NOMURA

Global Markets Research

2 July 2026

Global Memory

EQUITY: MEMORY

Our views on two issues affecting memory share prices

Quick Note

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(1) Korean memory companies' large-scale investment plan

Korea memory companies and their affiliated companies have announced large-scale, mid- to long-term investment *plans* (combined amount of KRW4.8 quadrillion, which includes KRW3.7 quadrillion investments directly related to memory) together with the government, with no specified plans on timeline. This appears to have heightened investors' concerns about oversupply. Currently, the global memory industry is experiencing a very severe shortage situation due to unprecedented strong demand from the AI industry, which has caused production disruptions and price increases for smartphones, PCs, etc., leading to decreased demand for those products. Additionally, some consumers are even filing antitrust lawsuits against the memory industry.

Alleged price collusion through supply control by global memory companies appears to be unfounded, in our view, considering memory companies' full efforts to expand production in recent years. Memory companies had no choice but to prioritize production of highly profitable HBM, which slowed down commodity memory production growth. Since 2H25, strong commodity memory demand growth has led to severe commodity supply shortages. As a result, memory companies are expanding production very aggressively compared to their previous plans, but this is still insufficient to meet the strong demand.

As a consequence, production clusters that memory companies have set up are likely to exhaust their capacity (land, power, water) faster than expected, and at the same time these companies must also prepare for mid- to long-term (post-2035) construction of new clusters. Considering the importance of the memory industry in Korea, the government's swift preparation and support seem logical. The Korean government appears to have proposed regions that are further from the capital area and where power and water are easy to procure, in pursuit of balanced national development. Companies are expected to enjoy various policy support and tax benefits in return, in our view. This is similar to the basic government support policies for attracting advanced industries in the US, Japan, China, etc.

Contrary to some misunderstandings, we believe Korea companies have no reason to make unnecessary investments at the government's request, and this is highly variable depending on market conditions. The Yongin Semiconductor Cluster, a mega project that started nine years ago, would only have the first cleanroom completed in February 2027, and we believe small-scale chip productions will only be possible by the end of 2027F, meaning this effectively takes over 10 years from investment to production. This investment plan could be accelerated, but we believe it will have an impact only after 5-10 years at a minimum.

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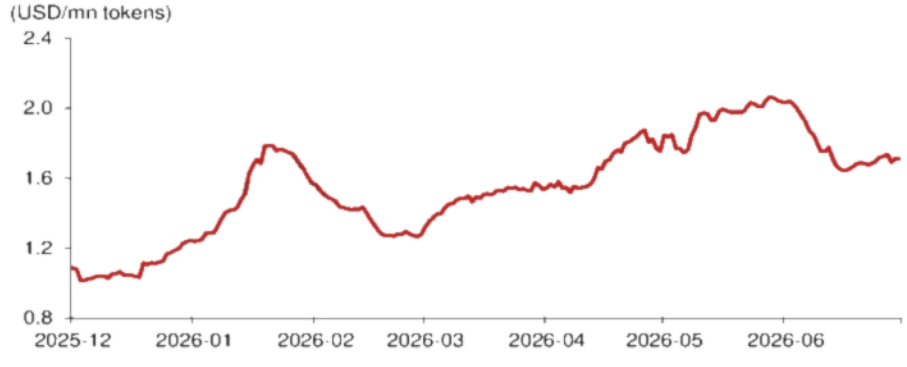
Memory companies have previously experienced supply shortages due to insufficient investment during downturns or unexpected strong demand. On the other hand, despite unprecedented demand, they have also created oversupply through record-breaking investments. Such dynamics have been the key reason of cycles, and there was no precedent in which government coercion led to investments. Therefore, while there is always the risk of corporate over-investment, efforts to hedge this risk through new approaches such as LTAs and structural and stable growth possibilities enhanced by strong memory demand growth (due to AI) are factors that differentiate current situations from the past. Also, ironically, employee bonuses linked to profits could act as another mechanism to manage oversupply and profit-reduction risks, which is different from the past. While investors' concerns about excessive supply are understandable, we believe the concern is overly exaggerated.

(2) Meta's decision to sell surplus computing power to external customers

Second, Meta's (META US, Not rated) announcement that it would sell surplus computing power externally has also raised concerns about memory demand. Similarly, Amazon's (AMZN US, Not rated) entry into the cloud business was driven by the needs to monetize excess capacity – data centers, by their nature, must have capacity matched to peak computing power, thus significant portion of computing capacity remains unused during off-peak hours and seasons. Moreover, such cloud business has been a very efficient computing power source for other companies with computing power demand, and cloud business has become a high-growth, high-profitability business until now.

Unlike AWS or neo-cloud companies that focus purely on cloud business, among CSPs that use data centers for both internal and external purposes, Meta is the only company that has not engaged in the cloud business. Meta's main business model, which is based on SNS and advertisements, is also marked by significant variations in computing power utilization across different hours and seasons, and as economies of scale are gradually established, selling surplus computing power externally, like xAI's (unlisted) practice, is a very natural consequence and a decision that has the potential to increase Meta's ROIC. While Meta still has the option not to externally sell computing power, it would be a "luxury" for the business, and become a waste of resources as capacity grows. Additionally, this could become an important part of computing power for Anthropic (unlisted) and OpenAI (unlisted), which do not have their own data centers but are hungry for computing power to provide enterprise AI services. We do not consider Meta's decision to be a factor shaping (i.e. decrease) AI-related hardware demand or inflection point. Rather, it has the potential to strengthen Jevons' law by stabilizing downward the per-token prices, which are showing an upward trend due to supply shortages, and by creating new AI demand.

Fig. 1: LLM token price index



Source: Silicon Data, Bloomberg Finance L.P., Nomura research