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UPDATE

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Semiconductor Production Equipment | Japan

Asia Investor Trip Feedback

We visited institutional investors in Hong Kong and Singapore from Sep 28 to Oct 2, and highlight key takeaways from our meetings below.

Key Takeaways

- Investors remain broadly positive on SPE fundamentals
- Several investors also expressed expectations for strong SPE sector performance once sentiment recovers, confirming that investor interest in the sector still remains high.

We visited institutional investors in Hong Kong and Singapore from Sep 28 to Oct 2. We continue to recommend Advantest as our Top Pick, while also favoring Tokyo Electron and SCREEN heading into Jul-Sep quarter results. We also see an attractive risk/reward for holding DISCO through earnings. In our investor discussions, Advantest and KOKUSAI were frequently mentioned as long ideas, while DISCO, Lasertec and Tokyo Electron were among the more commonly cited stocks to which investors prefer to reduce exposure.

At the broader SPE industry level, we heard relatively few concerns about fundamentals. On the other hand, several investors expressed some confusion over the valuation correction since July and recent share-price reactions to earnings. That said, some investors expect SPE stocks to rebound strongly once sentiment improves, and overall we came away with the impression that investor interest in the sector remains solid.

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SEMICONDUCTOR PRODUCTION EQUIPMENT
Japan
Industry View **Attractive**

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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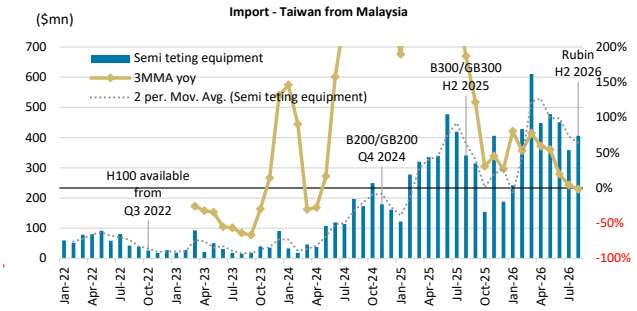
For **Advantest,** most investors broadly agreed with our bullish view, although many expressed concerns that positioning may have become crowded. Ahead of the Jul-Sep (Q2) results, several investors also highlighted downside risk to quarterly results, as Malaysia's exports of semiconductor test-related equipment to Taiwan were down 2% YoY on a 3MMA basis through August.

We acknowledge that sales to Taiwan may not show meaningful QoQ growth in Q2. Historically, Malaysia's exports of semiconductor test equipment to Taiwan have shown a seasonal pattern of rising during the ramp-up of new-generation GPUs from the leading GPU vendor, followed by a temporary decline around the product launch. With Rubin expected to become available from 2H this year, seasonality suggests that Q2 is unlikely to be a period of strong QoQ growth in Advantest's Taiwan sales (Exhibit 1).

That said, SEAJ sales data for Japan-made test-related equipment continue to show robust growth. Cumulative sales for Jul-Aug were 1.9x the prior-year level, and have already exceeded 115% of the total for Jul-Sep last year. Advantest's Q1 sales rose 12% QoQ and 39% YoY to ¥367.5bn, above consensus of ¥336.0bn. Korea was the largest contributor to both QoQ and YoY growth, followed by mainland China (Exhibit 2). In fact, sales to Taiwan declined QoQ in Q1, suggesting that recent growth has been driven primarily by regions outside Taiwan. This may have continued into July and August. Korea's semiconductor test-related equipment imports were up 160% YoY on a 3MMA basis through August, while China's were up 24%. There could also be some timing differences, as Taiwan trade statistics do not necessarily track Advantest's Taiwan sales on a one-for-one basis.

Looking further ahead, we expect the seasonal pattern described above to become less pronounced in 2026, as ASICs volumes and volumes from customers other than the leading GPU vendor increase. We also see few visible themes that would drive investor attention away from test, particularly after expectations for WFE-related names had previously become elevated. In addition, an update to Advantest's capacity outlook could drive further upward revisions to consensus earnings beyond the current fiscal year. We therefore believe that even if the initial share-price reaction to Q2 results is weak, investors are likely to view any pullback as a buying opportunity.

Exhibit 1: Taiwan tester imports likely to soften seasonally with the GPU cycle



show the timing when each GPU became available

Exhibit 2: Regional breakdown of revenue growth contribution at Advantest: Korea and China drove growth in the latest quarter

(¥bn)	26/3				27/3			Contribution BRK		
IFRS	Q1	Q2	Q3	Q4	Q1	y-y	q-q	y-y	q-q	
Sales by geography	**263.8**	**263.0**	**273.8**	**328.1**	**367.5**	**39%**	**12%**	**39%**	**12%**	**Total**
Japan	3.8	5.2	8.5	7.6	3.3	-13%	-57%	-0pt	-1pt	Japan
S.Korea	32.7	56.1	57.0	34.5	67.4	106%	95%	+13pt	+10pt	S.Korea
Taiwan	162.1	115.4	103.2	188.8	178.6	10%	-5%	+6pt	-3pt	Taiwan
China	39.0	52.1	65.4	56.8	69.4	78%	22%	+12pt	+4pt	China
Americas	9.6	11.3	12.0	11.6	13.2	38%	14%	+1pt	+0pt	Americas
Europe	4.4	6.1	5.9	6.7	6.1	39%	-9%	+1pt	-0pt	Europe
Other	12.2	16.8	21.8	22.1	29.5	142%	34%	+7pt	+2pt	Other

