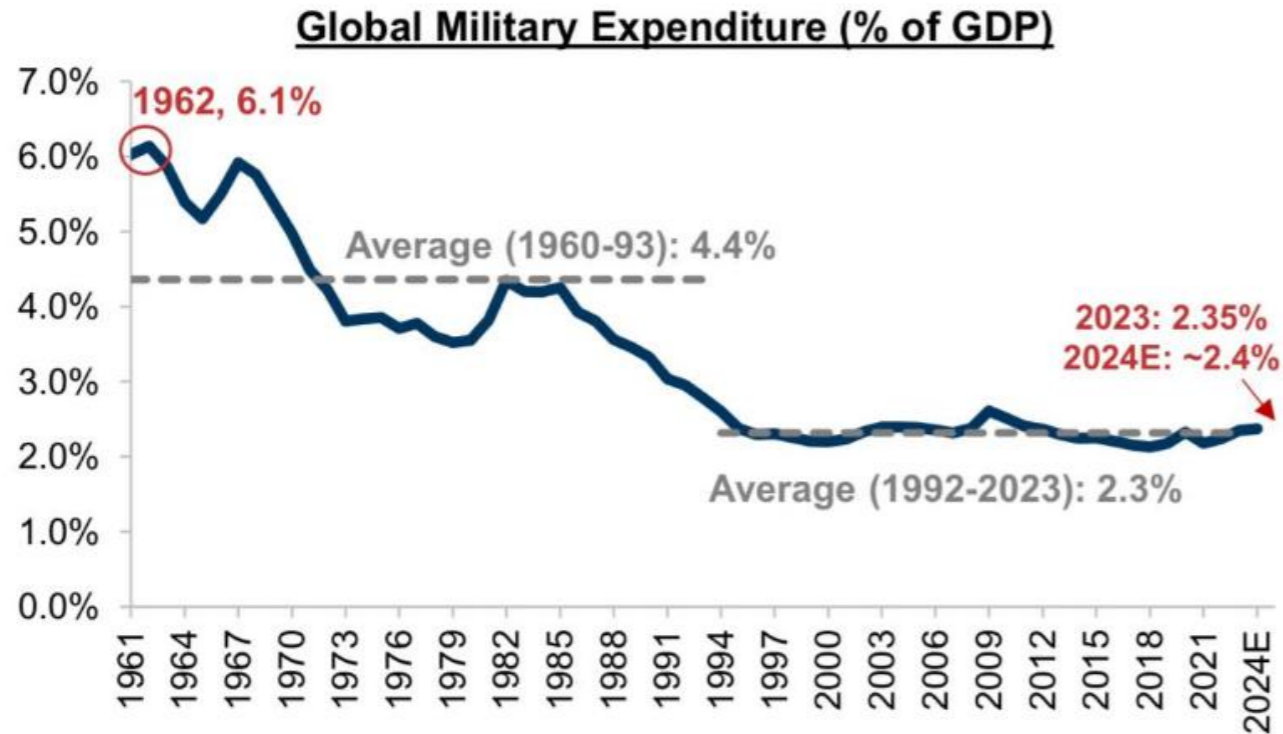
Why we build the Korea Defense Industry Index?

Senior Product Specialist, Yunjin Kim

Global Defense Supply Chain Collapsed During Peace Era

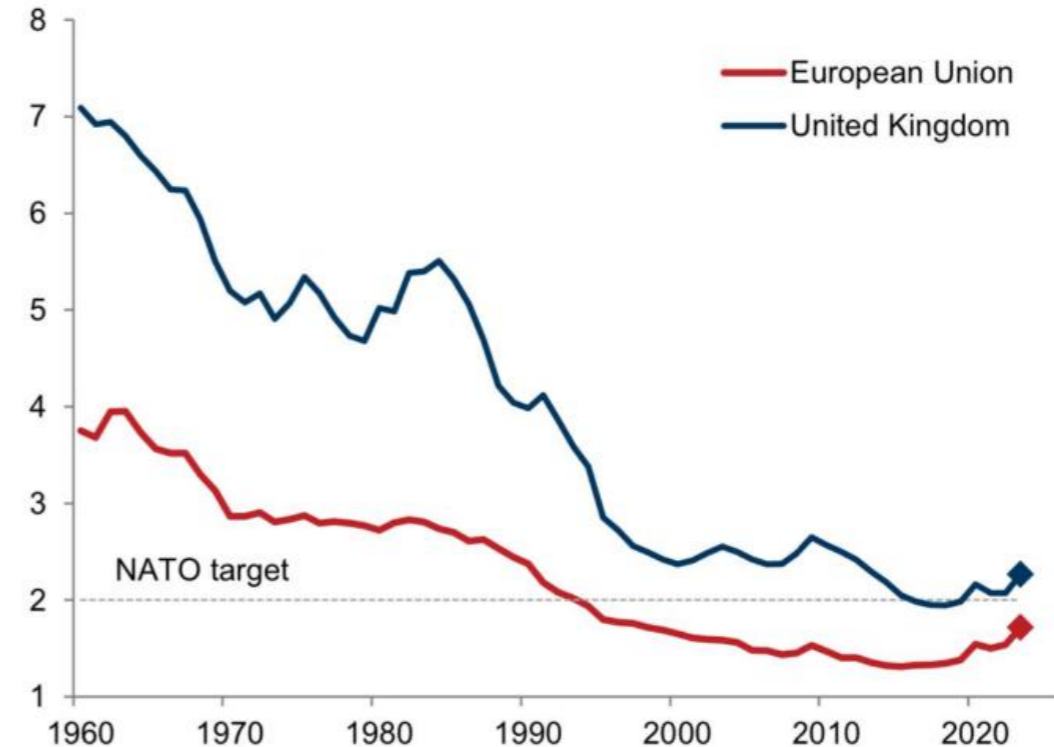
- Post-Cold War defense industry contraction led to widespread closure of weapons production facilities and supply chain atrophy

