Goldman Sachs | Equity Research

29 April 2025 | 2:56AM JST

Buy

Hitachi (6501.T)

4Q above expectations: Positive on large share buyback/DPS hike; await IR Day for details on monetization of AI infra, raise TP; Buy

6501.T	12m Price Target: **¥4,900**	Price: **¥3,747**	Upside: **30.8%**

Hitachi reported 4Q3/25 sales of ¥2,772.4 bn (GSe ¥2,711.8 bn) and adjusted operating profits of ¥316.9 bn (GSe ¥280.8 bn) after the April 28 close, beating our expectations. In addition, **the company announced a share buyback of ¥300 bn, exceeding the previous fiscal year's amount, and a dividend increase. While investors had concerns about the new management team's approach to capital allocation, the large share buyback appears to have allayed these worries.** FY3/26 guidance calls for sales/adjusted operating profits of ¥10.1 tn/¥1,005 bn (our previous adjusted operating profit forecast was ¥1,150.4 bn), factoring in a ¥30 bn negative impact on adjusted EBITA from tariffs (direct impact of reciprocal tariffs).

The new management plan, Inspire 2027, emphasized the Lumada 3.0 concept, which leverages Hitachi's domain knowledge in power and rail to enhance social infrastructure with AI. While the generative AI theme has shifted from AI itself to the ability to deliver value using AI, **Hitachi is one of the few companies in the world with expertise in both AI and infrastructure/hardware; the briefing did not include details on how the company will translate this advantage into sales and profits. We await the IR Day scheduled for June 11 for further details on whether Hitachi can capitalize on this opportunity.**

Reflecting FY3/25 results, we lower our FY3/26E and FY3/27E operating profit estimates by 6% and 4%, respectively. We also introduce our FY3/28E forecasts. Our estimates factor in share buybacks of ¥300 bn this fiscal year and ¥200 bn in subsequent years. We raise our 12-month target price to ¥4,900 from ¥4,800 and reiterate our Buy rating.

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Key Data

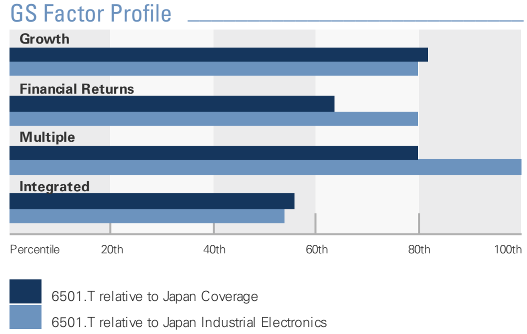
Market cap: ¥17.4tr / $120.6bn
Enterprise value: ¥17.4tr / $120.9bn
3m ADTV: ¥58.9bn / $395.9mn
Japan
Japan Industrial Electronics
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	3/25	3/26E	3/27E	3/28E
Revenue (¥ bn)	9,783.4	10,358.9	11,282.7	12,240.4
Op. profit (¥ bn) New	**971.6**	**1,086.0**	**1,268.9**	**1,429.8**
Op. profit (¥ bn) Old	935.6	1,150.4	1,321.6	–
Op. profit CoE (¥ bn)	930.0	1,005.0	–	–
EPS (¥) New	**134.5**	**163.1**	**195.4**	**239.1**
EPS (¥) Old	134.9	170.1	198.6	–
P/E (X)	26.6	23.0	19.2	15.7
P/B (X)	2.7	2.6	2.4	2.0
CROCI (%)	10.0	11.2	12.1	12.7

	3/25	6/25E	9/25E	12/25E
EPS (¥)	40.4	33.3	37.0	39.4

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

Buy

Hitachi (6501.T)

