SECTOR UPDATE

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Tech (OVERWEIGHT)

Path slippery, but cycle remains intact

- On Jul 13, Samsung Electronics (SEC), SK Hynix, and semiconductor materials, parts, and equipment stocks all fell sharply in tandem. However, it is crucial to distinguish heightened market volatility from a genuine cycle peak.
- The AI investment narrative remains intact, the semiconductor supply cycle is still in its early stages, and initial volatility surrounding Hynix's ADR premium should gradually subside.
- Memory chipmakers' valuations have returned to March levels and are approaching what we view as the bottom of this correction. We consider SEC's 1.8x P/B and Hynix's 2.5x P/B of 2.5x as near-term valuation floors and believe the correction is nearing its end.
- Higher short-term volatility must now be accepted as a structural feature of the market. Once volatility-related noise is stripped out, the distinction between a cyclical correction and a genuine cycle peak becomes clearer.

WHAT'S THE STORY?

A historic sell-off

On Jul 13, Samsung Electronics (SEC), SK Hynix, and Korea's semiconductor materials, parts, and equipment stocks all fell sharply in tandem. Hynix plunged 15.4%, its largest one-day decline since Oct 2008 (during the global financial crisis)—and its steepest in 17 years. SEC fell 10.7%, Samsung Electro-Mechanics 18.6%, and LG Innotek 11.3%. Selling was initially triggered by the disconnect between Hynix's ADR and domestic share prices, prompting a wave of profit-taking. As intraday losses deepened, panic selling intensified. Risk-off sentiment amid escalating tensions in Iran and mounting concerns over Hynix's 2Q earnings outlook compounded the decline.

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Fooled by volatility

The acceleration of intraday losses into panic selling was amplified by the growing use of leveraged products. The expansion of leveraged ETF positions and the listing of ADRs have increased price volatility. However, these are structural changes in market mechanics, not evidence of a fundamental shift in the memory semiconductor cycle.

The relationship between memory industry fundamentals and share prices remains unchanged. Rallies, corrections, and recoveries may now be sharper, but a large correction alone does not signal the end of the cycle. The path has simply become more slippery. The cycle's underlying dynamics have not fundamentally altered.

The AI investment narrative remains unchanged

Despite the sharp sell-off in memory semiconductor stocks, there is no evidence that AI infrastructure investment is slowing. On the contrary: Meta Platforms on Jul 13 announced plans to increase investment in its Hyperion data center in Louisiana from USD27b to more than USD50b. The facility's planned capacity is also set to rise to 5 GW, making it Meta's largest data center to date.

Long-term semiconductor investment is moving in the same direction. On Jul 9, Micron Technology announced plans to invest USD250b in the US through 2035, with the goal of producing 40% of its DRAM output domestically within the next decade. Intel also announced an AI-focused investment of USD5.7b in Ireland and elsewhere. These investments indicate that semiconductor suppliers are beginning to align their long-term capacity plans with sustained demand from AI customers.

Market confidence in funding remains intact. Alphabet's recent equity offering was heavily oversubscribed, while Berkshire Hathaway committed USD10b. In our view, the key to ending the current market correction will be greater clarity on hyperscalers' 2027 capex plans in their late-July 2Q earnings releases.

ADR premium to narrow

On Jul 13, Hynix's domestic shares fell sharply, while its ADRs declined just 9.2%. As a result, the ADR premium widened from around 14% to more than 27%. However, we expect the premium to narrow over time.

Three factors support this view. First, TSMC, whose ADRs are subject to conversion restrictions, has historically traded at a premium of no more than 20%. Second, other Korean ADRs listed in the US trade at no premium, indicating that conversion restrictions alone do not create one; a premium is sustained only when demand for US-listed ADRs is strong. Third, Hynix has registered ADS capacity equivalent to 25% of its outstanding shares with the US SEC. Excluding the recent offering, which accounted for approximately 2.5%pts, capacity equivalent to another 22.5%pts remains available. As these convertible shares are gradually released into the market, the scarcity premium should dissipate.

We therefore expect Hynix's ADR premium to converge toward a level between those of other Korean ADRs, which trade at no premium, and TSMC's ADRs, which trade at a 15–20% premium. It will likely settle below TSMC's level.

LTAs—A double-edged sword

Concerns over Hynix's earnings have emerged this quarter, prompting investors to recognize the dual nature of long-term agreements (LTAs). LTAs enhance earnings visibility and support rerating, but they come at a cost: during industry upturns, they limit memory chipmakers' earnings upside.

