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UPDATE

June 8, 2026 06:15 AM GMT

Semiconductor Production Equipment | Japan

Taiwan Visit Takeaways

We attended the AI Summit in Taipei on May 28–29 and Computex on Jun 2–5. Key takeaways were as follows.

Key Takeaways

- Interest in SPE appears more subdued compared with the strong momentum seen in late 2025 to early 2026.
- That said, compared with three months ago when concerns around memory cycle sustainability rose on the back of spot price declines, we heard limited pessimism on the memory cycle through 2027.
- Investor meetings showed strong interest in Kokusai, Lasertec, and Advantest; we recently made Advantest our Top Pick.
- Through Computex, etc., we reconfirmed memory demand expansion driven by agentic AI, as well as growing focus on co-packaged optics (CPO) as the next technical bottleneck.

Investor stance on SPE appears more balanced versus late 2025 to early 2026. With spot prices turning upward again, our impression is that investor conviction in the sustainability of the memory cycle has increased. Memory shortages could persist for the next 2-3 years, and with advanced logic investment remaining strong, front-end wafer process names should continue to see major benefits. In back-end processes, we believe CPO would become one of the major topics from 2027–2028 onward and focus on potential upside for Advantest in testing.

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SEMICONDUCTOR PRODUCTION EQUIPMENT

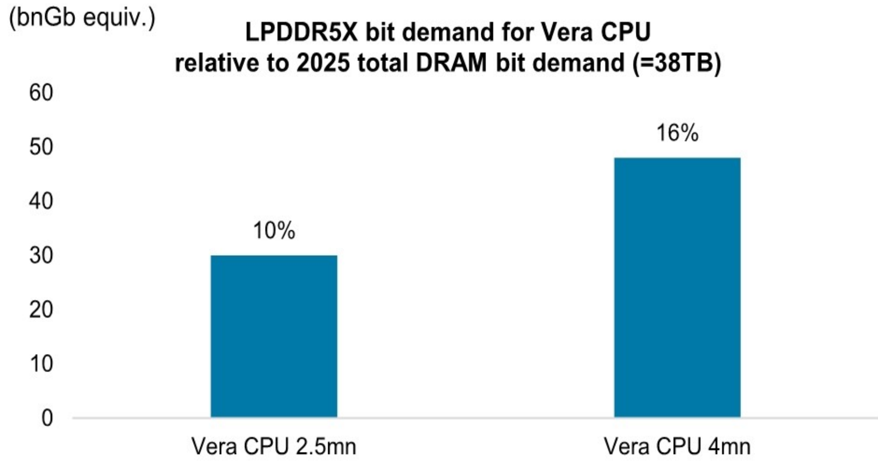
Japan	
Industry View	**Attractive**

Computex/GTC

Agentic AI

Reaffirming expansion in DRAM demand: Our Taiwan semiconductor analyst Charlie Chan confirmed from supply chain checks that the company can produce 2.5-4.0mn Vera CPUs (link). Since a Vera CPU can accommodate 1.5TB of LPDDR5X, triple that of the Grace CPU, the required LPDDR5X bit capacity at that level of production would be approximately 4-6mn GB. That means that Vera alone will need more than 10% of last year's total DRAM bit demand. Based on production at 1cnm, a rough estimate suggests demand equivalent to 100-200kwpm.

Exhibit 1: Vera CPU alone could account for more than 10% of total global DRAM bit demand for 2025