Rating since Mar 16, 2023

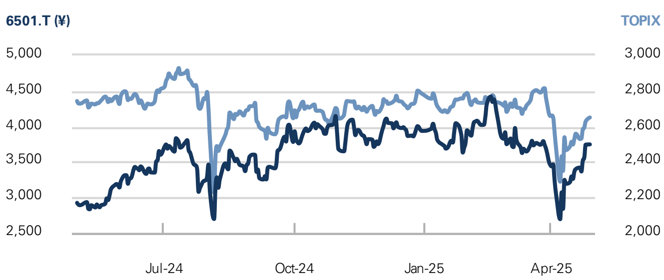
Ratios & Valuation

	3/25	3/26E	3/27E	3/28E
P/E (X)	26.6	23.0	19.2	15.7
P/B (X)	2.7	2.6	2.4	2.0
FCF yield (%)	5.6	4.9	4.8	5.6
EV/EBITDAR (X)	12.1	11.1	9.6	8.0
EV/EBITDA (excl. leases) (X)	12.1	11.1	9.6	8.0
CROCI (%)	10.0	11.2	12.1	12.7
ROE (%)	10.5	11.7	13.0	13.5
Net debt/equity (%)	0.2	(2.9)	(6.7)	(10.5)
Net debt/equity (excl. leases) (%)	0.2	(2.9)	(6.7)	(10.5)
Interest cover (X)	20.7	30.2	35.2	39.7
Days inventory outst, sales	55.6	52.9	51.9	52.0
Receivable days	110.6	105.7	102.8	102.3
Days payable outstanding	75.2	75.2	76.0	76.6
DuPont ROE (%)	9.8	11.0	12.0	12.4
Turnover (X)	0.7	0.8	0.8	0.8
Leverage (X)	2.1	2.1	2.0	1.9
Gross cash invested (ex cash) (¥)	11,274.0	11,451.0	11,778.7	12,158.1
Average capital employed (¥)	6,310.1	6,362.9	6,592.9	6,925.2
BVPS (¥)	1,327.2	1,426.2	1,570.8	1,857.8

Growth & Margins (%)

	3/25	3/26E	3/27E	3/28E
Total revenue growth	0.6	5.9	8.9	8.5
EBITDA growth	14.5	10.2	12.0	9.5
EPS growth	5.6	21.3	19.8	22.4
DPS growth	19.4	(18.6)	2.9	11.1
EBIT margin	9.9	10.5	11.2	11.7
EBITDA margin	14.1	14.7	15.1	15.2
Net income margin	6.3	7.1	7.7	8.0

Price Performance



	3m	6m	12m
Absolute	3.2%	(6.9)%	39.0%
Rel. to the TOPIX	7.3%	(6.6)%	40.9%

Source: FactSet. Price as of 28 Apr 2025 close.

Income Statement (¥ bn)

	3/25	3/26E	3/27E	3/28E
Total revenue	9,783.4	10,358.9	11,282.7	12,240.4
Cost of goods sold	(6,962.5)	(7,435.8)	(8,012.9)	(8,639.9)
SG&A	(1,589.8)	(1,537.1)	(1,700.9)	(1,870.8)
R&D	(259.4)	(300.0)	(300.0)	(300.0)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**1,378.1**	**1,518.8**	**1,701.7**	**1,862.6**
Depreciation & amortization	(406.5)	(432.8)	(432.8)	(432.8)
EBIT	**971.6**	**1,086.0**	**1,268.9**	**1,429.8**
Net interest inc./(exp.)	(14.9)	(25.0)	(25.0)	(25.0)
Income/(loss) from associates	58.3	50.0	50.0	50.0
Pre-tax profit	**962.7**	**1,051.0**	**1,233.9**	**1,394.8**
Provision for taxes	(305.9)	(284.0)	(333.0)	(377.0)
Minority interest	(41.1)	(35.0)	(35.0)	(35.0)
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**615.7**	**732.0**	**865.9**	**982.8**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**615.7**	**732.0**	**865.9**	**982.8**
EPS (basic, pre-except) (¥)	**134.5**	**163.1**	**195.4**	**239.1**
EPS (diluted, pre-except) (¥)	**134.5**	**163.1**	**195.4**	**239.1**
EPS (basic, post-except) (¥)	**134.5**	**163.1**	**195.4**	**239.1**
EPS (diluted, post-except) (¥)	**134.5**	**163.1**	**195.4**	**239.1**
DPS (¥)	43.0	35.0	36.0	40.0
Div. payout ratio (%)	32.0	21.5	18.4	16.7

Balance Sheet (¥ bn)

