Nanya Technology

2Q26 a slight beat; rising server mix coupled with favorable LTAs to bode well for mid-long term earnings; reiterate OW

Overweight

2408.TW, 2408 TT
Price (09 Jul 26):NT$435.50

Price Target (Jun-27):NT$710.00

Technology - Semiconductors

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NYT's 2Q results were a slight beat vs. JPMe/consensus thanks to sustained pricing momentum (DRAM ASPs up >60%) alongside a flattish bit shipment trend. Management raised its 2026E bit growth guidance to high-teens % Y/Y (from teens % in 1Q26), citing lower inventory levels vs historical trends, and reiterated its 2026 capex guidance of NT$52bn, pointing to severe industry-wide shortages (S-D shortage continuing into 2028E, consistent with Micron commentary). We expect both DDR5 and DDR4 pricing to trend higher in 2H26E as the demand outstripping supply environment continues. We found NYT's server sales mix exposure increase as a positive development and its product diversification into LPDDR5 (likely for server applications in our view) and other line-ups. Mid-to-long term capex plan of US$16bn for 45k wspm capacity sounded higher than our initial expectation; however, we view overall capital intensity under control and expect an increase in R&D spending to support NYT's product diversification initiatives amidst its flexibility to move around between DDR5 and DDR4. We expect volatile NYT share sentiment to continue in the near-term until CSP's capex guidance upward revision is confirmed in July earnings result call season. Risk-reward profile remains favorable on a medium-term horizon and we recommend investors accumulate the stock on our bullish top-down memory up-cycle view ("higher for longer"). Next catalysts are: 1) CSP's hardware capex spending and AI monetization progress update, 2) Asian memory peers' outlook commentary, 3) DDR4/DDR5 monthly pricing update, and 4) China memory competitor's mid-term business plan update post IPO.

- **2Q26 result flash and 2H26E update.** NYT reported OP of NT$60.8bn on sales of NT$82.5bn (OPM: 74%), driven by flat bit shipment growth (JPMe: -MSD%) and high-60% ASP growth (JPMe: 70%+ growth), which together delivered strong operating leverage. Before new capacity installation translates into a production bit growth (post flattish H/H bit shipment trend in 1H26, implied 2H26E bit shipment is likely to be down H/H), we expect pricing to be the key earnings driver in 2H26E and expect blended ASP increase of +20%/+11% each respectively in 3Q26E/4Q26E. Of note, DDR4 pricing momentum remained stronger vs. DDR5 in 2Q26, and we expect such a trend to continue in the short-term. Interestingly, AI infrastructure and server applications accounted for >20% of NYT's sales and we found the progress constructive given the firm's historical server compute sales exposure has ranged between 10-15% in the past. Including eSSD (indirect server exposure), we believe actual server compute exposure to be higher. We continue to view NYT's attempt to enter the server ARM CPU supply chain via the LPDDR5X stacked solution product offering as the next major driver and expect a rising server exposure to bode well for NYT's earnings profile in the near to mid term as highlighted in our recently published OW upgrade note (link).
- **Various LTAs to help dampen earnings cyclicality.** Management noted that, amid supply tightness expected to persist for multiple quarters, customers are increasingly entering into multi-year LTAs, which improve planning visibility

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and can help underpin pricing. In parallel, incremental "greenfield" capacity additions appear to be tied to multi-year LTAs extending beyond 2028, giving NYT a clearer line of sight into both near-term requirements and longer-term demand commitments. The company also emphasized that LTAs vary in structure: some lock in both volume and price for the contract term (with renewal upon expiry), while others commit to volumes but set pricing based on prevailing market conditions, typically reset on a quarterly cadence. Overall, we expect Nanya Technology to continue expanding its use of LTAs, which should help dampen earnings cyclicality relative to what the memory industry has historically experienced over the past two decades.

