Semiconductor/Tech Materials

Feedback from meetings with European and US investors

Japan Equity Research

Technology - Semiconductor/ Technical Materials

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Among US and European investors we met the week of June 22, some were wary of high valuations, but our impression was that the prevailing sentiment on semiconductor and tech material stocks was optimistic. Our preferred stocks are, in order, **Kioxia (285A; Overweight; covered jointly with Jay Kwon) > Tokyo Electron (8035; Overweight) > Advantest (6857; Overweight) and SCREEN Holdings(7735; Overweight) > Nittobo (3110; Overweight) and JX Advanced Metals (5016; Overweight; covered jointly with Yasuhiro Nakada)**. Three key points from our discussions were (1) a consensus is broadening for an upside to the WFE market outlook, with notable moves to price in Terafab as an upside factor in particular; (2) investor views on LTAs and pricing for NAND flash memory have become even more bullish; and (3) a high TSMC/DRAM sales weighting and pricing measures tend to be the main criteria for choosing individual stocks. Investors showed strong interest in the growth outlook for the aforementioned companies, **Disco (6146; Neutral)**, and **Sumitomo Osaka Cement (5232; Overweight)**'s electrostatic chuck business. We go into detail below.

- **WFE market:** Our team's WFE market forecasts are $159 billion (+28% YoY) in CY2026, $205 billion (+29% YoY) in CY2027, and $237 billion (+16% YoY) in CY2028 (see our June 17 report for details). However, our team sees upside potential for TSMC's capex (see their June 10 report) and likely upside for the DRAM figure as well. Furthermore, our estimates do not reflect Terafab figures. At a public hearing held on June 3 (details here) in Grimes County, the planned site for Terafab, the possibility of an initial investment of $55 billion and a total investment of $119 billion, including additional phases, was mentioned, leading to much interest in the investment period and timing in addition to the investment scale. Interest in Terafab is high, mainly among US investors, and many discussed the possibility of the WFE market exceeding $250 billion in CY2028.
- **Kioxia (285A; Overweight; covered jointly with Jay Kwon):** This stock was the focus of discussion in most meetings. The main points of discussion were (i) LTAs, (ii) NAND flash memory pricing, and (iii) Super High IOPS. (i) LTAs: Following the indication of non-cancelable (take-or-pay) LTAs based on five-year contracts during Micron Technology's (Overweight; covered by Harlan Sur) results briefing on June 25, our impression is that expectations have risen for Kioxia as well. We had thought Kioxia was considering two- to three-year contracts, but now think it could take discussions further with customers based on competitor trends. (ii) NAND flash memory pricing: We expect prices to continue rising, mainly for eSSDs, on a tight supply-demand balance, but think prices for consumer applications will decline from 2027. The range of investors' expectations, +70-90% QoQ for Apr-Jun, +20-35% QoQ for Jul-Sep, and +10-30% QoQ for Oct-Dec, is more bullish than our forecasts (+69% QoQ, +20% QoQ, and +8% QoQ, respectively) and even Asian investors'. (iii) Expectations are high for Super High IOPS based on SLC. Because the capacity trade-off ratio versus TLC, which is currently mainstream, could be around 1:3 (views were divided on the possibility of it being lower or higher), the supply-demand balance could tighten further once Super High IOPS ramps up. SLC also has high unit prices, which will likely have a positive P&L impact.

See page 4 for analyst certification and important disclosures, including non-US analyst disclosures.

