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South Korea Multi-Asset

KOSPI Upside Intact, Yet Be Selective, Focusing on Equities with High-Quality Earnings Outlook

CITI'S TAKE

Citi's South Korea economist and equity analysts have coordinated to assess the scope of the Korean equity market rally. **Economics View:** We highlight three tailwinds and three headwinds from the perspective of Korean economic fundamental, macroeconomic policy mix, and capital flow. **Equity Research View:** We raise our KOSPI target to 10,000 (vs. 8,500 previously) based on 2.3x BPS, reflecting secular memory earnings growth as well as strong fiscal stimulus by Korean government. However, we recommend a selective approach to KR equities, focusing on stocks with a high-quality earnings growth outlook.

Economics View: We see **three tailwinds**: (1) semiconductor exports, (2) trickle-down effects, and (3) expansionary fiscal policy. However, we also highlight **three headwinds**: (1) tightening monetary policy, (2) Foreign equity investor's capital outflow pressure and KRW weakness, and (3) Potential resumption of NPS rebalancing of domestic equities. Specifically, capital outflow pressure from **foreign equity investors** could continue in the near term, led by rebalancing and profit taking. In our view, Korea's **National Pension Service's (NPS)** could gradually resume rebalancing of Korean equities if KOSPI moves above the 9,000-10,000 level in '26E.

Equity View: We raise our KOSPI target to 10,000 now (vs. 8,500 previously) based on 2.3x BVPS, which implies 9.5x EPS slightly below the 20y avg. of historical 12m fwd EPS. We upgrade our KOSPI target mainly on continued memory earnings growth and strong fiscal stimulus by the KR government. FY26E NP is forecast to improve by +231% YoY (vs. +177% YoY before based on Quantiwise consensus) on the back of robust semiconductor-driven GDP growth as well as improved fundamentals across Korean manufacturing industries. Looking ahead to 2027E, KOSPI earnings growth is anticipated to broaden across AI, robotics, exporters, and manufacturing, while memory supply shortages are projected to persist and the upcycle to extend further. However, given growth is centered on high-quality stocks, we recommend a selective approach to KR equities, focusing on stocks with resilient earnings outlook driven by AI chip demand, US-KR co-operation in manufacturing industries such as shipbuilding, power, and nuclear, as well as wealth effect.

Top Picks in KR Equities: Our top picks across sectors include **Samsung Electronics, Eugene Tech, Doosan, and ISC**, supported by long-term chip demand from secular AI inference demand as well as chip customization trend; **Hyundai Department Store** thanks to solid SSSG, relatively rationale competition landscape in DFS biz, and the bottoming out phase of Zinus; **Hankook Tire** on potential price hikes to offset raw material input cost burden, long-term growth opportunity in the US, and valuation attractiveness to play turnaround in Hanon System; **PharmaResearch**, driven by trickle down effects on consumption from the wealth effect and dollar amount spending increase from the continued growth in foreign inbound traffic to Korea; **Hyosung Heavy**, supported by its unique 765kV transformer production capability in the US and the rising ASP trend of high-voltage transformer amid the supply shortage; and **Kangwon Land**, as the only casino accessible to local players.

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Economics View

Tailwinds: Semiconductor, Trickle-down Effects, and Expansionary Fiscal Policy

[1] Semiconductor Exports and Trickle-down Effect

We keep our 2026–2027 GDP growth forecast at 3.0% and 2.8%, respectively, thanks to the three factors: (1) strong semiconductor exports, (2) trickle-down effects to private consumption & investment, and (3) expansionary fiscal policy in 2026-2027.

For 2Q26 GDP, we see upside risks for our 2Q26E GDP estimates as April hard data including industrial production and trade have been resilient despite the negative impact of higher oil prices. For 2Q26E GDP, we continue to assume a marginal contraction (-0.2%QoQ) following a historically strong GDP print in 1Q26 (+1.7%QoQ). For 2Q26E GDP, high oil prices and high base effect (1Q26) would be downside risk factors for consumption and investment. Semiconductor-driven strong export/manufacturing activities and fiscal stimulus (cash handout effect in May-June) would be upside risks factors.

The May exports growth (53.2%YoY) is the highest since January 1984. We recently revised up our 2026E current account surplus to 12.8% of GDP (vs. 2025: 6.6% of GDP) as upside risks of strong semiconductor exports will likely outweigh downside risks of higher energy prices. We expect semiconductor export growth to jump to around 141% in 2026E (vs. 2025: 22%). Semiconductor exports growth will likely rise 172%YoY in 2Q26 (vs. 1Q26: 139%YoY) before moderating to 150%YoY in 3Q26 and 113%YoY in 4Q26, on our estimates.

On the equity wealth effects on Korean private consumption, we estimate the 84% Korean equity rally in 1H26 to raise 2026E private consumption expenditure and GDP by 1.0% and 0.5%, respectively, based on the Wealth MPC at 1.3%. The MPC was recently estimated by the BoK (link).

[2] Expansionary Fiscal Policy

We may see a mix of expansionary fiscal policy and tightening monetary policy in 2H26–2027.

Semiconductor-led corporate tax revenue could provide extra fiscal revenue by around KRW20trn for 2H26 and KRW120trn for 2027, by our estimates. The timing of tax payment could be delayed as memory companies would pay 30–40% of the 2026 business-year tax in August 2026 via provisional settlement, and the rest (60–70%) in March 2027 via final settlement. Reflecting these, we roughly assume total corporate tax revenue to hit KRW121trn in 2026 and KRW224trn in 2027 (vs. KRW85trn in 2025).

In our view, the government could raise fiscal spending by KRW20trn for 2H26 and KRW90trn for 2027, likely generating upside risks to economic growth. The government is likely to prioritize investment in AI and innovation to improve potential economic growth. It may also increase welfare spending to address the K-shaped growth challenges. The KRW20trn extra fiscal spending for 2H26 would be 0.7% of GDP, likely raising economic growth by around +0.1ppt to +0.3pt over four quarters, based on a fiscal multiplier assumption (of 0.2–0.4). The KRW90trn extra fiscal spending for 2027 would be 2.9% of GDP, likely raising economic growth by around +0.6ppt to +1.2ppt over four quarters, based on a fiscal multiplier assumption (of 0.2–0.4).

We believe the government will narrow the fiscal deficit for 2027 and cut 2027 KTB issuance to stabilize the bond market. The consolidated fiscal deficit (excluding SSFs) could be around –2.8% of GDP for 2027, which would be narrow compared to the –3.7% of GDP for 2026 as well as the government's previous 2027 fiscal deficit plan at –4.1% of GDP. **We assume 10.5% nominal GDP growth for 2026 due to a strong chip price impact, which would improve the broad fiscal soundness of South Korea.**

