

Early-Cycle Momentum vs. Late-Cycle Compression

- Switch 2 Cycle Demand Outweighs Component Cost Headwinds; Buy the Dip.
- Sony stabilizes as PS5 matures, with gaming profitability under pressure.
- Bloomberg consensus rates NINTENDO19 a BUY with a target price of 31.2 Baht (¥14,848), and SONY80 a BUY with a target price of 5.5 Baht (US\$ 34.1).

Nintendo's New Cycle Ignites

The September-quarter (2Q26) results signaled a powerful start to the Switch 2 cycle, with revenue reaching ¥527.2b (+13.3% vs consensus). Crucially, this momentum carried through the holiday shopping window. Despite channel checks indicating supply tightness, Switch 2 sell-through velocity remained robust through Black Friday. The successful December 4 launch of Metroid Prime 4 has further validated the software roadmap, de-risking the second half of FY26. Management's raised guidance to 19m units appears achievable even with air-freight logistics pressure.

Software Strength Reinforces Nintendo's Ecosystem

Nintendo's software engine delivered exceptional performance. Mario Kart World anchored the quarter, while Donkey Kong Bananza added meaningful volume. Third-party participation expanded, marking the strongest launch lineup of any Nintendo platform. Switch 2 software sell-through reached 20.6m units, supporting a strong blended margin. Importantly, internal data showed that 80%+ of Switch 2 adopters migrated from the previous generation, reinforcing ecosystem durability. With upcoming titles including Animal Crossing and Metroid Prime, Nintendo enters FY26–27 with deep visibility.

Sony Delivers Stability, but Gaming Slows

Sony's 2Q25 results were steady at the group level, but the Game & Network Services division reveals late-cycle strain. Operating income fell to ¥120.4b, weighed down by impairments. With no major first-party holiday blockbuster this year, Sony is relying on aggressive bundling and the niche PS5 Pro to drive volume. We remain cautious on G&NS margins in the near term as the company absorbs both marketing costs and the sector-wide spike in memory prices.

Divergent Earnings Trajectories Ahead

The quarter underscores widening divergence between the two companies. Nintendo's strong Q2 beat—driven by double-digit revenue outperformance and more than ¥50b in incremental net profit—points to accelerating early-cycle momentum. Sony's gaming earnings, by comparison, reflect normalization, with one-offs weighing on margins and limited first-party catalysts to drive growth. Nintendo's upgraded FY26 guidance contrasts with Sony's decision to hold its FY25 G&NS operating income forecast at ¥500b, highlighting different earnings trajectories ahead.

Recommendation: Ecosystem Monetization Drive Long-Term Value

Bloomberg consensus rates NINTENDO19 a BUY with a target price of THB 31.2 (¥14,848), and SONY80 a BUY with a target price of THB 5.5 (US\$ 34.1). Following the sector-wide correction in early December driven by component cost fears, the implied upside for Nintendo has expanded significantly. We reiterate our conviction. Nintendo's software-rich margin mix (now bolstered by the launch of Metroid Prime 4) provides a buffer against hardware cost inflation that the market is currently underestimating.

Analyst

Suwat Sinsadok, CFA, FRM, ERP
suwat.s@globlex.co.th,
+662 687 7026

Assistant Analyst

Peerayu Sirivorawong

A Tale of Two Cycles: Early-Cycle Momentum vs. Late-Cycle Compression

The global gaming industry is polarized between two distinct hardware trajectories. **Nintendo is accelerating into the heart of its new cycle**, with Switch 2 cumulative sell-through now tracking ahead of historic Wii-era adoption rates following a robust Black Friday. Crucially, while **supply chain constraints (specifically memory components)** have capped absolute volume, the demand overhang remains a bullish indicator for FY27. **Sony, by contrast, is managing late-cycle maturity**, where unit growth has stalled, and requiring margin-dilutive promotions to clear inventory against newer competitor hardware.