Global Military Expenditure (% of GDP)



Source : World Bank, SIPRI, IISS

European Defense Spending Trends Since WWII

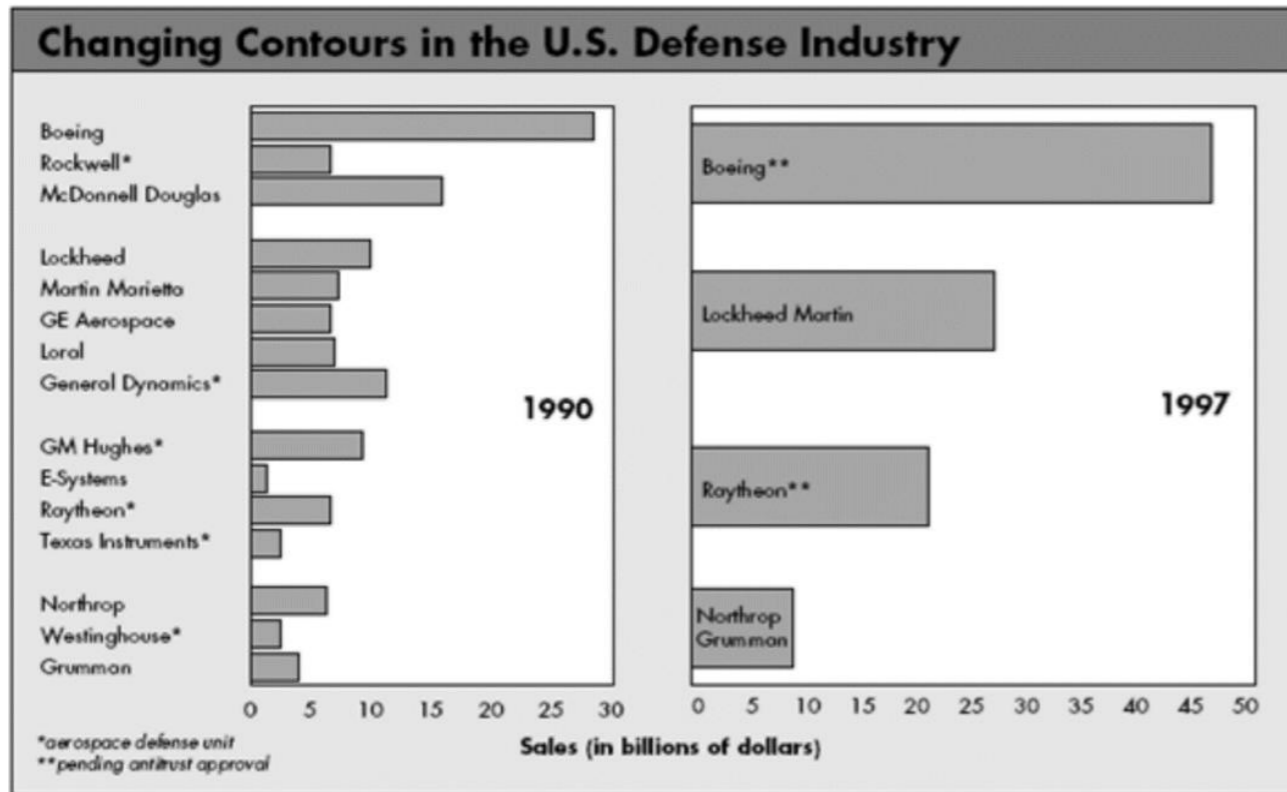


Source : World Bank, Goldman Sachs

Global Defense Supply Chain Collapsed During Peace Era

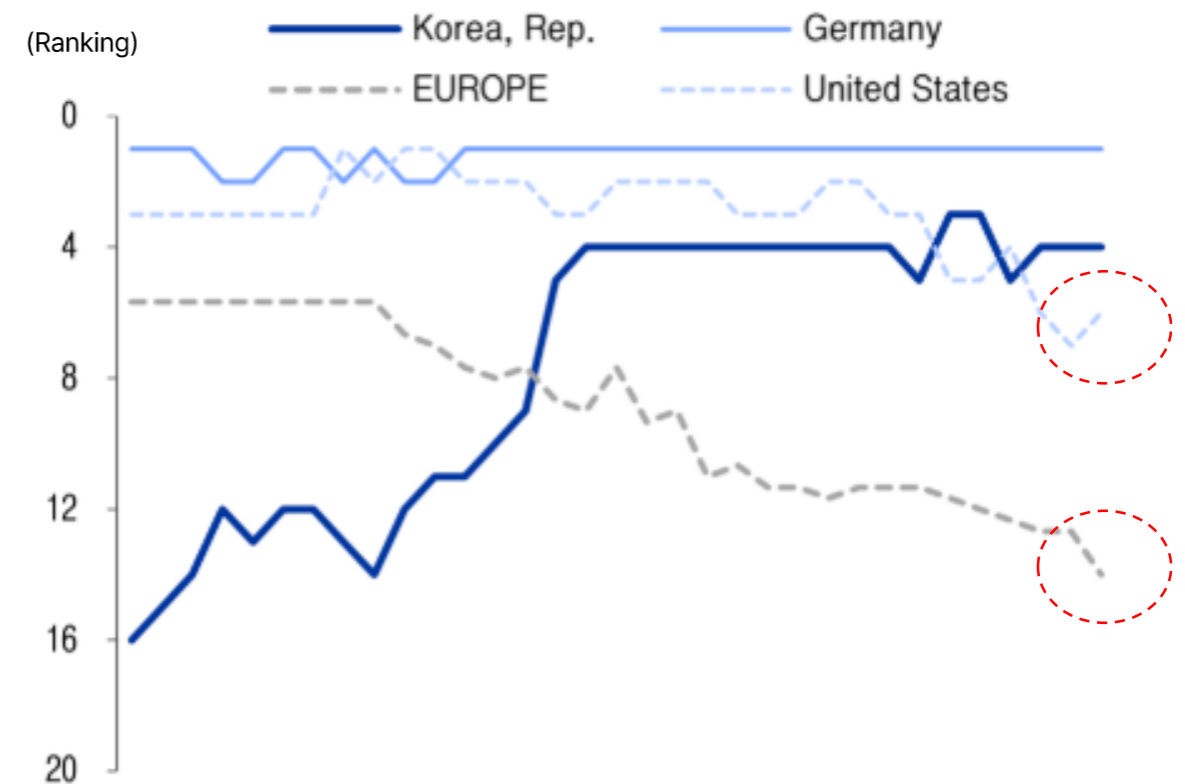
- 1990s-2000s: US defense industry underwent massive consolidation and restructuring, drastically reducing the number of firms → Creating weapons production bottlenecks and supply chain constraints
- US manufacturing capacity—the foundation of defense industry—continues to erode, limiting domestic production capabilities

