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Kioxia Holdings (285A.T)

Reportedly considering raising funds when listing ADS

CITI'S TAKE

On the night of September 14 (Japan time), Bloomberg reported that Kioxia is considering raising at least $10bn (c¥1.5trn, equating to c5.7% of its current market cap) in connection with the ADS listing it is preparing. Bloomberg reported that the purpose would be to enhance the liquidity of the ADS listed in the US and to aim for inclusion in a major US semiconductor stock index (we assume the SOX). The firm says nothing has been decided at this point.

Implications — If this report proves accurate, we think the market would view it negatively if it simply increased the share count. However, there may also be potential for enhanced shareholder returns (primarily buybacks) to mitigate the impact of the capital increase. We forecast FCF exceeding ¥11trn in FY3/27 and FY3/28 and believe cashflow from business operations will be more than enough to cover capex. We believe raising capital at the current share price valuation (1y forward PER of c3x) would not be an advantageous move. Note that our current forecasts do not factor in a capital increase associated with the ADS listing.

Buy / High Risk	
Price (14 Sep 26 15:30)	¥50,590.0
Target price	¥130,000.0
Expected share price return	157.0%
Expected dividend yield	2.0%
Expected total return	158.9%
Market Cap	¥26,929,971M
	US$174,468M

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

Kioxia Holdings

Valuation

We set our target price using PER, based on our FY3/28 forecasts. We set fair-value PER at 8.0x and apply this to FY3/28E EPS of ¥16,342 (common stock, before dilution of just under 1%) to derive a fair-value share price of ¥130,000, which we adopt as our target price.

Risks

We assign a High Risk rating because we believe share price volatility is likely to remain high given the firm's status as a specialist manufacturer of NAND flash memory, where earnings tend to be volatile, the high ratio of shares held by major shareholders, and the low free float ratio.

Risks to our target price include 1) a deterioration in supply-demand if the US relaxes restrictions on exports of semiconductor production equipment to China, 2) a loosening of supply-demand if companies expand investment, 3) temporary inventory adjustments in the smartphone and data center spaces, and 4) yen strength (we estimate that each ¥1 appreciation erodes OP by c¥55bn).

