SK hynix

3Q preview: FX headwind offset by shareholder returns; OW with PT of W2.75M

Overweight

000660.KS, 000660 KS
Price (09 Sep 26):W1,859,000
Price Target (Jun-27):W2,750,000

SKH shares bottomed out from July-low and recovered 37% (vs Kospi +26%, SOX +14%) on the back of the buyback announcement (link) and OpenAI's Astra model launch (link). Currency headwinds could be a short-term risk, but we view the overall higher-for-longer cycle as intact and view the risk-reward as favourable from a medium-term horizon. We recommend investors accumulate the stock.

- **HBM business update – likely to retain no.1 value share position next year.** Following recent changes in industry dynamics, we revise our HBM business assumptions (mainly on pricing and product mix) and continue to view SKH sustaining HBM market leadership (above 40% revenue share) next year. While HBM ASP negotiations are not finalized across all suppliers yet, we see upside risk to our previous estimates (+35% y-y) and now forecast a 48% blended ASP increase in FY27E. Overall 8Hi sales mix (55-60%) is likely to be higher vs 12Hi with strategic customers opting to use more 8Hi for HBM4 and next-gen HBM4E; however, we view the overall HBM bit procurement trend as unchanged (under-supply trend continuing through FY28E). We believe HBM business will grow at a faster pace vs non-HBM and we expect HBM sales mix to return to ~30% by FY28E (vs 38%/16% in FY25A/26E).
- **FX sensitivity analysis; slight profit headwinds into 2H26-2028E.** Memory business is largely exposed to USD-based exports (over 95% of total revenue) and its low cost exposure (30% exposed to USD) makes profit structure vulnerable during Won appreciation. Following recent Won strength (from W1,550 at the beginning of July to W1,340 as of today), we have taken down our KRW-based Sales/OP estimates by 2-7% (W1,460/W1,430 per 1US$ FX estimates for 3Q26E/4Q26E adjusted down to W1,400/W1,340 and onwards). On key business metrics, we largely keep our conventional memory ASP projections and slightly raise DRAM B/G assumption for 4Q26E (like-for-like USD-based forecast is revised up post revision).
- **Introduce new TSR estimates post W40T buyback.** Of W765trn FCF (CFO-CAPEX) for the next 3Y (FY26E-28E), we pencil in a 61% FCF payout (similar to the implied payout of W40T buyback from 1H26 FCF) vs previous forecast of 50% FCF payout. This translates into 7.4%/13.9%/20.3% TSR yield over the next 3Y, and we forecast 75-80% vs 20-25% split between buyback and dividend. While we await a new shareholder return policy from management at the 3Q26 results call, we cautiously view buybacks to be considered the primary return option during 'multiple compression stage (sub-6x)' and expect it to be part of a regular (not one-off) capital return program.
- **Key catalysts and risks.** Key catalysts include further LTA disclosures, shareholder return updates (3Q26 results briefing in late-Oct), ongoing AI/ datacenter investment pipeline updates, and next-gen server platform memory spec updates. Key risks include China competition, ADR fungibility/premium compression, and macro/AI capex volatility. In the near term, FX headline risk could result in consensus earnings downward revisions (JPMe: W72trn vs Consensus W77trn) but we view FX related risk to be temporary and expect SKH's valuation to re-rate from a 12+ month horizon as investors price in a longer-cycle earnings growth trajectory.

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (W)	366,143	359,930	-1.7%
Adj. EPS - 27E (W)	447,275	457,886	2.4%

Quarterly Forecasts (FYE Dec)

Adj. EPS (W)

	2025A	2026E	2027E
Q1	11,136	56,603A	101,865
Q2	9,609	133,542A	112,724
Q3	17,302	76,216	118,003
Q4	20,940	94,394	125,944
FY	58,987	359,930	457,886

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	4	29	16	77	15
Growth	2	18	91	70	33
Momentum	2	1	30	21	77
Quality	9	29	17	87	46
Low Vol	91	76	69	37	28
ESGQ	11	11	94	19	11

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 13 for analyst certification and important disclosures, including non-US analyst disclosures.

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Price Performance



	YTD	1m	3m	12m
Abs	185.1%	26.8%	-16.9%	545.5%
Rel	117.8%	14.1%	-4.0%	429.2%

Company Data

Shares O/S (mn)	730
52-week range (W)	3,002,000-277,000
Market cap ($ mn)	1,013,342
Exchange rate	1,340.11
Free float (%)	68.3%
3M ADV (mn)	9.28
3M ADV ($ mn)	13,748.4
Volatility (90 Day)	115
Index	KOSPI
BBG ANR (Buy | Hold | Sell)	47|1|0

Key Metrics (FYE Dec)

W in billions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	97,147	338,830	511,166	666,675
Adj. EBIT	47,206	255,389	395,125	507,846
Adj. EBITDA	61,136	273,000	421,930	548,074
Adj. net income	42,948	255,220	304,591	392,646
Adj. EPS	58,987	359,930	457,886	647,789
BBG EPS	57,254	348,738	467,352	527,487
Cashflow from operations	59,989	243,923	304,115	397,469
FCFF	29,079	194,609	241,008	312,467
Margins and Growth				
Revenue Growth Y/Y (%)	46.8%	248.8%	50.9%	30.4%
EBIT margin	48.6%	75.4%	77.3%	76.2%
EBIT Growth Y/Y (%)	101.2%	441.0%	54.7%	28.5%
EBITDA margin	62.9%	80.6%	82.5%	82.2%
EBITDA Growth Y/Y (%)	69.6%	346.5%	54.6%	29.9%
Net margin	44.2%	75.3%	59.6%	58.9%
Adj. EPS growth	116.9%	510.2%	27.2%	41.5%
Ratios				
Adj. tax rate	14.9%	23.2%	23.5%	23.5%
Interest cover	142.4	NM	NM	NM
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM
ROE	44.1%	101.4%	64.0%	57.3%
Valuation				
FCFF yield	2.1%	14.8%	19.5%	27.7%
Dividend yield	0.2%	1.8%	2.8%	4.0%
EV/Revenue	13.4	3.4	2.0	1.3
EV/EBITDA	21.3	4.3	2.5	1.6
Adj. P/E	31.5	5.2	4.1	2.9

Summary Investment Thesis and Valuation

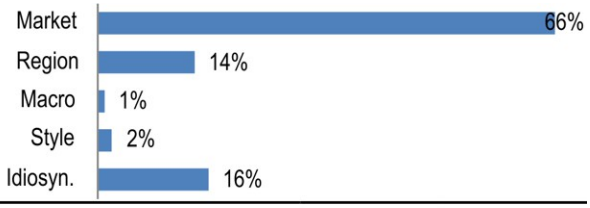
Investment Thesis

Our OW rating on SK hynix is based on the company's solid AI solution execution capability, which has substantially improved its earnings generation capability. We believe we are in the early stages of a memory up-cycle, and improving conventional fundamentals put SKH in a positive position, as the pure memory business carries a higher beta.