Figure 1. Citi's economic forecast for South Korea

	2021	2022	2023	2024	2025	2026E	2027E	2025				2026E				2027E			
	Annual	Annual	Annual	Annual	Annual	Annual	Annual	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E
GDP (%YoY)	**4.7**	**2.9**	**1.5**	**2.2**	**1.1**	**3.0**	**2.8**	**0.2**	**0.7**	**2.1**	**1.6**	**3.8**	**2.9**	**2.3**	**3.1**	**2.2**	**3.4**	**2.9**	**2.7**
GDP (%QoQ s.a.)								***-0.2***	***0.6***	***1.4***	***-0.1***	***1.8***	***-0.2***	***0.8***	***0.7***	***0.9***	***1.0***	***0.3***	***0.5***
Private Consumption (% YoY)	3.7	4.2	2.1	1.3	1.5	2.0	2.0	0.5	1.0	2.0	2.4	2.7	2.1	1.4	1.7	1.8	2.4	2.0	1.6
Gross Fixed Capital Formation (% YoY)	4.3	-0.2	-0.2	-0.1	-3.4	1.8	1.3	-3.5	-4.2	-2.4	-3.3	1.5	1.3	0.7	3.5	1.1	2.2	1.5	0.4
Construction (% YoY)	-0.2	-3.5	-0.5	-2.0	-9.7	-1.2	-0.2	-12.7	-11.3	-7.9	-7.2	-1.9	-2.5	-2.4	1.8	0.5	1.5	0.0	-2.5
Facilities Investment (% YoY)	10.2	-0.3	-0.2	1.0	1.5	5.1	2.5	4.7	2.7	0.7	-1.9	4.4	5.6	4.0	6.4	1.0	3.0	2.9	2.8
Intellectual Property Products (% YoY)	6.5	7.6	0.2	2.4	3.0	2.3	2.4	2.2	3.3	4.2	2.3	2.5	2.3	1.8	2.7	2.4	2.4	2.4	2.4
Exports of Goods & Services (% YoY)	11.8	4.0	3.5	7.6	4.3	11.2	5.0	1.5	4.3	6.8	4.6	11.8	12.9	11.4	9.0	1.8	5.8	5.6	6.6
Imports of Goods & Services (% YoY)	11.2	4.0	2.2	3.8	3.3	9.2	3.7	1.6	3.4	4.5	3.9	8.5	11.3	10.1	7.1	1.0	4.3	4.4	4.9
CPI (% YoY)	2.5	5.1	3.6	2.3	2.1	2.9	1.8	2.1	2.1	2.0	2.4	2.1	3.0	3.7	2.9	2.6	1.7	1.4	1.5
Core CPI (% YoY)	1.4	3.6	3.4	2.2	1.9	2.6	2.8	1.9	2.0	1.7	2.0	2.2	2.4	3.0	3.0	3.3	3.0	2.6	2.2
Policy Rate (%, e.o.p.)	**1.00**	**3.25**	**3.50**	**3.00**	**2.50**	**3.00**	**3.50**	**2.75**	**2.50**	**2.50**	**2.50**	**2.50**	**2.50**	**2.75**	**3.00**	**3.25**	**3.50**	**3.50**	**3.50**
Custom Exports (US$ bn)	644	684	632	684	709	998	1098	160	175	185	190	221	260	262	256	258	273	282	285
Custom Exports (% YoY)	25.7	6.1	-7.5	8.1	3.8	40.7	10.0	-2.3	2.1	6.5	8.4	38.3	48.5	41.5	34.8	16.9	4.9	7.9	11.3
Custom Imports (US$ bn)	615	731	643	632	632	801	867	153	154	162	162	169	195	227	210	202	212	226	227
Custom Imports (% YoY)	31.5	18.9	-12.1	-1.7	0.0	26.7	8.2	-1.3	-1.7	1.6	1.4	10.8	26.2	39.5	29.5	19.3	8.6	-0.5	8.3
Custom Trade Balance (US$ bn)	29.3	-47.8	-10.3	51.8	77.4	197.1	231.0	6.7	20.7	22.4	27.6	51.2	65.1	35.0	45.9	56.0	61.1	56.8	57.2
Current Account (US$ bn)	83.9	23.2	32.5	100.0	123.1	271.9	312.4	19.5	28.4	36.0	39.2	74.4	84.1	52.0	61.4	79.0	80.1	78.7	74.6
Current Account (% of GDP)	4.3%	1.3%	1.8%	5.3%	6.5%	12.8%	13.6%												

Source: Citi Research, CEIC Data Company Limited

Figure 2. Citi fiscal forecast for South Korea

(Unit: KRW trn)	2019	2020	2021	2022	2023	2024	2025	2026E	2027E
Total Revenue	473.1	478.8	570.5	617.5	573.9	594.5	637.4	720.6	820.6
(%YoY)	1.7	1.2	19.2	8.2	-7.1	3.6	7.2	13.1	13.9
Total Spending	485.1	549.9	601	682.4	610.7	638.0	684.1	773.1	852.0
(%YoY)	11.7	13.4	9.3	13.5	-10.5	4.5	7.2	13.0	10.2
Consolidated Fiscal Balance (Excl. SSF)	-54.4	-112.0	-90.6	-117.0	-87.0	-104.8	-104.2	-107.7	-87.4
(% to GDP)	**-2.7**	**-5.4**	**-4.1**	**-5.0**	**-3.6**	**-4.1**	**-3.9**	**-3.5**	**-2.7**
Consolidated Fiscal Balance	-12.0	-71.1	-30.5	-64.6	-36.8	-43.5	-46.7	-52.5	-31.4
(% to GDP)	**-0.6**	**-3.5**	**-1.4**	**-2.8**	**-1.5**	**-1.7**	**-1.7**	**-1.7**	**-1.0**
Consolidated Primary Balance	4.7	-53.8	-11.3	-43.6	-12.1	-15.1	-15.6	-16.2	11.8
(% to GDP)	**0.2**	**-2.6**	**-0.5**	**-1.9**	**-0.5**	**-0.6**	**-0.6**	**-0.5**	**0.4**
National Debt (D1)	723.2	846.6	970.7	1067.4	1126.8	1175.2	1304.5	1415.4	1502.8
(% to GDP)	**35.4**	**41.1**	**43.7**	**45.8**	**46.8**	**45.8**	**48.7**	**45.9**	**46.8**
General Government Debt (D2)	810.7	945.1	1066.2	1157.2	1217.3	1270.8	1400.1	1511.0	1598.4
(% to GDP)	**39.7**	**45.9**	**47.9**	**49.7**	**50.6**	**49.6**	**52.3**	**49.0**	**49.8**

Source: Citi Research, CEIC Data Company Limited

Headwinds: Tightening Monetary Policy, Foreign equity Investors, and NPS Rebalancing

[1] Tightening Monetary Policy

On monetary policy, we maintain our view of BoK's rate hiking cycle being 25bps each in July 2026, October 2026, January 2027, and April 2027, towards a 3.5% terminal rate. This is due to three factors: 1) the active role of fiscal policy in strengthening economic growth; 2) the risk of higher-for-longer core inflation for 2H26–1H27; and 3) historically accommodative financial conditions including for the Seoul housing market and the Korean equity market. The capital gain by foreign equity investors could generate KRW weakness pressure via profit-taking and rebalancing.

With the higher-than-expected May inflation print, we recently raised our 2026E CPI and Core CPI inflation to 2.9%YoY and 2.6%YoY (vs. previous: 2.7% and 2.5%), respectively. On our estimates, CPI inflation in June'26-February'27 will likely stay at around 2.7%YoY-3.3%YoY range, which will likely be followed by persistently high core CPI inflation at 2.5%YoY-3.5%YoY in June'26-September'27.

We believe a strong KOSPI rally could fuel financial instability risks considering the recent signs of strong household loans, KRW weakness, and housing market rally. In May, monthly household loans surged to KRW9.3trn (vs. April: KRW3.5trn), which would be the fastest pace since August 2024, led by equity market investment demand. In May, the 12-month sum of 'stock investment trust' and 'investor deposits to securities companies' surged to another record high. In June, Korean retail investors' investment to the KOSPI accelerated. Moreover, as of the second week of June, the 4-week moving average of Seoul apartment sales and rental price rally accelerated.

Reflecting upside risks for economic growth and inflation, and financial instability risks, the risks for monetary policy should be tilted to a faster-than-expected BoK rate hiking cycle (e.g. back-to-back hikes in 3Q26 or a surprising 25bps hike at the unexpected ad-hoc June MPB meeting). BoK Governor Shin recently anticipated that a narrowing of the US-Korea interest rate differential will likely alleviate KRW depreciation pressure via the NDF market and carry trade.