Consolidation of US Defense Industry in the 1990s



Source : Changing Contours in the U.S. Defense Industry (Augustine, 1997)

US and Europe Manufacturing Capability Rankings Over Time

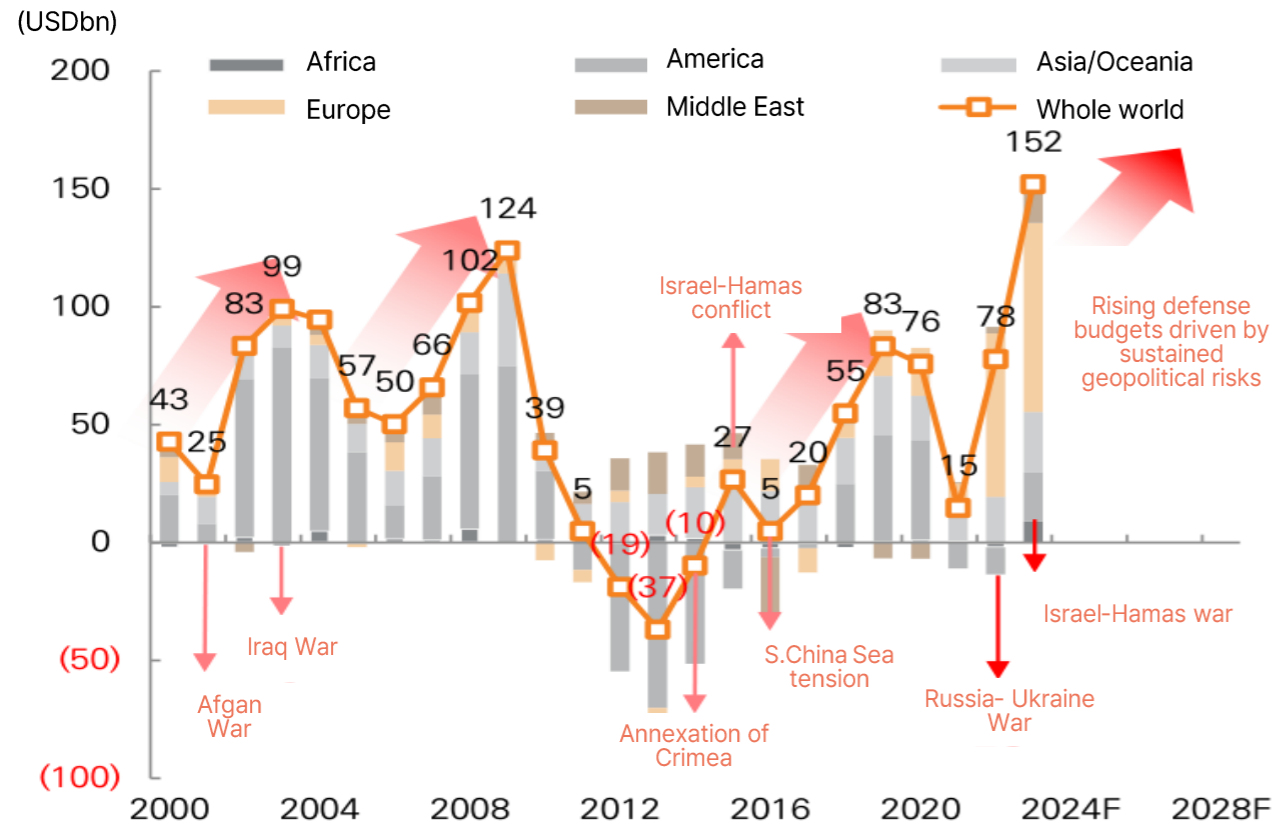


Source : UNIDO, LS-sec Research center

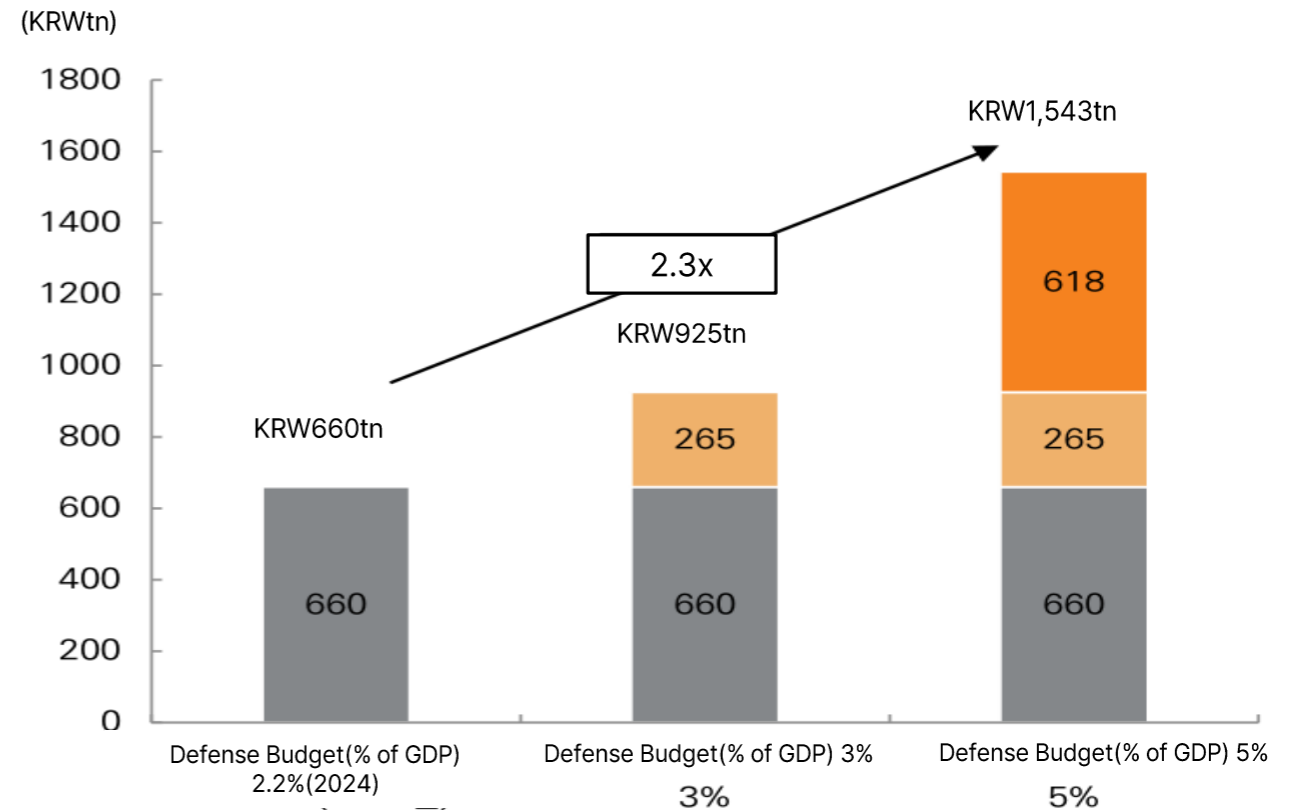
The Era of Conflict: Global Surge in Defense Spending

- The return of Trump accelerates worldwide defense spending, as allies face stronger pressure to increase their defense contributions.
