SECTOR
UPDATE

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Tech (OVERWEIGHT)

Musical chairs on a DRAM supply cliff

- We see no reason to doubt the early-cycle upturn, particularly given the lack of major capacity expansions. Investors are increasingly reassessing the importance of memory in AI —and the valuation of memory stocks.
- As DRAM supply tightens, long-term agreements proposed by chipmakers are forcing customers to scramble for remaining inventory—effectively a "musical chairs" dynamic.

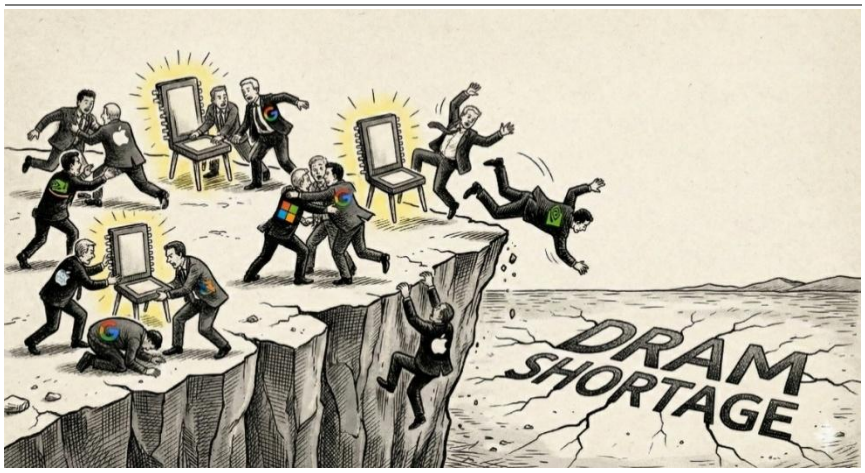
▶ **AT A GLANCE**

Samsung Electronics (005930 KS, 167,500)		
Target price	KRW230,000	37.3%
BUY		
SK Hynix (000660 KS, 907,000)		
Target price	KRW1,300,000	43.3%
BUY		

WHAT'S THE STORY?

No reason to doubt the upturn: The current cycle—kickstarted in 2023 by high-bandwidth memory (HBM)—has extended, underpinned by the commodity DRAM boom that began in 2025. We remain in the early phase of the commodity DRAM cycle, and the classic sequence—demand surge → margin expansion → capex expansion → competition—remains intact. Until oversupply re-emerges, memory should remain the optimal investment target within semiconductors, constituting a compelling risk-reward proposition. Notably, given current earnings momentum, we see no safer or more reliable investment alternative in the market today than semiconductors. We therefore see no near-term inflection risk and no reason to doubt the upturn, especially in the absence of meaningful capacity additions. We reiterate our BUY ratings and target prices for Samsung Electronics (SEC) and SK Hynix.

DRAM shortage intensifying



Source: Samsung Securities

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Investors repricing memory's role in AI: Following Jensen Huang's CES 2026 keynote, where he highlighted KV-cache and inference context memory storage (ICMS), the market has begun to reprice the strategic importance of AI memory. Initially, we expected upward revisions to operating profit forecasts to fade as a driver of sentiment beyond a certain point, consistent with prior semiconductor cycles. However, with operating profits now approaching Big Tech scale—and with Jensen Huang reinforcing the AI narrative—investors' valuation framework for the sector appears to be shifting. Among the large semiconductor stocks underpinning global AI infrastructure spend, we continue to see memory as the most undervalued.

Supply to remain constrained throughout 2026: Memory makers are lifting capex, but the incremental spend (for example, Hynix's M15X or Y1 fab pull-ins, and Micron's ID1 fab pull-in and the PSMC P5 fab acquisition) are primarily geared toward 2027. With 2026 conversion capex already maxed out, incremental bit-growth upside this year looks limited. Commodity DRAM (ex HBM) is increasingly a scarce resource, with bit growth constrained to just 15%.

Securing DRAM supply early matters: If DRAM supply-demand remains unbalanced throughout 2026, securing supply in 1H should be more advantageous than waiting until 2H—even at higher prices. For customers, prioritizing DRAM procurement is key to de-risking 2026 investment and production plans, and maintaining appropriate inventory—even amid tight conditions—also matters in restoring negotiating leverage over time. We view customer inventory trends as a key market for identifying eventual inflection points in supply-demand dynamics.

