SECTOR
UPDATE

2026. 1. 2

Tech Team

Jongwook Lee
Team Leader
jwstar.lee@samsung.com

Kyoungbeen Kim
Research Associate
kyoungbeen.kim@samsung.com

▶ AT A GLANCE

Samsung Electronics (005930 KS, 119,900)		
Target price	KRW140,000	16.8%
BUY		
SK Hynix (000660 KS, 651,000)		
Target price	KRW750,000	15.2%
BUY		

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Tech (OVERWEIGHT)

Memory in 2026: Separating signal from noise

- Computing demand is accelerating as AI applications broaden.
- AI bubble risk is a matter of when, not if; we do not expect it to surface before 2028.
- Market-share recovery in 2026 is the key investment thesis; we favor Samsung Electronics.

WHAT'S THE STORY?

AI bubble risk—A matter of when, not if: As reflected in the scale of investment by cloud services companies and statements from AI leaders, realizing AI's full potential requires massive infrastructure spending. Ultimately. however, returns on that infrastructure must be proven. Infrastructure providers that fail to generate adequate ROI could collapse as a result. Yet, in our view, the critical question is not whether this will happen, but when. We outline several scenarios to assess when ROI is likely to start to count.

- Scaling will remain the priority ahead of OpenAI's IPO; post-IPO, ROI considerations should move to the forefront.
- ROI visibility is likely to emerge in roughly three years, once AI data center funds have fully deployed servers; prior to that, meaningful assessment will be difficult.
- Until the chip shortage is resolved—likely not before 2027—first-mover advantage should dominate; thereafter, balanced supply-demand conditions at reasonable pricing will matter more.
- In a falling interest-rate environment, scale is paramount; when rates are rising, ROI becomes the key focus.

Accordingly, we see limited risk that profitability concerns around current AI infrastructure will surface in 2026.

(Continued on the next page)

Samsung Electronics—capacity becoming more valuable: To date, having a technological edge in high-bandwidth memory (HBM)has been the profitability differentiator, leaving players with ample capacity but weaker technology struggling to grow. But this dynamic is shifting. HBM technology is becoming more standardized, and even conventional DRAM products such as LPDDR and GDDR are increasingly used in AI workloads. As a result, pure technological advantage is narrowing, and companies with strong technology but insufficient capacity may become the ones to face growth constraints.

We do not downplay the importance of technology. In memory semiconductors, both technological competitiveness and capital strength (and therefore capacity) are essential. The downfall of major Japanese and Taiwanese memory producers was not due to technological inferiority alone, and the rise of China's CXMT is not driven solely by technology.

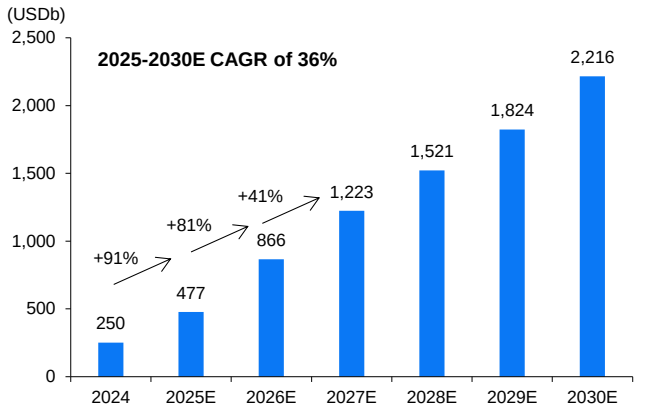
We expect Samsung Electronics (SEC) to regain market share in HBM and to benefit from capacity expansion in conventional DRAM. In foundry, we see 2026 as a potential inflection point for market-share recovery. In a capital-intensive industry, higher volumes translate into greater operating leverage. This fact underpins our preference for SEC in 2026.

AI demand—Acceleration inevitable: The surge in LLM and AI demand that began in 2023 shows no sign of abating. Recent disclosures from Google on token usage suggest t growth is accelerating. The fundamental driver is the expanding range of applications. Video generation and processing typically requires more than 50c the compute of text. In agentic AI architectures, a single user prompt may trigger multiple sequential LLM calls, often 5-20. Reasoning-focused models generally require 2-10x more compute time and processing power (FLOPS) than standard LLMs for comparable tasks. Physical AI systems, which integrate sensor data with real-time control of physical actuators, can requires more than 10x the compute of today's typical LLM workloads. In 2026, the key questions will be whether agentic AI gains traction in enterprise workflows, whether physical AI creates meaningful demand, and whether LLM usage scales materially into image and video domains.