- Since the early 2000s, geopolitical conflicts have driven rapid growth in military budgets, reflecting heightened security uncertainty.

Trends in Global Defense Budget Growth

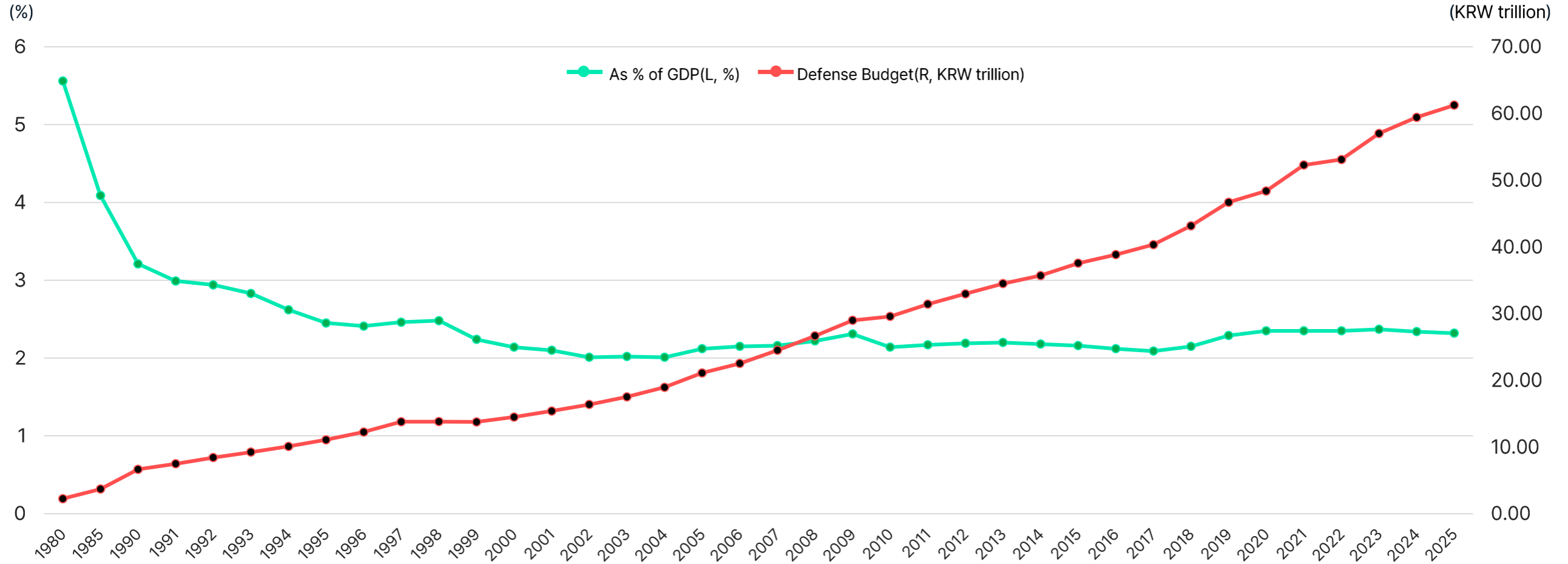


Defense Budget Growth Scenarios



Defense Spending in Korea, a Nation Under Armistice (1950s-Present)

South Korea's Defense Spending as % of GDP and Defense Budget Size



Source: ROK Ministry of National Defense, Hanwha Asset Management

Europe – Where Will the Rearmament Demand Go?



Northern Europe (Denmark, Norway, Sweden, Finland, etc.)