- **Capex update and implications to 2027E-2028E bit production.** The company reiterated its plan to spend NT$52bn (in-line with JPMe) on capex in 2026 (1H run-rate of NT$6.9bn, highlighting an unprecedented 2H spend of ~NT$45bn) driven by the severe memory shortage being experienced in the industry. While the first phase of the new fab capacity expansion is planned to reach 30k wspm by 2028, peak output is expected to reach 45k wspm, with total capex estimated at NT$480 billion, with construction cost near US$3bn in total. Compared to our NT$172bn estimate for 2026E-28E, this is significantly higher. We would like to highlight that such higher capex spending is a strong supply debottlenecking signal from NYT management amidst growing LTA discussions which should support the memory cycle moving with a lot more mid-to-long term stability. As a result of higher capex, we foresee a meaningful bit increase from 2028E onwards (JPMe: 2027E/2028E bit supply growth assumption at: +5%/+27%).
- **Stock implications.** NYT stock gained 114% (vs. TWSE +39%) in the 2Q26 driven by strong DRAM pricing momentum as well as positive EPS upgrades. However, following strong MU results in late June'26 (link), memory share sentiment has been weak with NYT shares declining 17% from its peak (vs. Global memory peers -14% or SOX/TWSE -4%/-1%) due mainly to growing AI capex, continuity concerns post Meta headline (link). However, following a strong monthly update and Meta's 2x capacity build plan release (link), the stock has started to bounce back and is up 10% from the recent bottom. Until CSP's hardware capex guidance upward revisions signal becomes evident, we expect volatile range-bound share sentiment could continue. From an overall impression standpoint, we came back with more positives (near-term price strength, product mix improvement toward servers, solid LTA progress, and top-down S-D shortage view extending into 2028E) vs. negatives (substantially higher capex spending into 2028E) from the NYT results, and view the stock as risk-reward favorable from a midterm horizon. Maintain OW view on the stock and recommend investors accumulate.

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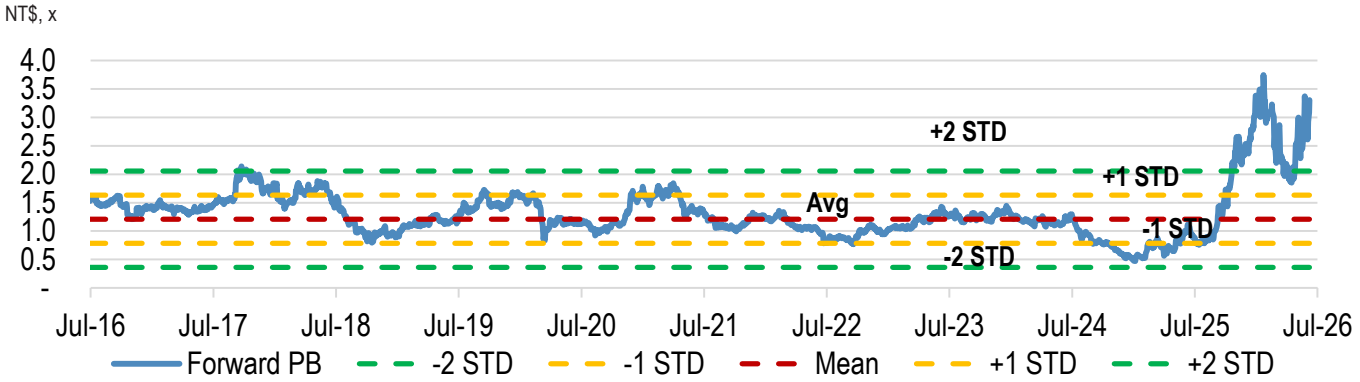
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Table 1: NYT 2Q earnings review table

(NT$ mn)	2Q25	1Q26	2Q26 Actuals	Q/Q (%)	Y/Y (%)	JPMe	Diff. (%)	BBG	Diff. (%)
Sales	**10,526**	**49,087**	**82,549**	**68.2%**	**684.2%**	**81,279**	**2%**	**81,185**	**2%**
Gross profit	(2,165)	33,316	65,619	97.0%	na	63,158	4%	64,061	2%
Gross Margin	*-21%*	*68%*	*79%*	*1162 bps*	*10006 bps*	*78%*	*-179 bps*	*79%*	*58 bps*
Operating profit	**(4,501)**	**30,111**	**60,826**	**102.0%**	**na**	**59,244**	**3%**	**60,159**	**1%**
Operating Margin	*-43%*	*61%*	*74%*	*1234 bps*	*11645 bps*	*73%*	*-80 bps*	*72%*	*195 bps*
Net Income	(4,102)	26,059	50,192	92.6%	na	49,454	1%	48,930	3%
Net Income Margin (%)	*-39%*	*53%*	*61%*	*771 bps*	*9977 bps*	*61%*	*4 bps*	*60%*	*53 bps*
New Taiwan GAAP EPS	**(1.32)**	**8.41**	**14.55**	**73%**	**na**	**14.33**	**1%**	**14.57**	**0%**

