SK hynix

First Take: 3Q26 beat and W100trn shareholder return program announcement

Overweight

000660.KS, 000660 KS
Price (27 Oct 26):W1,343,000
Price Target (Jun-27):W2,750,000



Technology - Semiconductors

Jay Kwon [AC]
(82-2) 758-5725
jay.h.kwon@jpmorgan.com

Sangsik Lee
(82-2) 758 5146
sangsik.lee@jpmorgan.com
J.P. Morgan Securities (Far East) Limited, Seoul Branch

Our First Take: SK Hynix marked historically high quarterly sales of W104.6trn and operating profit of W83.3trn. 3Q26 earnings came in above consensus and our estimates by 9%-16% thanks to both stronger pricing (higher server DRAM and eSSD ASP) and above guidance shipment trends, albeit with currency headwinds. We believe the above DRAM ASP indicates smooth HBM4 ramp. SKH announced a shareholder return program worth W100trn which we believe is above the consensus of ~W40trn. The company reiterated that memory demand should outpace supply until 2030.

3Q26 capex spending was W12.7trn (or 3Q26YTD W31trn) and is on track for our full-year spending estimate of W47trn. The company reiterated the majority of the capex is allocated to infrastructure in the Yong-in cluster and M15X ramp up with key equipment procurement. We expect to hear more color during the earnings conference call which begins at 9am local time.

Key Positives

- Overall, pricing results were stronger-than-expected with DRAM ASP rising by high-20% QoQ (vs. JPMe: +20%) and NAND ASP up mid-20% QoQ (vs. JPMe: +12%). DRAM bits grew ~10% (vs. JPMe: +10%) and NAND bits fell slightly Q/Q (vs. JPMe: +3%).
- Moving into 4Q26, the company expects higher bit shipment trends vs. 3Q26: DRAM B/G of mid-20% Q/Q increase (vs. JPMe: +4%) and NAND B/G of +MSD% Q/Q increase (vs. JPMe: +3% Q/Q) from expansion of 1cnm and M15X ramp up and increased sales of 321L based eSSD.
- The company's financial position strengthened further, with the net debt-to-equity ratio improving to -32% (from -26% in 2Q26).
- In technology, SK Hynix plans to increase the portion of 1cnm server products and expand sales of 1cnm-based DDR5 and LPDDR5 SOCAMM. The company expects the 321L NAND portion to expand to over 50% of its domestic capacity in 4Q.
- In HBM, the company expects to accelerate M15X ramp up to full capacity by 26-end. In 4Q, HBM4 is expected to surpass HBM3E in HBM bit shipment & revenue shares. 2027 HBM negotiations are finalized with the profitability gap vs. conventioanl DRAM expected to narrow meaningfully.
- SKH also announced a 2026E shareholder return program worth W100trn (implying 65+% payout from our 2026E FCF forecast) consisting of a W60trn buyback and W40trn dividend. 3Q26 DPS is reported to be W20,000 (W10,000 from core operations and W10,000 from Kioxia stake sales) and company plans to use most of its Kioxia stake sales related gain to special dividend at year-end. Lastly, SKH announced a W20trn buyback program this morning (W10trn for shareholder return and W10trn purchase for PSU).
- The company has signed LTAs with 14 key customers, including major global CSP. Secured LTA volumes over 50% of total capacity for 2027 and 2028.

See page 4 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key Negatives / Question Marks

- Profit before tax and net profit came in below expectations due mainly to F/X headwinds (W11.6T loss) and likely Kioxia related investment valuation loss of W22.9T.
- Signs of patchy PC/smartphone demand were spotted, including adjustments in set shipments and product portfolio changes likely due to higher memory prices.
- The management expects 2027 capex to increase significantly compared to 2026.

Likely Changes to Consensus

After a clean 3Q beat, we expect consensus earnings estimates to move up with favorable bottom-up memory S&D fundamentals over the next 12-24 months. HBM pricing for 2027E and LTA/non-LTA mix alongside price increase quotes remain key variables for consensus EPS upgrade.

Expected Stock Reaction

SKH's share price setup heading into the 3Q26 print was more biased towards bearish sentiment due to concerns surrounding F/X headwinds and a trailing quarter EPS miss. 3Q26 beat and new shareholder return update are likely to bring the stock sentiment back to positive territory.

Table 1: 3Q26 Earnings Review

Wbn, %

Wbn	3Q25	2Q26	3Q26 Actual	JPMe	QoQ	YoY	vs. JPMe	Consensus .	Consensus
Revenue	24,449	79,319	104,615	94,522	*32%*	*328%*	*11%*	97,870	*7%*
OP	11,383	60,543	83,334	71,578	*38%*	*632%*	*16%*	76,740	*9%*
OP margin	*46.6%*	*42.2%*	*79.7%*	*71.5%*				*78.4%*	*1.6%p*
Pre-Tax Profit	14,790	122,708	50,709	71,804	*-59%*	*243%*	*-29%*	75,672	*-33%*
Net Profit	12,595	93,820	39,534	54,960	*-58%*	*214%*	*-28%*	60,735	*-35%*

Source: Company data, Bloomberg Finance L.P., 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.