Korea Technology

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EQUITY: TECHNOLOGY

2H26 Tech Tour takeaways

Quick Note

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On 20-21 August, we hosted Asia Tech Tour in Seoul. More than 10 companies attended the event. Below are our key takeaways from the meetings.

Samsung Electronics (005930 KS, Buy): Memory tightness to persist
Management remained constructive on 2027-28 supply/demand, with fulfillment rates still low (60-70%) for both DRAM and NAND despite oversupply noise. The company has signed LTAs with 5 major DC customers, with 5 more in final talks, targeting 60-70% capacity allocation to LTAs (5-year, price floors) while keeping 30-40% open for upside. DRAM production growth is capped near 20% even post-2028 given long fab lead times and the HBM wafer trade-off.

It expects its HBM revenue portion to keep growing despite lower profitability than commodity DRAM, given its strategic importance to AI customers. Pricing momentum remains strong into next year, according to management, although it doesn't expect steep increases to persist for years; hence it is locking in via LTAs. De-spec concerns were downplayed as forced decisions by customers owing to lack of chip supply rather than a structural demand shift. The company does not expect HBM margins to exceed commodity DRAM margins, given worse cost structure and customers' consideration of HBM-commodity DRAM trade-off.

Management is investing preemptively in infrastructure (P5 + preparing P6) and adding 4nm capacity given tight demand from US chipmakers, ASIC customers, and internal Exynos orders. Shareholder returns remain at 50% of FCF for now. More disclosure on LTA details is likely to happen once additional deals are closed.

SK Hynix (000660 KS, Buy): Shareholder return step-up; strong visibility from LTAs
Management announced a meaningful shift in capital return policy — the prior 50% of FCF is now a floor rather than a ceiling, with buybacks/cancellations planned over the next 3 months and further details (including possible dividend increases or a special dividend) to come in 3Q. LTAs are seen as key to improving revenue/FCF visibility and overcoming memory cyclicality concerns. It is in discussions with ~10 customers, mostly on 5-year terms with price floors/ceilings applied selectively, although the priority is securing demand visibility rather than maximizing price. HBM pricing is expected to keep rising as the mix shifts toward HBM4, and management does not expect HBM pricing to be dependent on commodity DRAM, calling current pricing structurally unlikely to fall given rising costs.

On supply, DRAM bit growth is guided at just above 20% this year (including HBM), and we think 2027-28 NAND bit growth may potentially reach 20-30% from combined Korea/China capacity. According to management, migration benefits will fade and actual capacity additions will become more important; a large new Yongin cluster (4 fabs through 2033) and M17 will support this. NAND growth remains driven mainly by 321L migration and some Dalian fab expansion. Management downplayed CXMT's (688825 CH, Buy) potential threat given that Hynix is more focused on advanced memories, and characterized Nvidia's (NVDA US, Not rated) potential HBM de-spec, which numerous market participants are speculating about, as a supply-driven, not demand-driven, temporary compromise that should reverse once shortages ease (in case it materializes).

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SEMCO (009150 KS, Buy): AI-driven price raise and mix improvement

Management guided for data center MLCC revenue mix to rise in 2027E, as capacity shifts toward AI despite absolute IT revenue growth. Long-term MLCC OPM is guided to show strong growth, driven by mix improvement and price hikes. AI MLCC carries higher ASP, with hyperscaler LTAs (1-year, 100% take-or-pay) expected to cover majority portion of MLCC revenue next year.

Capacity is expanding 20%+ this year, although management stressed this alone cannot meet AI demand. Management expects strong MLCC content growth until 2027-28E on rising GPU power consumption, with the industry expected to run near-full utilization from 2H26-2027E.

Management highlighted a new KRW1.5tn 2-year hyperscaler silicon capacitor contract. SEMCO will have more opportunity as the company can offer passive component and substrate solutions as a one shop. For glass core substrates, SEMCO is working with 4 customers and targeting first production in 2028E. Management guided for strong ABF OPM improvement next year.

Samsung SDI (006400 KS, Buy): Increasing exposure to ESS batteries

Samsung SDI (SDI) will further focus on its ESS business in 2H26E and start producing LFP batteries in the Stellantis JV (STLAM IM, Buy) from October 2026. On 11 August, SDI *announced* to acquire GM's (GM US, Reduce) stake in the JV the company established in Indiana. Once the plant is completed, SDI will start producing LFP batteries. In the Stellantis JV, SDI currently operates one NCA battery line for ESS (7GWh capacity) and will add a 12GWh LFP battery line in 4Q26E, followed by an additional 10GWh capacity in 1H27E.