	3/25	3/26E	3/27E	3/28E
Cash & cash equivalents	1,778.9	1,984.8	2,275.2	2,624.8
Accounts receivable	2,935.0	3,064.5	3,290.8	3,570.1
Inventory	1,467.5	1,536.6	1,673.6	1,815.7
Other current assets	647.3	647.3	647.3	647.3
Total current assets	**6,828.7**	**7,233.1**	**7,886.8**	**8,657.9**
Net PP&E	1,334.9	1,419.9	1,504.9	1,589.9
Net intangibles	3,550.4	3,550.4	3,550.4	3,550.4
Total investments	1,056.4	1,056.4	1,056.4	1,056.4
Other long-term assets	457.9	457.9	457.9	457.9
Total assets	**13,228.4**	**13,717.8**	**14,456.5**	**15,312.5**
Accounts payable	1,467.5	1,597.0	1,739.4	1,887.1
Short-term debt	1,032.6	1,032.6	1,032.6	1,032.6
Short-term lease liabilities	–	–	–	–
Other current liabilities	3,091.7	3,091.7	3,091.7	3,091.7
Total current liabilities	**5,591.9**	**5,721.3**	**5,863.8**	**6,011.4**
Long-term debt	759.3	759.3	759.3	759.3
Long-term lease liabilities	–	–	–	–
Other long-term liabilities	604.4	604.4	604.4	604.4
Total long-term liabilities	**1,363.7**	**1,363.7**	**1,363.7**	**1,363.7**
Total liabilities	**6,955.5**	**7,085.0**	**7,227.4**	**7,375.1**
Preferred shares	–	–	–	–
Total common equity	**6,075.8**	**6,400.7**	**6,962.0**	**7,635.4**
Minority interest	**197.0**	**232.0**	**267.0**	**302.0**
Total liabilities & equity	**13,228.4**	**13,717.8**	**14,456.5**	**15,312.5**
Net debt, adjusted	13.0	(192.9)	(483.3)	(832.9)

Cash Flow (¥ bn)

	3/25	3/26E	3/27E	3/28E
Net income	615.7	732.0	865.9	982.8
D&A add-back	406.5	432.8	432.8	432.8
Minority interest add-back	41.1	35.0	35.0	35.0
Net (inc)/dec working capital	167.3	(69.1)	(220.9)	(273.7)
Other operating cash flow	58.3	50.0	50.0	50.0
Cash flow from operations	**1,288.9**	**1,180.7**	**1,162.8**	**1,226.8**
Capital expenditures	(351.8)	(350.0)	(350.0)	(350.0)
Acquisitions	0.0	0.0	–	–
Divestitures	21.8	(50.0)	(50.0)	(50.0)
Others	–	–	–	–
Cash flow from investing	**(330.0)**	**(400.0)**	**(400.0)**	**(400.0)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	(196.8)	(157.1)	(159.6)	(164.4)
Inc/(dec) in debt	611.9	0.0	0.0	–
Other financing cash flows	(300.4)	(417.8)	(312.8)	(312.8)
Cash flow from financing	**114.6**	**(574.9)**	**(472.4)**	**(477.2)**
Total cash flow	**1,073.6**	**205.8**	**290.4**	**349.6**
Free cash flow	937.1	830.7	812.8	876.8

Source: Company data, Goldman Sachs Research estimates.

Key points from earnings

Digital systems & services

4Q sales/adjusted operating profits came to ¥818.9 bn (GSe ¥849.1 bn)/¥124.5 bn (GSe ¥119.7 bn). GlobalLogic's full-year sales grew 12% yoy (+17% on a USD basis), and the adjusted EBITA margin remained high at 19%.

Large projects, including digital transformation and modernization, were firm in the front business. Cloud and security-related projects were strong in IT services. Domestic system integration orders maintained strong growth, with the front business up 13% yoy and IT services up 9% in 4Q.

The services & platform unit was affected by price competition and higher input costs in the storage business.

FY3/26 guidance for the segment calls for sales/adjusted operating profits of ¥3,020 bn/¥418 bn.

Green energy & mobility

4Q sales/adjusted operating profits were ¥1,137.8 bn (GSe ¥1,004.1 bn)/¥101.5 bn (GSe ¥68.9 bn).

Hitachi Energy (standalone) reported 4Q sales/adjusted operating profits of ¥670.3 bn/¥75.5 bn and an order backlog of ¥6.5 tn. 4Q orders came to ¥713.6 bn, down 10% yoy due partly to a pullback following large-scale orders last year. The company aims for sales CAGR of 12-14% from FY3/25 to FY3/31. It plans to establish a dedicated service business unit to accelerate its growth strategy for the services business toward 2030.