[2] Foreign equity investor's capital outflow pressure and KRW weakness

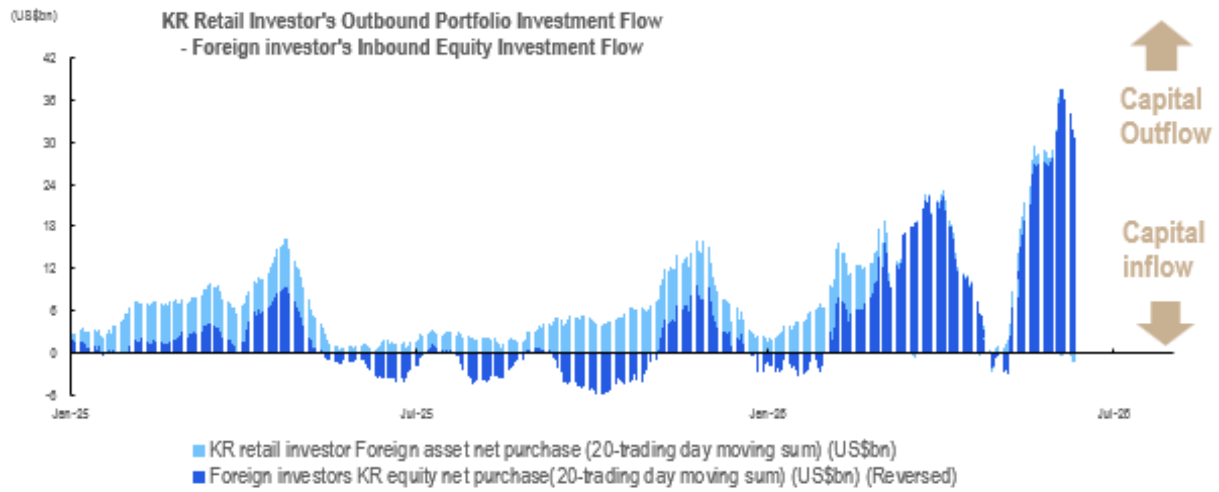
Capital outflow pressure from foreign equity investors could continue in the near term. Capital outflow pressure from foreign equity investors has recently accelerated -US$14.3bn over June 1st to June 10th (vs. May: -US$27.9b; April: +US$0.6bn), led by rebalancing and profit taking.

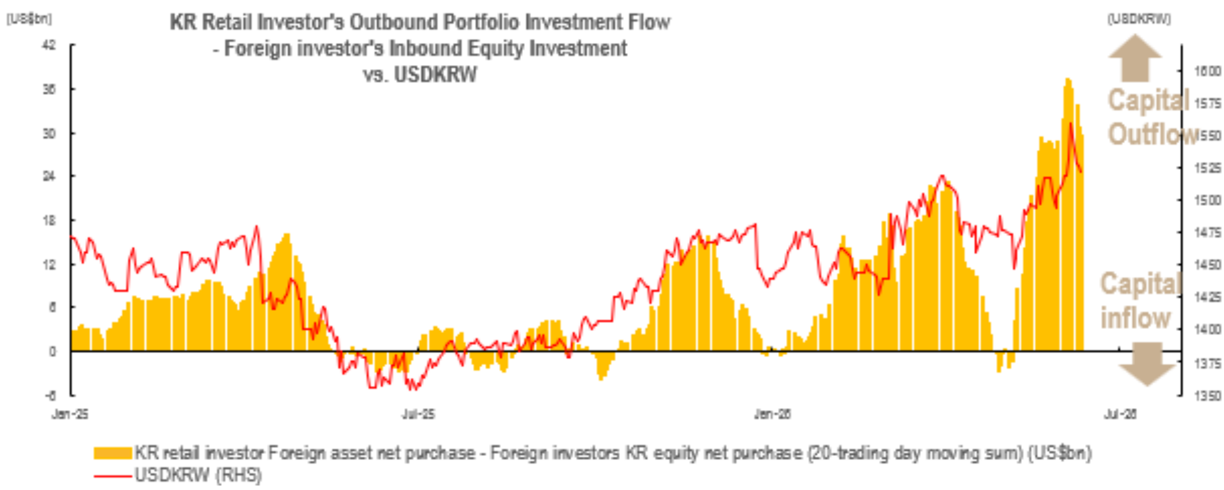
- **Over January-May'26, foreign equity investors' Korean equity exposure has cumulatively surged by US$0.98trn at end-December'25 to US$1.89trn at end-May'26** while foreign equity investors cumulatively sold US$78.7bn of Korean equities this year.
- **Foreign equity investors' share of Korean equity market rose to 37.7%** at end-May'26 (vs. December'25: 32.9%). Citi EM FX & Rates Strategy team noted valuation effect outweighs flow impact **(**note**).**
- Moreover, a growing exposure to Korean equities may have encouraged foreign equity investors to raise **the size of FX hedges via NDF purchases** since late 2025 amid the KOSPI rally.

On the contrary, **Korean retail investors'** purchases of foreign securities declined (June 1st to 10th: -US$1.2bn; May: +US$0.9bn; April: +US$0.2bn, March: +US$1.4bn) as Korean retail investors are purchasing Korean equities instead, effectively digesting foreign equity investors' selloff.

Korean exporters appear to be keeping high USD conversion ratio to KRW led by the semiconductor exports boom, in our view.

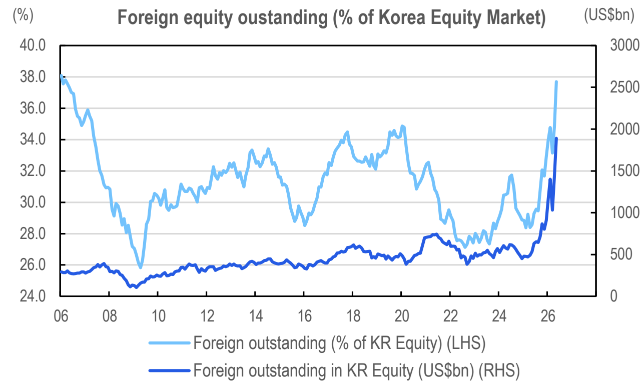
Figure 3. Capital outflow pressure from foreign equity investors has accelerated





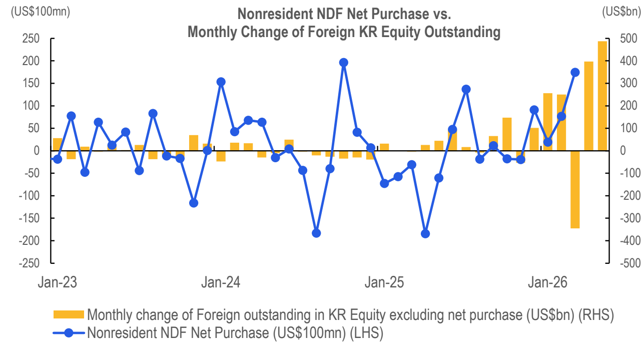
Source: Citi Research, Bloomberg, Seibro

Figure 4. Korean equity exposure has cumulatively surged by US$0.98trn at end-December'25 to US$1.89trn at end-May'26.



