SECTOR UPDATE

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Tech (OVERWEIGHT)

Memory stocks hit new highs again

- Overall, shares in Samsung Electronics (SEC) and SK Hynix have largely moved in line with our forecasts, but the rally has started earlier than anticipated. We believe this reflects: 1) new development sin HBM4; 2) strength in commodity DRAM prices; and 3) improving macroeconomics.
- Although share-price volatility has increased recently, we believe the market has yet to sufficiently price in next year's earnings growth.
- Within the supply chain, we favor DRAM equipment makers. Meanwhile, SEC's foundry business leverage should provide additional momentum for related stocks.

WHAT'S THE STORY?

Investment idea—earnings to support rally: Although Samsung Electronics (SEC) and SK Hynix shares have rallied sooner than we initially anticipated, this rally should be backed by solid earnings growth. High-bandwidth memory (HBM) and commodity DRAM—both in sight supply—are unlikely to peak or experience oversupply before 1H26. Other factors to catalyze the ongoing rally include the final specifications of Nvidia's Rubin architecture, and a refined HBM4 roadmap, both of which are expected in October or November. We believe Hynix and SEC shares will keep moving in the same direction, and that time is on SEC's side in the long run. Instead of simply chasing near-term volatility, we recommend investors assess whether the stock prices adequately reflect next year's earnings growth. We maintain our BUY ratings on both companies and reiterate our target prices of KRW85,000 for SEC and KRW340,000 for Hynix.

SEC and SK surging: Hynix rose for a seventh consecutive trading day on Sep 10, reaching a 2-month high. This rally is being driven by: 1) expectations that the firm will gain a competitive edge over Micron in HBM4; and 2) a stronger-than-anticipated pricing trend for commodity DRAM. A decisive trigger was Oracle's surprisingly strong 1QFY26 results and its expanded investment plan—the firm hiked its FY26 capex guidance from USD25b to USD35b. Meanwhile, SEC shares made a fresh recent high, topping the level they reached on Jul 30. Investor sentiment appears to be shifting toward renewed expectations of large AI investments in 2026 and a resulting boost to memory sector earnings.

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Review of our previous forecast: Our original share-price outlook was as follows.

- First, we expected the AI data center cycle peak to be pushed back to 2026, leaving scope for at least one or two more rallies.
- Second, we had share prices remaining rangebound until Nvidia confirmed Rubin architecture specifications and until the HBM4 supplier lineup for 2026 became clear.
- Third, we noted that there is little merit in going long or short on SEC or Hynix while the stocks remain rangebound. We expected both stocks to continue to move in tandem for the time being.
- Thus, we thought a rally would begin in November, with small-cap and mid-cap plays remaining in the limelight until then.

What's changed? Overall, share-price movements have been largely in line with our forecasts, but the rally started earlier than we anticipated. Most importantly, commodity DRAM supply was tighter than expected, increasing the likelihood of DRAM and NAND price hikes in 4Q. Furthermore, we originally believed a prerequisite for a rally expected was a definitive HBM4 roadmap and conclusive evidence of HBM4 supplier qualification, but the market appears to be factoring in some of these expectations even before results of quality testing are announced. Last, from a top-down perspective, broader macroeconomic concerns are beginning to dissipate.

Commodity DRAM rally to continue: Many industry watchers originally expected commodity DRAM prices to slow or stagnate from 4Q following strong price hikes through 3Q. Now, however, price momentum appears likely to remain positive well into 4Q. Concerns about soft chip demand (resulting from strong tariff-rush shipments in 1H) and weak iPhone demand are easing. Supply risk from Chinese players remains limited for the time being. Moreover, memory chipmakers' inventories have fallen to low levels—a factor that should strengthen their position in price negotiations. We forecast that commodity DRAM ASPs will rise by around 10% in 3Q and 3% in 4Q. Such tight supply is likely to persist in 2026 thanks to chipmakers' conservative supply strategies—in 2026, SEC plans to increase memory capex by 7% y-y to KRW36t, and Hynix by 14% y-y to KRW30t. As for commodity DRAM, both chipmakers are likely to maintain only minimum levels of investment, focusing on technology migration.

