

Latest insights from visits to Asian semiconductor companies

I thought the observations from Letko's analyst, who recently completed a research trip visiting a range of semiconductor companies across Asia, were particularly interesting and worth sharing with you.

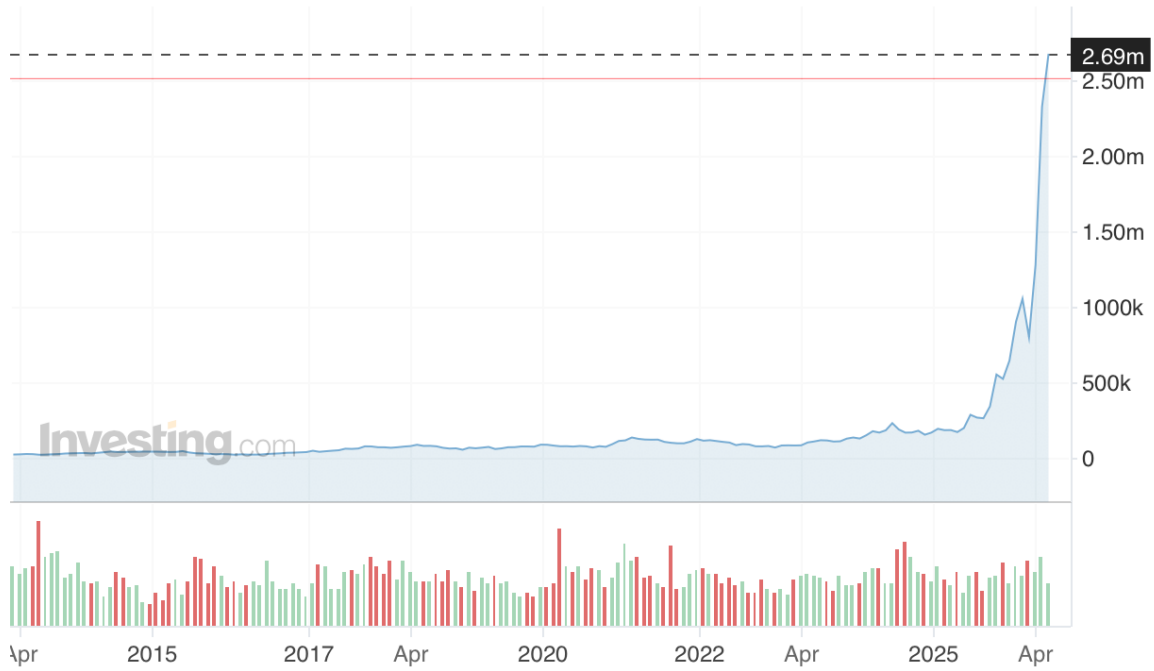
- The AI data center build out has generated unprecedented demand for specialized, high-performance memory chips known as HBM (High-Bandwidth Memory).
- Korean companies like SK Hynix and Samsung have substantially shifted their manufacturing capacity to cater to this market, but this has directly come at the expense of capacity to produce conventional DRAM and NAND memory chips which are more widely used in PCs, smartphones, etc.
- Conventional memory prices have surged, leading to share price gains and helping drive the wider EM index due to their weights (together 15% of the index). These companies have tremendous operating leverage to these price increases.
- Our tech analyst just arrived back from Asia where he was visiting companies. His takeaways:
 - First, he confirmed supply of memory is extremely tight, with visibility towards continued tightness likely into 2027. Cleanroom capacity across major global fabs has been almost completely exhausted, and we believe it is likely that capacity expansion will be limited into 2027, setting the stage for the structural deficit to persist as long as data center capex holds up and new capacity does not materialize sooner (and it is difficult to have full visibility on that last point – see below on Chinese producers).
 - On the flip side, the seeds of the next structural surplus in the memory market are firmly being planted. Elevated memory prices are acting as an economic umbrella, accelerating the emergence of domestic Chinese memory players. While these high prices provide short-term margin relief to global incumbents, they are fundamentally detrimental to the long-term rational structure of the global semiconductor industry by funding structural domestic duplication.
 - Industry management seems deeply skeptical about the long-term sustainability of this run, contrasting with what Allan notes is buy sides' euphoria and a "near-total absence of moderating or contrarian viewpoints among buy-side participants".
 - The episode is also driving both SK Hynix and Samsung's fixed cost structures higher which will be detrimental once the effect of the tighter memory market subsides:
 - SK Hynix recently overhauled its compensation model, removing traditional bonus caps to channel 10% of total annual operating profit directly into an employee bonus pool. Production line staff are receiving historic bonuses averaging up to 700 million won (~\$465,000 USD) per worker, securing critical talent but resetting the industry's fixed cost base.
 - For Samsung, a massive, unprecedented 18-day domestic strike by the National Samsung Electronics Union (representing roughly 38% of its domestic workforce) was narrowly called off in mid-May 2026 hours before commencement. Management averted the walkout by agreeing to eliminate the existing bonus cap and establish a 10.5% profit-sharing pool, highlighting the intense pressure to match SK Hynix's compensation.
- Overall, while short term tightness should persist, we are highly cautious on this part of the market and believe long term risks are elevated, although we maintain our position in Samsung for tactical exposure at this time.
- We also note that the low-hanging fruit of the runup in memory prices has already been reflected in the stock prices, and so repeating these share price movements, and thus the index's recent staggering performance – up 15% in April alone – on sustainable long term basis we believe is highly unlikely.
- We remain focused on the long term, with a well diversified portfolio of growing companies trading at reasonable valuations and offering good income.

SK Hynix Inc ▲ 2,685,000 +164,000 (+6.51%)

Buy

Sell

AI Analyze chart ⓘ



1 Day	1 Week	1 Month	3 Months	6 Months	1 Year	5 years	Max
+6.51%	+27.80%	+45.92%	+154.26%	+386.41%	+989.25%	+2.06K%	+16.89K%