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SK hynix | Asia Pacific

# 1Q26 – Super Memory Cycle Reaffirmed

## Reaction to earnings

<b>Unchanged</b> Impact to our thesis	<b>In-line</b> Financial results versus consensus	<b>Largely unchanged</b> Direction of next 12-month consensus EPS
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Source: Company data, Morgan Stanley Research

## Key Takeaways

- HBM4 ramps on schedule and target HBM3e/4 sustained share leadership despite growing competition.
- LTAs materially improve demand and profit visibility as AI customers hope to lock in multi-year supply.
- Inventories continue to decline across servers, PC, mobile, and NAND, positioning memory as a key datacenter bottleneck.
- Capex rises significantly in 2026 to meet customer demand and centered on node migration and earlier infra pull-in but LT mid-30% capex/sales guideline kept.
- Operating profits most likely in-line ex-provisions, in our view.

**Bottom line:** Another record high W37.6tr operating profit (72% margin) +96% QoQ/+405% YoY driven by pricing - ex-quarterly provisions we estimate close to our estimate. HBM mix of DRAM revenue reduced to 20% level due to much higher DRAM pricing with minimal inventory. Capex significantly higher as expected (now well above our W40tr+ estimate) with upside mainly from infra pull-in and 50-60% WFE, in our view. At 2.7x 2026e P/E (1.4x for 2027e), Hynix stock is assuming a cyclical downturn, still undervaluing the sustainable growth in AI demand and LTAs, we believe.

**Stay OW:** The stock market is anticipatory – it is not thinking about the quarter we are in, but rather looking ahead to later in the year. With memory raising prices rapidly, we are seeing expanding margins and more positive return on capital for every increase in capital spending. Our numbers are ahead of consensus EPS, with 2026 consensus EPS up 42% YTD, and we believe the improving earnings recovery outlook should continue to drive upside.

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## SK hynix (000660.KS, 000660 KP)

S. Korea Technology | S. Korea

<b>Stock Rating</b>	<b>Overweight</b>
<b>Industry View</b>	<b>Attractive</b>
Price target	W1,700,000
Up/downside to price target (%)	39
Shr price, close (Apr 22, 2026)	W1,223,000
52-Week Range	W1,233,000-173,300
Sh out, dil, curr (mn)	724
Mkt cap, curr (bn)	W885,669
EV, curr (bn)	W859,541
Avg daily trading value (bn)	W1,989

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (W)**	59,300	300,498	444,418	435,841
Prior EPS (W)**	-	-	-	-
EPS (W)\$	56,505	214,210	268,671	289,897
Revenue, net (W bn)	97,147	335,034	487,189	505,430
EBITDA (W bn)	61,121	295,353	435,430	440,103
ModelWare net inc (W bn)	42,944	214,166	316,738	310,625
P/E	11.0	4.1	2.8	2.8
P/BV	4.1	2.7	1.4	0.9
RNOA (%)	59.6	239.1	118.3	72.1
ROE (%)	58.1	188.0	97.2	48.4
EV/EBITDA	7.3	2.8	1.5	1.1
Div yld (%)	0.5	0.2	0.1	0.1
FCF yld ratio (%)**	4.4	4.5	17.5	21.7
Leverage (EOP) (%)	(10.7)	(15.5)	(31.6)	(41.1)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

\*\* = Based on consensus methodology

\$ = Consensus data is provided by Refinitiv Estimates

e = Morgan Stanley Research estimates

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## Valuation Methodology and Risks

### **SK hynix (000660.KS)**

Our base case price target is derived from our residual income valuation model. We assume a cost of equity of 11.5% (5% risk-free rate, 6.5% risk premium, 1.0 beta) and a terminal growth rate of 3%.

#### **Risks to Upside**

- ASP growth re-acceleration
- Preemptive production cuts or disruption
- Sharp demand improvements
- Significant increase in capital returns

#### **Risks to Downside**

- End demand turning weaker than expected
- Rising competition for DDR5, causing overspending on the supply side.
- Inventories remaining elevated at cloud and Chinese smartphone customers.

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(as of March 31, 2026)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1534	42%	461	50%	30%	698	43%
Equal-weight/Hold	1573	43%	372	40%	24%	716	44%
Not-Rated/Hold	4	0%	1	0%	25%	1	0%
Underweight/Sell	568	15%	89	10%	16%	209	13%
Total	3,679		923			1624	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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