SECTOR UPDATE

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Tech (OVERWEIGHT)

Uncertainty lies not in industry but in sentiment

- Memory chipmakers, which rallied sharply in 2H, are pulling back since Kioxia announced weaker-than-expected results on Nov 13.
- However, chip supply shortages are set to persist, and the share-price corrections should prove to be short-lived.

WHAT'S THE STORY?

Stock market correction triggered by Kioxia: Since announcing its 3Q results on Nov 13, Kioxia has tumbled 23.2%—sales and operating profit missed consensus by 2.7% and 9.4%, respectively, falling short of the market's elevated expectations. These results have dampened investor sentiment in AI memory companies, dragging down SanDisk (-14.2% d-d), Western Digital (-5.6% d-d), Samsung Electronics (SEC; -5.1% d-d), and SK Hynix (-6.7% d-d). At the same time, AI semiconductor names including Nvidia have also pulled back.

Supply of memory chips remains tight: During its 3Q earnings call, Kioxia reiterated expectations for an ongoing NAND market rebound and earnings growth. Major investment points remain intact: Continued demand from data centers and supply shortages in 2026, extension of contract periods, and acceleration of chip price hikes. A similar trend is being observed in the DRAM market. We believe commodity DRAM ASPs will grow 24% q-q in 4Q (vs +18% q-q previously) and 62% in 2026 (vs +47% previously). The DRAM market may face even greater bottlenecks than the NAND market, as: 1) the DRAM industry is suffering from a lack of cleanroom space; 2) HBM and commodity DRAM are exacerbating each other's supply shortages; and 3) DRAM customers are less sensitive to price.

Investor jitters, not industry conditions, behind correction: Investors feel uncomfortable due to overly optimistic earnings revisions and strong share-price rallies, which have led to lofty valuations. However, given industry conditions, we believe this correction will be short-lived. The valuation burden should gradually disappear if: 1) DRAM prices stay on an uptrend; and 2) the market reaches consensus that demand from data centers may be extended to end-2027. The real risk when investing in the cyclical industry is not when a strong rally faces a natural correction, but when prices fail to correct despite signals that warrant a correction.

(Continued on the next page)

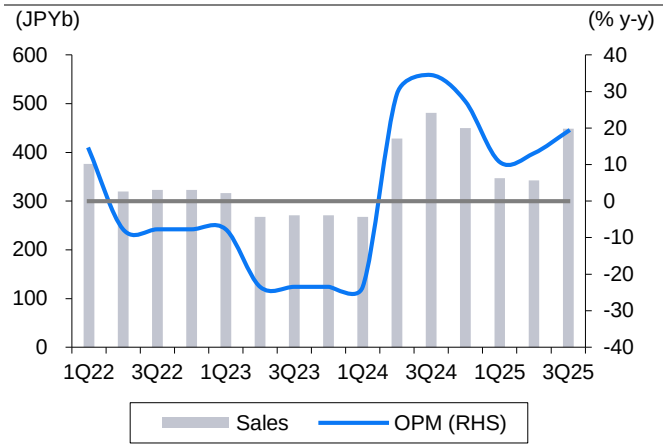
Stock market correction triggered by Kioxia

Kioxia announced its 2QFY26 results (fiscal year ends March) on Nov 13, reporting sales of JPY448.4b (+30% q-q) and an operating profit of JPY87.2b (+93% q-q). Although the operating profit exceeded the guidance provided three months ago, the shares dropped 23.2% d-d—sales and operating profit missed consensus by 2.7% and 9.4%, respectively, falling short of the market's elevated expectations. Furthermore, its 3QFY26 guidance was below the median of consensus.

Kioxia had become synonymous with the AI memory trade. The stock shot up 426.1% from July to its peak in November (Nov 12), reflecting NAND supply shortages and expectations of prolonged tightness in the market. But, the weaker-than-expected 3Q results and guidance triggered a sharp correction, hurting other AI memory stocks that had driven the broader tech rally—SanDisk (-14.2% d-d), Western Digital (-5.6% d-d), SEC (-5.1% d-d), and SK Hynix (-6.7% d-d). Investors began to revisit concerns they had set aside—the fading prospects for rate cuts, high AI-related capex (and potential over-investments), lofty valuations, and the overrepresentation of some stocks. At the same time, AI semiconductor names including Nvidia also experienced a correction.

