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Ajinomoto (2802.T)

Strong demand for ABF, competitive advantages and robust supply system

CITI'S TAKE

Ajinomoto held a briefing on its functional materials business earlier today. Management reported that shipments remain strong currently, tracking ahead of the +11% YoY FY3/27 sales growth plan for this business. Over the medium term, we expect ABF (Ajinomoto Build-up Film) to continue serving as a key material even as new substrate technologies emerge, maintaining its role as the company's growth driver. The stock has outperformed the TOPIX Food index by c25% over the past three months, likely reflecting recognition of stable growth in the food business plus nearly 30% sales growth potential in the non-food business. Today's presentation reinforces the company's medium-term growth prospects, and we believe the stock will likely continue outperforming the TOPIX Food index.

Buy	
Price (30 Jun 26 15:30)	¥5,873.0
Target price	¥6,400.0
Expected share price return	9.0%
Expected dividend yield	0.9%
Expected total return	9.8%
Market Cap	¥5,613,056M
	US$34,739M

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- **Evolution of semiconductor packaging** —Increasing semiconductor performance drives demand for larger and more multilayered package substrates. This increases ABF usage per substrate, creating dual growth drivers: rising semiconductor shipment volumes and increasing ABF usage per semiconductor. WSTS forecasts extremely high growth for the logic IC market of c37% in 2026 and c27% in 2027, indicating very significant growth potential for the ABF business.

- **ABF competitive advantage (1) — High-speed development system and value co-creation with customers** —Ajinomoto has established a business model that involves deep collaboration with package substrate manufacturers from early development stages, jointly designing and developing ABF optimized for chip performance. This makes Ajinomoto an indispensable partner in customers' product development, creating extremely strong relationships. Management also mentioned that prices for existing products are unlikely to decline even when new products launch, which suggests sustained profitability improvements.

- **ABF competitive advantage (2): Complete replication of customer processes**— Ajinomoto has built capabilities to replicate customers' manufacturing and evaluation processes in-house. This dramatically shortens development lead times and enables rapid resolution of challenges in cutting-edge fine wiring processes. This solution provision extends beyond typical materials manufacturing, creating extremely high barriers to entry.

- **Proactive expansion of production capacity** — Ajinomoto plans major investments to meet strong demand. In addition to the one in Kawasaki, a new factory in Gunma began operations in 2025. The company has impressive levels of manufacturing capacity that can accommodate sudden demand increases by extending production hours. The company has already purchased land in Gifu for a third production site, scheduled to begin operations in 2032.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

- **Addressing opto-electronic convergence technology** — As electrical signal transmission approaches its limits, Ajinomoto is advancing into opto-electronic convergence, attracting attention as next-generation high-speed communication technology. Applying polymer design and microfabrication technologies developed via ABF, the company is developing optical waveguide materials for light transmission and related adhesive and sealing materials. This holds potential to become a new revenue pillar in future semiconductor packaging.

- **Expansion into ABF-adjacent areas** — Leveraging its ABF technology foundation, Ajinomoto is expanding into adjacent materials necessary for chip manufacturing, including adhesive materials, sealing materials, and magnetic materials. We think this approach is likely to succeed, as the company can leverage its existing customer base and technology synergies.

Ajinomoto

Valuation

We calculate our target price using a sum-of-the-parts method. Based on our FY3/28 estimates, we apply the following segment PERs: seasonings and foods 22x, frozen foods 18x, functional materials 50x, and bio-pharma & ingredients 25x, among others. Our target price implies a PBR of 8.0x.

Risks

Risks to our target price include 1) fluctuations in overseas seasoning and food business profitability caused by sharp forex swings (USD, THB, EUR, BRL, etc.) and 2) changes in the semiconductor market affecting the functional materials business. The share price could fail to reach our target price if any of these factors diverges significantly from our assumptions.

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Appendix A-1

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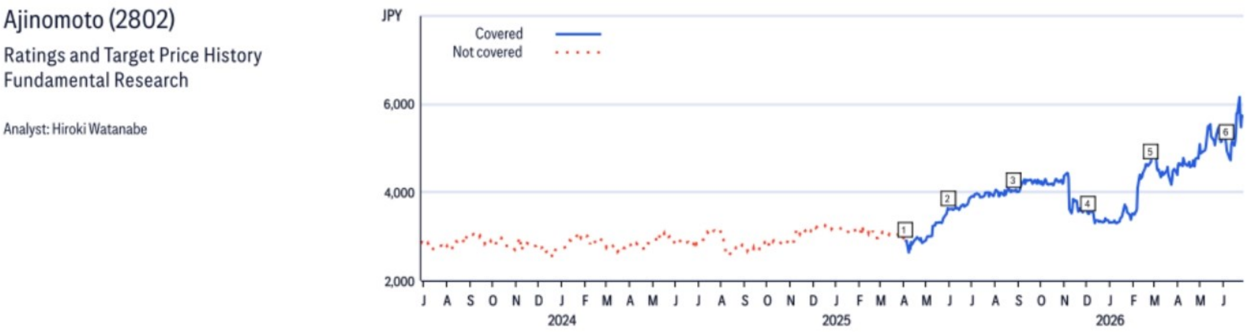
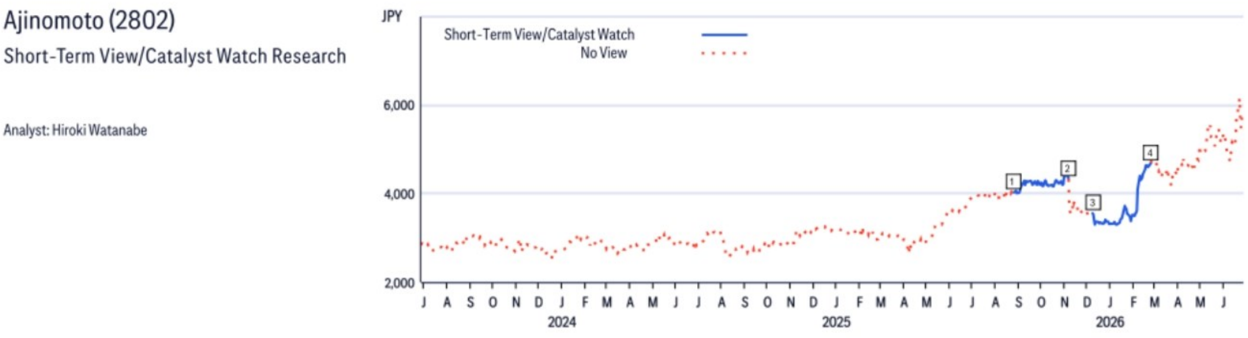


	Date	Rating	Target Price	Closing Price
1	03-Apr-25 02:35:20	1	*3,900	2,902
2	30-May-25 10:52:36	1	*4,200	3,612
3	25-Aug-25 10:20:14	1	*4,800	4,029
4	02-Dec-25 03:22:58	1	*4,400	3,517
5	24-Feb-26 09:31:54	1	*5,500	4,697
6	04-Jun-26 07:56:50	1	*6,400	5,118

*Indicates Change

Rating/target price changes above reflect Eastern Time



	Date	Action	Expected Direction	Duration	Closing Price
1	25-Aug-25 06:20:14	Add STV	Upside	90 Days	4,029
2	06-Nov-25 13:00:13	Remove STV	Upside	90 Days	4,323
3	08-Dec-25 21:08:28	Add STV	Upside	90 Days	3,555
4	24-Feb-26 01:57:44	Remove STV	Upside	90 Days	4,697

CW - Catalyst Watch , STV - Short-Term View

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