MPE stocks soaring—are they overshooting? Korean materials, parts, and equipment (MPE) stocks surged for a second day running on Sep 10. We expect this momentum to continue. While commodity DRAM is likely to remain in strong demand, HBM demand is also rising once again. This strengthens the case for memory chipmakers to increase production capacity, positioning Korean MPE players as key beneficiaries and justifying expectations about upward revisions to earnings outlooks and valuations for these firms. In our view, Wonik IPS, Eugene Technology, and TES warrant investor attention. In particular, expectations for Wonik IPS should keep strengthening, as it also stands to benefit from SEC's foundry business.

Focus on high-beta equipment stocks: Typically, a stronger economy drives higher utilization rates, which boosts material demand, but we favor high-beta equipment companies. While an improving economy and increased utilization clearly benefit materials firms, chipmakers have historically been quick to ramp up production as soon as industry conditions improve. As a result, equipment companies experienced considerably stronger earnings momentum and higher beta during the ramp-up phase compared to their sector peers.

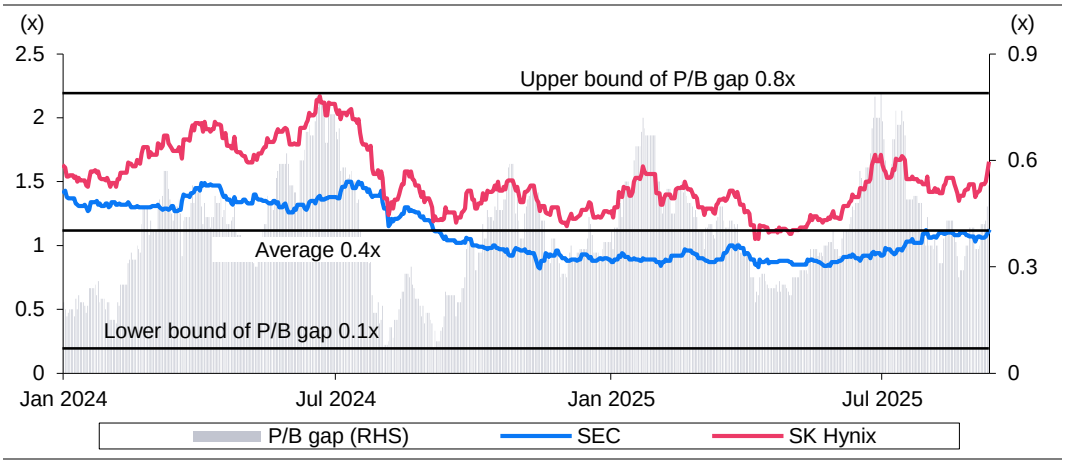
What remains unchanged in DRAM cycles: We believe the current cycle will be no different from past cycles in the following specified below. This leads us to conclude that DRAM industry conditions are unlikely to deteriorate at least before 1H26.

- Share price peaks are driven more by demand than by supply, with a slowdown in cloud companies' capex growth likely to be the trigger. No matter how much supply-side investments increase, share prices should be solid in the short term.
- In the end, competition will intensify and target profit margins on DRAM will gradually slope downward.
- Setting an optimistic target share-price multiple is risky. Earnings are the only dependable driver in the latter stages of the cycle.

New dynamics in this DRAM cycle: This cycle is likely to run longer than past ones, as the timing of intensified competition and volume expansion continue to be delayed.

- HBM is different from commodity DRAM. Price and volume are not necessarily the most important considerations in clients' choice of products. And for the same reason, technology laggards may find it hard to catch up.
- Although we expect commodity DRAM to remain in tight supply for a long time, no supplier is considering aggressive investments.