This divergence is amplified by the recent **40% spike in memory chip spot prices**. This supply shock disproportionately threatens hardware-heavy business models. However, we argue **Nintendo is uniquely insulated**. With high-margin software like Mario Kart World and the newly launched Metroid Prime 4 driving an attach rate of ~2.0x, Nintendo generates sufficient software gross profit to **offset the temporary bill-of-materials (BOM) inflation** on the hardware side. Sony, facing the dual headwinds of rising hardware costs and lower first-party release cadence, lacks this immediate software margin buffer.

Exhibit 1: Nintendo FY26/Q1-Q2 (2-3Q25) Hardware and Software Sales.

Consolidated Financial Highlights			
	FY25/Q1-Q2	FY26/Q1-Q2	Comparison
Nintendo Switch 2			
Hardware	~mil units	10.36mil units	~%
Software	~mil units	20.62mil units	~%
Nintendo Switch			
Hardware	4.72mil units	1.89mil units	-60.0%
Software	70.28mil units	61.56mil units	-12.4%

Sources: Nintendo

Exhibit 2: Sony 2Q25 (3Q25) Gaming Segment Sales Driven by Software

Q2 FY2025 (year-on-year)

- Sales: 41.6 bln yen (4%) increase (FX Impact: +9.7 bln yen)
 - (+) Increase in sales from network services
 - (+) Increase in sales of game software titles
- OI: 18.5 bln yen (13%) decrease (FX Impact: +10.8 bln yen)
 - (-) Recording of impairment losses against a portion of Bungie, Inc.'s intangible and other assets in connection with *Destiny 2* (31.5 bln yen)*
 - (-) Recording of expenses resulting from a correction in the amount of certain previously capitalized development costs (18.3 bln yen)*
 - (+) Impact of increase in sales from network services

Sources: SONY

Meanwhile, digital monetization continues reshaping industry fundamentals. **More than 80% of all game sales now occur digitally**, compared with roughly 60% five years ago. Sony benefits directly through PS Plus and higher network-service ARPU, while Nintendo's digital mix is rising steadily through Nintendo Switch Online and increasing DLC penetration. At the same time, **both companies are expanding IP beyond consoles**—Nintendo with a US\$1.3b Mario movie and Sony with long-running cross-media franchises—creating broader ecosystems that reduce dependency on single-year title releases. Over the next 24 months, industry dynamics will remain polarized: Nintendo driving early-cycle expansion, and Sony maintaining stability while preparing for its next major platform inflection.

Nintendo Quarterly Review: A Breakout Foundation for Holiday Resilience

Nintendo's September-quarter (Q2 FY26) results provided **critical margin headroom ahead of the current component cost volatility**. The company delivered one of its strongest early-cycle prints in a decade, with revenue reaching **¥527.2b** and EPS crushing consensus by **48%**. This exceptional profitability—driven by a rich software mix—demonstrates Nintendo's ability to generate cash flow even during the capital-intensive initial hardware ramp. We view this accumulated cash buffer as a key defensive moat against the rising DRAM costs currently pressuring the sector.

Switch 2 remains the centerpiece of the fiscal year. While Q2 cumulative sell-in hit **10 million units**, recent holiday channel checks confirm that **demand continues to outstrip supply**. The 'tightness' management warned of has materialized as a hard cap on Q3 volume, exacerbated by global logistics bottlenecks. However, this is a quality problem: the installed base is growing as fast as manufacturing allows, with **zero inventory buildup risk**—a sharp contrast to the discounting seen in competitor channels.

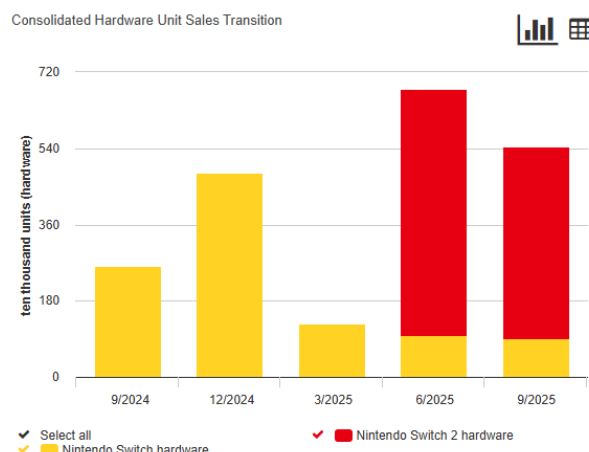
Exhibit 3: Nintendo Consolidated Financial Highlights FY26/Q1-Q2 (2-3Q25)