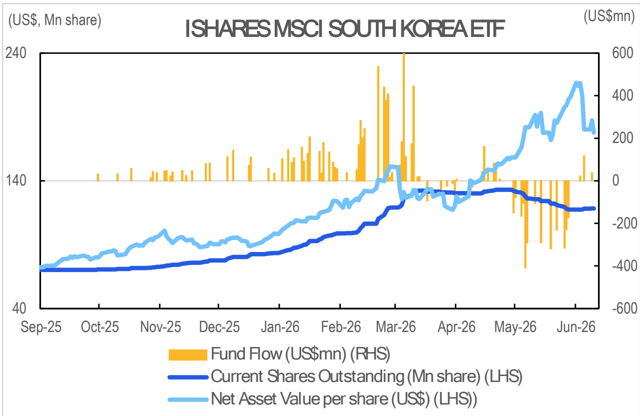
Source: Citi Research, CEIC Data Company Limited

Figure 5. A growing exposure to Korean equities may have encouraged foreign equity investors to raise the size of FX hedges via NDF purchases since late 2025 amid the KOSPI rally



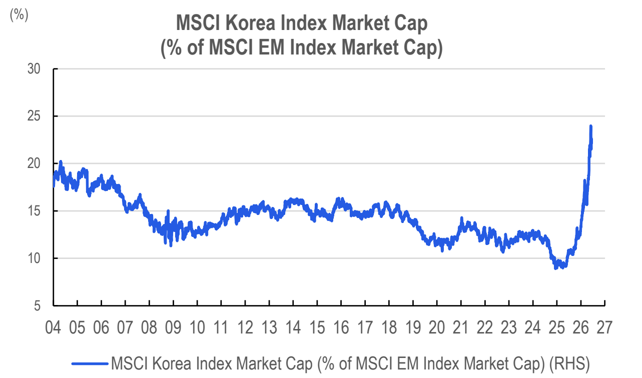
Source: Citi Research, CEIC Data Company Limited

Figure 6. Capital outflow pressure from foreign equity investors may have been led by profit-taking



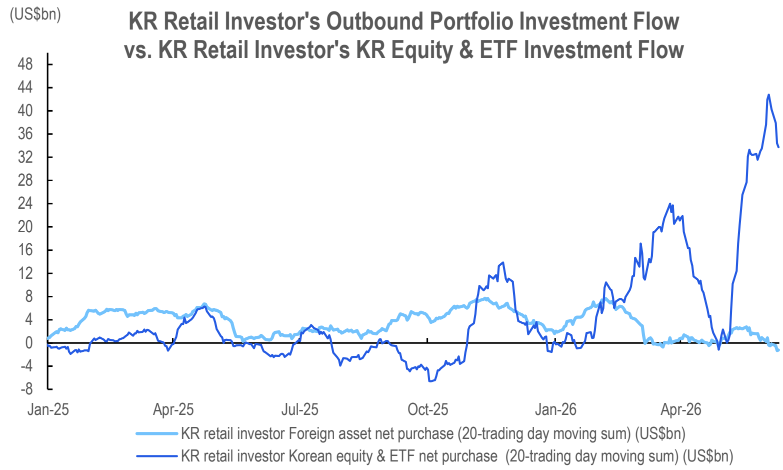
Source: Citi Research, Bloomberg

Figure 7. Capital outflow pressure from foreign equity investors may have been led by rebalancing



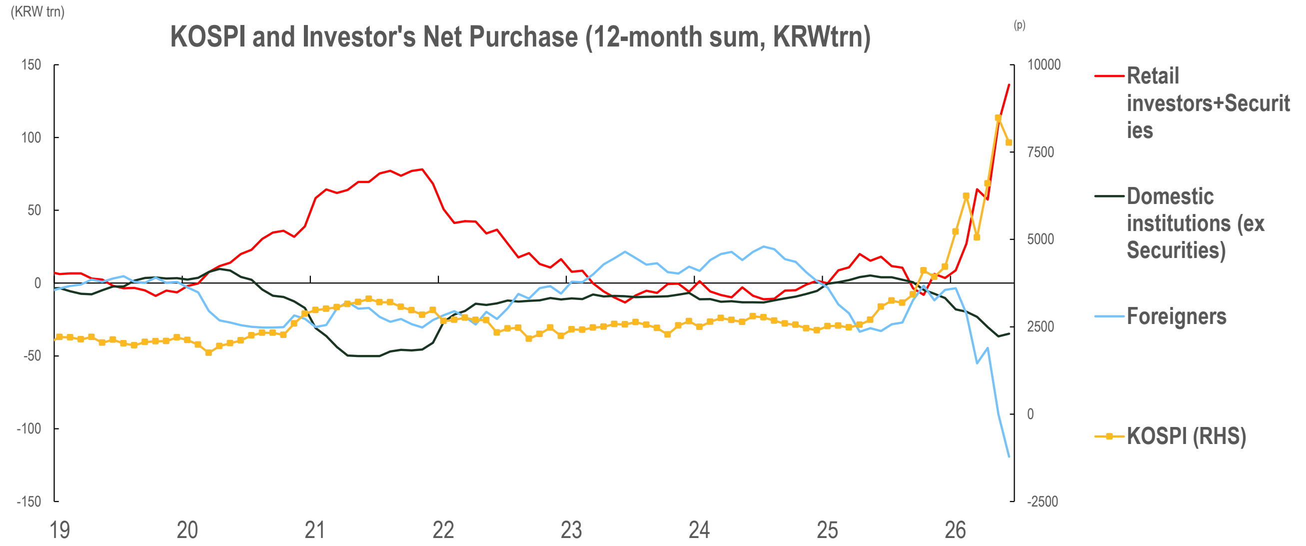
Source: Citi Research, Bloomberg

Figure 8. On the contrary, Korean retail investors' purchases of foreign securities declined



Source: Citi Research, Bloomberg

Figure 9. Korean retail investors are purchasing Korean equities instead, effectively digesting foreign equity investors' selloff



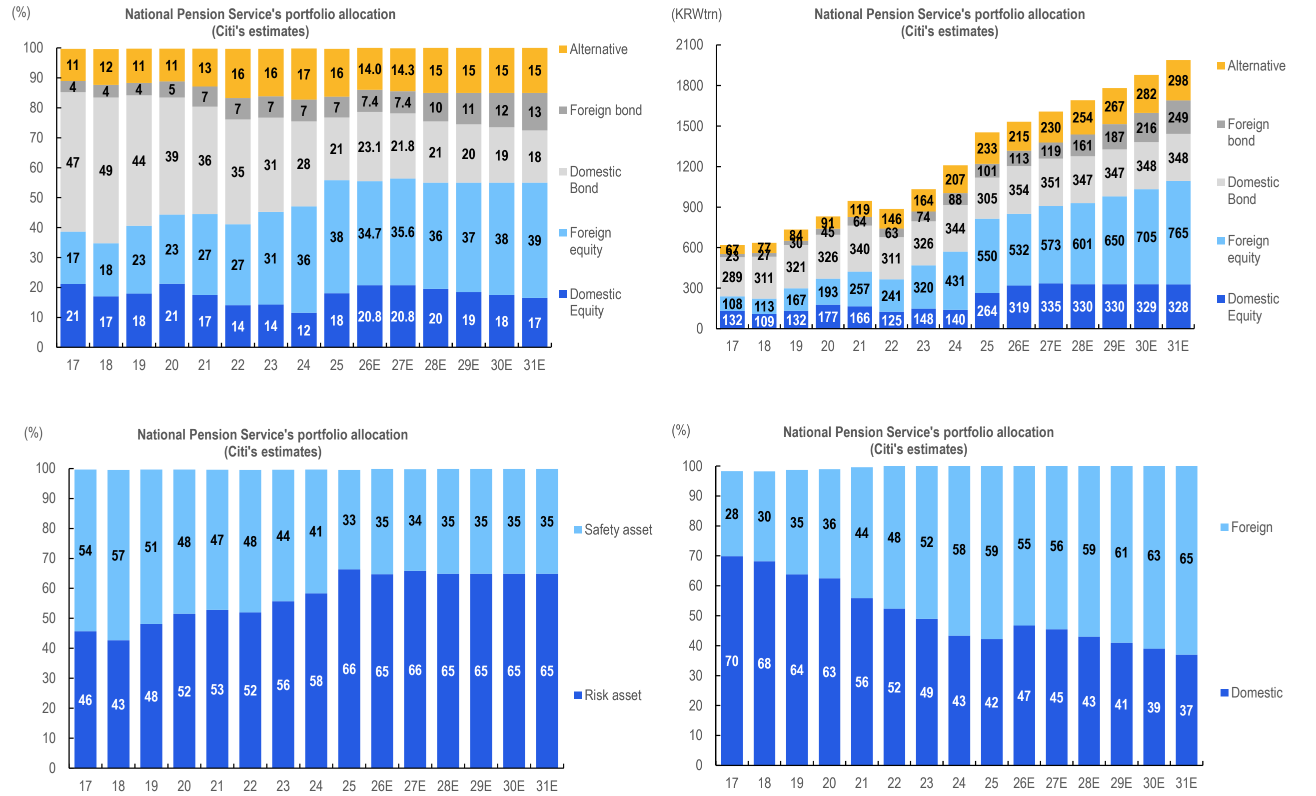
Source: Citi Research, bloomberg

[3] Potential resumption of NPS Rebalancing of domestic equities

In our view, Korea's National Pension Service's (NPS) could gradually resume rebalancing of Korean equities once KOSPI surges above 9,000-10,000 level this year. For example, Korean pension funds had previously sold around -KRW0.3trn~0.5trn per day or (-2% ~ -3% of daily KOSPI turnover) in the middle of January 2021. If Korean pension funds resume the similar pace of rebalancing in terms of daily KOSPI turnover, **Korean pension funds could sell around -KRW0.6trn~0.9trn per day.**