Structural differences between cloud and memory industries: The cloud and memory semiconductor industries exhibit distinct investment cycles. A look at capex-to-operating cashflow ratios shows that cloud services providers typically pursue profit growth through aggressive, front-loaded capex when new demand emerges. As the cycle matures, incremental capex moderates while incremental earnings continue to rise. By contrast, memory manufacturers now largely avoid truly preemptive investment, increasing capex only after higher memory prices have locked in acceptable returns. Over the course of the cycle, incremental earnings growth for memory makers tapers while incremental investment rises. For cloud companies, the latter half of the cycle is characterized by incremental earnings exceeding incremental investment; for memory manufacturers the latter half of the cycle is when incremental investment starts to outstrip incremental earnings growth. By this definition, the memory industry has not yet fully entered the latter half of the current cycle.

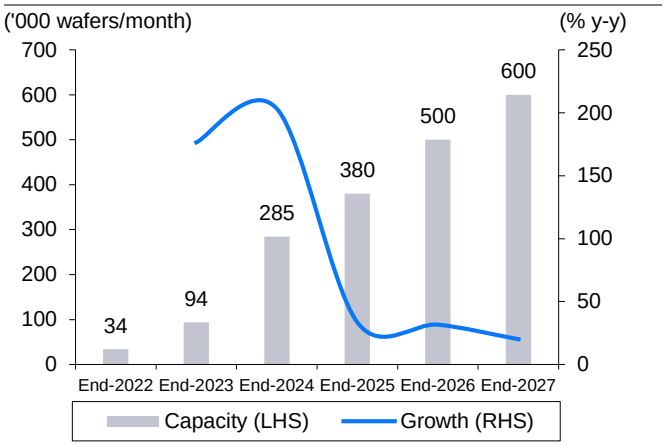
Key watchpoints for 2026: Potential stagnation in physical AI adoption, alongside shifts in funding rates for AI data centers and AI startups, represent key risks to memory demand. These factors could drive downward revisions to shipments or bit-growth forecasts. We also see a meaningful risk of a share-price correction around 2Q26, when it may be too early to price in 2027 earnings, and when the pace of memory ASP increases is likely to slow. Such moderation in memory price growth would not necessarily signal a cycle peak, but rather a transition from sharp earnings volatility to a more stable earnings environment. Beyond 2026, the pace of capacity expansion is likely to become the primary driver of earnings growth for memory manufacturers.

AI data center capex



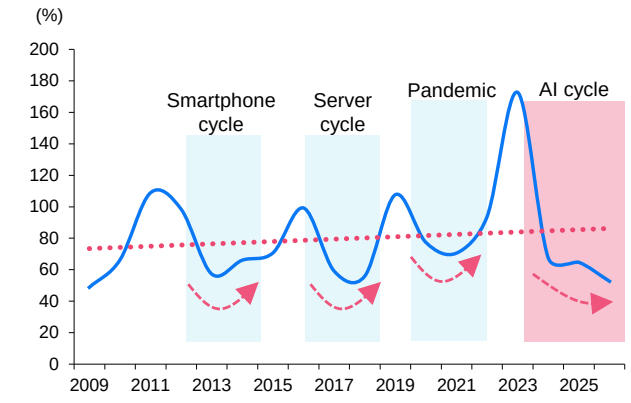
Note: Based on the big-four tech firms, Stargate, OpenAI's data center projects, and neocloud companies
Source: Samsung Securities estimates