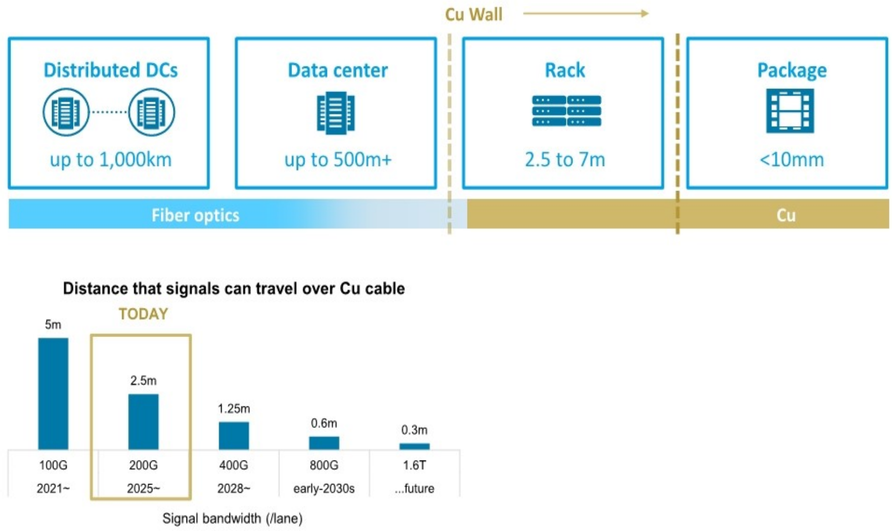
Source: Morgan Stanley Research estimates

CPO

Marvell Technology (analyst: Joseph Moore) offered an explanation of the copper (Cu) wall in its keynote address at Computex. Optical signal transmission via fiber optics has traditionally been used among and within data centers. However, electrical signal transmission via copper is used for distances when feasible (e.g., racks, semiconductor packages) due to copper's high reliability and cost advantages. That boundary is the Cu wall.

In inter-rack copper electrical signal transmission, transmission speed and distance are inversely proportional. While a 100G/lane data rate allows transmission up to 5m, that falls to 2.5m at the 200G level increasingly in use at present, and will shrink further to 1.25m at the 400G targeted for adoption around 2028. Since the height of the racks is 2m, it is difficult to fully connect racks with copper for 400G transmission. It was explained that the Cu wall is currently moving from the left to right side of Exhibit 2 .

Exhibit 2: The shift toward 400G-per-lane signaling targeted from around 2028 would push electrical copper transmission to 1.25m, below typical rack sizes (~2m), reinforcing the need for optical interconnects



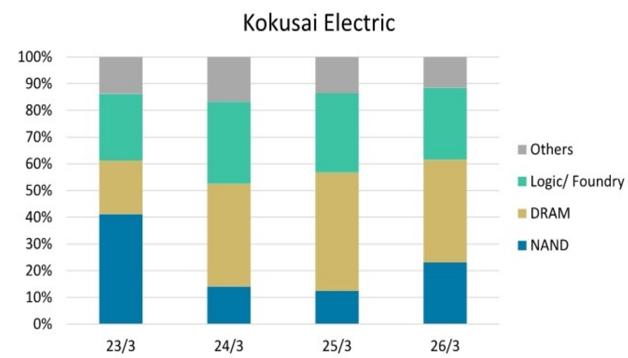
Source: Marvell Technology, Morgan Stanley Research

In the CPO sector, we look for Advantest to see increased testing demand. Its competitor Teradyne (analyst: Shane Brett) has said that demand for CPO tester TAMs should reach $100mn in 2026, $300-700mn in 2028, and over $1bn thereafter as CPO is adopted in scaled-up applications, indicating significant potential for market growth. Also, we believe Disco will benefit from hybrid bonding technology for COUPE. The placement of switch ASICs and optimal engines onto substrate boards will lead to increased board size, bolstering demand for substrate boards and board equipment. That should in turn spur greater demand for Ushio's stepper exposure equipment.

Investor feedback

Kokusai Electric: There was much discussion regarding the firm's guidance.