Valuation

Our Jun-27 PT of W2.75M is based on 7x average FY26-27E EPS to reflect a stronger and longer memory upcycle view, which we think provides durability and sustainability to SKH's substantially improved earnings capability over the next three years.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.82	0.81
Region: Korea	0.79	0.65
Macro:		
Emerging Economies CPI(YoY)	-0.39	-0.31
HSI Volatility Index	0.30	0.31
JPM Global Equity Sentiment	-0.21	-0.20
Quant Styles:		
Size	0.63	0.46
Momentum	0.45	0.32
Value	-0.34	-0.24

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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Earnings estimate revisions

Table 1: SK hynix – earnings estimate revisions

Won in billions, year-end December

	Revised			Prior			Difference		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
DRAM Shipments (8Gb equiv.)	13,900	17,357	21,439	13,827	17,322	21,354	0.5	0.2	0.4
ASP (US$, 8Gb equiv.)	13.1	17.1	18.7	13.1	16.8	18.2	0.3	1.7	3.0
NAND shipments (256Gb equiv.)	6,222	7,389	8,695	6,222	7,389	8,695	0.0	0.0	0.0
ASP (US$, 256Gb equiv.)	9.2	11.2	10.9	9.2	11.2	10.8	0.0	0.0	1.0
Sales	**338,830**	**511,166**	**666,675**	**348,253**	**537,307**	**676,756**	**-2.7**	**-4.9**	**-1.5**
DRAM sales	256,631	398,647	538,125	263,413	417,338	543,876	-2.6	-4.5	-1.1
NAND (Inc. MCP) sales	82,199	112,519	128,550	84,840	119,969	132,881	-3.1	-6.2	-3.3
Operating profit	**255,389**	**395,125**	**507,846**	**268,932**	**424,425**	**525,584**	**-5.0**	**-6.9**	**-3.4**
OP margin, %	*75.4*	*77.3*	*76.2*	*77.2*	*79.0*	*77.7*	*-1.8*	*-1.7*	*-1.5*
DRAM OP	200,639	317,627	421,407	211,000	338,916	434,539	-4.9	-6.3	-3.0
NAND+MCP OP	54,750	77,497	86,439	58,088	85,509	91,045	-5.7	-9.4	-5.1
Net Income	**255,101**	**304,591**	**392,646**	**265,922**	**328,866**	**409,319**	**-4.1**	**-7.4**	**-4.1**
EPS (Won)	**359,930**	**457,886**	**647,789**	**366,143**	**447,275**	**574,774**	**-1.7**	**2.4**	**12.7**

Source: J.P. Morgan estimates.

Table 2: SK hynix – J.P. Morgan estimates vs Street consensus

Won in billions, year-end December

	JPM estimates				Market consensus				Difference			
	3Q26E	2026E	2027E	2028E	3Q26E	2026E	2027E	2028E	3Q26E	2026E	2027E	2028E
Sales	94,522	338,830	511,166	666,675	98,564	345,555	542,597	643,998	-4%	-2%	-6%	4%
OP	71,578	255,389	395,125	507,846	77,328	266,363	429,518	498,760	-7%	-4%	-8%	2%
NP	54,960	255,101	304,591	392,646	57,845	253,226	346,790	400,073	-5%	1%	-12%	-2%

Source: Bloomberg Finance L.P., J.P. Morgan estimates. Note: Market consensus based on the last 28 days' Bloomberg estimates.

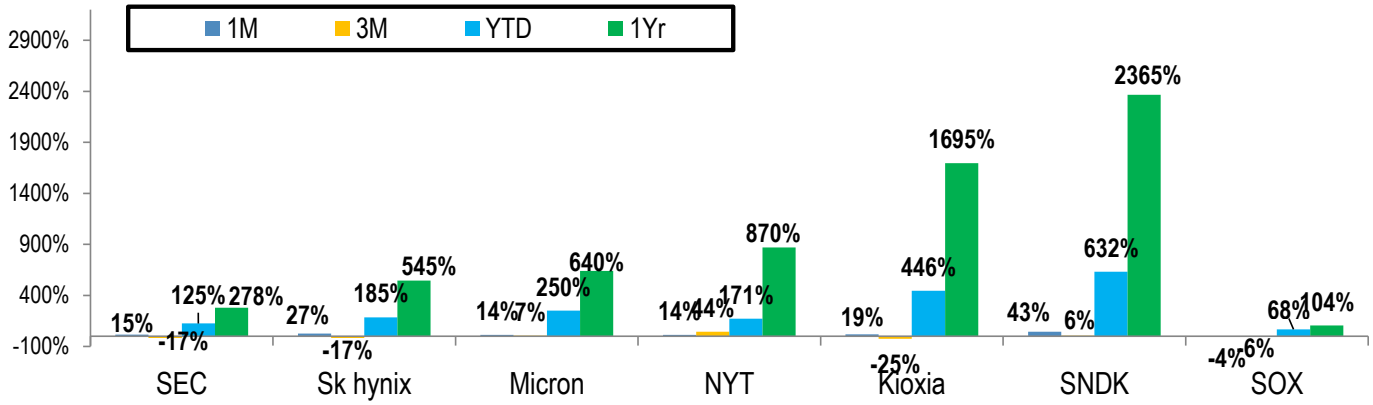
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Share price related charts

Figure 1: Share price performance vs memory peers

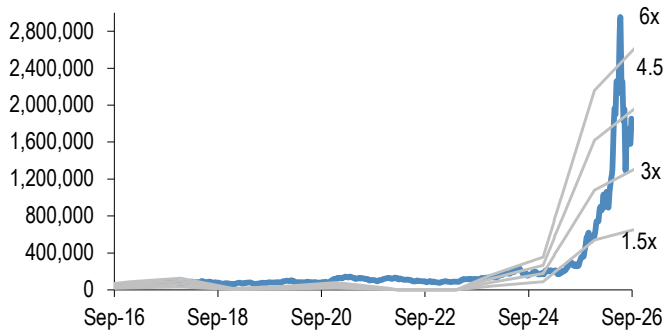
%



Source: Bloomberg Finance L.P.