Customer bargaining power unlikely to recover in near term: In January, the shipment sufficiency ratio for server DRAM is only 66%—implying roughly one-third of customers may have no supply. While PC manufacturers' DRAM inventories appear relatively stable, these firms are likely to prioritize sell-in volumes in 1H, given concerns around softer demand in 2H. Mobile DRAM clients face even tighter conditions, with inventories at around just four weeks, while even tier-2 customers are reportedly trimming production plans. Given the current pace of customers' restocking, we do not expect their bargaining power to recover meaningfully in 1H.

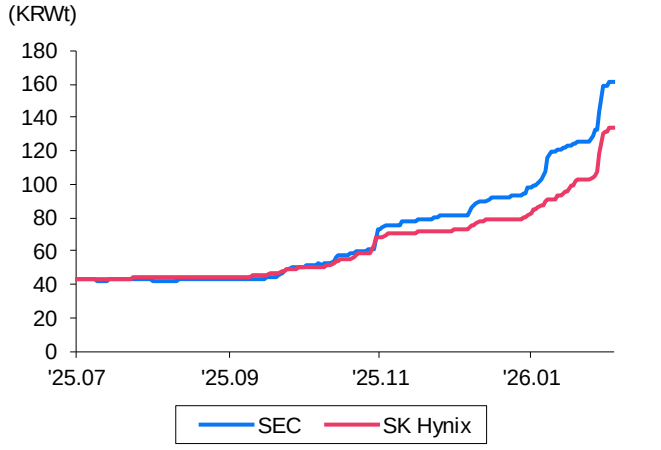
Long-term agreements fuel price hikes: Although customers initially proposed long-term agreements, memory suppliers are now the ones pushing for such contracts. Contract structures—non-cancellable, non-returnable, and no price negotiation—have expanded from server to include PC and mobile customers, and into more general-purpose product lines, materially shrinking spot market availability. These aggressive, chipmaker-led terms are effectively forcing customers into a desperate scramble for remaining inventory—hence the "musical chairs" analogy—and should further exacerbate the supply-demand imbalance.

DRAM contract price forecasts

(USD)	Dec 2025	Jan 2026	Chg (%)
DDR5 16GB SO-DIMM/U-DIMM	72.00	134.00	86.11
DDR5 8GB SO-DIMM/U-DIMM	39.50	75.00	89.87
DDR4 16GB SO-DIMM/U-DIMM	87.00	160.00	83.91
DDR4 8GB SO-DIMM/U-DIMM	46.50	85.00	82.80
DDR5 16Gb 2Gx8	20.80	28.50	37.02
DDR4 16Gb 2Gx8	21.00	26.00	23.81
DDR4 8Gb 1Gx8	9.30	11.50	23.66

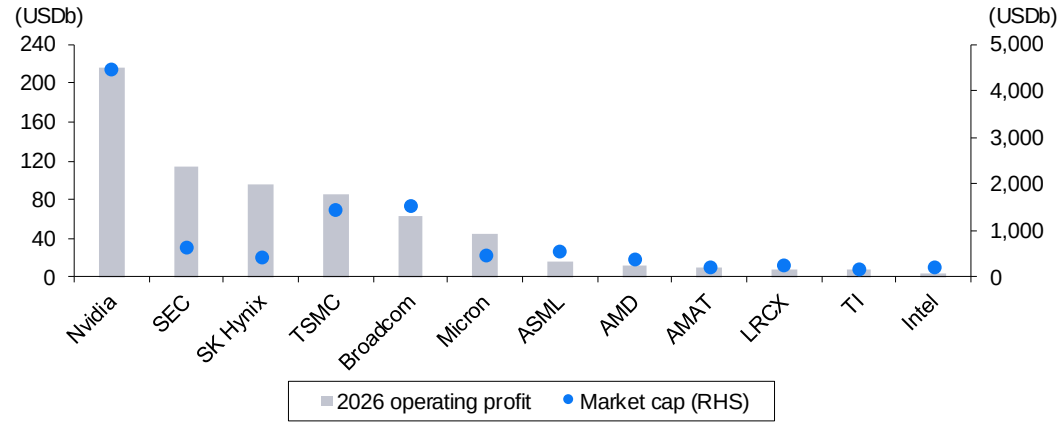
Source: Bloomberg, Samsung Securities

Consensus operating profit forecasts for 2026: SEC vs SK Hynix



Source: Bloomberg, Samsung Securities

Semiconductor value chain: Market cap and 2026 operating profit forecasts*



Note: As of Feb 2;
*Samsung Securities forecasts for SEC and Hynix, and Bloomberg consensus for others
Source: Bloomberg, Samsung Securities estimates

