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UPDATE

June 14, 2026 11:05 PM GMT

Samsung SDS | Asia Pacific

CEO NDR Takeaways

MORGAN STANLEY & CO. INTERNATIONAL PLC, SEOUL BRANCH+

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We hosted Samsung SDS CEO Junehee Lee on a non-deal roadshow last week. Key discussion points included AI data centers, the KKR partnership, and the earnings outlook for the year. We summarize our key takeaways, which keep us constructive on the shares overall.

Growing demand for GPU-based data centers supports SDS's AIDC capacity build-out: Management noted fast-rising demand for computing power and for data center capacity capable of accommodating GPU racks. Inference demand is exceeding expectations, while “data sovereignty” is likely to further accelerate localized data center build-outs. The 20MW of new capacity at Dongtan West is fully contracted (with revenue to ramp in phases), and the company is seeing strong interest in the Gumi AIDC, where 60MW has been committed, with flexibility to add a further 60MW.

Positive economics expected from AIDCs: The company expects to achieve operating margins in the high teens and 10%+ unlevered IRR for the Gumi DC. Higher token pricing would imply upside risk to current estimates. The high capital intensity should keep supply constrained, with power availability and capital serving as key bottlenecks to scaling toward “gigawatt” levels.

Adoption of AI-based enterprise services in early stages: With Samsung Group’s decision last week to apply AI across all business processes serving as a benchmark, management expects enterprise AI adoption to drive a multi-year installation cycle. The public sector is also beginning to adopt AI systems, creating opportunities for large players such as SDS. The company’s role in leading the National AI Computing Center reflects its positioning to capitalize on this growth.

KKR partnership brings investment expertise, with focus on ROE-accretive targets: KKR's CB investment aligns interests, reflecting a shared view on better deploying the W8tn cash balance. KKR will act as a board observer and participate actively in the investment review process. While management has yet to define specific sectors, it is targeting assets that provide vertical depth and can immediately enhance ROE.

Sharp inflection in the memory market supports an IT services rebound in 2H26: After a soft 4Q25 and 1Q26, management expects revenue recovery, supported by improvement at Samsung Electronics (including accelerated build-out of the Taylor fab), new government projects, and added DC capacity. Enterprise AI services demand should add further momentum to what is shaping up to be a stronger 2H26.

Samsung SDS (018260.KS, 018260 KP)

S. Korea IT Services and Software | S. Korea

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	W250,000
Up/downside to price target (%)	5
Shr price, close (Jun 12, 2026)	W237,000
52-Week Range	W388,500-135,400
Sh out, dil, curr (mn)	77
Mkt cap, curr (bn)	W18,332
EV, curr (bn)	W12,249
Avg daily trading value (bn)	W58

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (W)**	9,819	8,360	9,680	9,614
Prior EPS (W)**	-	-	-	-
EPS (W)§	10,072	9,485	11,315	12,256
Revenue, net (W bn)	13,930	13,802	13,852	13,819
EBITDA (W bn)	1,328	1,152	1,254	1,256
ModelWare net inc (W bn)	760	647	749	744
P/E	17.5	28.3	24.5	24.7
P/BV	1.3	1.8	1.7	1.6
RNOA (%)	19.4	14.9	16.3	14.3
ROE (%)	8.1	6.5	7.3	6.9
EV/EBITDA	5.4	10.4	9.6	9.5
Div yld (%)	1.7	1.3	1.2	1.4
FCF yld ratio (%)	6.4	4.2	2.6	2.6
Leverage (EOP) (%)	(64.3)	(64.7)	(62.5)	(59.9)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

Valuation Methodology and Risks

Samsung SDS (018260.KS)

Base case derived using SoTP where we use discounted cash flow (DCF) to value the main business and add our NPV estimate of W1.8trn for SDS' stake in the consortium that will run the National AI Computing Center project. We **assume SDS owns 3**3% of the SPC.

Key assumptions: WACC of 8.3% (beta 0.9, risk-free rate 3.5%, equity risk premium 6.0% on a 95% equity and 5% debt structure); 50% discount on net cash; terminal growth rate of 2%.

Risks to Upside

- Stronger demand for Cloud projects
- Increasing demand for GPU based computing capacity in Korea
- Contract wins relating to Gumi data center
- Successful M&A with KKR support

Risks to Downside

- Weaker IT budget from key Samsung affiliates
- Slower increase in demand for GPU based computing services
- Regulatory issues related to the National AI Computing Center project
- Delayed or value-dilutive M&A

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(as of May 31, 2026)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1542	42%	465	51%	30%	707	43%
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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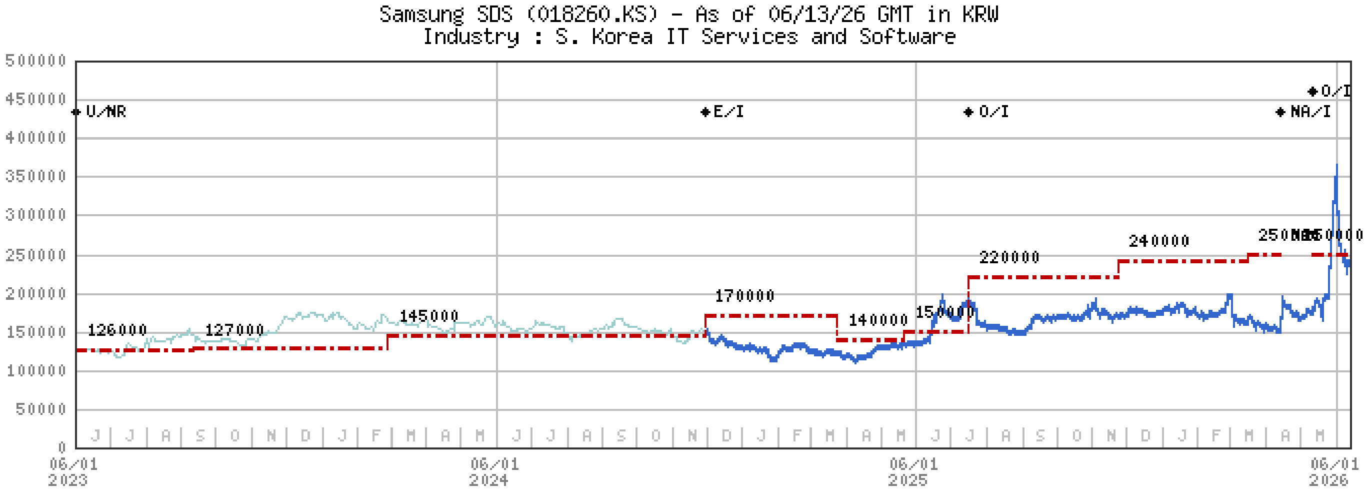

Stock Rating History: 6/1/21 : E/NR; 1/6/22 : U/NR; 11/29/24 : E/I; 7/17/25 : O/I; 4/14/26 : NA/I; 5/11/26 : O/I

Price Target History: 1/22/21 : 200000; 10/26/21 : 160000; 1/6/22 : 136000; 1/26/23 : 126000; 9/11/23 : 127000; 2/27/24 : 145000; 11/29/24 : 170000; 3/24/25 : 140000; 5/21/25 : 150000; 7/17/25 : 220000; 11/24/25 : 240000; 3/16/26 : 250000; 4/14/26 : NA; 5/11/26 : 250000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
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