Consolidated Financial Highlights			
	FY25/Q1-Q2	FY26/Q1-Q2	Comparison
Net Sales	523.2bn yen	1,099.5bn yen	+110.1%
Operating Profit	121.5bn yen	145.1bn yen	+19.5%
Ordinary Profit	147.1bn yen	236.0bn yen	+60.5%
Net Profit	108.6bn yen	198.9bn yen	+83.1%

*Net Profit: Profit attributable to owners of parent
†FY: Fiscal Year
‡FY26/Q1-Q2 indicates the period between April 1, 2025 and September 30, 2025

Sources: Nintendo

Exhibit 4: Nintendo Switch 2 Hardware Sales Units



Sources: : Nintendo

Exhibit 5: Nintendo Switch 2: Strong Launch Momentum



Sources: Nintendo

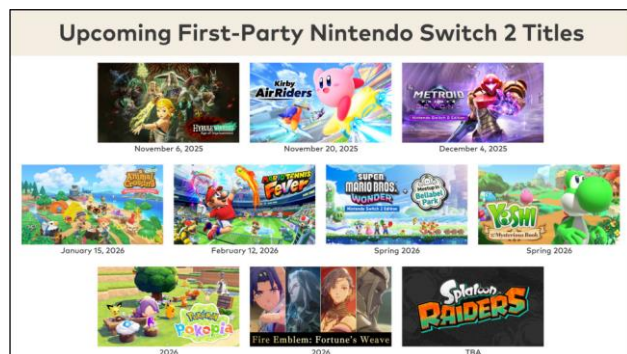
Exhibit 6: Mario Kart World: Exceptional Attach Rate on Switch 2



Sources: Nintendo

Management's upward revision of software forecasts is already being validated. The slate is converting from 'potential' to 'performance,' anchored by the December 4 launch of Metroid Prime 4, which dominated holiday sales charts. Looking ahead, the confirmed January 15, 2026 release of Animal Crossing: New Horizons (Switch 2 Edition) provides immediate visibility into Q4, ensuring the momentum bridge into the next fiscal year remains intact.

Exhibit 5: IP Products Collaboration with Global Brands



Sources: Nintendo

Exhibit 6: FY26 Upward Revision Across All Major Metrics

FY26 Consolidated Financial Forecast			
	Previous Forecast	Modified Forecast	Comparison
Net Sales	1,900.0bn yen	2,250.0bn yen	+18.4%
Operating Profit	320.0bn yen	370.0bn yen	+15.6%
Ordinary Profit	380.0bn yen	460.0bn yen	+21.1%
Net Profit	300.0bn yen	350.0bn yen	+16.7%
<small>* Assumed exchange rate for FY26: 1 USD = 140yen (unchanged), 1 Euro = 160yen (previously 155 yen)</small>			
	Previous Forecast	Modified Forecast	Comparison
Dividend			
Annual	129yen	181yen	+52yen
<small>In regard to the potential impact of U.S. tariff, the modified consolidated earnings forecast, and projected sales volumes take into account tax rates as of the end of September 2025.</small>			

Sources: Nintendo

Given these dynamics, management raised full-year guidance across all major metrics. **FY26 hardware expectations increased from 15 million to 19 million units**, while software forecasts were also revised upward to reflect stronger digital performance and a dense slate of upcoming first-party releases including Animal Crossing, Metroid Prime, and Fire Emblem. Updates to the Nintendo Account ecosystem continue to deepen engagement, expanding the **cross-device user base beyond 400 million accounts**. Overall, Q2 confirmed that Nintendo has entered a powerful multi-year earnings expansion phase, supported by synchronized hardware momentum, content strength, and cross-media IP leverage.