Exhibit 3: Kokusai Electric's sales breakdown by equipment application



Source: Company data, Morgan Stanley Research

The company commented on its conservative guidance for 2H F3/27 at our Japan Summit on May 20-22, noting an upside risk to its current sales guidance (-17% HoH) to flat growth HoH. It presently targets sales of ¥280bn for the whole of F3/27, but flat 2H growth would lift that to ¥300bn. Further upside potential lies in demand from emerging Chinese companies, which are only cautiously incorporated in current guidance, and additional demand from Chinese DRAM manufacturers. Given that lead times have extended to eight months, we believe 2H shipments should be finalized by the time that 1Q (Apr-Jun) results are announced and stand by our view that an upward revision is likely at that time.

While Kokusai is generally seen as a NAND stock, it has been more exposed in recent years to DRAM (Exhibit 3). NAND accounted for some 40% of device sales at its peak in F3/23, but slid to around half that level in F3/26 with the contraction in the NAND WFE market. However, we are seeing greater greenfield investment activity from companies other than local Chinese firms that was not included in the initial plans. A recovery in NAND, with its considerable sales contribution from high-value-added mini-batch ALD, should be a boost for profitability.

Advantest: Discussion seemed concentrated on timing. We upgraded the company to our Top Pick on May 27, but many investors in subsequent meetings asked about stock catalysts. As in F3/26, we expect upward revisions from 2Q F3/27 (Apr-Jun) through the end of the fiscal year as visibility improves and believe that one driver will be an increase in the consensus EPS. There were many questions as well about CPO, but we do not expect this to be a major catalyst in the near term. In CPO, there is strong demand for wafer insertion 1 and 2 testing due to the emphasis on ensuring KGD reliability. The competitive landscape is still not settled, but at the very least we do not anticipate a 100-0 situation as with GPUs. Many inquired as well about the competitive environment for GPUs. Our understanding is that Advantest advantage in AI GPUs remains intact.

Lasertec: The majority of inquiries revolved around A200HiT. We feel that the bullish projections of investors for A200HiT are unduly high and maintain our cautious stance. Questions also arose over the competitive landscape, but we sensed that worries over the possible emergence of new ACTIS rivals have diminished given the absence of any announcement regarding Actinic testing equipment, which had been raised as a concern during IR Days at some competitors. We believe as well that Lasertec will retain its dominant position in Actinic testing equipment. Despite evident hopes for North American customers, we do not think the situation at present necessitates additional investment in mask shops.

Tokyo Electron: The latest buoyant earnings results seem to have completely dispelled the negative impression held last fiscal year. While its price hikes have been received positively, this does not seem to be fully discounted in the share price. Asked about prices at the Japan Summit, the company did not rule out the possibility of a 5-9% increase. We have not aggressively factored this likelihood into our forecast, but such a move could bring about a further improvement in profitability. We project an OP margin of around 33% (+4pt YoY) in F3/28, led primarily by top-line growth. However, if price hikes help raise this toward the 35% target in the firm's medium-term business plan, we imagine this would be viewed positively.

Valuation Methodology and Risks

Advantest (6857.T)

Our target P/E of just over 20x (F3/28e EPS) references the average one-year forward weekly P/E from 2023, when demand for AI semiconductors began to accelerate, to the present.

Risks to Upside

- Expansion in demand for generative AI SoC testers beyond expectations
- Expansion in the business opportunity for CPO testing

Risks to Downside

- Stagnation in AI semiconductor investment
- Loss of share in generative AI SoC testers and HBM testers

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(as of May 31, 2026)