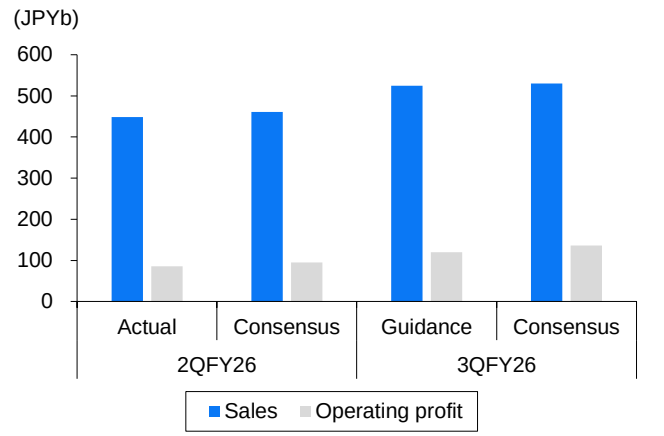
Considering the context, we feel it necessary to reassess whether the memory industry's fundamentals have materially changed. Over the past two weeks, SEC and SK Hynix have decreased a respective 16% and 1% from their recent highs.

Kioxia: Sales and operating profit margin



Note: Calendar year
Source: Bloomberg, Samsung Securities

Kioxia: Actual and guidance vs consensus



Source: Bloomberg, Samsung Securities

Supply of memory chips remains tight

Consensus has supply-demand imbalances for both DRAM and NAND continuing through 2026, even if forecasts differ on the pace of chip price increases. This suggests that ASP hikes could be priced in aggressively by the market, but any subsequent share-price corrections should prove short-lived.

During its earnings call, Kioxia reiterated expectations for an ongoing NAND market rebound and earnings growth. Major investment points remain intact: Sustained demand from data centers, supply shortages in 2026, and acceleration in chip price hikes. The ASP drop that pressured the stock stemmed from a temporary shift in product mix—not from a deterioration in market conditions. These are the key takeaways from its earnings call.

- 3QFY26 guidance points to record quarterly sales and operating profit.
- Negotiations are underway with some clients for chips that will be produced in 2027.
- High-speed SSD (to support AI retrieval-augmented generation interface workloads) should see greater demand.
- ASP drops in 2QFY26 stemmed from a seasonally-high sales portion of mobile-use chips. Its product mix should improve as the portion of data center-bound sales grows, which should happen from 4QFY26.

A similar trend is being observed in the DRAM market. The balance of power between chipmakers and clients has already shifted. With market watchers' 4Q ASP outlooks being revised up fast, we believe commodity DRAM ASPs will increase 24% q-q in 4Q (vs our previous forecast of +18% q-q). As a result, full-year ASP growth for commodity DRAM should reach 15% in 2025 and 62% in 2026.

- Chip price hikes in 4Q are already outpacing those seen in 3Q—prices remain on an upward trajectory.
- Negotiations are underway with some clients for chips that will be produced in 2027.
- Demand is rising for commodity DRAM (*eg*, GDDR, LPDDR) to power Agent AI inference applications.
- Cleanroom capacity shortages at SK Hynix and Micron should persist through 2027.
- Chipmakers' HBM product mix should start improving from 1Q26, driving up their ASPs.

