

Buy

Renesas Electronics (6723.T)

Results briefing: 2Q guidance confirmed as conservative; strong execution amid uncertain external environment; Buy

6723.T 12m Price Target: **¥2,500** Price: **¥1,627** Upside: **53.7%**

Renesas Electronics held its 1Q12/25 results briefing from 10:00 JST on April 24 (see our [First Take](#) for key figures). Our key takeaways are as follows: **(1) 2Q guidance:** The company announced a cut of c.5% for sales, reflecting uncertainties in the outlook. **(2) Tariffs:** It expects almost no direct impact, and assumes any indirect impact would be on sales volumes. It expects no requests from the supply chain, including for automotive customers, to share the burden of tariffs. **(3) Capacity utilization:** Capacity utilization was just over 40% in 1Q, slightly higher than previously assumed, and the company plans to keep utilization flat in 2Q. **(4) Company-specific factors for non-automotive applications:** The company is slightly more upbeat than previously on the outlook for sales expansion from 3Q for DDR5, AI, and smartphone applications. **(5) Front-loading:** Some front-loading of orders ahead of tariffs has been seen in 2Q for consumer electronics, PCs, and consumer applications. **(6) WOLFSPEED:** The company is currently negotiating the deposits provided to WOLFSPEED and said it would give an update around the time of WOLFSPEED's earnings announcement (no comment at this time). Renesas is not involved in the restructuring at WOLFSPEED. **(7) Medium- to long-term outlook:** The company interprets the tariffs as a wake-up call. If the world shifts to one where global growth cannot be captured uniformly, it will be crucial to further invest in strengthening product capabilities and take actions to maintain growth momentum, according to Renesas Electronics.

Despite ongoing uncertainties in the external environment, we believe quarterly earnings are likely to gradually improve (no major downward revisions), as (1) it was confirmed that 2Q guidance includes a cut of c.5% for sales, (2) the company is slightly more upbeat on company-specific factors from 3Q

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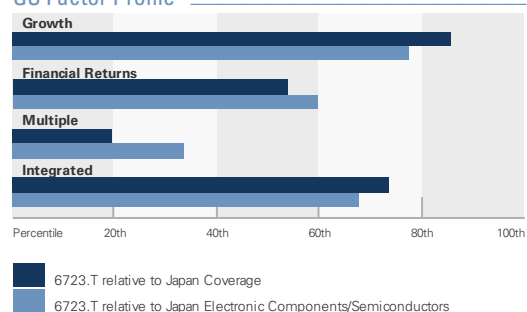
Key Data

Market cap: ¥3.0tr / \$21.0bn
Enterprise value: ¥3.9tr / \$27.3bn
3m ADTV: ¥27.2bn / \$182.5mn
Japan
Japan Electronic Components/Semiconductors
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	12/24	12/25E	12/26E	12/27E
Revenue (¥ bn)	1,348.5	1,269.9	1,395.0	1,520.0
Op. profit (¥ bn) New	397.9	344.9	413.9	480.9
Op. profit (¥ bn) Old	397.9	389.5	486.0	568.5
Op. profit CoE (¥ bn)	—	—	—	—
EPS (¥) New	206.6	165.2	201.8	242.0
EPS (¥) Old	206.6	184.4	237.1	286.9
P/E (X)	12.0	9.8	8.1	6.7
P/B (X)	1.7	1.0	0.9	0.7
CROCI (%)	7.4	6.9	8.4	9.2
	3/25	6/25E	9/25E	12/25E
EPS (¥)	40.9	33.6	38.4	43.3

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
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Buy

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Rating since Oct 14, 2020

Ratios & Valuation

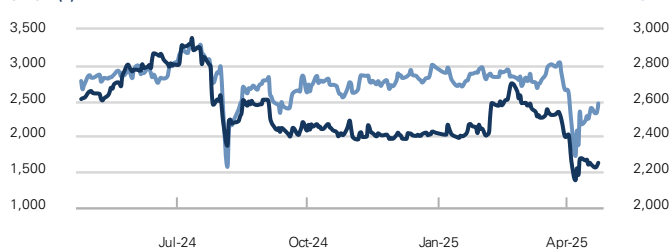
	12/24	12/25E	12/26E	12/27E
P/E (X)	12.0	9.8	8.1	6.7
P/B (X)	1.7	1.0	0.9	0.7
FCF yield (%)	5.8	12.0	12.5	16.2
EV/EBITDAR (X)	11.3	8.2	5.9	4.2
EV/EBITDA (excl. leases) (X)	11.3	8.2	5.9	4.2
CROCI (%)	7.4	6.9	8.4	9.2
ROE (%)	15.9	10.9	12.4	13.7
Net debt/equity (%)	46.1	33.9	23.6	12.0
Net debt/equity (excl. leases) (%)	46.1	33.9	23.6	12.0
Interest cover (X)	36.3	38.3	69.0	80.1
Days inventory outst, sales	46.0	46.7	40.7	40.8
Receivable days	45.5	44.5	39.2	39.4
Days payable outstanding	144.6	140.0	133.5	143.0
DuPont ROE (%)	14.2	10.7	12.1	13.2
Turnover (X)	0.3	0.3	0.3	0.4
Leverage (X)	1.8	1.7	1.6	1.5
Gross cash invested (ex cash) (¥)	4,959.9	4,888.8	4,881.0	4,874.3
Average capital employed (¥)	2,967.8	3,612.8	3,449.6	3,325.4
BVPS (¥)	1,449.7	1,574.8	1,794.6	2,177.2