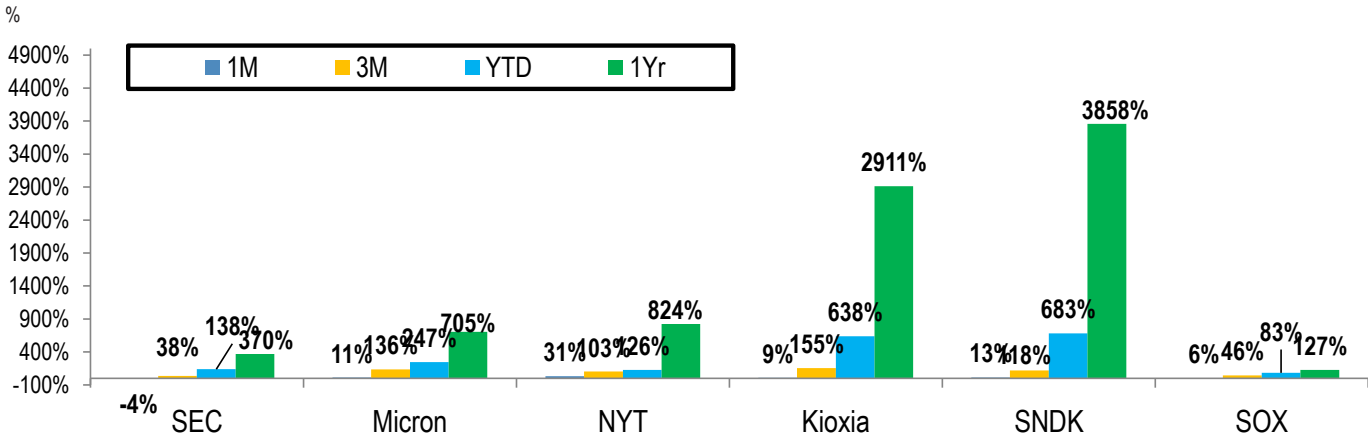
Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

Figure 1: NYT – FTM P/B band



Source: Bloomberg Finance L.P., Company data, J.P. Morgan estimates

Figure 2: Global memory makers' share price performance including SOX (Philadelphia Semiconductor index)



Source: Bloomberg Finance L.P. Note: Past performance is not an indicator of future results

Q&A highlights

Q. What is the pricing trend for DDR4 and DDR5 into 3Q26?
A. Pricing continues to move higher. Short-term agreements offer greater room for ASP upside, while long-term agreements provide better stability.

Q. What is the magnitude of further price increases?
A. No specific guidance. LTA pricing should remain relatively stable, while short-term pricing may continue to improve as contracts renew.

Q. How do the DRAM S/D dynamics look into 2028-2029 as peers add new capacity?
A. The S/D environment is not expected to change drastically by 2028E. Despite new capacity additions, AI/server demand and supply constraints across non-AI applications should keep the overall market tight.

Q. Was the key driver of 2Q26 earnings the 60%+ ASP increase despite flat bit shipments and limited cost changes?
A. Yes. Bit shipments were flat Q/Q and the cost structure was broadly stable, with limited cost reduction. The sharp earnings improvement was mainly driven by higher ASP.

Q. Does 60%+ Q/Q ASP growth imply most of the business is still based on monthly price negotiations despite prior LTA announcements?
A. LTAs are generally based on fair market pricing at the time of negotiation. LTAs do not prevent price upside in a rising market.

Q. Are LTAs designed to fix price, volume, or both?
A. LTA structures differ by customer. Some agreements fix volume, some include pricing commitments, and some include both. Pricing and volume terms are often reviewed with reference to market trends, typically on a quarterly basis.

Q. What is the outlook for 3Q/4Q ASP and operating results?
A. 3Q operating results are expected to further improve, with OPM already at a high level and likely to move higher. For 4Q, visibility depends on market conditions.

Q. Any impact from local Chinese DRAM makers' revenue or production increase?
A. There is no direct impact on NYT currently. The business remains stable globally, and customer/product overlap appears limited.

Q. What is the product revenue mix?
A. DDR4 remains the largest contributor. DDR4 and LPDDR4 together account for roughly 60-70% of revenue, while DDR3 and DDR5 each account for approximately 10%, with the remainder split across other products.

Q. Any color on the NT$16 billion capex for 45K WSPM?
A. Construction costs are less than NT$3bn and the rest is equipment including EUV. EUV adoption is expected around 2028E, potentially for 1C/1D/1E depending on equipment arrangement and technology timing.

Q. Are there any updates on customized DRAM/AI solutions and HBM development?
A. Customized DRAM projects are progressing with multiple customers. Projects are also ongoing on HBM-related extensions, including wafer-to-wafer bonding, with product timing dependent on customer project schedules.

Q. What is the outlook for non-AI products into 2028?
A. High-end non-AI products are performing better than low-end products. NYT will continue to support non-AI customers across DDR3/LDDR4/DDR4/KDDR4 and other DRAM products, while prioritizing higher-value applications where supply remains tight.