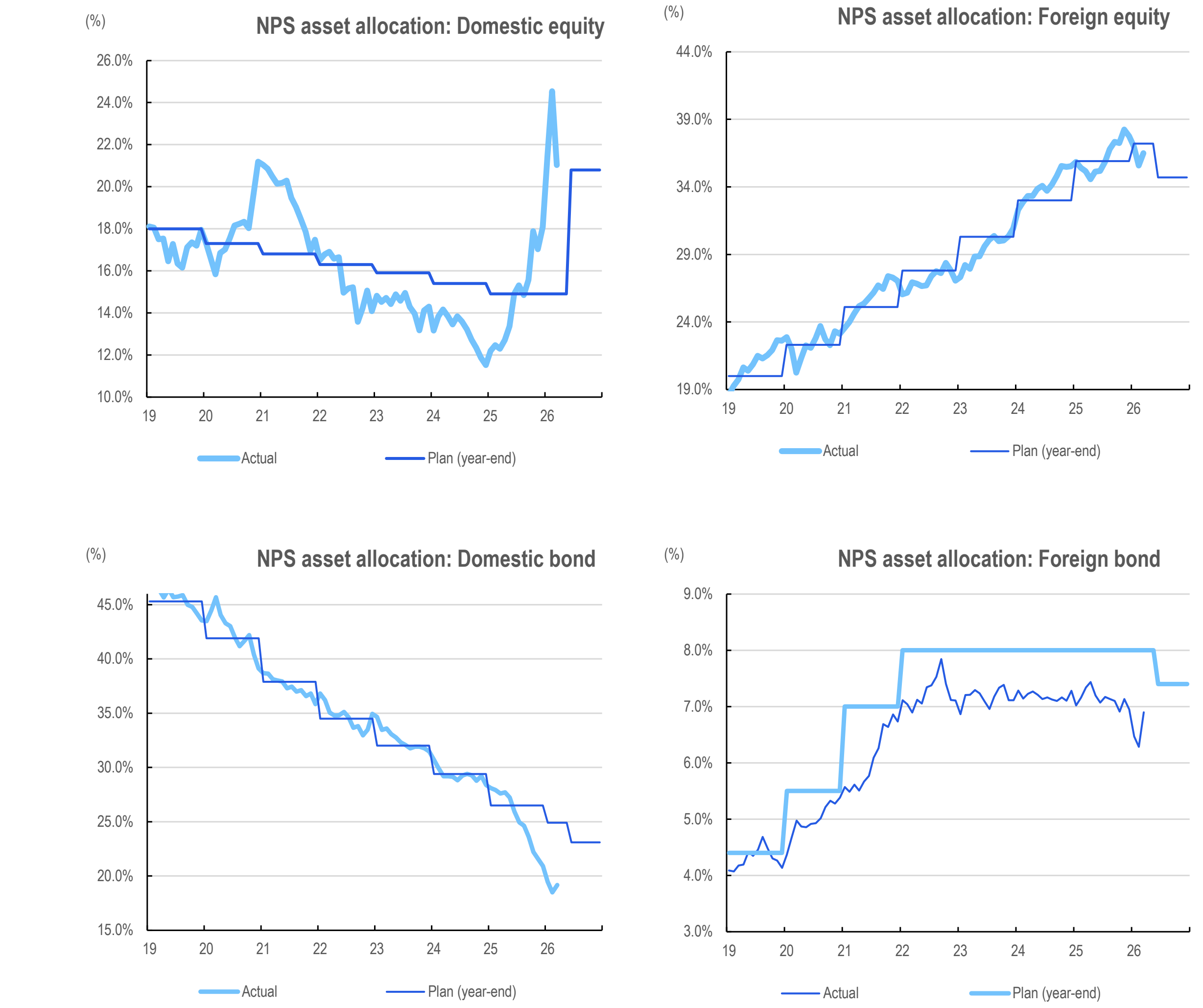
- On May 28th, Korea's National Pension Service's (NPS) changed its end-2026 asset allocation targets. In our view, the change would reduce the risk of sharp forced selling of domestic **equities by the NPS while substantially easing the burden of USD procurement in 2H26 (note).**
- In January'26, the committee had decided to temporarily suspend rebalancing of domestic equity allocation in 1H26 when the SAA tolerance range was breached. For domestic equities, the deviation tolerance is either positive 5ppt or negative 5ppt to the target in terms of SAA (+3ppt to -3ppt) and TAA (+2ppt to – 2ppt).
- On May 28th, the committee temporarily expanded the SAA tolerance range for domestic equities in 2H26 and cut the maximum daily rebalancing volume. For domestic equities, the SAA tolerance range has risen to +6ppt from 3ppt, implying maximum +8ppt tolerance range in terms SAA & TAA. The committee plans to review the SAA tolerance range at end-2026.
- We believe, the NPS will likely remain overweight on domestic equities for longer as the risks of sharp rebalancing has been mitigated. With higher domestic equity allocation target and wider tolerance range, **NPS would give domestic equities up to 28.8% allocation, which would be higher than the current low 27% allocation as of late May'26 when the KOSPI surged above 8,000.**

Figure 10. Citi's estimates for NPS asset allocation



Source: Citi Research, CEIC Data Company Limited

Figure 11. We believe, the NPS will likely keep an overweight on domestic equities for longer



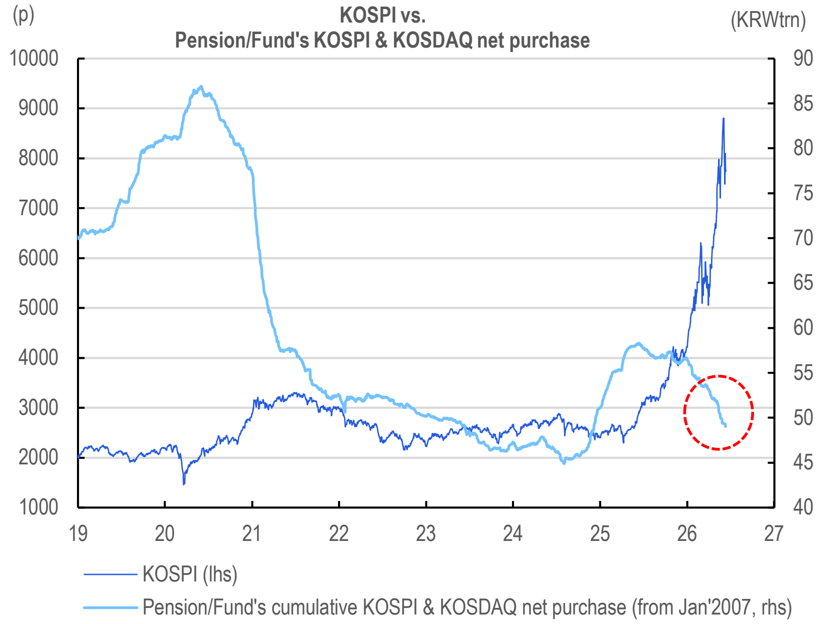
Source: Citi Research, CEIC Data Company Limited

Figure 12. For domestic equities, the deviation tolerance is either positive 5ppt or negative 5ppt to the target in terms of SAA (+3ppt to -3ppt) and TAA (+2ppt to -2ppt).