Figure 2: SK hynix – 12M forward P/E bands

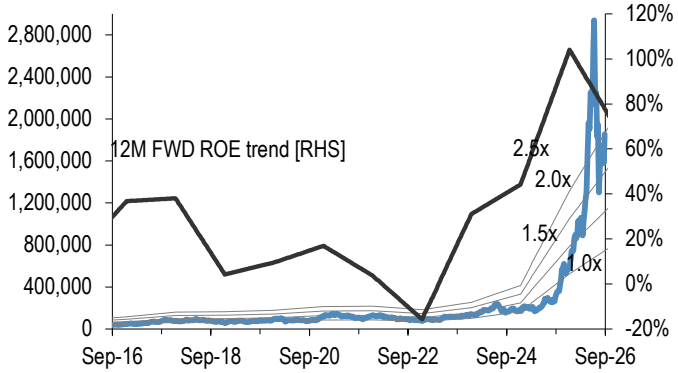
Won, x, %



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

Figure 3: SK hynix – 12M forward P/B bands and ROE trend

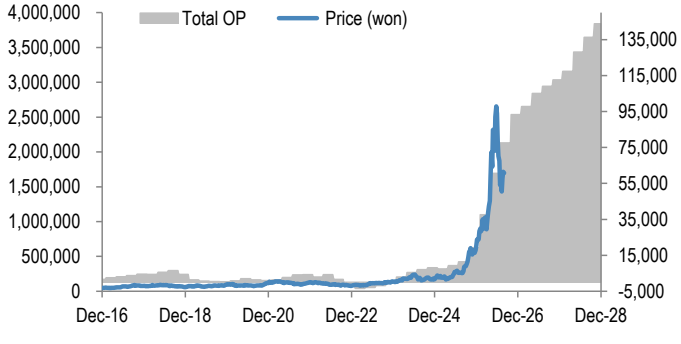
Won, x



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

Figure 4: Share price vs quarterly OP trend

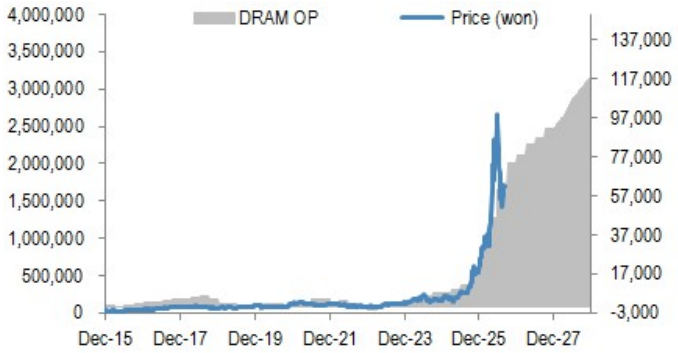
Won, Wbn - RHS



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

Figure 5: Share price vs quarterly DRAM OP trend

Won, Wbn - RHS



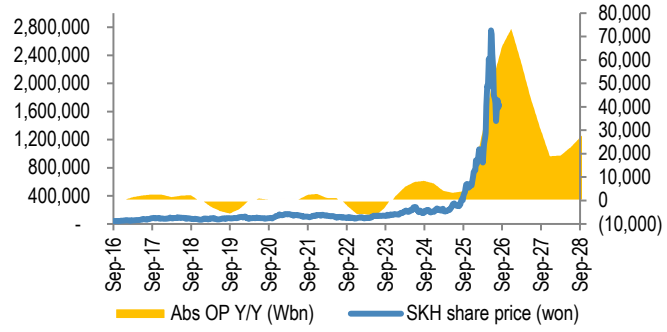
Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

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Figure 6: Share price vs. absolute total OP Y/Y trend (From Sep-16 - YTD)

Won, % - RHS



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

Figure 7: SKH share price vs quarterly OP trend

Won, Wbn - RHS



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

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Key business charts and tables

Table 3: SKH - Total shareholder return analysis

Won bn	2024	2025	2026E	2027E	2028E
SKH FCF	16,015	26,100	148,546	268,578	347,735
Theoretical payout at 50%	50%	50%	50%	50%	50%
Theoretical TSR	8,007	13,050	74,273	134,289	173,867
SKH NP	19,797	42,920	255,101	304,591	392,646
NP payout, %	8%	33%	37%	53%	53%
Actual TSR payout, %	10%	55%	63%	61%	60%
Actual TSR	**1,547**	**14,345**	**93,698**	**162,579**	**208,488**
Dividend	1,547	2,105	23,170	32,659	41,448
Buyback	-	12,240	70,528	129,920	167,040
TSR mix, %					
Dividend	100%	15%	25%	20%	20%
Buyback	0%	85%	75%	80%	80%
TSR per share	**2,124**	**20,128**	**137,165**	**258,191**	**376,153**
Dividend (ordinary)	2,204	3,000	**34,000**	52,000	**75,000**
Buyback (ordinary)	-	17,444	103,492	206,860	302,260
Total number # of shares	**728**	**713**	**683**	**630**	**554**
Outstanding shares	702	702	681	628	553
Treasury shares	26	11	2	2	2
TSR yield, %	**1.2%**	**6.5%**	**7.4%**	**13.9%**	**20.3%**
Share price	179,000	309,000	1,856,000	1,856,000	1,856,000
Buyback amount (mn)			**38**	**70**	**90**
Buyback amount, %			5.3%	10.2%	14.3%

Source: Company data, J.P. Morgan estimates.