- **Front-end processing:** With expectations for the WFE market high, there were many bullish views on front-end processing in general. We focus on **Tokyo Electron (8035; Overweight)** in particular. In addition to its strong presence in types of equipment likely to outpace the WFE market outlook (etchers, deposition, co-development for EUV, etc.), we think its high DRAM weighting, growth expectations for which are strong, is attractive. The company is also trying to improve profitability through price revisions, and we think the tendency for its price changes to be accepted, backed by yen-denominated sales, is a relative advantage. We expect **SCREEN Holdings (7735; Overweight)** to similarly benefit from the strong WFE market growth outlook and its presence in the DRAM business to improve. DRAM applications accounted for 12% of the company's FY2025 SPE sales, lower than the ratios of competitors (Tokyo Electron: 31%; Kokusai: 30%). We think this difference is one of the factors behind its valuation discount. However, we expect its DRAM share to expand as the technological difficulty of cleaning processes increases along with DRAM technology advancements.
- **Advantest (6857; Overweight):** The stock has continued to face upside resistance from various factors, including a decline in expectations for an increase in next-generation GPU test times, the possibility of shorter test times for ASICs versus GPUs (although we think that may not necessarily be the case), and concerns over a loss of share in the ASIC market. Nevertheless, we maintain our bullish stance. In addition to a revised new/upgrade ratio (a higher ratio of new systems), we expect opportunities for CPUs and CPOs to expand. We expect earnings to remain strong as the possibility of outsourcing expands among customers that previously used in-house testers. During the Apr-Jun results briefing, we want to see the latest trends in CPU testers and whether management raises its SoC tester TAM outlook.
- **Nittobo (3110; Overweight):** Interest among US and European investors is generally high, and there was much discussion of the reasons behind the stock's recent weakness and catalysts for a turnaround. Reasons for the stock's upside resistance may include (a) management's denials of additional price hikes this fiscal year, (b) concerns about a loosening supply-demand balance (intensifying competition) for T-glass, (c) the impact of the emergence of PTFE on the growth outlook for NE/NER-glass, and (d) a lack of near-term catalysts. First, regarding the first and fourth factors, we think the TAM for T-glass could expand further with the spread of multi-layer-cores (MLC) and applications such as DDR for AI, and management could soon announce major investments to meet demand in FY2028 onward (our main scenario is the Jul-Sep quarter; management has already announced plans to triple T-glass production capacity by end-FY2027 compared with the amount at end-FY2023). We expect the announcement to include price hikes to cover the increased investment costs. Regarding the second factor, talk of competitors' moves into the business might continue, but improving yield takes time (it took several years even for Nittobo with its high technological capabilities), so we think any near-term catch-up will be limited. The third factor needs to be closely monitored, but there is also talk of PTFE + NER-glass, which could be viewed as an expansion of new opportunities.
- **JX Advanced Metals (5016; Overweight; co-covered with Yasuhiro Nakada):** Interest was not uniformly strong, partly due to concerns over copper prices, but many investors praised the company's aggressive investment in InP substrates. Sputtering targets had previously been the main driver of the semiconductor materials segment. This segment continues to be very profitable with high margins, but there are a number of excellent material companies in Japan with similar characteristics. In contrast, InP substrate investments are aimed at creating a longer-term earnings pillar in the high-barrier-to-entry photonic-electronic convergence field, as management proceeds with its recent capacity expansion (up to a 7-10x increase by FY2030) on the assumption of price revisions. We think investors will tend to appreciate this strategy as one for generating growth while securing margins. We expect InP substrates to become a new earnings pillar in the medium term.

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Figure 1: Valuation of companies under coverage