Sony Quarterly Review: Service Resilience in a Hardware Trough

Sony's Q2 FY25 results highlight the structural hedge built into its conglomerate model. While Music and Imaging sensors drove a consolidated beat (Revenue +2.6%), the **gaming division's fundamentals are deteriorating faster than headline numbers suggest**. The Game & Network Services (G&NS) segment is now entirely dependent on digital recurring revenue to mask the sharp decline in hardware profitability—a dependency that becomes risky as consumer discretionary spending tightens.

The **Game & Network Services (G&NS) segment reported revenue of ¥1.11t**, a modest year-on-year increase but below the growth rates typically associated with earlier phases of a hardware cycle. Q2 profitability was weighed down by internal 'clean-up' charges, specifically the **¥31.5b Bungie impairment**. While these one-offs are likely behind us, they have been immediately replaced by a new external headwind: **spiraling memory component costs**. Unlike Nintendo, which can offset BOM (Bill of Materials) inflation with high-margin launch titles, Sony enters the holiday quarter with a 'legacy' software slate, leaving G&NS operating margins highly exposed to the recent DRAM spot-price spike.

Exhibit 9: SONY 2Q25 (3Q25) Financial Results by Segment

Q2 FY2025 Results by Segment

(Bln Yen)		Q2 FY24	Q2 FY25	Change	FX Impact
Game & Network Services (G&NS)	Sales	1,071.5	1,113.2	+41.6	+9.7
	Operating income	138.8	120.4	-18.5	+10.8
Music	Sales	448.2	542.4	+94.2	-5.7
	Operating income	90.4	115.4	+25.0	
Pictures	Sales	355.8	346.0	-9.8	-3.2
	Operating income	18.5	13.9	-4.6	
Entertainment, Technology & Services (ET&S)	Sales	619.8	575.7	-44.0	-1.7
	Operating income	70.2	61.0	-9.2	-0.5
Imaging & Sensing Solutions (I&SS)	Sales	535.6	614.6	+79.1	-10.5
	Operating income	92.4	138.3	+45.9	-8.0
All Other	Sales	23.9	23.6	-0.2	
	Operating income	-6.5	-2.9	+3.6	
Corporate and elimination	Sales	-83.5	-107.7	-24.2	
	Operating income	-14.4	-16.9	-2.5	
Continuing Operations	Sales	2,971.2	3,107.9	+136.7	
	Operating income	389.3	429.0	+39.6	

Sales in each business segment represent sales recorded before intersegment transactions are eliminated (applies to all following pages). Operating income in each business segment represents operating income recorded before intersegment transactions are eliminated and excludes unallocated corporate expenses (applies to all following pages).

Sources: SONY

Operationally, PS5 hardware volume has plateaued, and channel checks through early December suggest **heavy bundling was required to move units** during Black Friday. The bright spot remains **Network Services**, where recent PS Plus price tiering is driving ARPU expansion. However, we caution that this 'service-first' stability is a low-growth defensive posture compared to the cyclical expansion currently visible at Nintendo.

Guidance reinforced this cautious backdrop. Management maintained its full-year G&NS operating income forecast at **¥500 billion**, but we view this target as increasingly ambitious. The forecast did not account for the **December component cost surge**, which typically impacts manufacturing with a 30-60 day lag. We see downside risk to Q4 margins, reinforcing our preference to wait for a clearer entry point

Nintendo: The Software Fortress. Nintendo's medium-term outlook is uniquely shielded from the current component inflation. Unlike traditional hardware cycles where profitability dips in Year 1, **Nintendo's 'Switch 2 Edition'** strategy (releasing enhanced versions of Animal Crossing and Mario Kart) leverages existing assets to drive high-margin software sales immediately. With the Nintendo Account base now exceeding **400 million users**, the company possesses a recurring revenue engine that dampens the volatility of hardware bill-of-materials (BOM) fluctuations.

