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UPDATE

August 27, 2026 02:24 PM GMT

KIOXIA Holdings (285A) | Japan

KIOXIA Announces K3 Construction Plan

No surprise. Given the solid long-term demand outlook, it is reasonable for KIOXIA to begin fab shell construction early to prepare for potential demand upside and secure flexibility.

Key Takeaways

- KIOXIA and SanDisk's JV expects to invest a total of ¥5 trillion in front-end capacity through 2032.
- KIOXIA plans to construct the K3 building at its Kitakami site, with operations targeted to begin during FY3/30.
- We believe KIOXIA's previously announced capex outlook for FY3/27-3/29 may be revised following this announcement.

On August 27, KIOXIA and SanDisk announced plans to invest approximately ¥5trn (over $31bn) by 2032: Subject to support from the Japanese government, the two companies expect to make these investments in Japan to support continued capacity expansion, related infrastructure, and technology enhancements at the Yokkaichi and Kitakami sites, based on market demand trends. The investment applies to front-end manufacturing within the scope of the KIOXIA and SanDisk JV. We assume the investment ratio will remain unchanged, with KIOXIA funding 60% and SanDisk 40%. (SanDisk is covered by our US semiconductor analyst Joseph Moore.)

Separately, Kioxia announced that it has started land preparation and related work for the construction of Kitakami Fab 3 (K3): The new fab will be built on land south of K2 and is targeted to commence operations during FY3/30. Detailed plans, including the construction schedule and equipment investments, will be determined based on market conditions.

Our Take: At its Investor Day 2026 on June 2, the company explained that there remains available cleanroom space within Yokkaichi Fab 7 and Kitakami Fab 2, which the company intends to utilize in line with its expectation of a 22% GB CAGR for the NAND flash market during CY25-28. Beyond that period, KIOXIA indicated that it would consider constructing a new fab at a timing consistent with market growth. Under its plan at the time, existing facilities were expected to support demand through CY29, while additional capacity for CY30 and beyond would require a new fab to be built at an appropriate time.

Against this backdrop, construction of K3 had already been anticipated, and therefore today's announcement contains no major surprise. However, the company now targets the start of operations during FY3/30, which appears somewhat earlier than the timeline implied at the June Investor Day.

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KIOXIA Holdings (285A.T, 285A JP)
Top Pick

Japan Semiconductors | Japan

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	¥110,000
Up/downside to price target (%)	110
Shr price, close (Aug 27, 2026)	¥52,500
Mkt cap, curr, basic (bn)	¥28,770.8
Div yld (03/27e) (%)	1.5

Fiscal Year Ending	03/26	03/27e	03/28e	03/29e
Revenue, net (¥bn)	2,337.6	9,120.3	10,304.9	9,639.8
Operating profit (¥bn)*	870.4	7,193.6	8,216.3	7,370.5
Net income (¥bn)*	554.5	4,985.2	5,778.7	5,220.9
EPS, basic (¥)*	1,024.1	9,249.2	10,721.5	9,686.6
Prior EPS, basic (¥)*	-	-	-	-
EPS (¥)**	1,033.6	9,352.8	10,723.0	9,688.2
Prior EPS (¥)**	-	-	-	-
P/E, basic*	18.6	5.7	4.9	5.4
P/BV, basic	7.4	5.4	2.8	1.9
ROE (%)*	75.2	356.4	112.1	51.9
EV/EBITDA, basic	8.7	3.2	2.3	2.0

framework
** = Based on consensus methodology
* = GAAP or approximated based on GAAP

investors should be aware that the firm may have a conflict of

Research as only a single factor in making their investment decision.

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We see three key implications from this announcement.

1. Early fab shell investment to secure flexibility: Given the solid medium- to long-term demand outlook, KIOXIA is moving ahead with building construction earlier in order to preserve flexibility and prepare for potential upside demand.

2. Potential revision to capex guidance: KIOXIA's Investor Day 2026 outlook called for average annual capex of approximately ¥470bn during FY3/27-3/29. We believe this figure could be revised or adjusted in light of the K3 announcement.

3. No change in investment discipline: While fab shell construction will begin earlier, actual equipment spending will continue to be executed in accordance with market conditions. We see no change in management's disciplined approach to capacity investment. We maintain our Overweight rating on KIOXIA.



Valuation Methodology and Risks

KIOXIA Holdings (285A.T)

FY3/28e FCF yield of approximately 10%: Considering the company's strong FCF outlook, its shareholder return policy, and the significant growth potential driven by AI inference, we believe that an FCF yield of around 10% should provide sufficient support for the share price. Implied P/E of our target price based on our FY3/28 EPS forecast is 10x.

Risks to Upside

Greater-than-expected improvement in NAND flash S/D on AI-driven growth in end demand and supply-side adjustments

SSD market share gains

Risks to Downside

Longer-than-expected deterioration in NAND S/D on declining end demand, capacity expansion by Chinese companies

Japanese yen appreciation (we estimate one yen appreciation against US$ lowers OP by about Y6bn annually)