			Rating	Share price (LC)	Price target (LC)	Date (dd/mm/yy)	Market cap (Mbn)	Market cap ($mn)	Sales 3FY E (%) CAGR	EPS 3FY E (%) CAGR	PER (x) 1FY E	PER (x) 2FY E	PER (x) 3FY E	EBITDA 3FY E (%) CAGR	EV/EBITDA (x) 1FY E	EV/EBITDA (x) 2FY E	PBR (x) 1FY E	PBR (x) 2FY E	ROE (%) 1FY E	ROE (%) 2FY E	Div. yield (%) 1FY E	Div. yield (%) 2FY E	FCF yield (%) 1FY E	FCF yield (%) 2FY E	OPM (%) 1FY E	OPM (%) 2FY E
Technical Materials																										
JX ADVANCED META	5016	¥	OW	4,470	5,700	29-Jun-26	4,261	26,311	8.1	24.6	25.8	23.6	20.5	47.0	15.8	15.1	5.2	4.4	21.0	21.1	0.8	1.0	1.5	3.7	24.3	24.9
AGC INC	5201	¥	N	6,914	7,500	29-Jun-26	1,503	9,283	4.5	19.1	17.4	14.6	12.5	8.1	6.5	5.7	1.0	0.9	5.7	6.6	3.0	3.2	9.8	12.3	6.8	7.7
NITTO BOSEKI CO	3110	¥	OW	4,580	5,800	29-Jun-26	864	5,334	14.1	-7.8	42.3	31.1	25.5	30.0	22.4	17.3	4.5	4.1	11.5	14.4	0.7	0.9	-2.9	-0.3	20.5	23.8
NIPPON ELEC GLAS	5214	¥	OW	6,486	7,300	29-Jun-26	581	3,586	3.5	5.4	18.5	16.4	14.5	6.5	9.9	8.9	1.0	0.9	5.3	5.5	2.5	2.6	2.4	3.7	10.5	11.8
NIPPON SHEET GLA	5202	¥	N	478	500	29-Jun-26	68	420	2.2	38.8	17.7	5.5	4.0	7.7	6.6	5.8	0.5	0.5	4.4	7.7	1.0	1.0	26.1	42.1	3.8	4.4
TAIHEIYO CEMENT	5233	¥	OW	4,052	4,500	29-Jun-26	479	2,957	8.0	39.3	9.5	7.3	6.6	7.9	6.6	5.8	0.6	0.6	6.6	8.2	2.9	3.1	-21.8	4.2	7.4	8.4
SUMITOMO OSAKA	5232	¥	OW	6,178	4,600	29-Jun-26	198	1,223	5.9	22.6	19.3	11.9	9.6	15.1	6.7	5.3	1.0	0.9	5.1	8.1	1.9	2.1	4.1	5.4	6.3	8.9
KANEKA CORP	4118	¥	N	5,775	4,600	29-Jun-26	364	2,247	2.7	2.2	12.3	10.9	10.8	7.5	6.2	5.7	0.7	0.7	5.6	6.1	3.0	3.6	1.0	1.4	4.8	5.1
Average									6.1	18.0	20.4	15.2	13.0	16.2	10.1	8.7	1.8	1.6	8.2	9.7	2.0	2.2	2.5	9.1	10.5	11.9
Japanese semiconductor related																										
KIOXIA HOLDINGS	285A	¥	OW	88,450	155,000	29-Jun-26	48,404	298,898	79.4	132.6	9.5	7.7	6.9	110.0	5.9	4.2	7.7	4.0	139.0	78.5	0.9	2.4	8.6	13.2	77.4	78.5
TOKYO ELECTRON	8035	¥	OW	74,700	85,000	29-Jun-26	34,962	215,895	21.3	25.0	47.3	36.8	30.5	29.1	33.5	26.1	14.3	11.9	33.5	37.5	1.0	1.4	1.0	1.8	28.9	31.4
ADVANTEST CORP	6857	¥	OW	31,950	41,000	29-Jun-26	23,387	144,420	27.3	25.6	45.4	35.9	31.3	24.2	31.9	25.2	20.1	14.5	52.4	48.8	0.3	0.4	1.8	2.3	46.2	47.6
HOYA CORP	7741	¥	OW	25,805	31,000	29-Jun-26	8,640	53,356	8.0	11.0	32.4	28.6	25.3	9.6	20.8	18.7	8.4	7.8	26.3	29.0	1.2	1.4	2.6	2.9	32.2	33.7
DISCO CORP	6146	¥	N	79,550	83,000	29-Jun-26	8,630	53,291	17.2	22.4	48.1	40.4	34.7	19.5	32.4	27.3	12.5	10.5	27.4	26.7	0.8	1.0	1.5	1.9	45.2	46.7
LASERTEC CORP	6920	¥	N	49,200	54,000	29-Jun-26	4,639	28,646	12.3	13.7	57.5	45.4	35.6	10.4	41.0	32.1	17.8	14.3	33.1	34.5	0.7	0.8	1.7	1.7	46.6	48.1
SCREEN HOLDINGS	7735	¥	OW	16,765	18,000	29-Jun-26	3,198	19,749	16.2	20.6	27.4	22.3	19.6	19.3	17.4	14.4	5.8	5.0	22.8	23.8	1.1	1.3	1.6	3.0	21.5	22.9
NIKON CORP	7731	¥	UW	2,152	1,300	29-Jun-26	718	4,433	4.5	--	77.6	32.9	24.9	--	14.9	12.0	1.2	1.2	1.7	3.8	1.2	1.4	-4.8	-1.1	1.2	3.3
RIGAKU HOLDINGS	268A	¥	OW	2,522	3,100	29-Jun-26	571	3,528	9.9	19.7	41.1	33.6	29.3	13.8	23.1	19.5	5.9	5.2	15.0	16.1	0.8	0.9	1.7	1.9	19.3	20.9
ULVAC INC	6728	¥	OW	10,250	10,000	29-Jun-26	506	3,124	4.2	18.1	27.1	21.3	18.4	12.0	13.7	9.7	2.2	2.0	7.7	9.9	1.5	1.7	0.4	4.5	8.8	12.4
Average									12.8	19.5	44.9	33.0	27.7	17.2	25.4	20.5	9.8	8.1	24.4	25.6	1.0	1.1	0.8	2.1	27.8	29.7

Source: Bloomberg Finance L.P. consensus estimates, J.P. Morgan.
Note: All Bloomberg consensus estimates.

