

Asia Technology

Key Takeaways from the J.P. Morgan Asia Tech Tour (Seoul Part): AI hardware and components

We hosted major hardware and component producers (SEMCO, LGE, LGIT, ISU Petasys, and ISC) at our JPM Asia Tech Tour (Aug 20-21) with 50+ investors joining our conference. Key FAQs from investors were centered around the respective sub-sector's growth prospects towards AI, competition dynamics, pricing trends, and understanding supply constraint factors. While we sense investors are taking a constructive view on overall hardware mid-to-long term fundamentals, preference at the stock level seems a lot more selective than in the past (more balanced view 6 months ago). **SEMCO and ISC (both OW)** are preferred buy ideas with strong technology prospects and market share gain potential followed by **LGIT/ISU (both OW)** - smartphone exposure and intensifying competition a reason for lower pecking order) and **LGE (Neutral** - distant robotics earnings contribution).

- Positive narrative across the AI hardware supply chain on demand and earnings quality.** AI hardware companies are set to deliver historically high margins amidst longer order visibility and rising LTA discussions. Most of the hardware supply chain views the duration of the AI capex driven hardware up-cycle to last longer vs. previous up-cycles and expects to renew historical margins amidst a favorable pricing environment. Similar to memory, suppliers pointed to a rise in LTA discussions with key customers and it is worth noting both the quantity (from a couple of customers with short-duration LTA commitments to 5-10 customers with long-duration LTA commitments) and quality (from B2C-centric to B2B-centric; mainly in the AI space) of customers have dramatically improved vs. the previous '16-'18 first phase of the cloud investment cycle or the 20-22 Work-From-Home or Stay-At-Home replacement cycle. In the order of LTA duration and visibility, we have witnessed the longest at ABF substrate and testing socket (3-5 years) > AI MLB (2-3 years of order visibility) > AI MLCC (1-2 years). Capex subsidization and dedicated production fab were also frequently discussed concepts and suppliers took it as a positive signal to operate the business with low risk while capturing upside (higher margin upon favorable product mix improvement). Lastly, on the smartphone component side (overall order momentum weakening), suppliers view resilient order momentum in the high-end segment (e.g. iPhone - no changes in 2H26 component build vs. 1M/3M ago).
- MLCC: favorable pricing sentiment amidst tightening S-D.** In light of the surging AI-grade MLCC demand spike, suppliers are operating capacities at full utilization (near 95%) and accelerating capacity expansion (tier-1 suppliers at +20% y-y increase and tier-2 suppliers at +10% y-y increase) while adjusting capacity mix toward AI-grade at the expense of IT MLCC capacity. AI MLCC product lead time is lengthening to as long as 6 months and equipment lead time is also nearing 9 months or longer, suggesting tightening S-D and market dynamics moving toward a seller's market. AI MLCC assembly yield is lower compared to standard MLCC and it commands a significant ASP premium (certain segment 10x over standard spec and AI vs. GP server also over 3x). This provides a strong setup for margin expansion alongside server application sales mix increase (JPMc: both AI/GP server demand mix out of total MLCC industry forecast from 5.5% in 26E to 11% in 28E). SEMCO has raised product ASP mainly from distributor channel market

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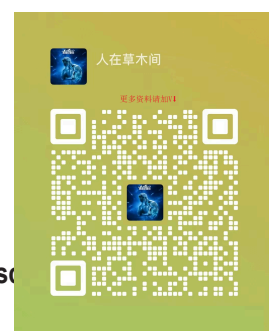
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([link](#)) and we believe direct ASP negotiation with customers is underway which could be the next source of EPS upgrade (JPMe: as early as 4Q26E).

- **Substrate (S-D tightness extending beyond 2028E):** Suppliers are witnessing strong price tailwinds every quarter and continue to deliver margin improvement upon faster-than-expected product mix improvement (SEMCO/LGIT 2Q26 Substrate OPM each at +14%/+10% vs. 1Q26 at +8%/+8% or 2Q25 at +6%/+1%). Margin improvement will continue into 2H26E and it is important to note that the underlying drivers are the AI-grade product/customer mix transition. As a result, suppliers are now extending their order discussions beyond 2028E (as far as 2030E) and plan additional capacity expansion. We believe SEMCO is expanding 27E capacity ahead of our expectations and forecast nearly 2x higher capacity by 2030E vs. this year. Provided rising spec upgrade requirements, we think revenue implications could be greater (around 3x higher in 30E vs. this year) than that of capacity increase. LGIT's pace of capacity expansion is also very fast and is likely to grow faster vs. peers from a low base (revenue-producible capacity growing to near W1trn by 28E from around W100bn this year, per our estimates). Suppliers are continuously in discussions with key customers for additional orders and we believe there is upside potential heading into 2H28E onwards upon successful new order intake. On the BT substrate side, suppliers point to a couple of positive developments: a) rising high-end module demand in the sluggish smartphone market (e.g. copper-post technology), b) rising side-by-side and package-on-package form-factor demand driving spec upgrade, and c) rising memory-grade substrate orders amidst TW peers' capacity reallocation to BT.
- **ISU (MLB): Versatile multi-lam demand and margin upside in 2H26 from cost-pass-through.** ISU's management reiterated that the growing multi-lam capacity mix (JPMe: 24%/47% in 26/27E) will drive stronger ASP thanks to 2-3x ASP premium vs. VIPPO (JPMe: 19%/28% y-y ASP growth in 26/27E). Raw material cost pass-through (especially CCL) has been reflected in the 2Q26 but management expects the full impact to materialize more in the 2H26E supporting sequential margin growth and guided mid-20% OPM in 4Q26 as an achievable target, posing an upside risk to JPMe of 23%. Management guided that the HDI market is likely to kick-off in 2H28E (JPMe: TPUv9) and become mainstream by 2030 as more AI accelerator customers migrate from MLB to HDI. Management is considering to build a HDI-dedicated fab which will be decided as early as year-end or early-27, and we believe the decision to build will be taken positively, confirming ISU's HDI capability and order visibility. In the meantime, management emphasized versatile multi-lam application mix (AI accelerators, networking switches, and CPO) and a diversifying customer base (from GOOG centric to others) that will sustain the earnings through 2028, with a sales capacity of W2trn+ (JPMe: W2.5trn). Our overall take is positive on near-term earnings strength, but we also sense a potential narrative shift from the market overly penalizing ISU on competition risk and distant HDI execution capability. We expect a strong earnings print in the upcoming earnings to dispel market concerns, with monthly export data and HDI-dedicated fab construction as the next catalysts.
- **ISC (Testing socket): LTA details support demand visibility and pricing power.** Following our initiation on ISC ([report](#)), major FAQs from investors centered on earnings visibility and EPS upside risk (either ASP hikes or market share gains), for which we believe management has provided clear messages. Management framed the LTA for test sockets as extremely unusual with details including: 1) ~2 years term for memory and 3-5 years for logic; 2) 10-30% prepayment to fund capacity expansion; 3) pricing floor with cost pass-through terms; 3) take-or-pay terms vs. penalty if failed to meet the contracted volume. Management guided price actions (+20% for memory with potential further ~DD% hike; +30% for logic) to reflect cost inflation and guided further upside risk to memory to narrow the OPM gap with logic (JPMe: ~11% for memory vs. 41% for logic). We believe incremental price actions provide upside risk to our estimates and reiterate our

positive view on ISC based on 1) market share gains in AI GPU/CPU customers; 2) CPU demand upside; and 3) the only rubber socket solution vendor who makes at scale.