Table 4: SKH - F/X sensitivity table

Wbn

	USDKRW (%)			USDKRW (W)		
(Wbn)	**2025**	**2026E**	**2027E**	**2025**	**2026E**	**2027E**
Modelled FX rate	**1,418**	**1,436**	**1,340**	**1,418**	**1,436**	**1,340**
Change in FX	***10%***	***10%***	***10%***	***1%***	***1%***	***1%***
Total Sales	97,147	338,830	511,166	97,147	338,830	511,166
Total Export Sales	87,432	304,947	460,049	87,432	304,947	460,049
FX based Exports	**87,432**	**304,947**	**460,049**	**87,432**	**304,947**	**460,049**
Total COGS	38,456	58,313	77,193	38,456	58,313	77,193
FX based Raw materials import	**15,382**	**23,325**	**30,877**	**15,382**	**23,325**	**30,877**
Other Cost	11,484	25,127	38,849	11,484	25,127	38,849
FX based Other cost	**4,594**	**10,051**	**15,539**	**4,594**	**10,051**	**15,539**
Operating Exposure	**67,456**	**271,570**	**413,633**	**67,456**	**271,570**	**413,633**
After Won Depreciation/Appreciation	74,201	298,728	454,996	67,931	273,461	416,720
Chg in Operating Exposure	**6,746**	**27,157**	**41,363**	**476**	**1,891**	**3,087**
EBIT	**47,206**	**255,389**	**395,125**	**47,206**	**255,389**	**395,125**
OP Impact	**14.3%**	**10.6%**	**10.5%**	**1.0%**	**0.7%**	**0.8%**
FX based asset	7,204	7,204	7,204	7,204	7,204	7,204
FX based debt	3,856	3,856	3,856	3,856	3,856	3,856
Net exposure	**70,804**	**274,919**	**416,981**	**70,804**	**274,919**	**416,981**
After Won Depreciation/Appreciation	77,884	302,411	458,679	71,303	276,833	420,093
Chg in Net Exposure	**7,080**	**27,492**	**41,698**	**499**	**1,914**	**3,112**
Net Profit	**42,920**	**255,101**	**304,591**	**42,920**	**255,101**	**304,591**
Net Profit Impact	**16.5%**	**10.8%**	**13.7%**	**1.2%**	**0.8%**	**1.0%**
EPS	**58,949**	**359,763**	**457,886**	**58,949**	**359,763**	**457,886**
EPS Impact	**16.5%**	**10.8%**	**13.7%**	**1.2%**	**0.8%**	**1.0%**

Source: Company data, J.P. Morgan estimates.

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Table 5: SK hynix: Key assumptions for DRAM business

Units in 8Gb eq., W in billions; year-end Dec

US$ millions, US$, 8Gb equiv, K/month	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2024	2025	2026E	2027E	2028E
ASP (US$)	4.3	4.4	4.6	5.6	9.1	11.8	14.2	16.1	16.3	17.1	17.4	17.7	3.7	4.8	13.1	17.1	18.7
Seq. change, %	*0.7*	*1.5*	*4.3*	*23.1*	*62.5*	*29.7*	*20.3*	*12.7*	*1.3*	*4.8*	*2.1*	*1.8*	*79.1*	*30.1*	*175.7*	*30.7*	*9.3*
Operating cost (US$)	2.1	2.0	1.9	1.8	2.1	2.5	3.1	3.5	3.3	3.4	3.6	3.7	2.0	1.9	2.8	3.5	4.1
Cash Cost (US$)	1.5	1.5	1.4	1.3	1.6	1.9	2.5	2.7	2.5	2.5	2.6	2.6	1.5	1.4	2.2	2.6	2.9
Cost change, %	*-5%*	*-4%*	*-4%*	*-3%*	*16%*	*17%*	*26%*	*10%*	*-5%*	*5%*	*4%*	*3%*	*-1%*	*-4%*	*46%*	*23%*	*17%*
Cash cost chg. %	*-10%*	*-1%*	*-5%*	*-5%*	*19%*	*22%*	*28%*	*11%*	*-10%*	*3%*	*2%*	*1%*	*7%*	*-3%*	*56%*	*16%*	*13%*
Shipments (mn)	2,242	2,795	3,013	3,028	3,014	3,240	3,575	4,070	4,160	4,259	4,401	4,538	8,933	11,077	13,900	17,357	21,439
Seq. change, %	*-7.1*	*24.7*	*7.8*	*0.5*	*-0.4*	*7.5*	*10.3*	*13.9*	*2.2*	*2.4*	*3.3*	*3.1*	*16.0*	*24.0*	*25.5*	*24.9*	*23.5*
Sales	**14,037**	**17,124**	**19,084**	**24,659**	**40,195**	**57,578**	**71,241**	**87,616**	**90,690**	**97,349**	**102,739**	**107,869**	**44,732**	**74,904**	**256,631**	**398,647**	**538,125**
OP	7,337	9,378	11,124	16,574	30,819	45,491	55,533	68,797	72,452	77,821	81,787	85,567	20,259	44,413	200,639	317,627	421,407
OP margin (%)	*52*	*55*	*58*	*67*	*77*	*79*	*78*	*79*	*80*	*80*	*80*	*79*	*45*	*59*	*78*	*80*	*78*
Revenue per wafer (US$)	**8,829**	**11,023**	**12,071**	**14,546**	**22,659**	**30,465**	**38,151**	**47,380**	**55,703**	**57,657**	**57,432**	**58,333**	**8,035**	**11,669**	**34,707**	**57,321**	**77,377**
HBM Sales (US$M)	**4,093**	**4,871**	**5,367**	**5,855**	**5,698**	**6,077**	**7,771**	**10,277**	**11,129**	**14,962**	**18,349**	**21,536**	**9,232**	**20,186**	**29,824**	**65,976**	**118,492**
HBM Sales mix (%)	*29*	*28*	*28*	*24*	*14*	*11*	*11*	*12*	*12*	*15*	*18*	*20*	*21*	*27*	*12*	*17*	*22*
HBM bit shipment (mn)	**311**	**354**	**380**	**423**	**405**	**425**	**492**	**556**	**592**	**656**	**761**	**862**	**726**	**1,468**	**1,877**	**2,872**	**4,024**
HBM bit mix (%)	*14*	*13*	*13*	*14*	*13*	*13*	*14*	*14*	*14*	*15*	*17*	*19*	*8*	*13*	*14*	*17*	*19*
HBM ASP (US$)	**1.6**	**1.7**	**1.8**	**1.7**	**1.8**	**1.8**	**2.0**	**2.3**	**2.3**	**2.9**	**3.0**	**3.1**	**1.6**	**1.7**	**2.0**	**2.9**	**3.7**
HBM ASP premium (%) vs. non-HBM	*5*	*5*	*4*	*3*	*2*	*1*	*1*	*1*	*1*	*1*	*2*	*2*	*4*	*4*	*1*	*1*	*2*
HBM capacity (TSV equivalent, K/month)	**145**	**155**	**160**	**170**	**180**	**200**	**220**	**220**	**230**	**240**	**275**	**300**	**99**	**158**	**205**	**261**	**335**