Eastern Europe (Poland, Romania, Baltic States, etc.)

- Eastern Europe faces financial constraints.
- Northern Europe has historically been reluctant to increase defense budgets.
- K-Defense offers cost efficiency and fast delivery — a key opportunity.

Outlook:

European Defense + K-Defense Procurement Growth

Western Europe (U.K., Germany, France, Italy, etc.)

- Relatively strong fiscal health with well-established domestic defense industries.
- Politically aligned and closely connected with the United States.

Outlook:

European Defense + U.S. Defense Procurement Growth

Source: EU, Media Reports, Hanwha Asset Management

Global Demand for K-Defense

K-Defense Gains Worldwide Attention

* Countries in parentheses indicate ongoing negotiations and weapon systems involved

(United States, Canada)

(K9, Bigung, FA-50, T-50, Submarines)

Peru (Brazil, Chile)

Armored Vehicles, Redback, KF-21, FA-50, Submarines

Egypt K9

Poland, Romania, Estonia, Norway, Finland (Denmark, Latvia, Slovakia, Armenia)

K9, Chunmoo MLRS, K2, FA-50 (Redback, Cheongung, Shingung)

Saudi Arabia, UAE, Iraq (Oman)

Cheongung-II, Hyeongung, (K2 Main Battle Tank)

India K9 (K2)

Malaysia (Philippines, Uzbekistan, Vietnam)

FA-50 (T-50, K9)

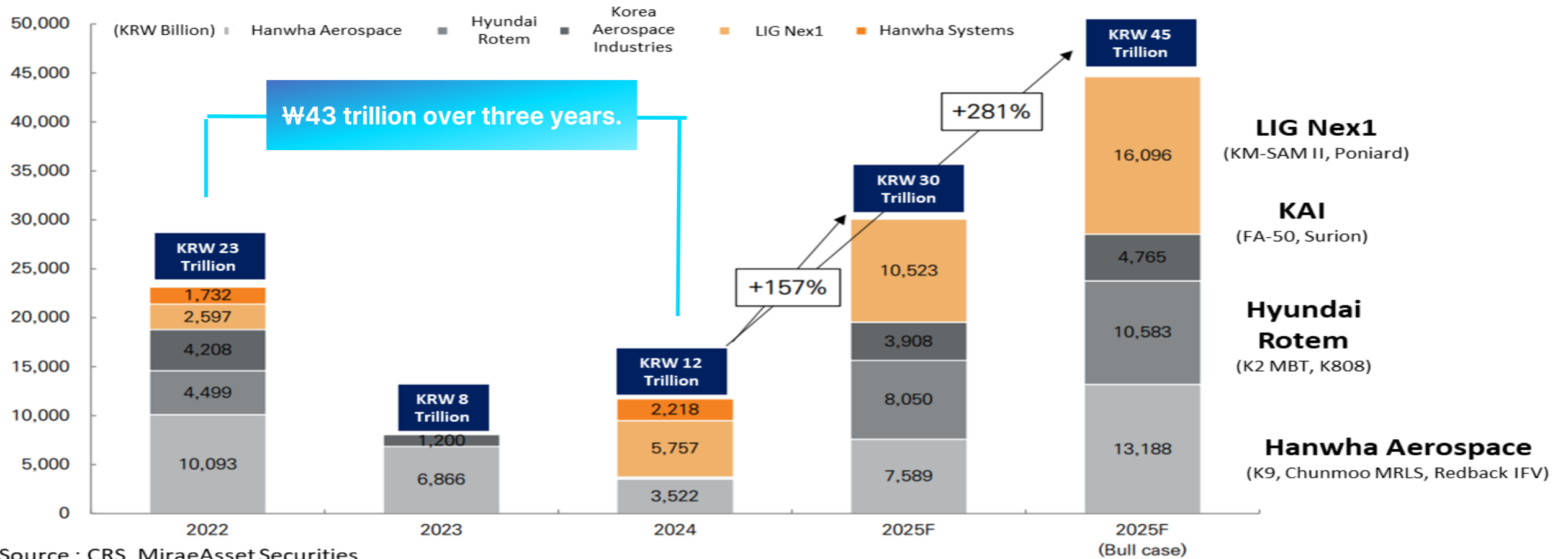
Australia Redback IFV(Frigates)

Source : Hanwha Asset Management

Rapidly Growing K-Defense Orders Led by Four Major Companies

- K-Defense is projected to win ₩30–45 trillion in contracts by 2025 from both deferred and new orders.
- Export growth is led by Korea's four major defense firms: Hanwha Aerospace, Hyundai Rotem, LIG Nex1, and KAI.

2025 Projected Order Intake Scenarios



K-Defense: An Attractive Long-Term Investment Asset

- Amid the New Cold War, the defense industry offers stable demand and resilient supply chains, making it a long-term growth sector.
 - ☞ It grows counter-cyclically and serves as a hedge against geopolitical risk.
- Despite recent stock gains, K-Defense remains attractive with strong profit growth.
 - ☞ Earnings growth outpaces share price gains by nearly sevenfold.