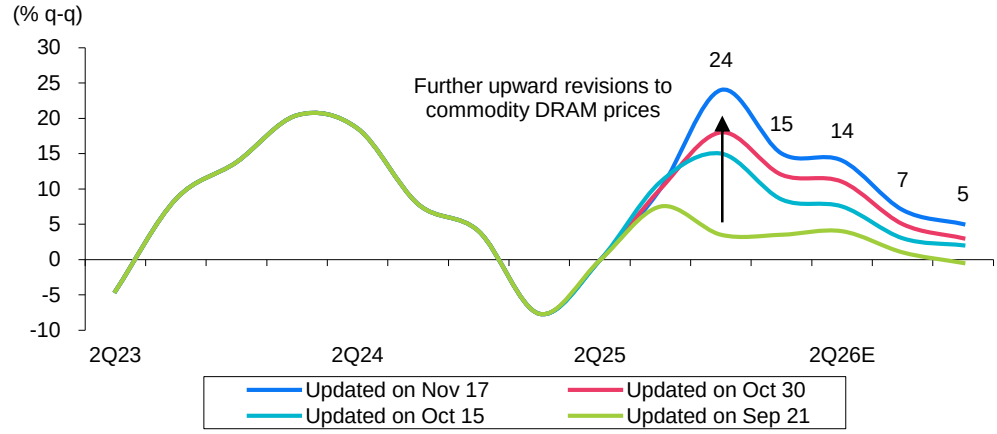
DRAM may face even greater bottlenecks than NAND for three reasons.

First, HBM and commodity DRAM are exacerbating each other's supply shortages. While NAND producers are expanding their SSD lineups to address demand from data centers, DRAM manufacturers remain focused on HBM expansions despite commodity DRAM shortages.

Second, the industry is suffering from a lack of cleanroom space, making aggressive capacity additions unfeasible until SK Hynix and Micron complete their new DRAM fabs (both expansions are expected to be completed in 2Q27).

Third, DRAM demand tends to be less sensitive to price increases vs that for NAND. The ratio of DRAM content to processors in systems is not easily reduced if DRAM prices rise.

Revised assumptions for quarterly DRAM price changes



Source: Samsung Securities estimates

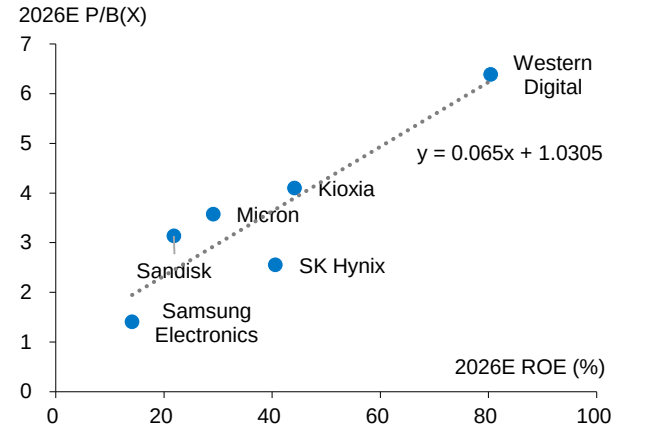
Investor jitters, not industry conditions, behind correction

Strong stock rallies and high earnings volatility have heightened investor unease. Kioxia's excessive share-price drop (considering its operating results), the decline in SanDisk's share price (which has nothing to do with the Japanese NAND manufacturer's results), and the reemergence of concerns about heavy AI-related capex and potential infrastructure overinvestments all suggest that the prevailing anxiety stems more from investor sentiment than from a change in underlying industry dynamics. Lofty valuations are also weighing on investor sentiment.

Indeed, stock market bubbles often arise from excessive confidence in industry conditions. From this perspective, the real risk in investing in the cyclical industry is not when a strong rally faces a natural correction, but when prices fail to correct despite warning signals that warrant such a correction. Investor caution following Kioxia's results, however, does not reflect such blind optimism. Instead, this correction could prove to be temporary. The valuation burden should gradually disappear if: 1) DRAM and NAND prices remain strong even after 1Q26; 2) the market reaches consensus that demand from data centers may be extended to end-2027, leading to upward earnings revisions.