Hitachi Rail reported 4Q sales/adjusted operating profits of ¥350.3 bn/¥40.1 bn and an order backlog of ¥6.2 tn. 4Q orders were ¥382 bn, up 18% yoy (including the impact of the Hitachi Rail GTS acquisition).

FY3/26 sales/adjusted operating profit guidance for the segment calls for ¥2,810 bn/¥314 bn for energy (including ¥2,625 bn/¥305.7 bn for the power grid business unit), and ¥1,190 bn/¥97 bn for mobility (rail).

Connective industries

4Q sales/operating profits came to ¥862.6 bn (GSe ¥847.7 bn)/¥85.2 bn (GSe ¥85.9 bn).

In building systems, the impact of lower new elevator demand in China was offset by forex and service business growth. Industrial digital solutions business expanded in the industrial field. Measurement & analysis benefited from higher sales of biochemical immunoassay analyzers and radiation therapy systems.

FY3/26 sales/adjusted operating profit guidance for the segment is ¥3,230 bn/¥333 bn.

FY3/26 guidance

Overall guidance is for sales of ¥10.1 tn and adjusted operating profits of ¥1,005 bn (our previous estimates were ¥10,579 bn/¥1,150.4 bn).

Shareholder returns

Hitachi announced a share buyback of up to ¥300 bn/140 mn shares (3.06% of shares outstanding, excluding treasury stock). The year-end DPS forecast is ¥22, up ¥2 (+10%) yoy. The interim DPS forecast for FY3/26 is ¥23, also up ¥2 (+10%) yoy.

New management plan “Inspire 2027”

KPIs include revenue CAGR of 7-9%, adjusted EBITA margin of 13-15%, cash conversion (core FCF/net profit excluding special factors) of over 90%, ROIC of 12-13%, a Lumada sales ratio of 50% and adjusted EBITA margin of 18%. Over the medium to long term, the company aims for a Lumada sales ratio of 80% and adjusted EBITA margin of 20%.

In terms of capital allocation, Hitachi plans to generate cash through core FCF growth, asset sales, and leverage. It intends to use the funds for shareholder returns and growth investments, both of which are expected to exceed the levels in the 2024 medium-term plan (¥1 tn and ¥0.8 tn, respectively). Financial discipline targets include a D/E ratio of 0.5x and net debt/EBITDA of 1-2X.

The digital strategy (Lumada 3.0) aims to enhance social infrastructure with AI reinforced by domain knowledge. Hitachi aims to raise Lumada revenue/sales ratio/adjusted EBITA margin from ¥3 tn/31%/15% in FY3/25 to ¥3.9 tn/38%/16% in FY3/26.

- **Energy sector:** Hitachi aims for sales CAGR of 11-13% through FY3/28, roughly in line with the 10-12% growth expected in the power transmission and distribution systems market, and an adjusted EBITA margin of over 12% in FY3/28.
- **Mobility sector:** Hitachi aims for sales CAGR of 7-9% through FY3/28, compared with expected market CAGR of 4% for signaling and rolling stock systems and 11% for digital mobility services, and an adjusted EBITA margin of over 11% in FY3/28.
- **Connective industries sector:** Hitachi plans portfolio reforms and aims for sales CAGR of 6-8% through FY3/28, and an adjusted EBITA margin of over 13% in FY3/28.
- **Digital systems & services sector:** Hitachi aims for sales CAGR of 7-9% through FY3/28, compared with expected market CAGR of 16% for the global digital transformation market and 13% for the domestic market, and an adjusted EBITA margin of over 16% in FY3/28. Hitachi believes labor shortages could constrain sales growth. The company plans to mitigate this through the use of generative AI.

Earnings estimates

We lower our FY3/26E and FY3/27E adjusted operating profit estimates by 6% and 4%, respectively, mainly reflecting downward revisions to our outlook for the digital systems & services and connective industries segments. We introduce our FY3/28E forecasts and quarterly forecasts for FY3/26E. Our estimates factor in share buybacks of ¥300 bn in FY3/26E and ¥200 bn in subsequent years. We raise our 12-month target price to ¥4,900 from ¥4,800 and reiterate our Buy rating.

