Electronic Components Sector

Asia Marketing Feedback

Japan Equity Research

Technology - Electronic Components

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We visited investors in Hong Kong and Singapore from June 22 to 26. At most of the meetings, questions were focused on passive component makers, particularly those whose operations center on MLCCs (Murata Manufacturing, TDK, Taiyo Yuden, Nichicon, Nippon Chemi-Con). Other companies that investors asked a lot of questions about included Ibiden, Rohm, MinebeaMitsumi, Alps Alpine, and Hirose Electric. In addition, we received many questions from hedge fund investors about short ideas. Since April, there has been an increase in the number of electronic components sector stocks whose valuations have risen significantly above historical levels. Investors appear to be divided on whether to view this as a new normal driven by AI server demand or simply a case of overvaluation.

Passive components, MLCCs (Murata, TDK, Taiyo Yuden, Nichicon, Nippon Chemi-Con)

- The share prices of passive component companies (makers of MLCCs, aluminum electrolytic capacitors, crystal devices, etc.) have risen sharply since April amid expectations of growth in AI server-related demand. Investor interest in these stocks remains high. On the other hand, there are many investors who claim that the sharp rise in share prices has made it difficult to discern what the actual market consensus is. In particular, the share prices of Taiyo Yuden, Nichicon, and Nippon Chemi-Con have risen, but their quarterly profit is still low, so many investors are wary of downside risk after April-June results announcements. Conversely, our impression is that many investors think share price falls after earnings announcements would present an opportunity to buy.
- Looking at the share price performance of major MLCC names from the end of March through mid-June, Murata climbed by around 3.6x and Taiyo Yuden by around 5.6x (during the same period, TOPIX increased by about 17%). Many investors continue to hold Murata. However, many who entered the market early in the cycle are taking profits on Taiyo Yuden and adopting a long Murata/short Taiyo Yuden position or, alternatively, maintaining a long position in Murata and aiming to re-enter Taiyo Yuden at ¥150,000-¥160,000. Many investors also appear to be taking a long Murata/short TDK position.
- Also, long-only investors seems to be divided between those who are interested in MLCCs and those who feel it is now difficult to chase Murata and Taiyo Yuden momentum. Our impression is that the latter group have a strong desire to buy TDK. Although TDK is a latecomer to AI-server MLCCs, there appears to be a strong belief that it will at least benefit from a tightening supply-demand balance and also expectation that it can expand sales of power inductors for AI servers (thin-film metal inductors). The growth potential of lithium iron phosphate (LFP) batteries for backup battery units (BBUs) and the potential to expand HDD head market share are also points of appeal for TDK.
- The share prices of MLCC names have risen sharply since April: over the three months from April to June, we estimate investors priced in around 3-4 years of profit growth stemming from the expansion of AI server demand. We expect share prices to remain in a box-range in the near term. We think that share price increases based on AI-server MLCC expectations are unlikely in July-September; we expect the next momentum shift to be around October-

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December. We expect demand for high-end/cutting-edge MLCCs for AI servers to emerge around October-December, and as negotiations for 2027 progress, we think the tightening of MLCC supply will become apparent in the supply chain, which could lead to price increases.

- For Nichicon and Nippon Chemi-Con, attention appears to be focusing on whether price hikes will be limited to passing on increases in aluminum costs or whether the companies will implement larger hikes. We expect demand for long L MLCCs for PSUs to increase 3x as voltage increases from 200V to 400V and 4x as it increases to 800V. Investors expect interest in Nichicon and Nippon Chemi-Con as beneficiaries of 800V HV-DC.

Other stocks

- **Ibiden:** It seems that many investors see further upside potential not only because of expanding demand for AI-server GPUs but also in expectation of higher-than-expected ASIC-related demand and increased demand for general-purpose server CPUs. And many are anticipating share prices will rise after the next capacity expansion announcements. Although many investors see upside to Ibiden's FY2030 operating profit target of ¥300 billion, the share price is already trading based on FY2030 earnings, and we were often asked how far the valuation timeframe can be pushed out. On the other hand, some investors are not chasing upside momentum, but rather aiming to buy passive component stocks on price dips as trading plays.
- **Rohm:** In addition to the increase in the value of its stake in Kioxia following the rise in Kioxia's share price, expectations for earnings growth are gradually rising due to tightening demand for analog discrete semiconductors and, in particular, a shortage of 80-100V Si-MOSFETs for AI servers. While many European and US investors have been inquiring about Rohm since May, interest appears to have heightened in the last 1-2 weeks.
- **Hirose Electric:** There are high expectations of a guidance beat in FY3/27, and interest in the stock from an earnings perspective is strong.
- **MinebeaMitsumi:** While its earnings are strong, the share price has risen sharply, and its valuation is significantly above the historical range. Some investors say this reflects expectations of an increase in demand for fan motor bearings driven by demand for CPUs for physical AI and agentic AI applications, as well as an increase in demand for BBU battery protection modules. However, others say valuations are too demanding.
- **Investors view on Short-related stocks:** Many investors are short on Alps Alpine. We also fielded many questions about TDK, Taiyo Yuden, Kyocera, and MinebeaMitsumi. Although Kyocera's share price has risen sharply and its valuation has also risen well above the historical range, some hedge funds are considering short positions. However, our impression is that many investors are cautious about going short at this time due because of Kyocera's vigilance toward its share buybacks.



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