Tolerance Range (ppt)	Domestic equity	Domestic bond	Foreign equity	Foreign bond
SAA	3.0 -3.0	7.0 -7.0	4.0 -4.0	0.5 -0.5
TAA	2.0 -2.0	5.0 -5.0	3.0 -3.0	2.0 -4.0
Total	5.0 -5.0	12.0 -12.0	7.0 -7.0	2.5 -4.5

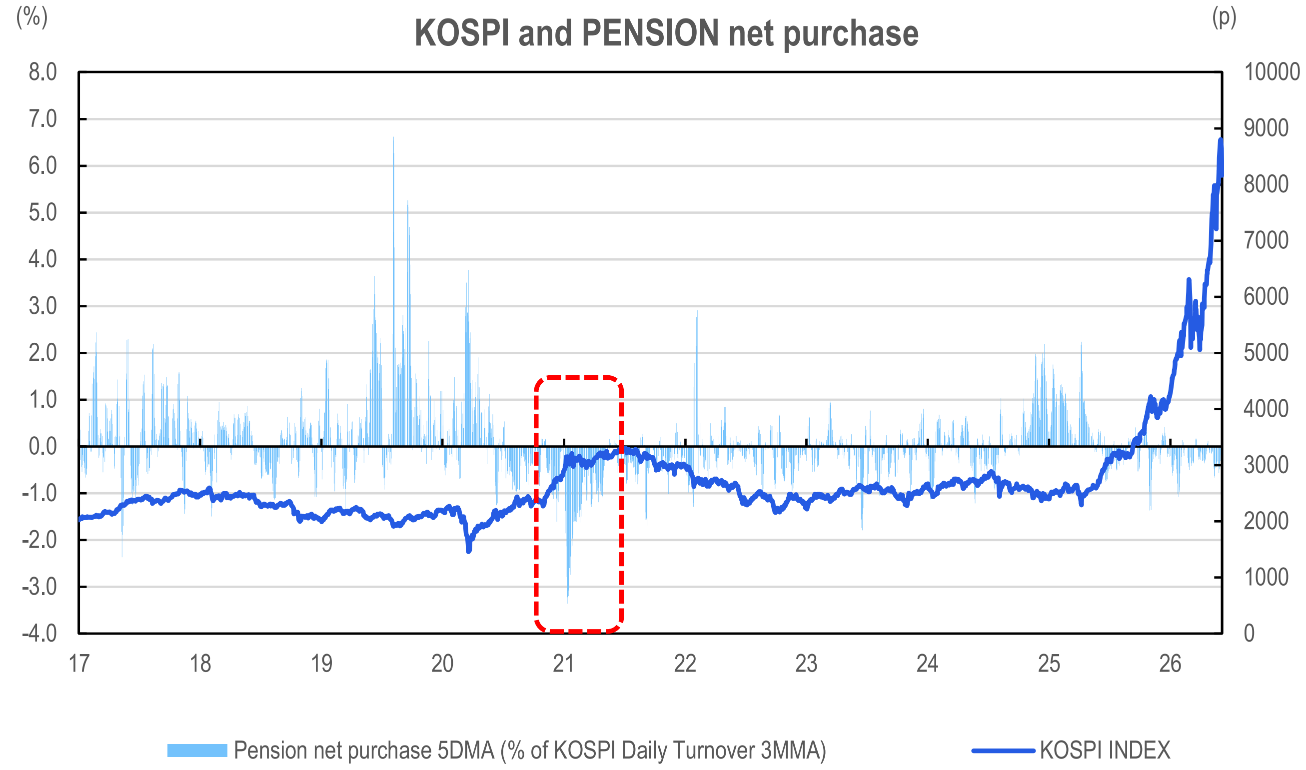
Source: Citi Research, NPS

Figure 13. In our view, the change of NPS asset allocation target for 2026 would reduce the risks of sharp forced selling of domestic equities by the NPS



Source: Citi Research, Bloomberg

Figure 14. For example, Korean pension funds had previously sold around -KRW0.3trn~0.5trn per day or (-2% ~ -3% of daily KOSPI turnover) in the middle of January 2021



Source: Citi Research, Bloomberg

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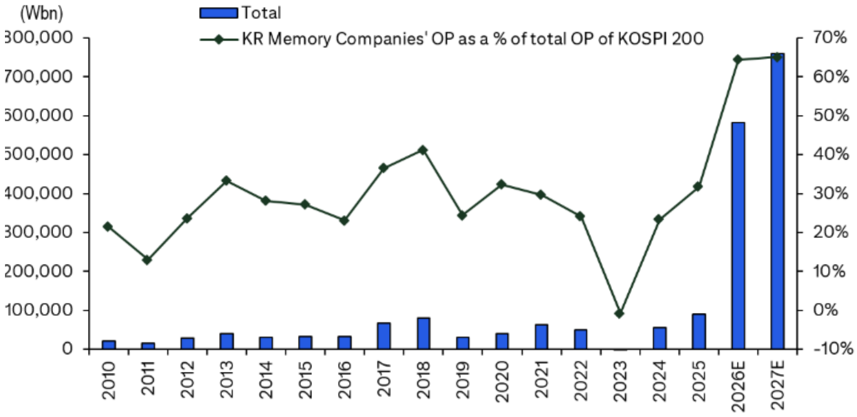
Equity Research View

Earnings Growth to Persist on Robust Earnings Upside from KR Memory and Growth Sectors, yet Recommend Being Selective on High-quality Stocks

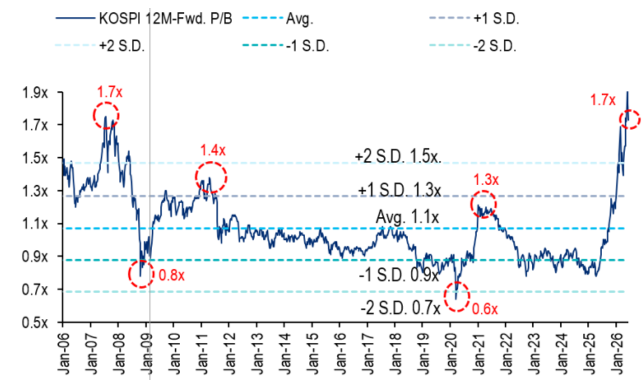
We raise our KOSPI target to 10,000 (vs. 8,500 previously) based on 2.3x BVPS (which implies 9.5x EPS slightly below the 20y avg. of historical 12m fwd EPS). We upgrade our KOSPI target as we reflect continued memory earnings growth as well as strong fiscal stimulus by Korean government. While FY26E NP is forecast to improve by +231% YoY (vs. +177% YoY before based on Quantiwise consensus) with the growth centered on robust memory-driven GDP growth, we expect Korean industries to see solid growth centered on AI, robotics, exporters, and improved fundamentals across Korean manufacturing industries throughout 2027E. While we see several signals that memory shortage will intensify even in 2027E, we project the memory upcycle to be extended beyond 2027E driven by memory customization trend and AI token growth. We expect downstream AI capex to remain solid and will further expand given that memory remains as a critical bottleneck of AI demand. All in all, we expect KR memory suppliers' 26E/27E OP to expand to W582tr/W759tr, which accounts for 64%/65% of the total OP of KOSPI 200. That said, we note the current KOSPI earnings growth is driven by high-quality earnings stocks centered on memory. Thus, we recommend a selective approach to KR equities, focusing on stocks with a resilient earnings outlook.