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Equal-weight/Hold	1571	43%	369	40%	23%	723	44%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	551	15%	86	9%	16%	201	12%
Total	3,667		920			1632	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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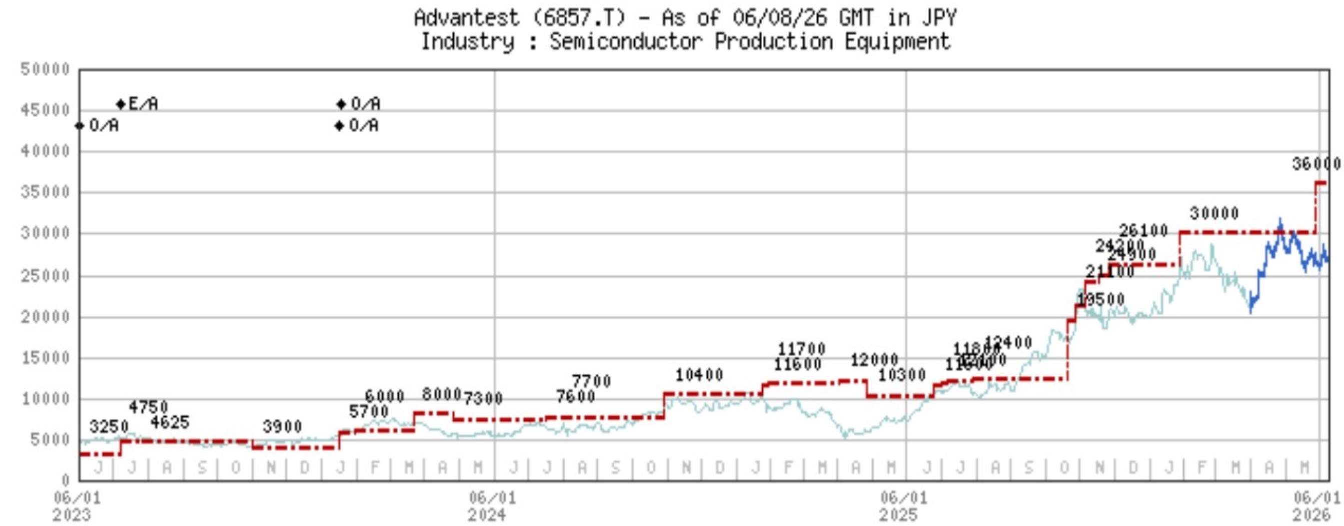
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 6/1/21 : E/A; 11/21/22 : O/A; 7/7/23 : E/A; 1/17/24 : O/A; 1/19/24 : O/A

Price Target History: 4/27/21 : 2425; 7/28/21 : 2500; 1/24/22 : 2750; 7/26/22 : 2150; 7/28/22 : 2250; 11/21/22 : 2750; 1/5/23 : 2625; 3/8/23 : 3375; 4/26/23 : 3250; 7/7/23 : 4750; 7/26/23 : 4625; 11/1/23 : 3900; 1/17/24 : 5700; 1/31/24 : 6000; 3/22/24 : 8000; 4/26/24 : 7300; 7/17/24 : 7600; 7/31/24 : 7700; 10/30/24 : 10400; 1/24/25 : 11600; 1/29/25 : 11700; 4/2/25 : 12000; 4/26/25 : 10300; 6/25/25 : 11600; 7/2/25 : 11800; 7/7/25 : 12100; 7/29/25 : 12400; 10/20/25 : 19500; 10/28/25 : 21100; 11/5/25 : 24200; 11/17/25 : 24900; 11/26/25 : 26100; 1/28/26 : 30000; 5/27/26 : 36000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -▪ No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/05/2026)
Suzune Tamura, CFA		
Advantest (6857.T)	O (01/17/2024)	¥26,765
DISCO (6146.T)	O (07/07/2023)	¥72,580
Ebara (6361.T)	O (12/04/2024)	¥5,535
JEOL (6951.T)	E (07/08/2025)	¥7,084
KOKUSAI ELECTRIC (6525.T)	O (12/19/2025)	¥8,022
Lasertec (6920.T)	U (07/28/2025)	¥42,180
Nikon (7731.T)	U (08/08/2023)	¥1,946
SCREEN Holdings (7735.T)	O (11/13/2025)	¥12,630
Tekscend Photomask (429A.T)	E (11/18/2025)	¥4,085
Tokyo Electron (8035.T)	O (12/19/2025)	¥59,450
Ulvac (6728.T)	E (01/17/2024)	¥8,829
Ushio (6925.T)	O (01/05/2026)	¥4,260

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.