For **Tokyo Electron (TEL),** sell-side consensus OP stands at around ¥1trn for the full year, versus our estimate of ¥1.1trn. We remain positive heading into Jul-Sep quarter results,

when the company is expected to provide guidance for 2H. Our investor meetings also suggested that buy-side expectations are not overly stretched, reinforcing our bullish stance on TEL.

For **SCREEN**, we confirmed that expectations for Jul-Sep quarter results remain low. Expectations for margin improvement had risen after the SPE segment achieved a 30% margin in the Jan-Mar quarter (Q4), but sentiment appears to have weakened following the sharp decline to 15% in Apr-Jun (Q1). We believe the Q1 margin contraction can largely be explained by lower sales, with no signs of an unusual increase in fixed costs or deterioration in the marginal profit ratio. As sales recover QoQ, we expect the SPE margin to rebound to 28% in Q2, broadly in line with company guidance. We believe the Q2 results could bring renewed investor attention to SCREEN's margin improvement story.

Investors also appear to remain concerned about whether SCREEN can complete revenue recognition in Q2 for projects for a Chinese DRAM customer that were delayed from the prior fiscal year. Management has expressed strong confidence that the related revenue will be recognized in Q2, and we also see a reasonably high probability of the company achieving its Q2 sales target. Some projects originally scheduled for Apr-Jun were pushed into Jul-Sep because customer acceptance could not be completed in time, providing additional support to Q2 sales. Ahead of the Jul-Sep quarter results, we therefore reiterate our bullish stance on SCREEN.

For **DISCO**, the perceived lack of near-term catalysts appears to remain a key concern. The recent share-price correction has attracted some investor interest, but with the revenue opportunity from emerging advanced packaging applications still difficult to quantify, attention tends to focus on near-term shipment trends. However, there has yet to be a meaningful QoQ acceleration in shipment value, and we heard limited expectations for a near-term share-price rebound.



Valuation Methodology and Risks

DISCO (6146.T)

F3/28 EPS ¥2,477 x P/E of just under 30x. Based on the average 1-year forward weekly P/E from Apr-Dec 2021, the latter stage of the 2019–21 valuation upcycle, adjusted for the expansion in Japanese equity market multiples and differences in growth beyond the 2-year forward horizon.

Risks to Upside

- Emergence of new advanced packaging technologies not previously assumed
- Stronger demand for advanced packaging related to edge AI
- Recovery in demand for SiC and power semiconductors

Risks to Downside

- Sharp slowdown in AI semiconductor investment
- Weakening in consumer demand

Advantest (6857.T)

F3/28e EPS ¥1,591 x P/E just <30x. Based on the average 1-year forward weekly P/E from Apr-Dec 2021, the latter stage of the 2019–21 valuation upcycle, adjusted for the expansion in Japanese equity market multiples and differences in growth beyond the 2-year forward horizon.

Risks to Upside

- Expansion in demand for generative AI SoC testers beyond expectations
- Expansion in the business opportunity for CPO testing

Risks to Downside

- Stagnation in AI semiconductor investment
- Loss of share in generative AI SoC testers and HBM testers

SCREEN Holdings (7735.T)

F3/28e EPS ¥946 x P/E 18x. We expect that as market recognition of SCREEN's improving quality increases, the valuation will re-rate. Our target P/E of 22x (F3/28e EPS) references Ebara, which has similarly undergone re-rating as a semiconductor-related name, and use the average one-year forward weekly P/E from Oct 2025, when the current SPE upcycle began, to the present.

Risks to Upside

- Acceleration in investment in AI infrastructure
- More aggressive price increases in line with peers
- Earlier realization of investments by Intel and TeraFab

Risks to Downside

- Tightening of export restrictions to China

- Tech innovation greatly reduces memory usage in AI inference

Tokyo Electron (8035.T)

F3/28e EPS ¥547 x P/E 24-25x **.** Based on the average 1-year forward weekly P/E of 21–22x from Apr-Dec 2021, the latter part of the 2019–21 period of elevated valuations, adjusted for (1) the rise in the Nikkei 225 valuation from ~18x at the time to ~20x currently and (2) the difference in 2-year forward EPS growth.

Risks to Upside

- Intel & TeraFab capex materializes sooner than expected
- Expansion in applications of NAND for AI inference, and resulting acceleration in green-field investments.
- Earlier-than-expected ramp in mass production adoption of cryo etchers.

Risks to Downside

- Export controls to China tighten
- Coater/developer market shrinks due to adoption of dry resist technology
- Tech innovation greatly reduces memory usage in AI inference