Growth & Margins (%)

	12/24	12/25E	12/26E	12/27E
Total revenue growth	(8.2)	(5.8)	9.9	9.0
EBITDA growth	(16.4)	(9.5)	21.4	12.5
EPS growth	(14.4)	(20.0)	22.2	19.9
DPS growth	0.0	25.0	28.6	0.0
EBIT margin	29.5	27.2	29.7	31.6
EBITDA margin	36.1	34.6	38.3	39.5
Net income margin	26.7	22.0	23.8	25.4

Price Performance

6723.T (¥)



	3m	6m	12m
Absolute	(25.1)%	(19.7)%	(28.7)%
Rel. to the TOPIX	(20.2)%	(18.0)%	(26.4)%

Source: FactSet. Price as of 23 Apr 2025 close.

Income Statement (¥ bn)

	12/24	12/25E	12/26E	12/27E
Total revenue	1,348.5	1,269.9	1,395.0	1,520.0
Cost of goods sold	(598.7)	(604.7)	(667.8)	(682.0)
SG&A	(297.7)	(270.3)	(258.3)	(297.0)
R&D	(229.8)	(225.0)	(230.0)	(235.0)
Other operating inc./exp.)	175.6	174.9	174.9	174.9
EBITDA	486.2	439.9	533.9	600.9
Depreciation & amortization	(88.3)	(95.0)	(120.0)	(120.0)
EBIT	397.9	344.9	413.9	480.9
Net interest inc./exp.)	41.1	3.0	(2.0)	(2.0)
Income/(loss) from associates	—	—	—	0.0
Pre-tax profit	405.1	313.2	377.3	444.3
Provision for taxes	(44.4)	(33.0)	(45.0)	(58.0)
Minority interest	(0.3)	(0.3)	(0.3)	(0.3)
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	360.4	279.9	331.9	385.9
Post-tax exceptionals	—	—	—	—
Net inc. (post-exceptionals)	360.4	279.9	331.9	385.9
EPS (basic, pre-exception) (¥)	205.9	168.4	217.8	288.8
EPS (diluted, pre-exception) (¥)	205.9	168.4	217.8	288.8
EPS (basic, post-exception) (¥)	205.9	168.4	217.8	288.8
EPS (diluted, post-exception) (¥)	205.9	168.4	217.8	288.8
DPS (¥)	28.0	35.0	45.0	45.0
Div. payout ratio (%)	13.6	20.8	20.7	15.6

Balance Sheet (¥ bn)

	12/24	12/25E	12/26E	12/27E
Cash & cash equivalents	229.2	301.5	333.3	421.5
Accounts receivable	167.1	142.9	156.9	171.0
Inventory	176.5	148.2	162.8	177.3
Other current assets	44.4	53.2	53.2	53.2
Total current assets	617.3	645.7	706.3	823.0
Net PP&E	341.4	309.0	276.6	244.2
Net intangibles	2,980.9	2,883.3	2,785.7	2,688.1
Total investments	52.6	52.6	52.6	52.6
Other long-term assets	498.1	497.8	497.8	497.8
Total assets	4,490.4	4,388.5	4,319.0	4,305.8
Accounts payable	231.0	232.8	255.8	278.7
Short-term debt	144.1	134.1	124.1	114.1
Short-term lease liabilities	—	—	—	—
Other current liabilities	116.3	116.3	116.3	116.3
Total current liabilities	491.4	483.2	496.2	509.1
Long-term debt	1,256.5	1,056.5	856.5	656.5
Long-term lease liabilities	—	—	—	—
Other long-term liabilities	200.2	226.2	226.2	226.2
Total long-term liabilities	1,456.7	1,282.7	1,082.7	882.7
Total liabilities	1,948.1	1,765.9	1,578.9	1,391.8
Preferred shares	—	—	—	—
Total common equity	2,537.4	2,617.7	2,735.3	2,909.1
Minority interest	4.9	4.9	4.9	4.9
Total liabilities & equity	4,490.4	4,388.5	4,319.0	4,305.8
Net debt, adjusted	1,171.4	889.2	647.3	349.2

Cash Flow (¥ bn)