LTAs reduce uncertainty over future DRAM prices and shipment volumes, improving earnings visibility and supporting rerating. However, this predictability requires mutual concessions: memory suppliers forgo some margin upside during upturns, while hyperscale customers absorb greater pricing pressure during downturns. In effect, the downside protection provided during downturns is paid for through lower profits in upturns. Investors typically want both earnings upside and a rerating narrative, but this quarter has underscored that a company cannot maximize both simultaneously.

The timing of supply expansion—A critical inflection point

We view the start of new fab ramp-ups as a key turning point in memory chipmakers' share-price cycles. Although new capacity does not immediately translate into oversupply, valuation dynamics shift materially once the market moves from tight supply toward a more uncertain demand-supply balance. In the current cycle, we expect the rally to continue through 2Q27, when meaningful supply expansion is set to begin. Thereafter, the stocks are likely to trade sideways.

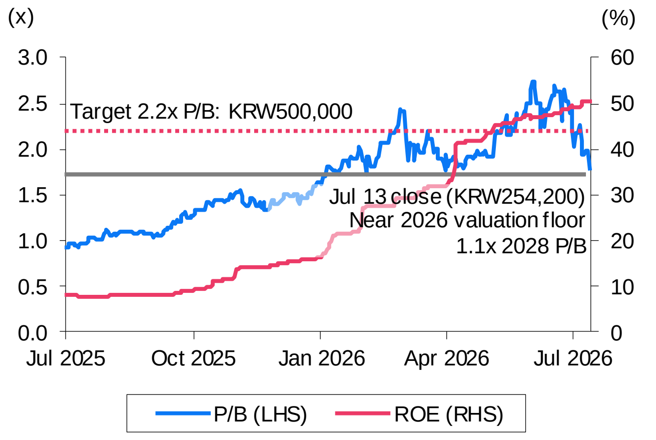
The acceleration of future capacity plans is particularly notable. Even before the 2027 fabs become operational, industry leaders are bringing forward their 2029 expansion plans. SEC has moved the launch of its Yongin semiconductor cluster from 2030 to 2029 and brought forward its Pyeongtaek P5-2 fab to 2029. Hynix is similarly accelerating the ramp-up of its Y2 fab to late-2028 or 2029. These moves reflect strong confidence in long-term demand. The urgency stems from cloud providers' increasingly long-term memory procurement cycles, with LTAs now extending for three to five years and signaling sustained, large-scale investment in AI infrastructure. It is unreasonable to assume that this momentum will reverse within a year. Against this backdrop, we recommend holding through near-term volatility, believing the market upturn remains intact.

Valuations return to March levels

The recent correction has brought SEC's P/B back to 1.8x and Hynix's to 2.5x—levels that have repeatedly provided support since 2025 and that we view as the floor for this cycle. As of Jul 13, the stocks were trading at 1.78x and 2.45x P/B, respectively, effectively testing these floors. As long as investor confidence in the AI-driven memory demand cycle remains intact, we believe these levels should provide reliable support, suggesting that the correction is nearing an end.

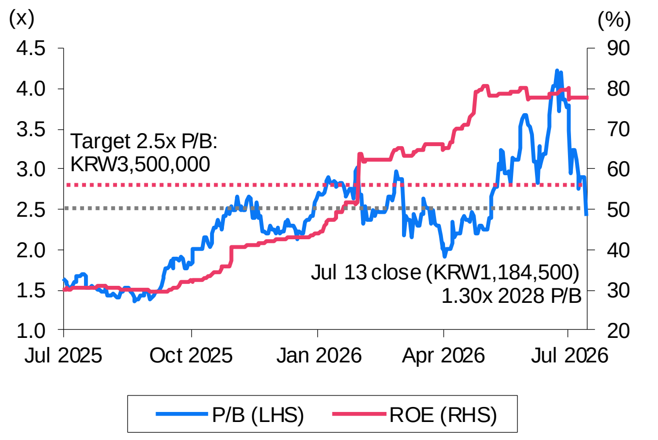
Near-term volatility has intensified and is likely to remain elevated, with both rallies and corrections becoming more pronounced. Volatility is no longer an outlier but a structural feature of this cycle. Once the volatility-related noise is stripped out, this appears not to be a cycle peak but rather a healthy correction within an ongoing upswing.