Figure 15. Historical KR Memory Companies' OP Trend



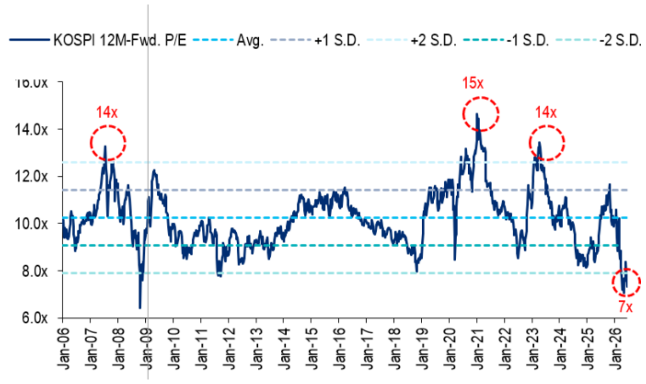
Source: Quantiwise, Citi Research

Figure 16. KOSPI 12-month Forward PB



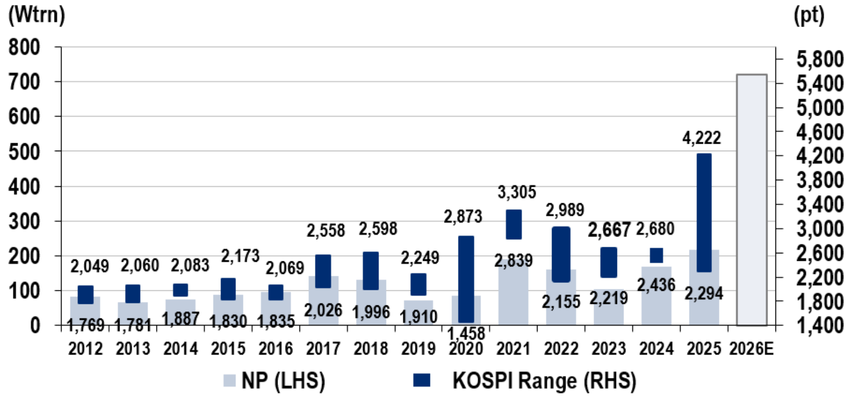
Source: Quantiwise, Citi Research

Figure 17. KOSPI 12-month Forward PE



Source: Quantiwise, Citi Research

Figure 18. Historical KOSPI Performance and Net Profit



Source: Datacentral, Citi Research

Technology

Severe Memory Shortage to Extend into a Multi-Year Window; Memory Fundamentals Intact

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While memory procurement has emerged as a major AI bottleneck and critical risk for AI chip/device/service providers, we believe the current memory cycle to be extended longer than expected driven by continued downstream AI capex and explosive token demand growth from AI agents. While there are new emerging technologies to optimize memory usage, the current AI optimization is targeted to boost the model/AI agent capabilities, which should eventually require more memory chips. We see the current memory upcycle being extremely favorable for Korean memory companies.

Supply-to-demand fulfillment rate is continuously declining to an all-time low level. Memory suppliers observe the supply shortage to intensify further in 2027E, with some customers looking for 2028E supply due to the supply shortage. Due to supply shortage, Nvidia is reportedly reducing Vera Rubin's SOCAMM2 module capacity from 192GB to 96GB (THE ELEC, June 10th). However, we believe there is no change to total SoCAMM2 demand and expect no order cut by Nvidia. Currently, memory suppliers can only supply 60% of total SoCAMM2 demand. Despite the lowered SoCAMM2 spec, KV Cache compression technology should accelerate AI adoption. To address memory demand, we expect Context Memory eXtension(CMX) technology to be utilized, complementing SoCAMM2 as a G3.5 memory. We expect the CMX technology to increase NAND demand.

We observe memory LT demand is rising significantly, as customers are increasingly requesting LTA deals for memory procurement. With 3 primary structures of LTA: 1) Price Collar LTA, 2) Prepayment LTA, and 3) Capex-sharing LTA, we these LTA structures will enhance the validity and binding power of LTA. Under new LTAs, customers will share memory suppliers' cost burden partially through advance payments and Capex sharing. Thus, we foresee the LTA providing memory suppliers with improved visibility on long-term profitability, further supported by the customization of memory products and the extension of memory upcycle.

We attribute this structural change not only to the supply & demand imbalance but also a new memory semi-customization trend. Particularly with the emergence of HBM which has a strong custom nature, we believe the memory market is evolving into a foundry-like business where customers are required to sign contracts at least a year prior to the shipment. We believe such change provides better order visibility and outlook for memory suppliers, further reducing cyclicality & volatility. In the mid-to-long term, we expect commodity memory will also increasingly become customized after 2028E, driven by the expansion of physical AI and on-device AI adoption.

Stock Implications: Samsung Electronics, Eugene Tech, Doosan, and ISC

Our top picks are Samsung Electronics, Eugene Tech, Doosan, and ISC. We prefer KR memory leaders who have strong leadership in advanced DRAM/NAND. We expect memory products will become increasingly customized and diversified, which should structurally transform the market into a much less volatile market. With rising LTA demand for memory, we believe memory suppliers are trying to align its interest with customers to extend the memory cycle longer. Along with the extended memory cycle, we prefer Eugene Tech as memory suppliers are investing significant WFE capex to add new capacity in 2027E/2028E. We believe Eugene Tech is well positioned in terms of memory node migration and will benefit from the advanced memory demand. We also believe leading players in AI GPU supply chain, namely Doosan to continue to benefit from intensifying tightness in high-end CCL market. Moreover, we believe ISC will benefit from the increasing socket demand from AI chip projects including GPU, ASIC, AI CPU, and CPO.

Auto

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We see KRW weakness being positive for Korean auto OEMs amid US market being the largest profit contributor for both Hyundai Motor & Kia. That said, we view the trickle-down effect on consumption from wealth effects having limited impact on Korean auto OEMs where we expect a bigger part of the trickle-down effect benefit to be captured by overseas brands. Within the Korean auto space, our top picks are Kia (based on notable valuation gap with Hyundai Motor) & Hankook Tire (given likely price hike to offset raw material input cost burden & long-term growth opportunity in the US via Tennessee factory capacity expansion).

Consumer

We expect high-end segment of consumption to benefit more from trickle-down effect on consumption from semiconductor export as well as expansionary fiscal policy. In that regard, we see department store operator being a key beneficiary (mainly through luxury / fashion & apparel category offerings), followed by apparel company. We see DFS operators / department store operators being beneficiaries of strong Chinese inbound traffic growth to Korea (as Chinese tourists refrain from going to Japan). In terms of increasing presence of Korean brands in Western markets, we see cosmetic names being key beneficiaries, followed by F&B names. In terms of KRW weakness, we see this having a positive impact on KT&G / Orion. All in all, our top picks within Korea consumer space are Hyundai Department Store (a catch-up play to Lotte Shopping) / Kolmar Korea (beneficiary of Korea indie cosmetic brands enjoying stronger presence in Western market) / APR (faster than expected offline penetration in US and continued strength in EU market entry) / KT&G (strong commitment in shareholder return & potential/possible benefit from tobacco tax hike in the future).

Internet

We see limited benefit from trick down effect on consumption from wealth effect on internet names, given nature of internet biz & prolonged concern on threat from AI tools. Moreover, we see intensifying competition in e-commerce biz between

Naver and Coupang. Our relatively preferred pick within the Korean internet space is Kakao (based on Kakao becoming more focus on core biz & new revenue opportunity from agentic commerce biz from 2H26).

Top picks to highlight: Hyundai Department Store (solid department store SSSG + more rationale competition landscape in DFS biz + the bottoming out phase of Zinus in terms of earnings & Hankook Tire (likely/scheduled price hikes to offset raw material input cost burden + long-term growth opportunity in the US via Tennessee factory capacity expansion + cheaper way to play turnaround in Hanon System).