P/B gap: SEC vs SK Hynix



Source: QuantiWise, Samsung Securities

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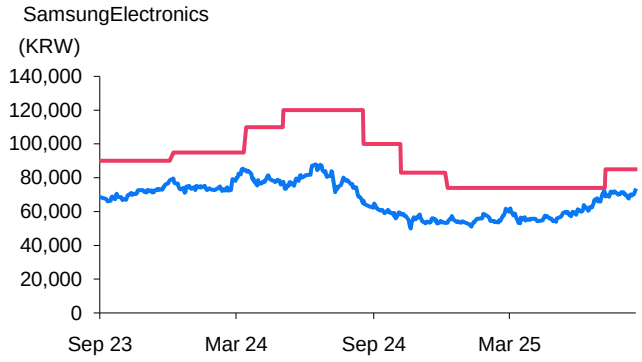
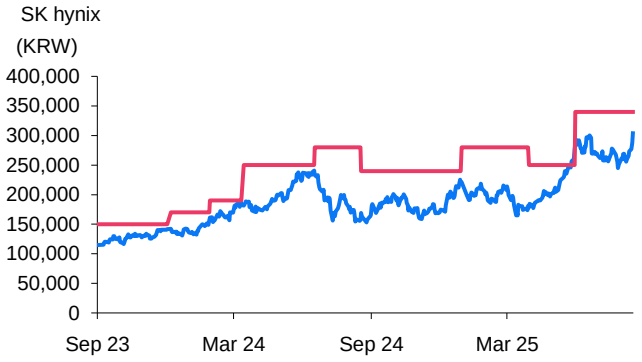
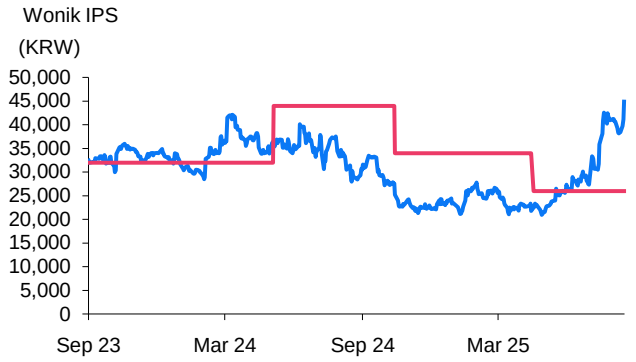
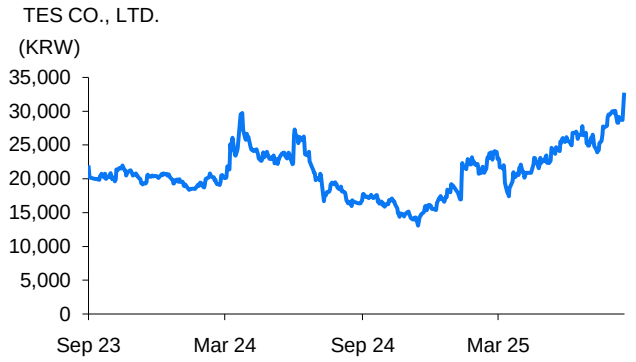
Target price changes in past two years









Rating changes over past two years (adjusted share prices)

SamsungElectronics									
Date	2023/7/27	2024/1/2	4/8	5/28	9/12	11/1	2025/1/2	8/1	
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	
Target price (KRW)	90000	95000	110000	120000	100000	83000	74000	85000	
Gap* (average)	-22.05	-20.74	-28.36	-34.45	-39.49	-33.92	-21.93		
(max or min)**	-12.78	-10.21	-23.55	-26.83	-35.30	-29.28	-1.89		
SK hynix									
Date	2023/6/19	2024/1/2	2/23	4/8	7/12	9/12	2025/1/24	4/24	6/25
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	150000	170000	190000	250000	280000	240000	280000	250000	340000
Gap* (average)	-18.20	-17.87	-10.86	-18.91	-34.15	-23.78	-30.26	-14.53	
(max or min)**	-5.67	-7.94	-1.05	-3.60	-16.79	-6.04	-21.96	11.40	
Wonik IPS									
Date	2023/2/23	2024/2/23	2024/5/30	11/8	2025/5/12				
Recommendation	HOLD	HOLD	BUY	HOLD	HOLD				
Target price (KRW)	32000	32000	44000	34000	26000				
Gap* (average)	1.46	13.12	-23.94	-30.32					
(max or min)**	17.97	31.56	-8.86	-18.24					
Eugene Technology Co., Ltd.									
Date	2025/9/11								
Recommendation	Not Rated								
Target price (KRW)	n/a								
Gap* (average)									
(max or min)**									
TES CO., LTD.									
Date	2025/9/11								
Recommendation	Not Rated								
Target price (KRW)	n/a								
Gap* (average)									
(max or min)**									

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
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* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

Percentage of ratings in 12 months prior to 2025.06.30

BUY(81.8%)·HOLD(18.2%)·SELL(0%)

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