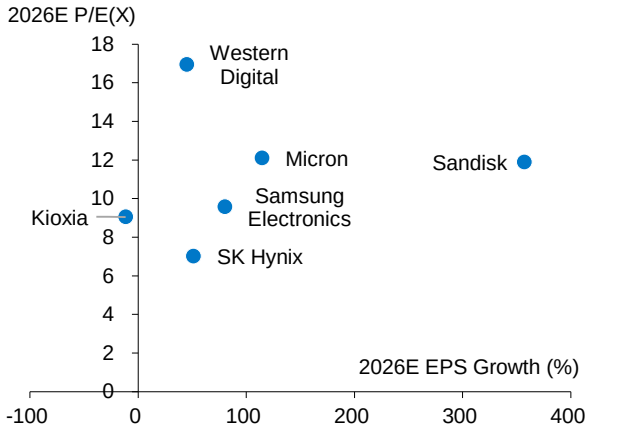
SEC and SK Hynix have experienced larger upward revisions to their earnings consensus but their shares have rallied lighter than shares in other AI and memory stocks. As memory has become the central bottleneck in data center infrastructure, competition to secure memory chips could heat up and continue for a long time. The resolution of this bottleneck ultimately depends on the production capacity of SEC and SK Hynix. We maintain our view that the current phase—rising confidence in demand growth amid limited supply growth—provides the most attractive risk-reward opportunity for these stocks.

Memory makers: Forward P/B vs ROE



Source: Bloomberg, Samsung Securities

Memory makers: Forward P/E vs EPS growth



Source: Bloomberg, Samsung Securities

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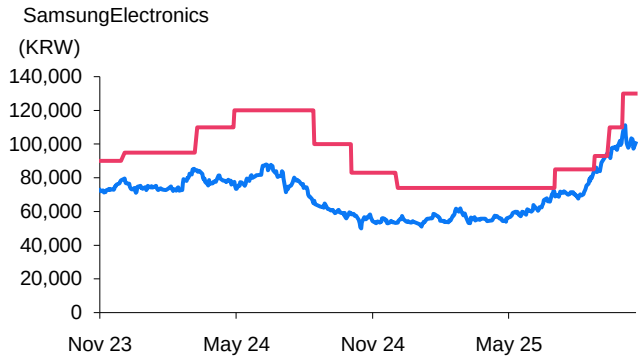

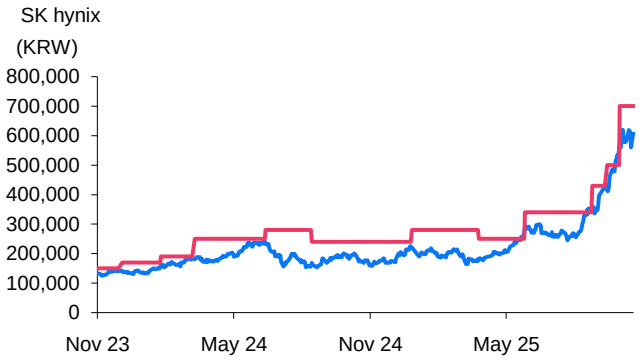

Rating changes over past two years (adjusted share prices)

Samsung Electronics												
Date	2023/7/27	2024/1/2	4/8	5/28	9/12	11/1	2025/1/2	8/1	9/23	10/13	10/31	
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	
Target price (KRW)	90000	95000	110000	120000	100000	83000	74000	85000	93000	110000	130000	
Gap* (average)	-22.05	-20.74	-28.36	-34.45	-39.49	-33.92	-21.93	-15.05	-6.95	-10.64		
(max or min)**	-12.78	-10.21	-23.55	-26.83	-35.30	-29.28	-1.89	-1.76	1.51	-5.36		
SK Hynix												
Date	2023/6/19	2024/1/2	2/23	4/8	7/12	9/12	2025/1/24	4/24	6/25	9/23	10/13	10/30
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	150000	170000	190000	250000	280000	240000	280000	250000	340000	430000	500000	700000
Gap* (average)	-18.20	-17.87	-10.86	-18.91	-34.15	-23.78	-30.26	-14.53	-17.52	-14.81	-3.33	
(max or min)**	-5.67	-7.94	-1.05	-3.60	-16.79	-6.04	-21.96	11.40	3.82	-0.47	11.60	

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 2025.09.30

BUY (83.5%)·HOLD (16.5%)·SELL (0%)

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