Source: Company data, J.P. Morgan estimates.

Table 6: SK hynix – Key assumptions in the NAND business

Units in 256Gb. equivalent, Won in billions, year-end December

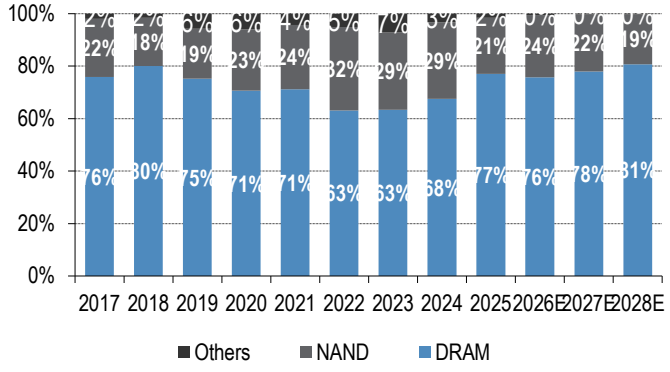
64Gb equiv.	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2024	2025	2026E	2027E	2028E
ASP US$ (64Gb equiv.)	0.7	0.6	0.6	0.9	1.5	2.3	2.6	2.7	2.8	2.9	2.8	2.8	0.7	0.7	2.3	2.8	2.7
Q/Q ASP, %	*-19.5*	*-10.4*	*11.0*	*33.4*	*72.5*	*53.0*	*12.0*	*6.0*	*2.0*	*4.0*	*-2.0*	*-2.0*	*96.4*	*-6.6*	*229.9*	*22.3*	*-2.7*
Operating cost (US$)	0.6	0.6	0.6	0.6	0.6	0.7	0.8	0.8	0.9	0.9	0.8	0.8	0.6	0.6	0.7	0.8	0.9
Cash Cost (US$)	0.4	0.5	0.5	0.4	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.4	0.4	0.6	0.7	0.7
Cost change, %	*-2%*	*-4%*	*2%*	*-7%*	*13%*	*4%*	*13%*	*10%*	*2%*	*1%*	*-2%*	*-2%*	*-11%*	*-3%*	*21%*	*16%*	*3%*
Cash cost chg. %	*-14%*	*19%*	*1%*	*-1%*	*13%*	*9%*	*12%*	*17%*	*2%*	*0%*	*-3%*	*-3%*	*-7%*	*4%*	*38%*	*21%*	*2%*
Shipments (64Gb equiv.)	3,415	5,789	5,554	6,187	5,507	6,250	6,406	6,726	6,996	7,275	7,566	7,718	18,995	20,945	24,889	29,555	34,781
Q/Q or Y/Y change, %	*-17.6*	*69.5*	*-4.1*	*11.4*	*-11.0*	*13.5*	*2.5*	*5.0*	*4.0*	*4.0*	*4.0*	*2.0*	*-1.8*	*10.3*	*18.8*	*18.7*	*17.7*
Sales	**3,229**	**4,728**	**4,989**	**7,744**	**11,980**	**21,374**	**22,881**	**24,397**	**25,880**	**27,992**	**28,529**	**28,518**	**19,274**	**20,690**	**80,631**	**110,919**	**126,950**
OP	81	-189	234	2,579	6,769	15,026	16,017	16,834	17,857	19,594	19,971	19,963	3,115	2,705	54,645	77,385	86,326
OP margin (%)	*3*	*-4*	*5*	*33*	*57*	*70*	*70*	*69*	*69*	*70*	*70*	*70*	*16*	*13*	*68*	*70*	*68*
Revenue per wafer (US$)	**2,648**	**4,022**	**4,283**	**6,363**	**9,768**	**16,963**	**19,474**	**21,674**	**22,992**	**24,868**	**25,346**	**25,336**	**4,204**	**4,331**	**16,844**	**24,636**	**28,196**

Source: Company data, J.P. Morgan estimates.

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Figure 8: SK hynix – Revenue breakdown

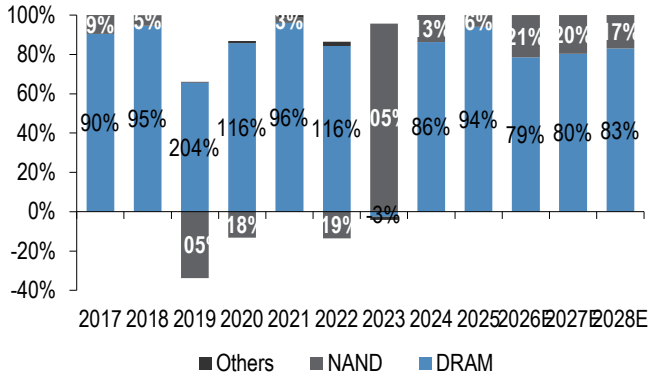
%



Source: Company data, J.P. Morgan estimates.