Samsung SDI stands as our top pick in the battery sector, having successfully exited operating losses in 2Q26 and demonstrating strong momentum across its ESS business. The company projects ESS revenue to grow 30-40% q-q in 3Q26E, followed by an even stronger 50-60% growth in 4Q26E as the Stellantis JV commences LFP battery production. Demand fundamentals remain particularly strong in the backup power segment, with BBU (battery backup unit) and UPS (uninterruptible power supply) revenues expected to surge 60-70% y-y in 2026E, according to management. SDI disclosed to sell 5% of its stake in Samsung Display (unlisted) to Samsung Display for about KRW4.45tn. The deal is expected to be closed on 27 August, and SDI will have 10.2% of Samsung Display's share remaining.

HD Hyundai Electric (267260 KS, Buy): AIDC opens a new growth leg

Management attributed the 2Q temporary margin miss to mix shift — a lower power equipment portion vs. higher distribution (boosted by domestic semiconductor industry). There were high-margin US projects of which revenue was not recognized in 2Q due to installation delay. Regarding investors' feedback that new order guidance of USD5.2bn appears conservative, managment commented that seasonality (stronger new orders in 1H vs. stronger revenue in 2H) should be considered for full-year forecasts. The company expects US revenue proportion to grow, as the US accounts for ~70% of its backlog.

Middle East orders softened in 2Q due to signing delays, and management believes this should continue due to new order slot reallocation to Europe. The company expects meaningful growth in Europe based on US hyperscalers' investments in the region, with margins now matching or exceeding that of Middle East. On AIDCs, management cited a new LTA with a major big tech (~KRW1.1tn, 2027–28 delivery) and expects DC-related orders to grow from 1.8% of power equipment new orders in 2025 to 16.0% by 2027E, and that it is in discussions with three additional big tech names.

Management flagged skilled labor as the main constraint on power transformer output. Lead times keep extending for power transformers (~4 years), while distribution and rotating equipment lead times have normalized. Management saw no sign of US order delays, citing its long-cycle book and punctual customer base, and was cautious on the long-term scale of the marine generator opportunity tied to AI DC.

LG Display (LGD; 034220 KS, Buy): Market share gain and mix improvements

Management presented improved shipment outlook for both large-size (TV/OLED monitor) and small-size displays (mobile/smartwatch) on stronger demand, with OLED potentially accounting for increased portion of revenue. In our view, management is expecting three pillars to support 2H26E: 1) higher shipments, 2) greater market share within the US major client, and 3) a richer mix skewed toward high-end smartphones vs. last year's broader lineup. Rising chip/material costs remain a headwind, but management is still confident about strong y-y growth of OP.

We think LGD's mid-size IT panel profitability will improve through a pivot away from broad LCD supply toward select strategic customers only. On foldables, LGD is likely to focus more on bar type displays as they lack cash resources for immediate investments in foldable panel production, in our view. Regarding small-sized display profitability, despite the market's concerns, the company is well handling the issues thanks to Chinese competitor's low market share due to technological changes, in our view.

HPSP (403870 KS, Not rated): NAND emerges as a new driver

2Q OPM came in above 60%, aided by ASP increases and favorable FX. Application mix is shifting meaningfully — NAND is expected to become the largest contributor in 2027E as customers adopt higher layer counts, followed by similar and smaller contributions from foundry and DRAM.

On competition, management does not see near-term market share risk given competitors remain 2-3 years from mass-production qualification, with competitors' equipment shipped so far only for R&D rather than commercial production. Capacity currently stands at 100 tools/year, and management indicated a capex decision may happen by 4Q26-1Q27E if customers signal that 2028E demand could exceed current capacity, with land already secured next to headquarters for future expansion, and interim cleanroom rental as a bridge option.

Soulbrain (357780 KS, Buy): Semiconductor materials powering an upcycle

Earnings continued to trend up in 2Q, with revenue reaching KRW312bn (+18.3% q-q; +36.3% y-y), driven mainly by new fab ramp-ups by major memory makers since 2Q25; margin growth lagged on rising raw material costs tied to the Hormuz Strait issue, although management expects cost pass-through in 2H. The semiconductor division (84% of sales) is entering a growth phase led by etchant, CMP slurry, and precursor products, benefiting from rising fab utilization, new lines of memory customers, and growing volume of a customer's overseas fab — management described its position in core materials as effectively a monopoly (80%-100% within domestic memory customers).

Display (7% of sales) saw a large y-y decline, but this reflects the 2Q25 exit of thin glass rather than weakness; excluding that, revenue was flat, with growth from new items expected in 2H27-2028E. The battery division (7-8% of sales, down from ~20% historically) remains pressured by low utilization (~20%), but management sees a bottom (2025 revenue ~KRW60bn) with recovery ahead on ESS demand and EV market recovery.

Management described NAND layer migration as a structural tailwind (through increased material usage), highlighted a near-monopoly position in HSN etchant for 3D NAND, and noted no customer cost-reduction pressure this year — implying increase in ASP — as customers prioritize yield over price. Wet etchant utilization sits at 60% with capacity ramp-up underway through automation. Management is currently pursuing customer base diversification from current composition (~90% of revenue coming from domestic semiconductor customers).

Appendix A-1

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