Industry: HBM capacity



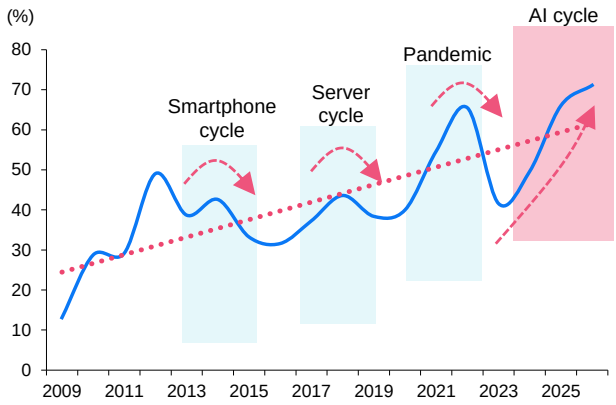
Source: Samsung Securities estimates

Memory semiconductor firms: Capex-to-OCF ratio



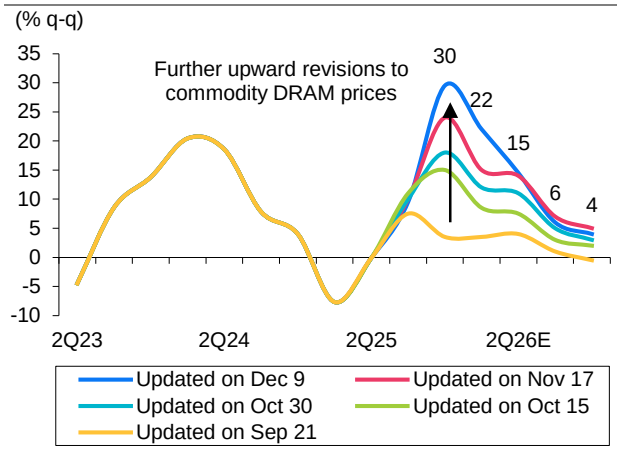
Note: Based on Samsung Electronics, SK Hynix, Micron, and TSMC
Source: Bloomberg, Samsung Securities

AI cloud firms: Capex-to-OCF ratio



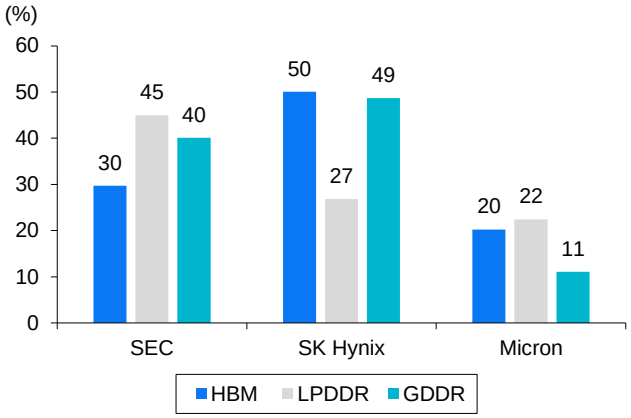
Note: Based on Amazon, Microsoft, Google, and Meta
Source: Bloomberg, Samsung Securities

DRAM ASP growth (quarterly)