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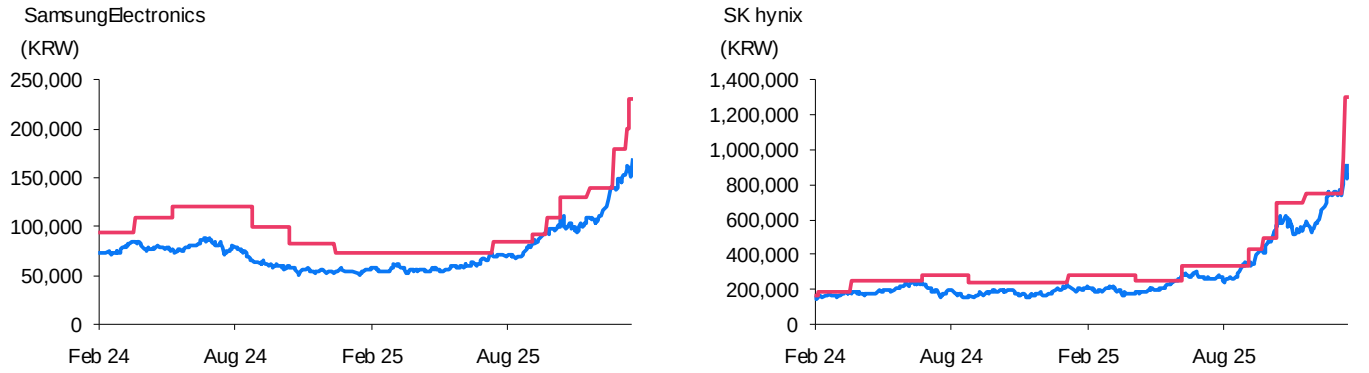
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Samsung Electronics												
Date	2024/1/2	4/8	5/28	9/12	11/1	2025/1/2	8/1	9/23	10/13	10/31	12/8	2026/1/9
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	95000	110000	120000	100000	83000	74000	85000	93000	110000	130000	140000	180000
Gap* (average)	-20.74	-28.36	-34.45	-39.49	-33.92	-21.93	-15.05	-6.95	-10.64	-21.96	-16.54	-18.69
(max or min)**	-10.21	-23.55	-26.83	-35.30	-29.28	-1.89	-1.76	1.51	-5.36	-14.54	0.71	-15.39
Date	1/27	1/30										
Recommendation	BUY	BUY										
Target price (KRW)	200000	230000										
Gap* (average)	-19.23											
(max or min)**	-18.80											
SK Hynix												
Date	2024/1/2	2/23	4/8	7/12	9/12	2025/1/24	4/24	6/25	9/23	10/13	10/30	12/8
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	170000	190000	250000	280000	240000	280000	250000	340000	430000	500000	700000	750000
Gap* (average)	-17.87	-10.86	-18.91	-34.15	-23.78	-30.26	-14.53	-17.52	-14.81	-3.33	-19.05	-11.48
(max or min)**	-7.94	-1.05	-3.60	-16.79	-6.04	-21.96	11.40	3.82	-0.47	11.60	-11.43	2.27
Date	2026/1/27	1/30										
Recommendation	BUY	BUY										
Target price (KRW)	950000	1300000										
Gap* (average)	-10.42											
(max or min)**	-9.37											

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

Samsung Securities uses the following investment ratings*

Company

BUY	Expected to increase in value by 15% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 15% within 12 months
SELL	Expected to decrease in value by 15% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

Percentage of ratings in 12 months prior to 2025.12.31

BUY (85.8%)·HOLD (14.2%)·SELL (0%)

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