Electronic Components Sector

US marketing feedback

Japan Equity Research

Technology - Electronic Components

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We visited US investors from July 20 to 24. Stocks in the electronic components sector have undergone a significant correction since the beginning of July, but interest in FC-BGA substrates (ABF substrates) and MLCCs remains strong. Discussions centered on medium- to long-term earnings forecasts and the possibility of future price increases. Regarding individual stocks, there was a lot of discussion about Murata Manufacturing, Taiyo Yuden, TDK, Ibiden, Rohm, Hirose Electric, and Nidec. Although stock prices have corrected significantly since July for companies handling ABF substrates (Ibiden) and MLCCs (especially Murata Manufacturing and Taiyo Yuden), many investors were bullish on medium- to long-term fundamentals, and many that were long-only and hedge fund investors seemed to be seeking entry points. In particular, Western long-only investors had seemed to be taking a wait-and-see approach with MLCC stocks, but their interest now appears to be growing in light of the recent stock price corrections. On the other hand, amid an ongoing correction in electronic component stocks overall, we got a strong sense that despite their interest in buying, many investors were waiting for someone else to get the ball rolling.

Feedback on MLCC stocks

- Both hedge fund and long-only investors continue to have a strong interest in MLCC stocks. Previously, we had the impression that Western long-only investors had been avoiding MLCC stocks (Murata Manufacturing, Taiyo Yuden) due to their rapid and intense price movements. However, they now seem more interested in them, given that the stock prices have undergone a correction. We were asked a lot about the weightings of MLCCs for companies' AI servers, future sales growth rates, potential for profitability improvement, trends in capacity expansion, supply-demand trends, and the possibility of price increases.
- We explained our scenario of sales and earnings growth at MLCC companies driven by higher AI accelerator volume, higher thermal design power (TDP) on average, and price-premiums resulting from a shift to high-end and next-generation products (general-purpose products are used in the main at present). We explained that price-premiums in particular will have a significant impact on earnings due to a shift to high-end products at Nvidia, as well as a rapid shift to 1005/47uF and 1608/100uF capacitors at ASIC clients.
- A South Korean manufacturer has started to conclude annual contracts for MLCCs for 2027, mainly for new-generation products, but there seem to be no price increases for mid-range and high-end products at this time. In terms of price increases in response to tight supply-demand and the increasing risk of future shortages, we expect to see initial moves regarding mid-range and high-end MLCC prices starting in August. The key question going forward will be whether Japanese manufacturers will follow suit. We believe companies like Murata Manufacturing could reconsider their pricing strategies, if rival manufacturers move to raise prices, so future developments will be worth watching. It remains to be seen whether this will be a hot summer for price hikes.

Other stocks

See page 3 for analyst certification and important disclosures, including non-US analyst disc

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- **Ibiden:** We received many questions about earnings upside at Ibiden from EMIB-T for ASICs, and earnings upside in FY2029-30 due to future capacity increases. There were also a lot of questions about the possibility of price increases. We anticipate that Ibiden could consider constructing new facilities in vacant spaces at the Gama and Ono Plants, or possibly acquire external fabs. In terms of pricing, the company is not considering raising prices for its current mass-produced products, but it is considering measures such as setting higher prices for new products. Overall, it seems that many investors are looking to buy Ibiden on dips.
- **Rohm:** We got the impression that US and European tech investors' evaluation of analog/discrete semiconductor stocks is improving due to tight supply of analog/discrete semiconductors as well as price increases, and that there seems to be growing interest in Rohm in this regard. Earnings announcements from Texas Instruments and STMicroelectronics showed that their respective April-June results and July-September guidance exceeded the respective market consensus estimates. We believe Rohm's sales from April-June will start to show the benefits of the recovery in the automotive and industrial machinery markets, as well as the overall market tightening due to increased demand for analog/discrete semiconductors for AI. In terms of its operating profit, however, we anticipate that inventory reductions will have continued until April-June, and that a significant improvement in earnings will not occur until 2Q at the earliest. There was also strong interest in the ongoing restructuring of the analog/discrete semiconductor market in Japan. Concerning Rohm's integration of Toshiba's semiconductor business, and its power semiconductor business integration and the framework for integration with Mitsubishi Electric's power semiconductor business, many investors expressed the view that Rohm should not pursue integration if it cannot take the lead in the power semiconductor business.
- **Hirose Electric:** We got the impression that investors' expectations for earnings upside are rising, given an overall recovery in demand for industrial machinery.
- **Nidec:** There were a lot of questions about the schedule going forward and the possibility of the stock remaining listed or being delisted. Interest in Nidec stock seemed stronger than among Asian investors. We were also asked a lot about demand trends for alternators for data centers and the impact of the recovery in the overall industrial machinery market.