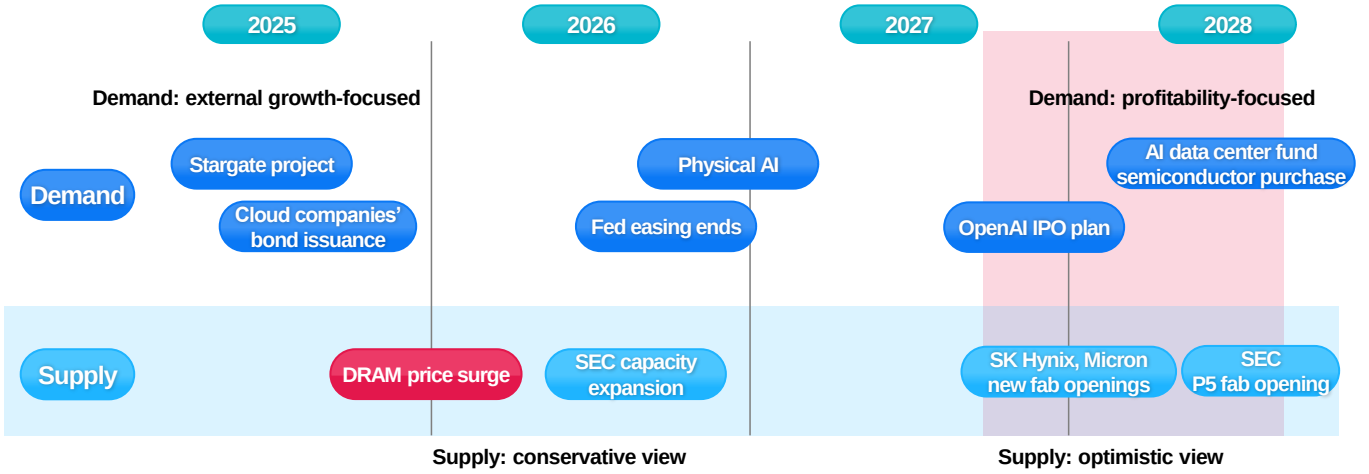
Source: Samsung Securities estimates

Chipmakers: Market shares in HBM, LPDDR, and GDDR



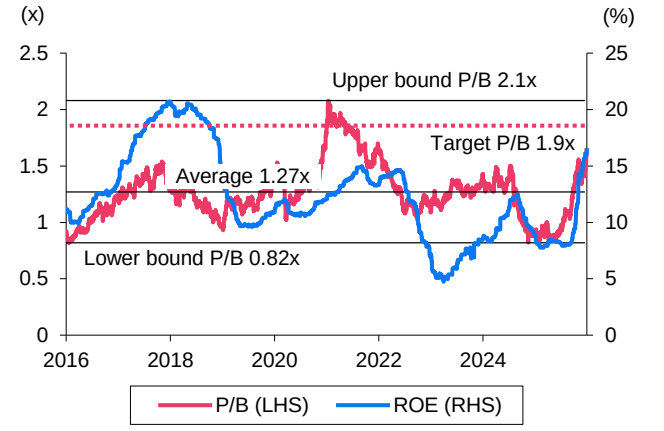
Source: Samsung Securities estimates

Risks to concentrate over next 3-4 years



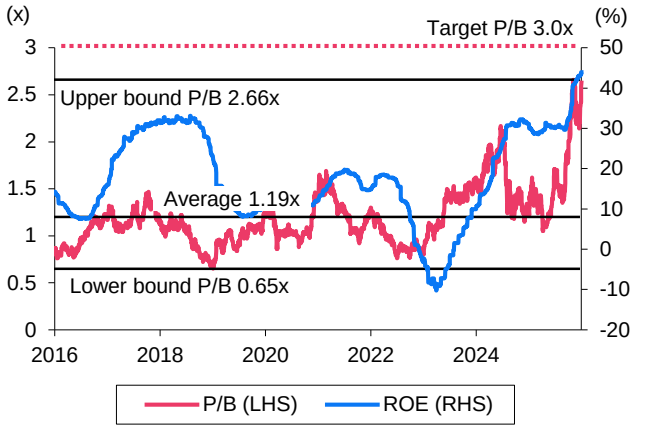
Source: Samsung Securities

Samsung Electronics: Forward P/B vs ROE



Source: QuantiWise, Samsung Securities

SK Hynix: Forward P/B vs ROE



Source: QuantiWise, Samsung Securities

Samsung Electronics: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	2024	2025E	2026E
Sales	**79,048**	**74,598**	**86,829**	**87,569**	**99,043**	**102,550**	**107,955**	**109,358**	**300,866**	**328,044**	**418,906**
Chg (% y-y)	9.9	0.7	9.8	15.5	25.3	37.5	24.3	24.9	12.4	13.4	14.4
Semiconductor	25,125	27,888	32,590	40,394	46,146	52,484	56,846	59,289	111,591	126,273	215,115
DRAM	13,168	14,215	18,081	24,699	28,990	33,844	36,909	38,925	54,227	70,164	138,667
NAND	5,936	6,990	8,161	9,029	10,412	11,531	12,969	12,382	30,958	30,116	47,294
Foundry & LSI	6,021	6,682	6,348	6,666	6,744	7,110	6,968	7,982	26,510	25,718	28,804
Display	5,900	6,400	8,100	10,125	6,815	7,392	8,505	9,340	29,133	30,525	32,051
Telecom & Handset	36,938	29,228	34,107	24,508	33,435	30,390	30,068	27,503	117,233	124,781	121,397
CE and Harman	17,923	17,882	18,031	18,542	18,648	18,284	18,536	19,226	70,678	72,378	74,694
Operating profit	**6,685**	**4,726**	**11,840**	**16,866**	**19,654**	**22,609**	**25,161**	**26,135**	**32,726**	**40,117**	**93,558**
Semiconductor	1,122	411	6,696	12,414	15,533	19,184	21,424	21,137	15,117	20,643	77,278
DRAM	3,675	3,242	6,984	12,274	14,934	18,194	19,844	20,413	16,720	26,175	73,385
NAND	-265	-249	163	813	1,145	1,672	2,075	1,610	3,837	462	6,502
Foundry & LSI	-2,288	-2,582	-451	-673	-546	-683	-495	-886	-5,440	-5,994	-2,610
Display	483	506	1,231	2,025	806	658	1,123	1,728	3,761	4,244	4,314
Telecom & Handset	4,324	3,106	3,598	2,055	2,645	2,050	2,297	2,819	10,695	13,083	9,810
CE and Harman	671	703	315	372	671	717	317	451	3,058	2,062	2,156
Operating margin (%)	**8.5**	**6.3**	**13.6**	**19.3**	**19.8**	**22.0**	**23.3**	**23.9**	**10.9**	**12.2**	**22.3**