Exhibit 1: Hitachi: Earnings overview

(JPY mn)	FY3/25 4Q		FY3/25			FY3/26		
	GSE	Actual	GSE	Actual	CoE	GSE		CoE
						Old	New	
Sales	2,711,783	2,772,388	9,722,765	9,783,370	9,700,000	10,579,000	10,358,902	10,100,000
Operating profit	280,823	316,867	935,562	971,606	930,000	1,150,364	1,085,978	1,005,000
Net income	186,945	185,107	617,562	615,724	610,000	774,364	731,978	710,000

Source: Company data, Goldman Sachs Global Investment Research

Investment Thesis - Hitachi

With Hitachi's recent deconsolidation from its consolidated accounts of some businesses with relatively large capex and low capital efficiency versus IT and other businesses, we expect CROCI to increase and look for investors to price in prospects for future CROCI improvement. Hitachi has a diverse business portfolio comprising the digital systems & services, green energy & mobility, and the connective industries segments. Among these, we expect the acquisitions of GlobalLogic and Hitachi Energy (formerly ABB Power Grid) in the digital and green growth fields, respectively, to drive earnings growth. We view Hitachi as one of the few companies likely to benefit from both digital transformation (DX) and green transformation (GX) trends worldwide. Whereas business portfolio reforms have been the focus of valuations to date, we believe Hitachi has transformed itself and become globally competitive, shifting attention to the next phase of organic expansion centered on its acquired businesses, and meaningful business growth. We are Buy rated on Hitachi, as we expect the company to enter a period of multiple expansion that is not constrained by the historical range, driven by higher corporate value on the back of EPS expansion and growth in the services business.

Price Target Risks and Methodology - Hitachi

We are Buy rated. Our 12-month target price of ¥4,900 for Hitachi is based on an EV/EBITDA of 13X (average of FY3/26E-FY3/27E, multiple based on the EV/EBITDA and EBITDA margin correlation across its domestic and global competitors). Risks: **Digital systems & services:** delays and losses generated on large projects, weaker IT capex sentiment at customers accompanying a macroeconomic downturn, reemergence of supply disruptions for servers and other products, slower standalone growth at GlobalLogic, slower-than-expected realization of synergies between Hitachi and GlobalLogic; **Green energy & mobility (Hitachi Energy):** delays on power transmission/distribution projects, a sharp rise in input costs; **Connective industries:** weaker new construction demand in China, losing out on new repair/maintenance orders to competitors in Japan, semiconductor production equipment (SPE) prices not improving over the long term a risk for the measurement and analysis systems business (Hitachi High-Tech); **Companywide:** Forex swings (¥1 appreciation vs. USD likely has a negative impact of ¥12 bn on sales and ¥1.2 bn on adjusted EBITA) and an increase in purchase price allocation (PPA) amortization due to forex swings.

Disclosure Appendix

Reg AC

We, Ryo Harada and Hiroki Muramatsu, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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GS Factor Profile

The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our universe of rated stocks) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

M&A Rank

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

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Goldman Sachs has received compensation for investment banking services in the past 12 months: Hitachi (¥3,747) and Hitachi (ADR) ($27.84)

Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: Hitachi (¥3,747) and Hitachi (ADR) ($27.84)

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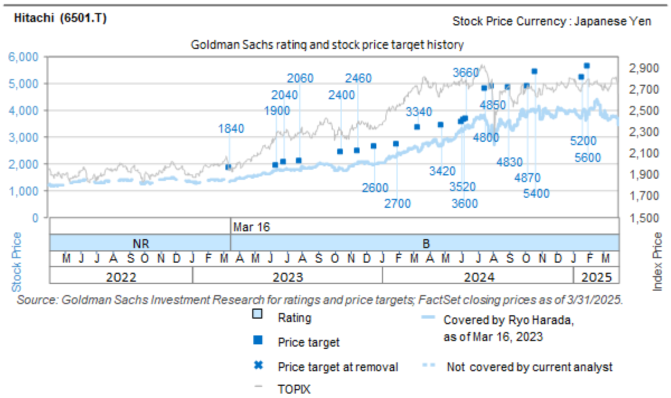
Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	49%	34%	17%	63%	57%	42%

As of April 1, 2025, Goldman Sachs Global Investment Research had investment ratings on 3,016 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by the FINRA Rules. See 'Ratings, Coverage universe and related definitions' below. The Investment Banking Relationships chart reflects the percentage of subject companies within each rating category for whom Goldman Sachs has provided investment banking services within the previous twelve months.

Price target and rating history chart(s)



The price targets shown should be considered in the context of all prior published Goldman Sachs research, which may or may not have included price targets, as well as developments relating to the company, its industry and financial markets.

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