Japan SPE: ASML results read-across: Mention of further capacity expansion amid strong demand; no negative read-through for SPE

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Lithography equipment major ASML (covered by our European hardware sector analyst, Alexander Duval) announced 3Q FY12/26 (Jul-Sep) results on October 14. We outline our key takeaways and implications for Japanese SPE makers below.

Demand expected to continue to outstrip supply

According to ASML, demand for equipment is strengthening further, and customers (semiconductor manufacturers) are expecting that supply will lag behind robust demand until at least 2028. Consequently, the company said it has started receiving orders for delivery in 2028, and in some cases, even extending into 2029 and beyond. FY12/26 sales guidance was revised up slightly, from €43-45 bn (35% yoy growth at the midpoint) at the 2Q results release to €44-45 bn (36% yoy growth; the installed-base sales outlook was raised from +30% to +50%, while expected EUV lithography system shipments remain unchanged at 65 units).

Mention of further capacity expansion from 2028

At its 2Q results briefing, ASML announced plans to increase production capacity for both EUV lithography systems (Low NA only) and DUV lithography systems by 30% in 2027, and by a further 30% in 2028. However, with recent demand growth outpacing that of capacity, the company said it is looking into further capacity enhancements, particularly in 2028 and beyond.

Implications for Japanese SPE makers

Shares of Japanese SPE makers turned slightly lower following the ASML earnings release. The company's comment that demand for lithography equipment—which is the first to be moved into a semiconductor fab cleanroom—is outstripping capacity may have raised concern that ASML could become a limiting factor for broader SPE market growth going forward. However, we believe there were no particularly negative takeaways from the release, as it clearly indicated that demand has strengthened further over the past few months. We continue to favor stocks poised to achieve above-sector-average sales growth driven by idiosyncratic factors, face no particular capacity constraints, and are positioned for margin expansion. Within the SPE sector, we reiterate our Buy ratings on **Lasertec (on CL), Disco, Tokyo Electron, and Ebara**.

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