Semiconductor	4.5	1.5	20.5	30.7	33.7	36.6	37.7	35.7	13.5	16.3	35.9
DRAM	27.9	22.8	38.6	49.7	51.5	53.8	53.8	52.4	30.8	37.3	52.9
NAND	-4.9	-3.9	0.0	0.6	4.0	7.0	5.0	-4.4	12.3	1.5	13.7
Foundry & LSI	-38.0	-38.6	-7.1	-10.1	-8.1	-9.6	-7.1	-11.1	-20.5	-23.3	-9.1
Display	8.2	7.9	15.2	20.0	11.8	8.9	13.2	18.5	12.9	13.9	13.5
Telecom & Handset	11.7	10.6	10.5	8.4	7.9	6.7	7.6	10.2	9.1	10.5	8.1
CE and Harman	3.7	3.9	1.7	2.0	3.6	3.9	1.7	2.3	4.3	2.8	2.9
Assumptions for bit growth and ASP changes											
DRAM bit growth (% q-q)	1.5	11.5	13.1	3.6	-2.5	6.6	3.8	0.9	12.8	8.1	16.7
DRAM ASP chg (% q-q)	-19.5	1.9	11.9	31.6	19.3	12.2	5.8	6.1	65.3	16.9	73.5
NAND bit growth (% q-q)	-12.4	27.7	10.1	-8.0	2.0	7.0	10.0	2.0	15.1	0.4	17.9
NAND ASP chg (% q-q)	-13.7	-2.5	1.5	4.0	2.0	1.0	-1.0	-10.0	43.6	-5.6	37.2

Source: Company data, Samsung Securities estimates

SK Hynix: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	2024	2025E	2026E
Sales	**17,639**	**22,232**	**24,449**	**29,819**	**33,851**	**38,145**	**42,161**	**42,926**	**66,193**	**94,139**	**157,083**
Chg (% y-y)	42	35	39	51	92	72	72	44	102	42	67
DRAM	13,980	16,903	19,389	23,294	26,814	30,466	33,616	34,756	44,641	73,566	125,652
NAND and other	3,659	5,329	5,060	6,526	7,037	7,679	8,545	8,170	21,552	20,574	31,432
Operating profit	**7,441**	**9,213**	**11,243**	**14,794**	**17,718**	**20,570**	**22,944**	**22,815**	**23,467**	**42,691**	**84,048**
DRAM	7,412	9,212	11,466	13,961	16,424	18,913	21,133	21,641	20,856	42,051	78,111
NAND and other	29	1	-223	834	1,294	1,657	1,811	1,174	2,612	640	5,937
Operating margin (%)	**42.2**	**41.4**	**46.0**	**49.6**	**52.3**	**53.9**	**54.4**	**53.1**	**35.5**	**45.3**	**53.5**
DRAM	53.0	54.5	59.1	59.9	61.3	62.1	62.9	62.3	46.7	57.2	62.2
NAND and other	0.8	0.0	-4.4	12.8	18.4	21.6	21.2	14.4	12.1	3.1	18.9
Assumptions for bit growth and ASP changes											
DRAM bit growth	-7.5	26.0	8.3	0.6	-2.2	5.2	4.3	1.0	16.9	24.8	14.5
DRAM ASP change	0.5	1.0	5.3	19.1	16.6	9.8	7.3	3.9	-54.9	29.5	52.5
NAND bit growth	-19.0	70.0	-6.0	2.0	-2.0	5.0	10.0	2.0	-1.5	4.7	18.1
NAND ASP change	-22.0	-9.0	11.0	20.0	12.0	6.0	3.0	-5.0	89.9	-13.9	37.5