Figure 9: SK hynix – Operating profit contribution

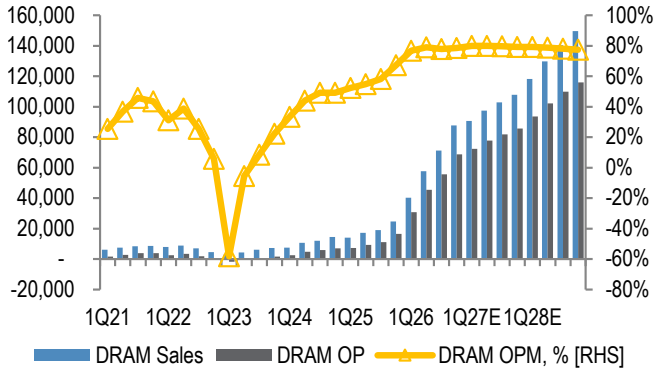
%



Source: Company data, J.P. Morgan estimates. Note: Negative earnings in FY23.

Figure 10: SK hynix – DRAM quarterly sales/OP/OPM trend

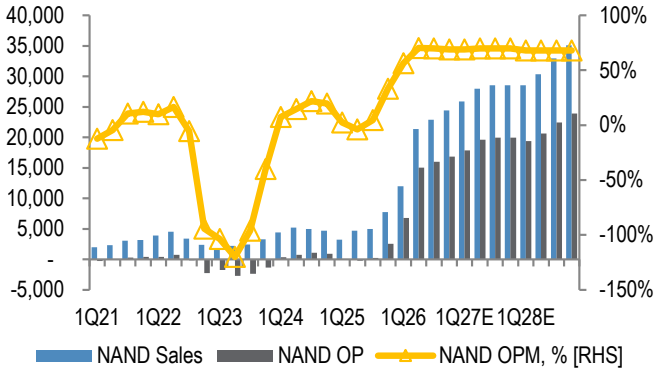
Won in billions, OPM (%)



Source: Company data, J.P. Morgan estimates.

Figure 11: SK hynix – NAND quarterly sales/OP/OPM trend

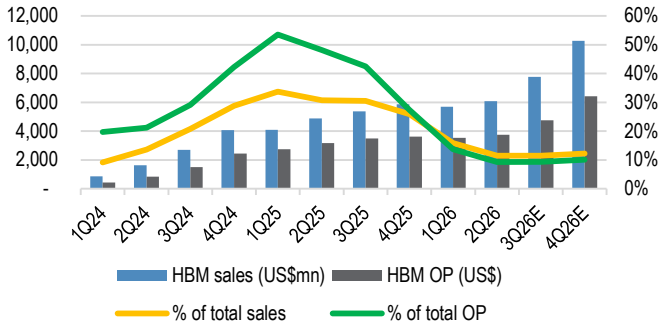
Won in billions, OPM (%)



Source: Company data, J.P. Morgan estimates.

Figure 12: SK hynix HBM sales/bit % contribution to DRAM

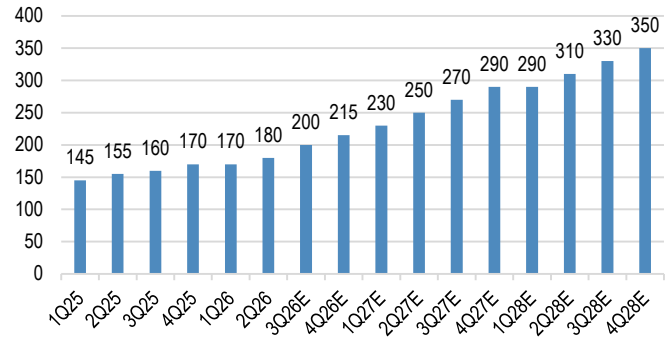
US$mn, % - RHS



Source: Company data, J.P. Morgan estimates.

Figure 13: SK hynix HBM backend capacity trend

Kwfpm

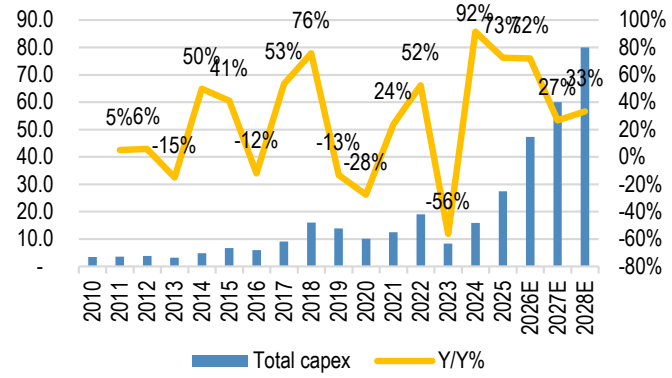


Source: Company data, J.P. Morgan estimates.

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Figure 14: SKH – total capex and Y/Y% trend

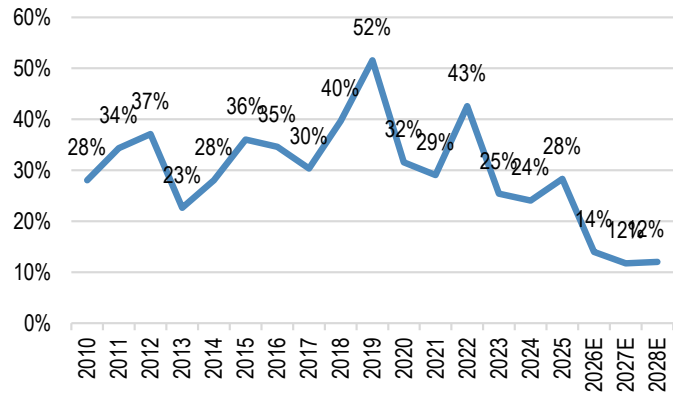
Wtrn, % - RHS



Source: Company data, J.P. Morgan estimates. Note: Capital intensity = capex / sales

Figure 15: SKH – Capital intensity

%



Source: Company data, J.P. Morgan estimates. ; Note: Capital intensity = capex/sales.