Samsung Electronics: P/B vs ROE



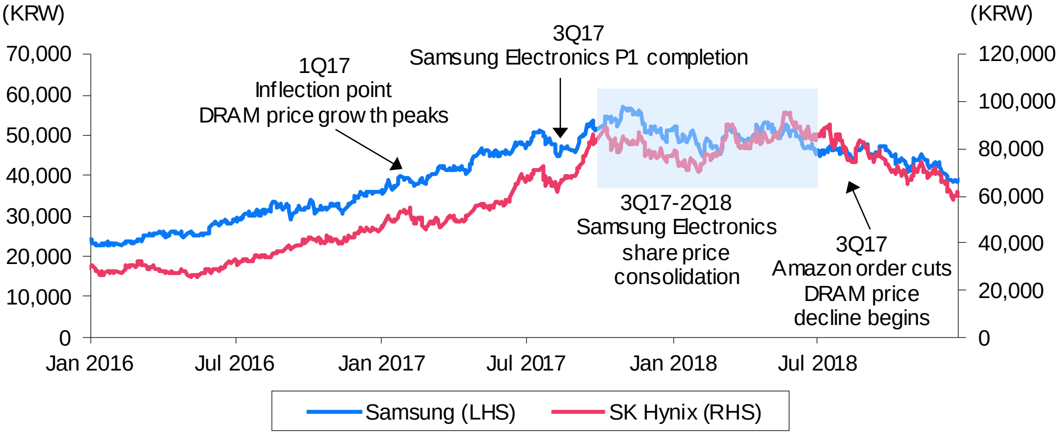
Source: QuantiWise, Samsung Securities estimates

SK Hynix: P/B vs ROE



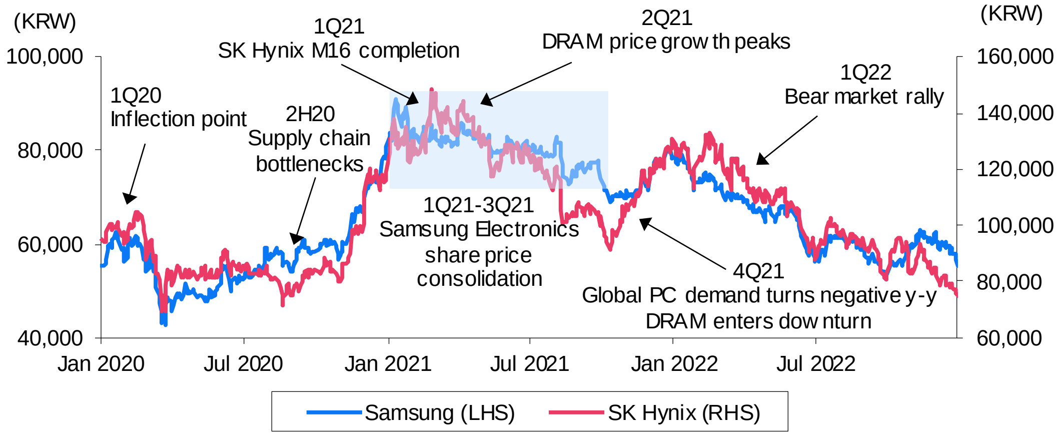
Source: QuantiWise, Samsung Securities estimates