Structural Geopolitical Tensions & K-Defense Growth



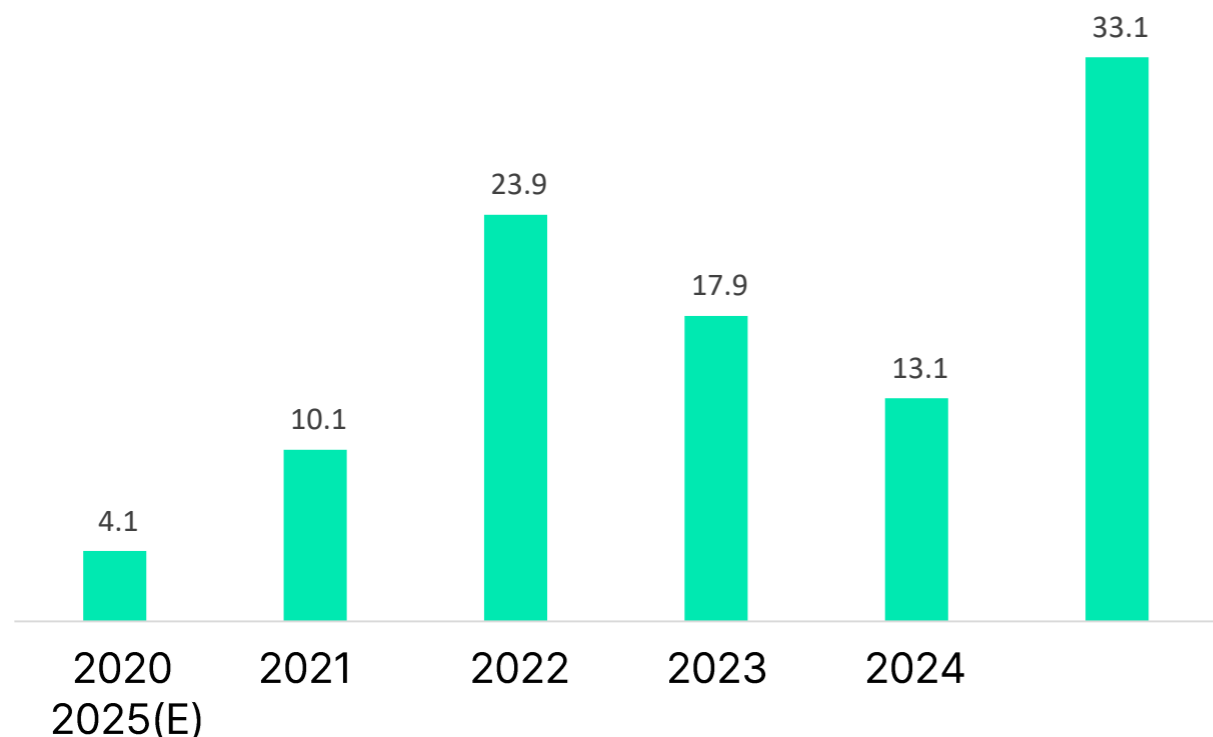
K-Defense Operating Profit Growth vs. PER Change

Company	12MF Operating Profit 2-Year Growth	12MF PER 2-Year Change
Hanwha Aerospace	421%	155%
Hyundai Rotem	296%	77%
Hanwha Ocean	516%	-47%
LIG Nex1	77%	210%
KAI	68%	25%
Hanwha Systems	151%	145%
Weighted Average	307%	44%

K-Defense: Korea's Next-Generation Core Industry

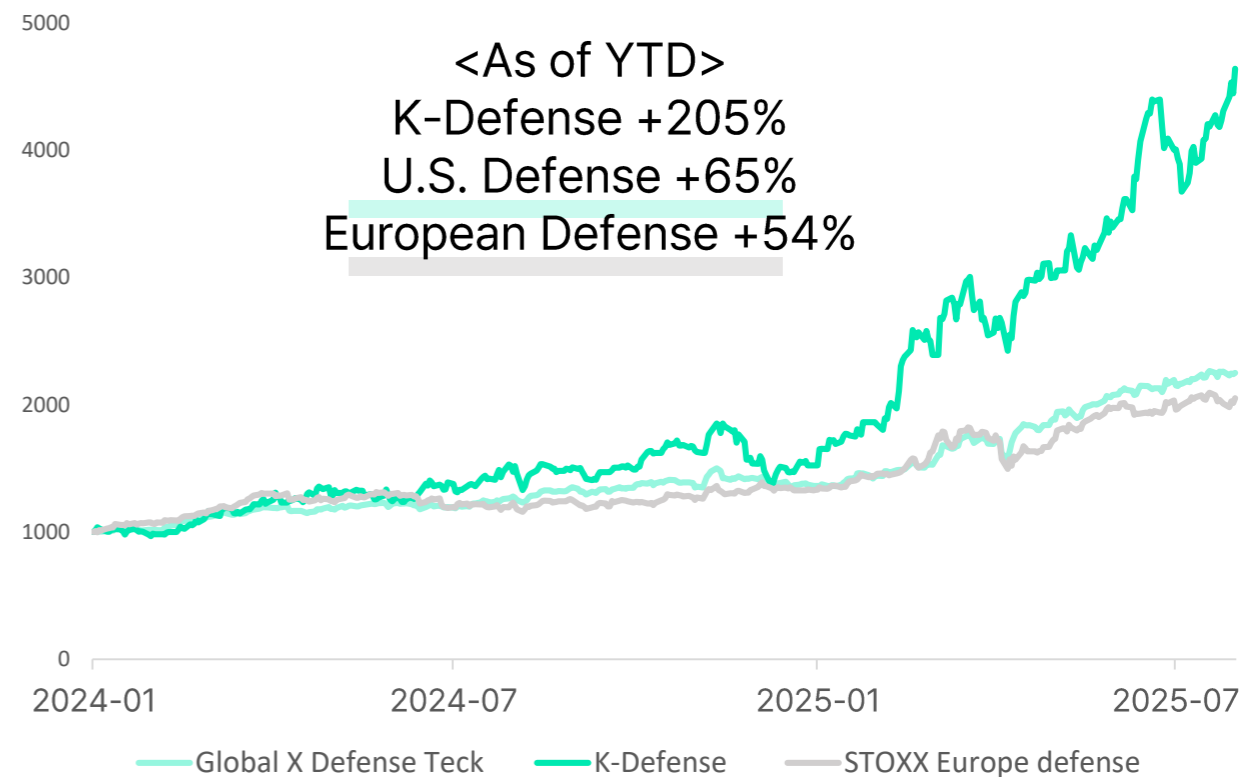
- Since 2020, Korea's cumulative defense export backlog has surpassed KRW 100 trillion.
- With explosive growth, K-Defense companies have recorded stronger stock performance than major global defense firms.