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Table 7: SKH - Earnings Model

(W in billion)	2025				2026E				2027E								
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	1QE	2QE	3QE	4QE	2024	2025	2026E	2027E	2028E
Revenue	**17,639**	**22,232**	**24,449**	**32,827**	**52,576**	**79,319**	**94,522**	**112,413**	**116,970**	**125,741**	**131,669**	**136,787**	**66,193**	**97,147**	**338,830**	**511,166**	**666,675**
DRAM	14,037	17,124	19,084	24,659	40,195	57,578	71,241	87,616	90,690	97,349	102,739	107,869	44,732	74,904	256,631	398,647	538,125
NAND Flash	3,229	4,728	4,989	7,744	11,980	21,374	22,881	24,397	25,880	27,992	28,529	28,518	19,274	20,690	80,631	110,919	126,950
Others	373	380	376	423	401	367	400	400	400	400	400	400	2,187	1,552	1,568	1,600	1,600
Depreciation	-3,124	-3,249	-3,360	-3,366	-3,519	-3,822	-4,569	-4,848	-5,484	-6,119	-6,775	-7,477	-12,582	-13,930	-17,611	-26,805	-40,229
COGS	7,537	10,249	10,420	10,250	10,897	13,327	16,328	17,761	17,743	18,741	19,876	20,834	-34,365	-38,456	-58,313	-77,193	-106,829
Gross Profit	**10,102**	**11,983**	**14,029**	**22,576**	**41,679**	**65,991**	**78,194**	**94,652**	**99,227**	**107,000**	**111,793**	**115,953**	**31,828**	**58,691**	**280,516**	**433,973**	**559,846**
SG&A Expenses	2,661	2,770	2,646	3,407	4,069	5,449	6,617	8,993	8,890	9,556	10,007	10,396	8,361	11,484	25,127	38,849	52,001
% of Revenue (%)	*15*	*12*	*11*	*10*	*8*	*7*	*7*	*8*	*8*	*8*	*8*	*8*	*13*	*12*	*7*	*8*	*8*
EBIT	**7,441**	**9,213**	**11,383**	**19,170**	**37,610**	**60,543**	**71,578**	**85,659**	**90,337**	**97,444**	**101,786**	**105,558**	**23,467**	**47,206**	**255,389**	**395,125**	**507,846**
DRAM	7,337	9,378	11,124	16,574	30,819	45,491	55,533	68,797	72,452	77,821	81,787	85,567	20,259	44,413	200,639	317,627	421,407
Margin (%)	*52*	*55*	*58*	*67*	*77*	*79*	*78*	*79*	*80*	*80*	*80*	*79*	*45*	*59*	*78*	*80*	*78*
Flash/SRAM	81	-189	234	2,579	6,769	15,026	16,017	16,834	17,857	19,594	19,971	19,963	3,115	2,705	54,645	77,385	86,326
Margin (%)	*3*	*-4*	*5*	*33*	*57*	*70*	*70*	*69*	*69*	*70*	*70*	*70*	*16*	*13*	*68*	*70*	*68*
Others	23	24	25	16	23	26	28	28	28	28	28	28	94	88	105	113	113
Margin (%)	*6*	*6*	*7*	*4*	*6*	*7*	*7*	*7*	*7*	*7*	*7*	*7*	*4*	*6*	*7*	*7*	*7*
Net Interest Income	-126	-129	-103	-72	22	150	226	558	574	582	698	965	-1,000	-429	956	2,819	5,140
Net Other Income	1,985	-361	3,510	-1,445	13,985	62,016	0	0	0	0	0	0	1,418	3,689	76,000	0	0
Pre Tax Profit	9,299	8,723	14,790	17,653	51,617	122,708	71,804	86,217	90,911	98,026	102,484	106,522	23,885	50,466	332,346	397,943	512,986
Tax	1,191	1,726	2,193	2,407	11,271	28,786	16,844	20,225	21,327	22,996	24,041	24,989	4,088	7,518	77,126	93,352	120,340
Extraordinary gain(loss)	-	1	- 2.34	- 26.17	- 15.73	- 102.36	-	-	-	-	-	-	0	-28	-118	0	0
Net Profit	**8,108**	**6,997**	**12,595**	**15,220**	**40,330**	**93,820**	**54,960**	**65,991**	**69,585**	**75,030**	**78,442**	**81,534**	**19,797**	**42,920**	**255,101**	**304,591**	**392,646**
EPS (W)	**11,136**	**9,610**	**17,299**	**20,904**	**56,581**	**133,397**	**76,216**	**94,394**	**101,865**	**112,724**	**118,003**	**125,943**	**27,190**	**58,987**	**359,930**	**457,886**	**647,789**
Margins (%)																	
Gross Margin	57	54	57	69	79	83	83	84	85	85	85	85	48	60	83	85	84
Operating Margin	42	41	47	58	72	76	76	76	77	77	77	77	35	49	75	77	76
EBITDA Margin	60	56	60	69	78	81	81	81	82	82	82	83	54	63	81	83	82
Net Margin	46	31	52	46	77	118	58	59	59	60	60	60	30	44	75	60	59
Sequential Growth (%)																	
Revenue	-11	26	10	34	60	51	19	19	4	7	5	4	102	47	249	51	30
Gross Profit	-3	19	17	61	85	58	18	21	5	8	4	4	na	84	378	55	29
EBIT	-8	24	24	68	96	61	18	20	5	8	4	4	na	101	441	55	29
Net Profit	1	-14	80	21	165	133	-41	20	5	8	5	4	na	117	494	19	29
EPS	1	-14	80	21	171	136	-43	24	8	11	5	7	na	117	510	27	41
EBITDA	10,565	12,462	14,744	22,536	41,129	64,365	76,146	90,507	95,821	103,562	108,562	113,035	35,453	60,306	272,147	420,980	547,006
CAPEX	-6,284	-4,332	-5,032	-11,871	-7,657	-10,671	-13,000	-16,000	-14,500	-14,500	-15,000	-16,000	-15,946	-27,519	-47,328	-60,000	-80,000

Source: Company data, J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

SK hynix *(Overweight; Price Target: W2,750,000)*

Investment Thesis
Our OW rating on SK hynix is based on the company's solid AI solution execution capability, which has substantially improved its earnings generation capability. We believe we are in the early stages of a memory up-cycle, and improving conventional fundamentals put SKH in a positive position, as the pure memory business carries a higher beta.

Valuation
Our Jun-27 PT of W2.75M is based on 7x average FY26-27E EPS to reflect a stronger and longer memory upcycle view, which we think provides durability and sustainability to SKH's substantially improved earnings capability over the next three years.

Risks to Rating and Price Target
Key downside risks to our rating and price target include lower-than-expected DRAM prices and margins, and uncertainty around end demand/inventories.