Q. Given that DDR5 demand is strong, why is DDR5 only around 10% of total revenue?
A. Demand is strong across DDR4, LPDDR4, DDR3, and DDR5, but capacity is limited. DDR3/DDR4 supply is more constrained, and economics remain attractive, so NYT continues to allocate meaningful capacity to these products rather than shifting more aggressively to DDR5.

Q. What applications are driving demand?
A. Consumer-related applications include auto, industrial, and communications. These applications account for roughly 60% of revenue, with the remainder coming from cloud, PC, and mobile.

Q. What is the shareholder return outlook?
A. Dividend payouts will be balanced against capital needs for capex and equipment. There is still room for shareholder returns, with a potential dividend payout of around 40% of net profit.

Q. Were employee bonuses expenses included in 2Q results?
A. Employee bonus expense was included in 1H26 results.

Q. What are the details on the timing of capex spending?
A. Capex cash outflows will follow construction and equipment payment schedules. Payments are generally made after inspection and acceptance, so actual cash spending will lag committed capex.

Q. Is the NT$52bn 2026 capex plan based on commitments rather than cash payments?
A. Yes. Only NT$6.9bn was paid in 1H26, and cash payments should increase in coming quarters as projects progress.

Q. Could NYT receive stronger government support?
A. Government support remains fragmented across central, local, and departmental levels, but NYT continues to seek more unified support for Taiwan's DRAM industry.

Q. How does Taiwan's foundry ecosystem help wafer-to-wafer product development?
A. Taiwan's advanced semiconductor ecosystem should help streamline customized memory projects. Several projects are pending, and proximity to leading foundry/packaging capabilities may support wafer-to-wafer development.

Q. Would NYT consider LTA structures such as cash prepayment/price floors/take-or-pay to reduce default risk during downturns?
A. Yes, such structures will be considered.

Q. Given the cyclical nature of memory, what is the outlook from here?
A. Memory remains cyclical, especially for lower-value non-AI products. However, the overall market remains in shortage, supported by AI/server demand and tight capacity across applications.

Q. Comment on NYT LPDDR potentially entering NVIDIA's Vera Rubin supply chain?
A. No comment due to customer confidentiality.

Q. What is the impact of the recent wafer price increases on gross margin?
A. The focus remains on ASP momentum. 2Q ASP increases are expected to continue into 3Q, which should help offset cost pressures.

Q. Is there better pull-in momentum from customers after earlier consumer price resistance?
A. Supply remains tight, limiting the ability to support incremental pull-in momentum.

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Investment Thesis, Valuation and Risks

Nanya Technology *(Overweight; Price Target: NT$710.00)*

Investment Thesis
We are OW on NYT, given the resilient legacy DRAM pricing coupled with leading memory makers phasing out DDR4 to drive pricing leverage higher in 2H26E and 2027E. NYT's entry into the NVIDIA supply chain will help it to extend its server industry exposure well beyond the 20% level, while simultaneously reducing its large CE exposure, making its pricing trend less volatile and more stable. While we expect quarterly earnings y-y momentum to slightly decelerate as we head into 2H26, we see NYT as having a relatively favorable risk/reward in the near-mid term as we expect all memory stocks to move up together during an up-cycle.

Valuation
Our June-27 PT of NT$710 is based on 8x FY27E EPS , on par with the Korean DRAM makers driven by our higher-for-longer thesis (vs. previously diverging pricing momentum expectations between DDR4 and DDR5).

Risks to Rating and Price Target
Downside risks include:

- Shorter-than-expected legacy DRAM spot price momentum into 2H26.
- A shorter-than-expected D4 16Gb die shelf cycle from the consumer market (i.e., customers' willingness to transition from D4 to D5, could result in weaker than expected D4/LPD4 pricing from 2026-end to 2027 onwards).
- Unsuccessful AI-related memory product development, allowing the company to de-rate (a failure in next-gen technology migration, creating room for competitors to catch up).
- Faster-than-expected DDR5 yield improvement from CXMT.

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03-Aug-23	OW	69.10	90
10-Jul-24	OW	73.00	85
11-Oct-24	N	43.50	48
10-Dec-24	UW	32.50	25
14-Jan-25	UW	25.40	20
03-Apr-25	N	41.10	46.5
10-Jul-25	N	48.40	54
25-Sep-25	N	76.00	86
14-Dec-25	N	162.00	155
22-Mar-26	N	234.00	220
14-Apr-26	N	225.50	230
03-Jul-26	OW	407.00	710

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 11, 2018. All share prices are as of market close on the previous business day.

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