Source: Company data, Samsung Securities estimates

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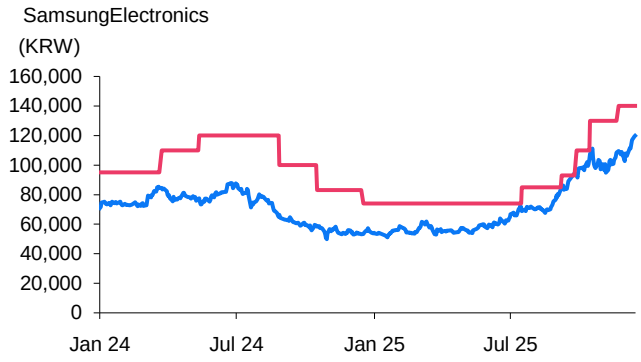
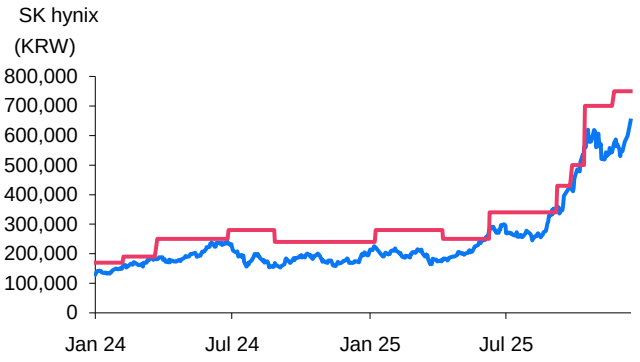
Target price changes in past two years





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	12/8
Recommendation	BUY	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	140000
Gap* (average)	-22.05	-20.74	-28.36	-34.45	-39.49	-33.92	-21.93	-15.05	-6.95	-10.64	-21.96	
(max or min)**	-12.78	-10.21	-23.55	-26.83	-35.30	-29.28	-1.89	-1.76	1.51	-5.36	-14.54	

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)												
(max or min)**												

Date	12/8											
Recommendation	BUY											
Target price (KRW)	750000											
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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Company

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HOLD	Expected to increase/decrease in value by less than 15% within 12 months
SELL	Expected to decrease in value by 15% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

* 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 2025.12.31

BUY (83.5%)·HOLD (16.5%)·SELL (0%)

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Samsung Securities

SAMSUNG SECURITIES

Samsung Electronics Bldg., 11, 74-gil,
Seochodae-ro, Seocho-gu, Seoul, Korea 06620
Tel: 02 2020 8000 / www.samsungpop.com

Family Center: 1588 2323

Voice Of Customer: 080 911 0900

For more information,
please call our sales representatives:

LONDON

Samsung Securities Europe Limited
1st Floor, 30 Gresham Street, London EC2V 7PG UK
Tel. 44-207-776-4311
Fax. 44-203-837-9219

NEW YORK

Samsung Securities America Limited
1330 Avenue of the Americas. 10th Floor. New York,
NY 10019
Tel: 1-212-972-2454
Fax: 1-212-972-2704

HONG KONG

Samsung Securities (Asia) Limited
Suite 4511, Two International Finance Center,
8 Finance Street, Central, Hong Kong
Tel: 852-3411-3608
Fax: 852-2114-0290

BEIJING

Samsung Securities Beijing Representative Office
Rm. 910, The Exchange Building No 118 JianGuo Lu, Chao
Yang District, Beijing, China
Tel: 86-10-6522-1855 (extension 7891)
Fax: 86-10-6522-1855 (extension 7889)

TOKYO

Samsung Securities Tokyo Representative Office
#106-8532 19F, Roppongi T-Cube 3-1-1,
Roppongi Minato-ku Tokyo, Japan
Tel: 81-3-6333-2952
Fax: 81-3-6333-2953

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