

Electronics Sector – Overweight

News update

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Strong AI signal

- **Hyperscalers are rushing AI chip orders**
- **AI monetization**
- **Positive impacts for DELTA**
- **Indirect negative impacts for HANA and KCE**

- There have been reports of memory chip supply shortages due to the surge in orders from hyperscalers for their AI data center investments. Memory chips, mainly HBM and DRAM, are core components in AI data centers as they enable high-speed data processing for AI training and inference. Leading memory suppliers, including Samsung, SK Hynix, and Micron, have indicated that HBM capacity is largely sold out through 2026, with some customer commitments already extending into 2027, and they are working to expand capacity by around 30-50%.
- This implies strong AI investment intentions by hyperscalers, the key AI users. Despite market concerns over the risk of overinvestment and the lack of a clear standalone AI business model, we see two key reasons why hyperscalers will continue to accelerate AI investments.
- **First**, despite no visible standalone AI businesses, hyperscalers have integrated AI into their existing businesses and saw average normalized profits rise by around 25% y-y in 9M25 despite a 70% increase in capex. This implies AI can be viewed as a normal investment to improve overall operations rather than a standalone growth driver.
- **Google**: 9M25 normalized profits growing by 37% y-y
 - Key business: better search results and ad targeting for existing search engines and YouTube.
 - Better cloud business performance, with AI easing usage for users.
- **Amazon**: 9M25 normalized profits growing 17% y-y
 - Key business: online shopping benefits from AI helping target the right products for customers, leading to higher shopping activity.
 - Better cloud business performance, with AI easing usage for users.
- **Microsoft**: 9M25 normalized profits growing 17% y-y
 - Key business: integrating AI into existing Windows operations and encouraging customers to pay more for enhanced features.
 - Better cloud business performance, with AI easing usage for users.
- **Meta**: 9M25 normalized profits growing 29% y-y
 - Key business: directly using AI to overhaul ad targeting and content recommendations across its platforms, driving growth in both ad volume and pricing.
- Hyperscalers' existing businesses have decades of monetization track records, which implies to us that AI has clear usefulness for end users.
- **Second**, AI and business risk. We believe hyperscalers also consider the business risk of opting out of AI investments. This is why management teams focus on AI investments rather than near-term returns, in our view.

■ Google:

- Risk of traditional search engines being replaced as younger users structurally shift toward AI chatbots.
- Risk of losing cloud customers to other AI-based cloud providers.

■ Amazon:

- Risk of losing online shoppers to platforms that use AI to offer better product recommendations.
- Risk of losing cloud customers to other AI-based cloud providers.

■ Microsoft:

- Risk of losing cloud customers to other AI-based cloud providers.

■ Meta:

- Risk of its decades-old social media platforms becoming less relevant to younger generations, driving the use of AI to transform its platforms into more trend-driven and commerce-oriented ecosystems.

■ DELTA (BUY): DELTA does not sell memory chips, but strong AI investment intentions by hyperscalers imply higher demand for AI data centers that use these memory chips. DELTA is one of the leading makers of key power management products for data centers, and we believe hyperscalers are among its customers.

■ HANA (BUY): HANA also does not have direct exposure to memory chips. However, memory chips are being diverted to AI products, creating shortages for lower-demand traditional products such as smartphones and PCs, which are HANA's focus areas. Rising memory chip prices are likely to increase smartphone prices and could pressure end-market demand.

■ KCE (HOLD): Like HANA, KCE does not sell memory chips but faces similar risks in its focused automotive products, though at a lower risk level as cars use fewer memory chips.

■ We list DELTA as our top pick for direct global AI exposure, as it should grow faster than the overall global AI trend due to rising order relocation from its parent, Delta Taiwan. We also like HANA despite near-term downside, as it is trading at the cheap valuation, to us, below the breakup or distressed value of Bt17.4/share. We see downside risk for KCE and maintain a HOLD rating.

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