Trends and Outlook of Korea's Defense Export Orders



Source : SIPRI, Miraeasset-sec Research center

Global Defense Industry Index Returns



Source : Bloomberg, Hanwha Asset Management

Valuation of K-Defense Industry

- Despite recent stock price gains, strong earnings in K-Defense may lead to a lower PER in 2026
- Compared to European peers, K-Defense industry shows stronger growth potential but remains relatively undervalued

PER Comparison : Korean vs. European Defense companies

	Company	25 PER	26F PER
K-Defense	Hanwha Aerospace	22.3	17.9
	LIG Nex1	29.2	22
	Hyundai Rotem	17.3	15.7
	Korea Aerospace Industries	36.2	23.2
	Average	26.25	19.7
European Defense	BAE Systems (United Kingdom)	23.4	21
	Leonardo (Italy)	26.5	21.9
	Thales (France)	25.9	22.4
	Rheinmetall (Germany)	56.8	38
	Saab AB (Sweden)	43	35.6
	Average	35.12	27.78

Source : DS Investment Securities(as of May 16, 2025)

Q&A

Hanwha Aerospace

- Korea's representative comprehensive defense industry company covering land, sea, and air with a focus on ground defense
- 'K9 SPH', which accounts for 52% of the global howitzer market share, is a steady seller and the best-selling product
- 'Chunmoo MRLS', the multiple rocket launcher that has won a large-scale contract with Poland

K9 Self-Propelled Howitzer



Source : Hanwha Aerospace

Chunmoo MRLS



Hyundai Rotem

- A manufacturer of **K2 Main Battle Tank, Black Panther**, which contracted to Poland, Romania
- Developed quadruped walking robots and unmanned systems in synergy with '**Boston Dynamics**', a robot specialist company within Hyundai Motor Group

K2 MBT



Source : Hyundai Rotem

Robots from Boston Dynamics



Source : Boston Dynamics

LIG Nex1

- Specializing in advanced weapon systems, such as air defense network interception systems and guided
- **'KM-SAM II'**, which successfully won orders from three major Middle East countries (UAE, Saudi Arabia, and Iraq)
- Acquired quadruped robotics company **'Ghostrobotics'** in July 2024 and signed an MOU with 'Skydio', the largest drone manufacturer in the U.S.