Exhibit 1: Nintendo Upward Guidance Revision

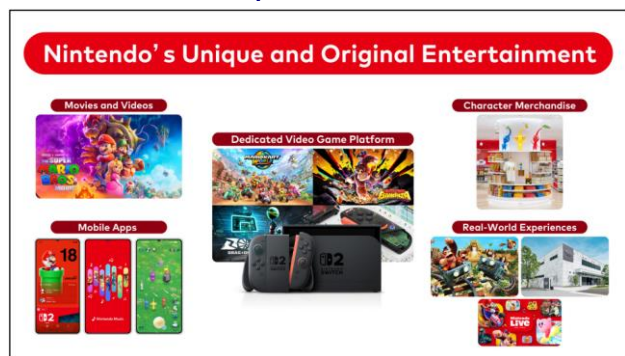
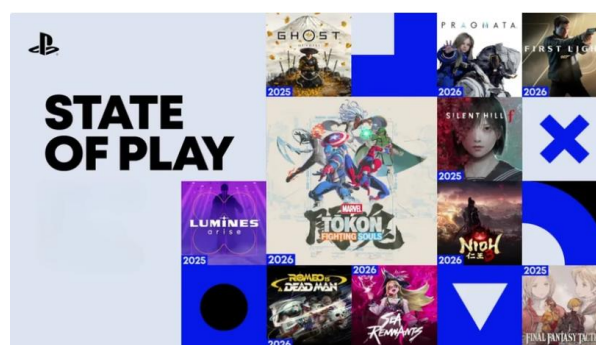


Exhibit 2: Sony's games



At the industry level, cloud-native development, AI-assisted content creation, and deeper cross-media integration are poised to redefine product cycles and cost structures. **Companies with broad IP portfolios and flexible distribution models are best positioned to benefit.** Nintendo's approach—focused on evergreen franchises and high-ROI development—offers resilience as production budgets rise globally. Sony's multi-vertical structure, linking Pictures, Music, and PlayStation, provides a unique foundation for cross-franchise storytelling, though execution risk remains elevated during this period of strategic recalibration. **Over the medium term, success will hinge on each company's ability to harmonize these cross-platform ecosystems** while navigating shifts in user behavior, subscription dynamics, and global content consumption.

Valuation and Strategy

Capitalizing on Market Dislocation. The market's reaction to the December memory chip spike has created a dislocation between Nintendo's share price and its fundamental earnings power. While hardware margins may temporarily compress in Q3/Q4, the **software supercycle**—ignited by Metroid Prime 4 and sustained by Animal Crossing (Jan 2026)—is proceeding ahead of schedule.

NINTENDO19 (BUY): We view the current pullback as a tactical entry point. The structural growth story (Switch 2 adoption) outweighs the cyclical headwind (component costs).

SONY80 (BUY -> Accumulate/Hold): We see limited near-term catalysts to reverse the margin compression narrative until the PS5 Pro install base matures.

Bloomberg consensus rates NINTENDO19 a BUY with a TP of THB 31.2 (¥14,848), and SONY80 a BUY with a TP of THB 5.5 (US\$ 34.1).

Bloomberg consensus rates NINTENDO19 a BUY with a target price of THB 31.2 (¥14,848), and SONY80 a BUY with a target price of THB 5.5 (US\$ 34.1). Following the sector-wide correction in early December driven by component cost fears, the implied upside for Nintendo has expanded significantly. We reiterate our conviction. Nintendo's software-rich margin mix (now bolstered by the launch of Metroid Prime 4) provides a buffer against hardware cost inflation that the market is currently underestimating

GENERAL DISCLAIMER

Analyst Certification

Suwat Sinsadok, Register No. 020799, Globlex Securities Public Company Limited

The opinions and information presented in this report are those of the Globlex Securities Co. Ltd. Research Department. No representation or warranty in any form regarding the accuracy, completeness, correctness or fairness of opinions and information of this report is offered by Globlex Securities Co. Ltd. Globlex Securities Co. Ltd. Accepts no liability whatsoever for any loss arising from the use of this report or its contents. This report (in whole or in part) may not be reproduced or published without the express permission of Globlex Securities Co. Ltd.

RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

- BUY:** Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

- Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.