Korea Power: Positive to Grid Equipment Sector

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Global high voltage transformer supply shortage

We are bullish on Korean power grid equipment makers. Global transformer production capacity shortage is expected to persist until at least 2029E. There was annual shortage of 707.5GVA in 2025, based on global supply of 2,358.5GVA in the year and assuming a 30% supply deficit according to Wood Mackenzie. Another issue has been the specialist technical labor required to manufacture transformers. We forecast the annual shortage will gradually narrow from 707.5 GVA in 2025E to 143.9 GVA in 2028E and annual supply will exceed annual demand from 2029E. But the cumulative shortage should keep rising and peak at 1,698.8 GVA in 2028E, equal to 47% of annual supply in that year; we forecast the cumulative shortage will persist in the run-up to 2030E.

Rising high voltage transformer market prices

Top-10 companies were dominant representing 79.4% of global market share in 2025 and 72.6% in 2030E in terms of high voltage transformer production capacity. We have conservatively assumed demand growth to rise to 7% CAGR in 2025-30E, largely in line with industry consultant Arizton Advisory & Intelligence's forecasts. The monthly price index of power and distribution transformer in the US updated on 13 May 2026 was 362.6 in Mar 2026, up 3.9% yoy and 5.7% from that two years ago. The index was on average 353.4 in 2025, up 3.2% from the average in 2024 and 6.0% from the average in 2023. We think the upward price momentum will persist in 2026-28E with annual shortages.

Strong Korean high voltage transformer monthly data

For 5M26, Korea's power transformer export value rose 0.9% yoy to US$1,853m, including US$982m (+13.6% yoy) or 53.0% (+5.9ppts yoy) to the US. For transformers with >10,000kva capacity, Korea's power transformer export value +31.1% yoy to US$632m in 5M26, comprising US$465m (+56.0% yoy) or 73.5% (+11.8ppts yoy) to the US. We are positive on Korean transformer makers with more exports in 5M26 and a rising sales mix to the US, which generally carry higher margins than those to other markets. Hyosung Heavy is our top pick, followed by LS Electric & Hyundai Electric.

Top BUY: Hyosung Heavy

Hyosung's operating profit surged 49.3% yoy to W152.3bn in 1Q26 driven by revenue +26.3% yoy to W1,358.2bn due to more demand and OP margin +1.7ppts yoy to 11.2%. Its operating profit of heavy industries segment was +30.6% yoy to W117.7bn in 1Q26, equal to 77% total operating profit of the company. The segmental OP margin was +1.1ppts yoy to 13.4% in 1Q26. The segmental revenue was 33% from North America, 29% from Korea, 12% from India, 11% from Middle East, 4% from Europe and 11% from others. The segmental OP margin would rise qoq in 2Q26E since W40bn high-margin U.S.-bound circuit breaker orders were classified as goods-in-transit at end 1Q26 and will be booked in 2Q26E. The heavy industries segment had record-high quarterly new orders of W4,174.5bn (+107.8% yoy) in 1Q 2026, of which 77% were from the US. Its order back-log rose to

W15,062bn by end 1Q26, +44.4% yoy and +26.0% qoq, with 53% from the US. Its earnings growth should be high at 36% 2025-28E EPS CAGR back by 85% capacity growth.

LS Electric with much catalysts from new orders

LS Electric expects its new orders to reach W2tn in 2Q26E, double qoq. We view the company as a rising star in this aspect, backed by quality product, capacity addition as well as a flexible production plus delivery schedule. Its premium valuation looks justified with catalysts including solid AI DC order momentum and transformer ASP uptrend. The stock has also become more popular for retail investors after its stock split. Its 2026 new order target should comprise W1.5-2trn from AIDC, up from W1.0trn last year. We think it is ranking 5th or 6th in terms of power equipment orders won from US AIDC; its major competitors are ABB, Siemens Energy, Schneider Electric and Eaton. We believe LS's new order target of W5trn (+34.6% yoy) in 2026 could be exceeded. Its order backlog reached W5.6trn (+13% qoq) by end 1Q26, comprising 55% from high-voltage transformers, 18% from switchgears & 6% from GIS.

Korea Medical Aesthetics

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We believe medical aesthetics industry will likely be a beneficiary, given 1) trickle down effects on consumption from the wealth effect is likely to materialize in addition to 2) dollar amount spending increase from the continued growth in foreign inbound traffic to Korea underpinned by relatively attractive f/x rate. As anchored by strong domestic spending in local retailers (i.e. department stores, etc.), wealth effect has been materializing from the consumer discretionary segment, where we view will likely extend to the medical aesthetic industry as well. Solid growth in domestic absolute spending from the positive spillover from the wealth effect, entry barrier becoming lower by the increasing competition, and younger aged consumers' increasing presence as a key consumer segment will drive the growth in our view. Within this space, our favored pick is **PharmaResearch** which should have the highest correlation with the inbound medical aesthetics tourism among the other coverage companies as well as structural growth in domestic spending.

Korea Casino Gaming

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In our view, the positive wealth effect from the strong KOSPI index performance could be translated into higher disposable income and in turns higher gaming demand from local Koreans. We expect **Kangwon Land (035250.KS, Korea Casino Gaming top pick)** being the only casino for local players to be a major beneficiary. This could help alleviate its potential opex upside risks from the oil price hike. Longer term, the K-HIT project 1.0 should significantly improve its competitiveness when complete. On valuation, Kangwon Land is trading undemandingly at ~5.3x 1-yr forward EV/EBITDA (almost 2 S.D. below historical mean). We believe its sector-high FY26E dividend yield (CitiE: ~6%) provides investors with significant downside risk protection.

Companies Mentioned:

ABB (ABBN.S; SFr81.28; 2; 11 Jun 26; 17:30) | APR Corp (278470.KS; W394000.0; 1; 12 Jun 26; 15:45) | Coupang (CPNG.N; US$17.25; 2; 11 Jun 26; 16:00) | Doosan (000150.KS; W1896000.0; 1; 12 Jun 26; 15:45) | Eaton Corp (ETN.N; US$393.64; 1; 11 Jun 26; 16:00) | EugeneTechnology (084370.KQ; W196100.0; 1; 12 Jun 26; 15:45) | Hankook Tire & Technology (161390.KS; W72000.0; 1; 12 Jun 26; 15:45) | Hanon Systems (018880.KS; W4700.0; 3; 12 Jun 26; 15:45) | HD Hyundai Electric (267260.KS; W1130000.0; 1; 12 Jun 26; 15:45) | Hyosung Heavy Industries (298040.KS; W3376000.0; 1; 12 Jun 26; 15:45) | Hyundai Department Store (069960.KS; W177300.0; 1; 12 Jun 26; 15:45) | Hyundai Motor (005380.KS; W607000.0; 1; 12 Jun 26; 15:45) | ISC (095340.KQ; W230000.0; 1; 12 Jun 26; 15:45) | Kakao (035720.KS; W41500.0; 1; 12 Jun 26; 15:45) | Kangwon Land (035250.KS; W15700.0; 1; 12 Jun 26; 15:45) | Kia (000270.KS; W166800.0; 1; 12 Jun 26; 15:45) | Kolmar Korea (161890.KS; W86400.0; 1; 12 Jun 26; 15:45) | KT&G (033780.KS; W187800.0; 1; 12 Jun 26; 15:45) | Lotte Shopping (023530.KS; W195600.0; 2; 12 Jun 26; 15:45) | LS Electric (010120.KS; W222500.0; 1; 12 Jun 26; 15:45) | Naver (035420.KS; W247000.0; 2; 12 Jun 26; 15:45) | NVIDIA Corp (NVDA.O; US$204.87; 1; 11 Jun 26; 16:00) | Orion (271560.KS; W135500.0; 1; 12 Jun 26; 15:45) | PharmaResearch (214450.KQ; W289000.0; 1; 12 Jun 26; 15:45) | Samsung Electronics (005930.KS; W322500.0; 1; 12 Jun 26; 15:45) | Schneider Electric (SCHN.PA; €264.3; 1; 11 Jun 26; 17:30) | Siemens Energy AG (ENR1n.DE; €147.0; 2; 11 Jun 26; 17:30) | Zinus Inc (013890.KS; W9610.0; Not Rated; 12 Jun 26; 15:45)

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Appendix A-1

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