Figure 2: Performance of companies under coverage

		Rating	Price 29-Jun-26	Market cap 29-Jun-26	Trading volume 30days moving ave.	Trading value 30days moving ave.	Actual performance 1M	Actual performance 3M	Actual performance 6M	Actual performance 1Y	Relative performance vs Topix 1M	Relative performance vs Topix 3M	Relative performance vs Topix 6M	Relative performance vs Topix 1Y	β Topix
			(JPY)	(mn JPY)	(k shares)	(mn JPY)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	6M
Technical Materials															
3110	Nittobo	OW	4,580	863,857	11,322	48,960	1.0	22.2	124.5	276.6	0.4	7.3	92.2	169.8	1.71
4118	Kaneka	N	5,775	363,825	252	1,397	4.6	20.1	30.4	45.2	3.9	5.5	11.6	4.1	0.83
5016	JX Advanced Metals	OW	4,470	4,260,729	27,313	117,034	13.8	21.6	127.5	451.9	13.1	6.8	94.7	295.4	1.83
5201	AGC	N	6,914	1,503,344	1,992	14,276	-0.3	24.0	33.1	64.1	-1.0	9.0	13.9	17.5	1.15
5202	Nippon Sheet Glass	N	478	68,039	1,291	614	-0.2	-1.4	-16.3	6.2	-0.8	-13.4	-26.3	-23.9	0.81
5214	Nippon Electric Glass	OW	6,486	580,648	795	5,161	-0.7	4.3	5.1	89.5	-1.3	-8.4	-10.0	35.8	1.13
5232	Sumitomo Osaka Cement	OW	6,178	198,117	355	1,960	13.6	57.0	59.8	63.9	12.9	37.9	36.8	17.4	1.12
5233	Taiheiyo Cement	OW	4,052	478,912	670	2,834	-10.6	14.1	2.5	13.2	-11.1	0.3	-12.3	-18.9	1.16
Semiconductor/SPE															
268A	Rigaku HD	OW	2,522	571,248	4,399	11,913	-10.2	10.4	104.4	233.2	-10.7	-3.0	75.0	138.7	1.38
285A	Kioxia HD	OW	88,450	48,403,608	37,336	2,866,338	34.3	336.4	728.6	3,405.7	33.5	283.3	609.3	2,411.6	1.86
6146	Disco	N	79,550	8,629,878	1,907	141,082	22.2	19.6	66.6	89.3	21.5	5.0	42.6	35.6	1.56
6728	Ulvac	OW	10,250	505,898	610	5,757	7.8	15.0	44.4	96.2	7.2	1.0	23.6	40.5	1.39
6857	Advantest	OW	31,950	23,387,400	8,863	250,561	22.1	44.8	61.5	201.8	21.3	27.2	38.3	116.3	1.63
6920	Lasertec	N	49,200	4,638,891	3,522	160,939	22.6	40.7	67.2	151.7	21.8	23.6	43.2	80.3	1.55
7731	Nikon	UW	2,152	717,876	2,511	5,013	16.7	9.3	23.7	47.1	15.9	-3.9	5.9	5.4	0.90
7735	SCREEN HD	OW	16,765	3,198,091	2,847	38,615	50.8	75.7	123.6	182.0	49.8	54.4	91.4	102.0	1.43
7741	HOYA	OW	25,805	8,640,495	1,018	27,113	-4.7	-5.4	10.0	52.2	-5.3	-16.9	-5.8	9.0	0.83
8035	Tokyo Electron	OW	74,700	34,962,043	4,298	272,680	42.5	90.1	118.2	171.5	41.6	67.0	86.8	94.5	1.39
	Performance weighted average						29.2	149.5	303.1	1,272.3	28.4	119.2	245.1	883.2	
	Performance single average						12.5	44.4	95.3	313.4	11.8	26.8	67.2	196.2	
	Topix		3,982		2,812,174		0.6	13.8	16.8	39.6					

Source: Bloomberg Finance L.P., J.P. Morgan.