2016-2018 cycle analysis: Post-fab expansion, demand slowdown



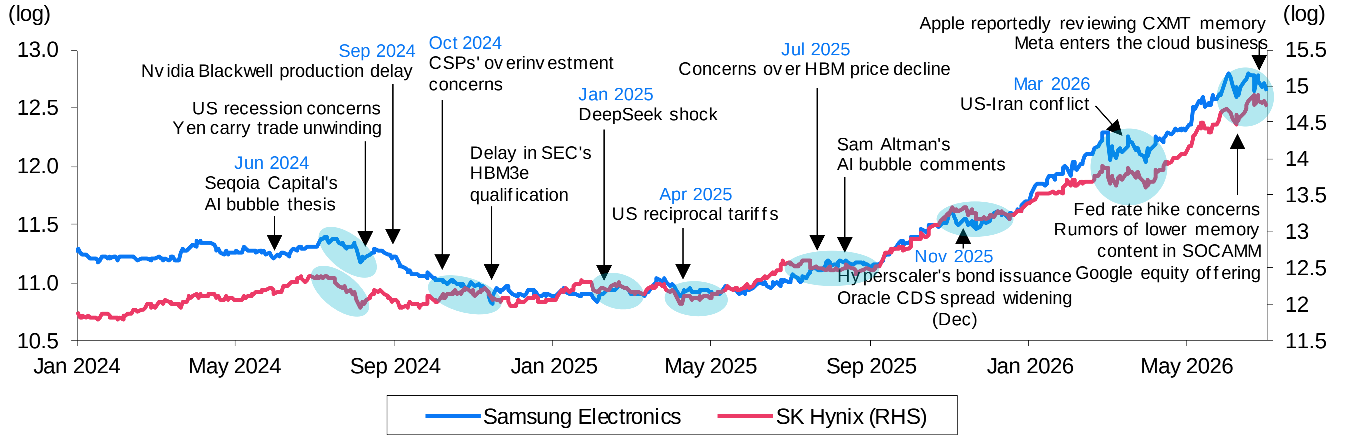
Source: QuantiWise, Samsung Securities

2020-2022 cycle analysis: Post-fab expansion, demand slowdown



Source: QuantiWise, Samsung Securities

Samsung Electronics and SK Hynix: Share-price correction history (since 2024)



Source: QuantiWise, Samsung Securities

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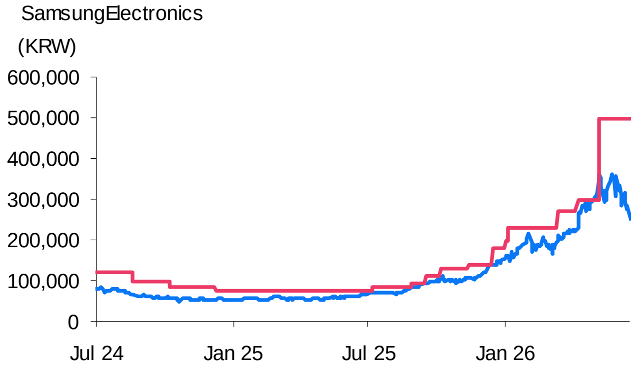
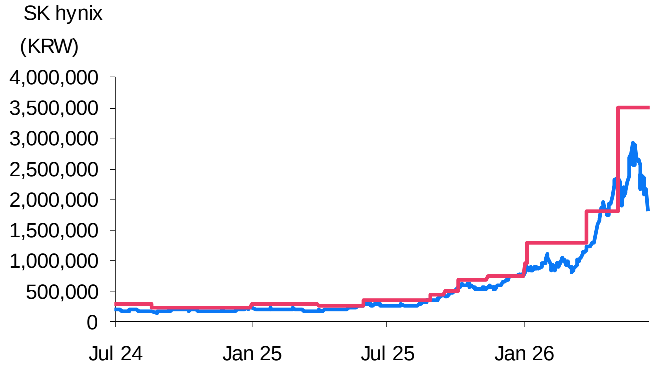
Target price changes in past two years





Rating changes over past two years (adjusted share prices)

Samsung Electronics

Date	2024/5/28	9/12	11/1	2025/1/2	8/1	9/23	10/13	10/31	12/8	2026/1/9	1/27	1/30
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	120000	100000	83000	74000	85000	93000	110000	130000	140000	180000	200000	230000
Gap* (average)	-34.45	-39.49	-33.92	-21.93	-15.05	-6.95	-10.64	-21.96	-16.54	-18.69	-19.23	-19.75
(max or min)**	-26.83	-35.30	-29.28	-1.89	-1.76	1.51	-5.36	-14.54	0.71	-15.39	-18.80	-5.22

Date	4/7	5/4	6/2
Recommendation	BUY	BUY	BUY
Target price (KRW)	270000	300000	500000
Gap* (average)	-20.25	-3.39	
(max or min)**	-16.30	16.33	

SK Hynix

Date	2024/7/12	9/12	2025/1/24	4/24	6/25	9/23	10/13	10/30	12/8	2026/1/27	1/30	4/21
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	280000	240000	280000	250000	340000	430000	500000	700000	750000	950000	1300000	1800000
Gap* (average)	-34.15	-23.78	-30.26	-14.53	-17.52	-14.81	-3.33	-19.05	-11.48	-10.42	-26.68	-3.42
(max or min)**	-16.79	-6.04	-21.96	11.40	3.82	-0.47	11.60	-11.43	2.27	-9.37	-10.31	31.28

Date	6/2
Recommendation	BUY
Target price (KRW)	3500000
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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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
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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 2026.06.30

BUY (85.5%)·HOLD (14.5%)·SELL (0%)

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