Key upside catalysts include further DRAM ASP rallies, led by stronger-than-expected demand.

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SK hynix: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**66,193**	**97,147**	**338,830**	**511,166**	**666,675**
COGS	(21,783)	(24,526)	(40,702)	(50,387)	(66,600)
Gross profit	**31,828**	**58,691**	**280,516**	**433,973**	**559,846**
SG&A	(257)	(484)	(475)	(475)	(475)
Adj. EBITDA	**36,049**	**61,136**	**273,000**	**421,930**	**548,074**
D&A	(12,582)	(13,930)	(17,611)	(26,805)	(40,229)
Adj. EBIT	**23,467**	**47,206**	**255,389**	**395,125**	**507,846**
Net Interest	(1,000)	(429)	956	2,819	5,140
Adj. PBT	**23,885**	**50,466**	**332,346**	**397,943**	**512,986**
Tax	(4,088)	(7,518)	(77,126)	(93,352)	(120,340)
Minority Interest	-	-	-	-	-
Adj. Net Income	**19,797**	**42,948**	**255,220**	**304,591**	**392,646**
Reported EPS	27,190	58,987	359,930	457,886	647,789
Adj. EPS	**27,190**	**58,987**	**359,930**	**457,886**	**647,789**
DPS	**2,204**	**3,000**	**34,000**	**52,000**	**75,000**
Payout ratio	8.1%	5.1%	9.4%	11.4%	11.6%
Shares outstanding	728	728	709	665	606

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	14,156	34,942	168,068	292,605	448,653
Accounts receivable	13,019	18,199	67,774	82,469	111,660
Inventories	13,314	14,289	25,490	31,017	41,995
Other current assets	1,790	2,027	3,338	3,945	5,191
Current assets	**42,279**	**69,458**	**264,670**	**410,036**	**607,499**
PP&E	60,157	77,503	108,472	142,616	183,456
LT investments	13,400	25,097	99,534	99,534	99,534
Other non current assets	4,019	4,049	4,283	4,283	4,283
Total assets	**119,855**	**176,108**	**476,959**	**656,469**	**894,772**
Short term borrowings	5,252	8,162	5,858	5,855	5,853
Payables	2,277	2,848	3,876	3,429	4,253
Other short term liabilities	17,436	26,369	58,520	52,515	57,701
Current liabilities	**24,965**	**37,379**	**68,254**	**61,799**	**67,807**
Long-term debt	17,431	14,086	12,105	10,967	9,959
Other long term liabilities	3,543	3,976	13,717	14,848	16,071
Total liabilities	**45,940**	**55,441**	**94,075**	**87,613**	**93,837**
Shareholders' equity	73,916	120,667	382,884	568,857	800,935
Minority interests	-	-	-	-	-
Total liabilities & equity	**119,855**	**176,108**	**476,959**	**656,469**	**894,772**
BVPS	**101,520**	**165,731**	**525,874**	**832,747**	**1,271,561**
y/y Growth	*38.2%*	*63.2%*	*217.3%*	*58.4%*	*52.7%*
Net debt/(cash)	8,527	(12,694)	(150,106)	(275,784)	(432,841)

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**34,366**	**59,989**	**243,923**	**304,115**	**397,469**
o/w Depreciation & amortization	12,582	13,930	17,611	26,805	40,229
o/w Changes in working capital	1,987	3,111	(28,907)	(27,281)	(35,405)
Cash flow from investing activities	**(20,296)**	**(43,003)**	**(123,250)**	**(60,950)**	**(81,068)**
o/w Capital expenditure	(20,034)	(31,275)	(48,580)	(60,950)	(81,068)
as % of sales	*30.3%*	*32.2%*	*14.3%*	*11.9%*	*12.2%*
Cash flow from financing activities	**(8,834)**	**3,801**	**12,453**	**(118,628)**	**(160,353)**
o/w Dividends paid	(826)	(1,036)	(2,121)	(23,714)	(36,269)
o/w Shares issued/(repurchased)	1,711	5,454	6,149	(269)	(351)
o/w Net debt issued/(repaid)	(6,785)	(436)	(4,286)	(1,140)	(1,010)
Net change in cash	**5,235**	**20,786**	**133,126**	**124,538**	**156,048**
Adj. Free cash flow to firm	**15,161**	**29,079**	**194,609**	**241,008**	**312,467**
y/y Growth	*-2695.7%*	*91.8%*	*569.2%*	*23.8%*	*29.7%*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	48.1%	60.4%	82.8%	84.9%	84.0%
EBITDA margin	54.5%	62.9%	80.6%	82.5%	82.2%
EBIT margin	35.5%	48.6%	75.4%	77.3%	76.2%
Net profit margin	29.9%	44.2%	75.3%	59.6%	58.9%
ROE	31.1%	44.1%	101.4%	64.0%	57.3%
ROA	18.0%	29.0%	78.2%	53.7%	50.6%
ROCE	21.7%	33.5%	72.1%	61.3%	55.4%
SG&A/Sales	0.4%	0.5%	0.1%	0.1%	0.1%
Net debt/Equity	0.1	NM	NM	NM	NM
Net debt/EBITDA	0.2	NM	NM	NM	NM
Sales/Assets (x)	0.6	0.7	1.0	0.9	0.9
Assets/Equity (x)	1.7	1.5	1.3	1.2	1.1
Interest cover (x)	36.0	142.4	NM	NM	NM
Operating leverage	-395.6%	216.3%	177.3%	107.6%	93.8%
Tax rate	17.1%	14.9%	23.2%	23.5%	23.5%
Revenue y/y Growth	102.0%	46.8%	248.8%	50.9%	30.4%
EBITDA y/y Growth	506.5%	69.6%	346.5%	54.6%	29.9%
EPS y/y Growth	-316.7%	116.9%	510.2%	27.2%	41.5%

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	68.4	31.5	5.2	4.1	2.9
P/BV (x)	18.3	11.2	3.5	2.2	1.5
EV/EBITDA (x)	36.8	21.3	4.3	2.5	1.6
Dividend Yield	0.1%	0.2%	1.8%	2.8%	4.0%

Source: Company reports and J.P. Morgan estimates.
Note: W in billions (except per-share data).Fiscal year ends Dec. o/w - out of which

