

Canon (7751.T)

Memory cost growth: Impact on peers?

CITI'S TAKE

Canon noted an expanding earnings impact from memory cost growth during its Jan-Mar results briefing after the April 23 close. We review conditions of Canon and also make simple estimates of the impact at peers. We estimate the scale of impact on consensus OP estimates for FY3/27 (or FY12/26) in order of Nikon > Ricoh > Canon > Seiko Epson and Brother Industries > Konica Minolta > Fujifilm Holdings. Comparing share price reactions on April 24, we think declines were excessive at Fujifilm and Konica Minolta.

Impact of higher memory prices — Canon revised its estimate for the YoY impact of memory cost growth on FY12/26 OP from -¥13.1bn as of January 29 (estimated breakdown: DRAM -¥7bn, NAND -¥6bn) to -¥63.1bn as of April 23 (DRAM -¥48bn, NAND -¥15bn). It expects costs to increase by ¥50bn from its previous estimate. On a quarterly basis, we estimate the YoY impact could expand from -¥3.7bn in Jan-Mar to -¥15bn in Apr-Jun, -¥20bn in Jul-Sep, and around -¥25bn in Oct-Dec. Canon expects memory prices to remain high through mid-2027.

Impact by segment — Canon's YoY impact of -¥63.1bn breaks down by segment as -¥20bn~-¥25bn for printing, -¥35bn~-¥40bn for imaging, and around -¥3bn for medical and industrial. We see the relative scale of impact on sales in order of digital cameras > office equipment, laser printers, and multifunction printers > inkjet printers.

Scope to raise prices — Canon expects the impact of memory cost growth to worsen by -¥50bn from its initial estimate, but already factors in countermeasures totaling ¥20bn, comprising ¥10bn from price hikes and ¥10bn from cost reductions. It will make additional price hikes mainly for digital cameras, but has a cautious stance on raising printer prices due to concerns about falling demand.

Implications for other precision equipment companies — We estimated the FY3/27 impact of memory cost growth at other precision equipment companies (the figures below are our estimates and do not include price hikes and other countermeasures). We think raising prices could be relatively easy for digital cameras (and Instax), but is likely to be difficult for office equipment given a downtrading trend since 2025 H2.

Fujifilm — We estimate the impact at -¥10bn~-15bn. We see the main impact on digital cameras and Instax. Gross margins are high, and given high customer loyalty raising prices could be relatively easy. Fujifilm estimated the Jan-Mar impact at ¥1bn-¥2bn as of February (two-thirds in imaging, one-third in other businesses).

Konica Minolta — We simply estimate the impact at -¥10bn, but the actual impact could be smaller at -¥3bn~-¥4bn (Konica Minolta already issued FY3/27 guidance on April 23). Konica Minolta has benefited from maintaining a procurement policy since the Covid-19 pandemic of ensuring ample inventories of key components.

Ricoh — We estimate the impact at -¥15bn. In February, Ricoh cited impacts of ¥2bn~¥3bn in Jan-Mar and over ¥10bn in FY3/27, which are consistent with our

Buy

Price (24 Apr 26 15:30)	¥4,024.0
Target price	¥5,500.0
Expected share price return	36.7%
Expected dividend yield	4.0%
Expected total return	40.7%
Market Cap	¥3,495,196M
	US\$21,931M

Masahiro Shibano^{AC}

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

estimates. Given that Ricoh has a high ratio of direct sales, we believe it could be relatively easy to effectively raise prices for direct sales products.

Seiko Epson, Brother Industries — We estimate the impact could be in the range of -¥6bn~-¥8bn at both companies. We think raising prices for printer products could be difficult.

Companies Mentioned:

Brother Industries (6448.T; ¥2895.0; 2; 24 Apr 26; 15:30) | Fujifilm Holdings (4901.T; ¥2896.0; 1; 24 Apr 26; 15:30) | Konica Minolta (4902.T; ¥493.8; 2; 24 Apr 26; 15:30) | Nikon (7731.T; ¥1674.5; 3; 24 Apr 26; 15:30) | Ricoh (7752.T; ¥1297.0; 3; 24 Apr 26; 15:30) | Seiko Epson (6724.T; ¥2026.0; 2; 24 Apr 26; 15:30)



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Valuation

We set our target price at ¥5,500 (FY12/26E PBR of c1.3x). Canon's PBR has been in the 1.0x-1.5x range, excluding the bottom (c0.7x) seen following a sharp dividend cut in the early phase of the Covid pandemic. We apply a multiple of 1.3x, around the midpoint of this range, as many positives are now out following the announcement of a new MTP, a change of president, and a big buyback in January 2026.

Risks

Downside risks to our target price include 1) clear acceleration in a demand slowdown for printers and cameras, 2) a large-scale acquisition that contributes little to earnings in the short term, and 3) waning momentum for the restructuring efforts that began in 2024. Upside risks include 1) clear and specific efforts aimed at lowering the cost rate, 2) a large-scale acquisition that contributes to earnings in the short term (Canon plans to transition to IFRS from 2027), 3) rising expectations for changes in capital allocation and/or operational strategy over the longer term accompanying changes to the management framework or policy, 4) a clear increase in the profit contribution from semiconductor lithography equipment and medical network cameras, etc., 5) continued yen weakness, and 6) a rise in expectations for buybacks or a higher dividend.