KM-SAM II



Source : LIG Nex1

Vision 60 from Ghostrobotics

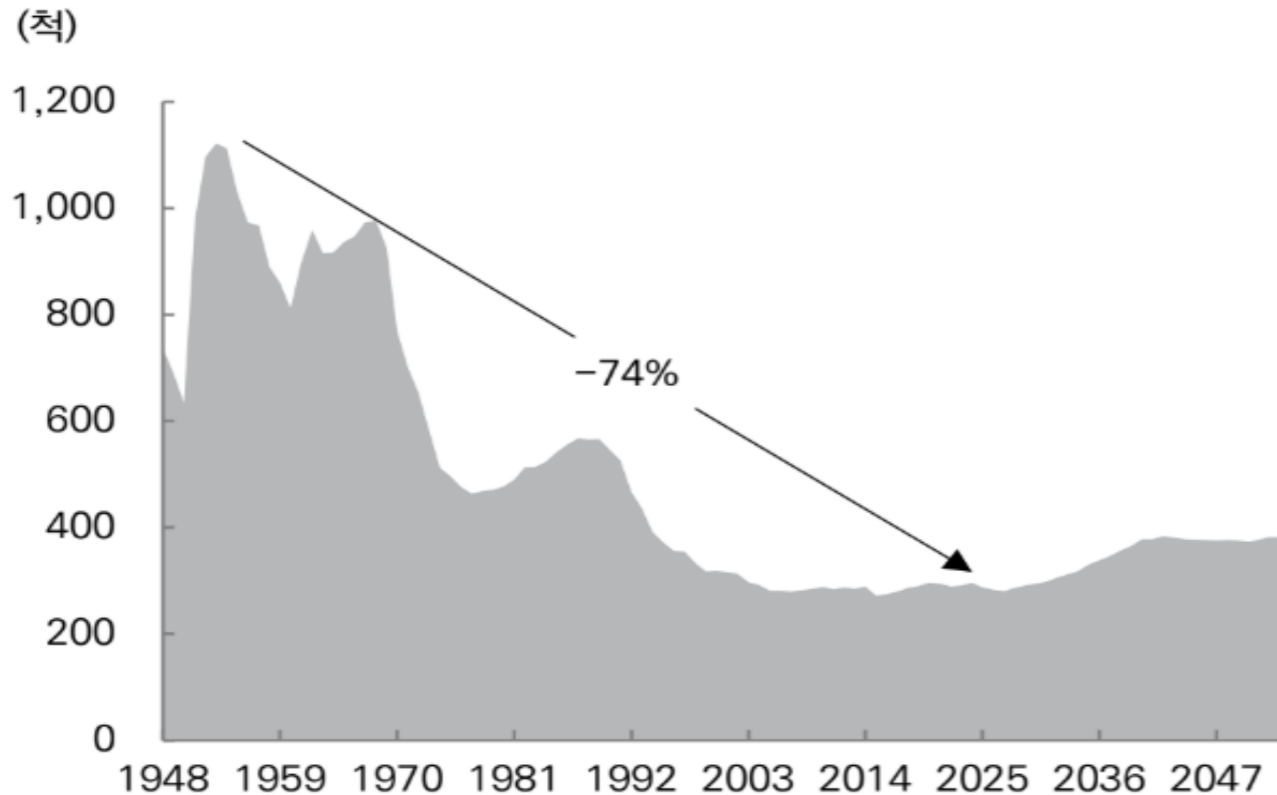


Source : Ghostrobotics

The Rivalry of the Century: The United States vs. China

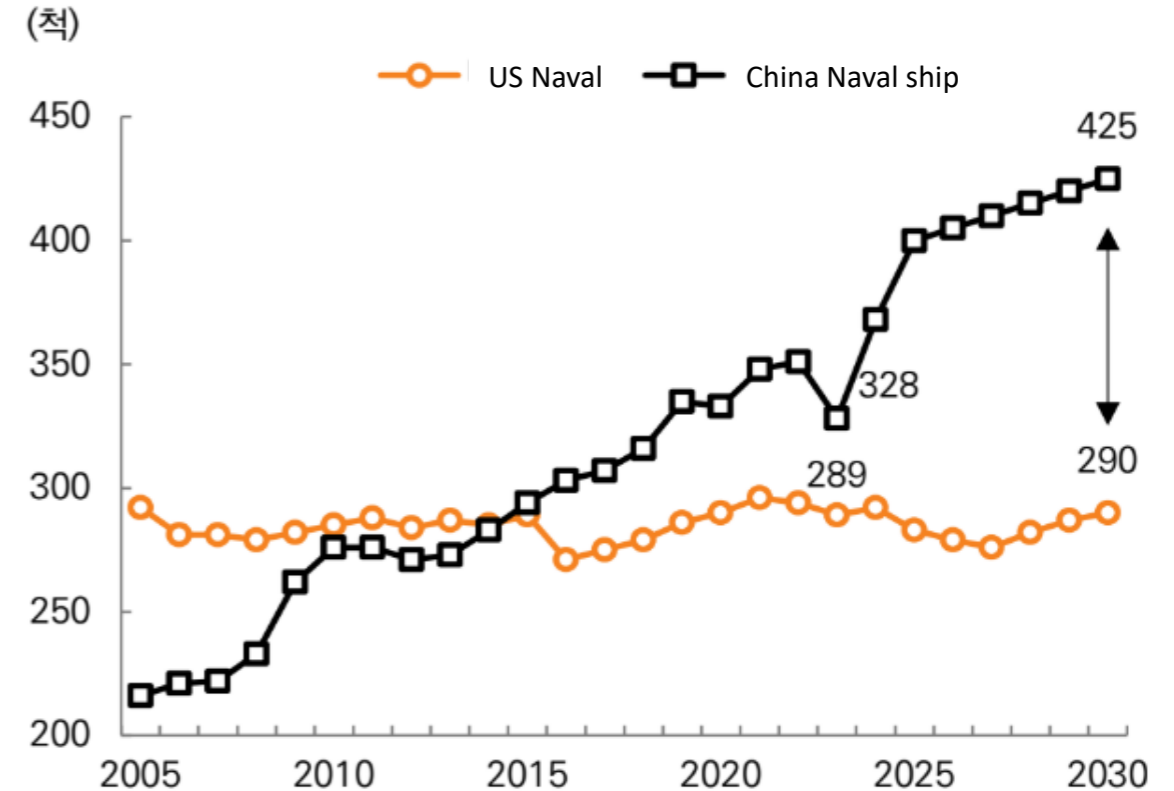
- The world's main axis of conflict lies between the United States and China, with rising military tensions in the South China Sea, East China Sea, and Taiwan Strait.
- As America's manufacturing base declines, it falls behind China in naval shipbuilding and seeks closer cooperation with South Korea and Japan.

Number of U.S. Navy ship (1948–2054)



Source : USN PB2025 Shipbuilding Plan, Miraeasset-sec Research center

U.S. and Chinese naval forces Trends



Source : USN PB2025 Shipbuilding Plan, Miraeasset-sec Research center

China targets five U.S. subsidiaries of South Korea's Hanwha Ocean, sending shares down 8%

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KEY POINTS

- China sanctioned five U.S. subsidiaries of South Korean shipbuilder Hanwha Ocean, escalating tensions with Washington.
- The order will prohibit Chinese organizations and individuals from doing business with the sanctioned companies.
- Shares of Hanwha Ocean in Seoul plunged over 8% following the announcement.



A large screen displays images of Combat Unmanned Surface Vessels (USV) at the Hanwha exhibition stand during the Security Equipment International (DSEI) at London Excel on Sept.10, 2025 in London, England.

John Keeble | Getty Images News | Getty Images

South Korea to become 4th-largest global defence power, President Lee says

By Joyce Lee

October 20, 2025 5:06 PM GMT+9 · Updated October 20, 2025



Arms have become one of South Korea's fastest-growing exports, especially since Russia's invasion of Ukraine, inking multibillion-dollar deals selling everything from howitzers and ammunition to missiles and warships around the world.

Government and military officials from countries and organisations such as Romania, Saudi Arabia, the United Arab Emirates, NATO, the U.S., Canada and Australia are visiting on the occasion of the arms fair, South Korea's defence ministry said in a briefing on Monday.

South Korea's Presidential Chief of Staff Kang Hoon-sik is visiting Europe this week as a special envoy to bolster defence industry cooperation, but the presidential office has declined to give the list of countries. However, on Monday it said Kang is not visiting Ukraine.



A man films South Korean Air Force FA-50 fighter jets during Seoul International Aerospace & Defense Exhibition (ADEX) in Seongnam, South Korea, October 17, 2025. REUTERS/Kim Hong-Ji [Purchase Licensing Rights](#)

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The Fund may invest in securities denominated in foreign currencies. Because the Fund's NAV is determined in U.S. dollars, the Fund's NAV could decline if currencies of the underlying securities depreciate against the U.S. dollar or if there are delays or limits on repatriation of such currencies. Currency exchange rates can be very volatile and can change quickly and unpredictably.

The Fund is a recently organized investment company with no operating history. As a result, prospective investors have no track record or history on which to base their investment decision. Moreover, investors will not be able to evaluate the Fund against one or more comparable funds on the basis of relative performance until the Funds has established a track record.

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