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BBGI GROUP Global Investments

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Investments - Flash

SEMICONDUCTORS: IS THE MARKET OVERVALUED?

Strong potential for a rebound following a sharp sell-off

Since its June peak, the sector has experienced a sharp and rapid correction. The semiconductor index has fallen by 29% in the U.S. In Asia as well, Samsung (-50%) and TSMC (-22%) have fallen sharply. After a period of extreme enthusiasm, which drove valuations and stock prices sharply higher, June saw the return of doubts. The gap between the tech giants' massive infrastructure spending, the time required to monetize these investments, and the return on investment from AI applications has become a source of concern. At the same time, disruptions in helium shipments from Qatar also constrained production capacity and drove up the cost of silicon wafers. The reallocation of production lines to HBM memory created a shortage and drove up DRAM/NAND prices (+125%/+235%), disrupting the PC and smartphone markets. The scarcity of advanced packaging substrates and power supply constraints for data centers are holding back growth. Export restrictions to China and the parallel rise of leading Chinese memory manufacturers have also reignited fears of market share losses. The sector was ultimately viewed as caught between the promise of the AI supercycle and valuation pressures. The current correction reflects the need for a realignment between the euphoric expectations of Q2 and the actual realization of cash flows. Following this sharp pullback, we believe the sector may already be at an inflection point. Financial results tend to show that the decline in stock prices is not due to a collapse in demand, but rather to temporary production difficulties. The decline in stock prices has also reduced valuations, bringing many stocks back to more attractive long-term multiples. Orders for next-generation chips are secured for several quarters. Ultimately, the gradual rollout of AI at the user level will expand demand beyond the highly visible needs of giant data centers. While concerns about the overvaluation of chip giants were justified, the sector has seen significant profit-taking and now offers new opportunities at more reasonable prices. The production infrastructure is nonetheless proving resilient in the face of logistical constraints. The challenge for industry leaders is to expand their market share in sectors such as the automotive industry, manufacturing, and embedded AI. We view the drop in stock prices as a sign that investors have already capitulated. In our view, now is the time to take another look at this "oversold" sector, which in some cases offers very attractive PEG ratios, either through direct investments or via our Smart BRC+ strategies.