	12/24	12/25E	12/26E	12/27E
Net income	360.4	279.9	331.9	385.9
D&A add-back	88.3	95.0	120.0	120.0
Minority interest add-back	0.3	0.3	0.3	0.3
Net (inc)/dec working capital	(5.0)	54.4	(5.7)	(5.7)
Other operating cash flow	(103.6)	(33.3)	(45.3)	(58.3)
Cash flow from operations	340.5	396.3	401.2	442.2
Capital expenditures	(89.9)	(70.0)	(90.0)	(90.0)
Acquisitions	(962.8)	—	—	—
Divestitures	—	—	—	—
Others	(231.4)	(97.6)	(97.6)	(97.6)
Cash flow from investing	(1,284.1)	(167.6)	(187.6)	(187.6)
Repayment of lease liabilities	—	—	—	—
Dividends paid (common & pref)	(49.7)	59.3	74.0	71.8
Inc/(dec) in debt	528.3	(210.0)	(210.0)	(210.0)
Other financing cash flows	259.6	(5.8)	(45.7)	(28.2)
Cash flow from financing	738.2	(156.5)	(181.7)	(166.5)
Total cash flow	(205.4)	72.2	31.9	88.1
Free cash flow	250.6	326.3	311.2	352.2

Source: Company data, Goldman Sachs Research estimates.

(mainly higher market share for non-automotive product groups), and (3) the price impact of tariffs is currently expected to be minor. We believe these details may provide some reassurance to the market. While we lower our 12-month target price to ¥2,500, from ¥2,900, we see considerable upside potential for the share price. We recommend buying the stock as a medium- to long-term investment.

Estimate revisions, target price

We cut our FY12/25-FY12/27 operating profit estimates by 12%/15%/15% considering the moderate sales recovery momentum expected from 2Q (particularly for automotive applications) and taking into account our revised USD/JPY assumption of ¥145/US\$ (previously ¥150/US\$). We also lower our 12-month target price to ¥2,500, from ¥2,900, but maintain our Buy rating on a sector-relative basis.

Exhibit 1: Renesas Electronics: Earnings summary

(JPY: Bn)	FY12/25 -Q1		FY12/25			
	GSE	Actual	GSE		CoE	Bloomberg
			Old	New		
Sales	312.0	308.8	1,368.0	1,269.9	-	1,362.5
OP	80.0	83.8	389.5	344.9	-	386.7
NI	64.4	73.3	312.6	279.9	-	309.0

Source: Company data, Goldman Sachs Global Investment Research, Bloomberg

Renesas Electronics

Investment Thesis - Renesas Electronics

Renesas Electronics is a semiconductor device company that manufactures analog and power semiconductors. It was established in April 2010 via the merger of Renesas Technology, which was formed via business units spun off from Mitsubishi Electric and Hitachi Ltd., and NEC Electronics, a unit spun off from NEC. We expect the automotive semiconductor business will remain on a growth trajectory, fueled mainly by a recovery in auto production, higher ASP per installed content, and EV/ADAS demand-related initiatives. We note that the slowdown in demand for non-automotive (industrial, infrastructure, IOT) applications is widening, but we look for recovery prospects to strengthen from around mid-2025 on the back of initiatives in growth fields such as factory automation and data centers. We are Buy rated, as we expect earnings to bottom out from here, in addition to which we note (1) the progress with Renesas' companywide growth and value-added strategies, and (2) the stock's considerably low valuations.

Price Target Risks and Methodology - Renesas Electronics

We are Buy rated on Renesas. Our 12-month target price of ¥2,500 is based on the average of FY12/25E-FY12/26E EV/GCI vs. CROCI/WACC, applying an EV/DACF multiple of 13X (62.5% premium to the sector average, implying a FY12/25E/FY12/26E target P/E of 15X/12X). Key risks include a slowdown or delayed recovery in consumer electronics-related demand, stagnant automobile production, protracted reduction in semiconductor inventories, delayed recovery for industrial equipment applications, and

yen appreciation.

Disclosure Appendix

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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).

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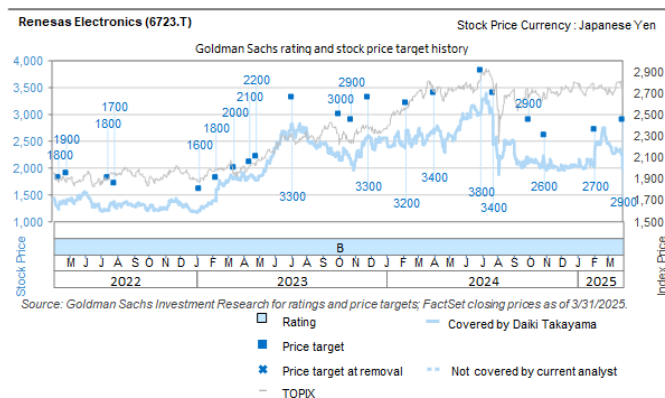
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