Hitachi (6501)

Investor Day: Revises up energy outlook; seeking growth through physical AI

Overweight

6501.T, 6501 JP
Price (10 Jun 26):¥4,784
Price Target (Dec-26):¥5,700

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Hitachi hosted Investor Day on June 10 at 15:00. In the second year of the medium-term plan through FY2027, the company raised its medium-term targets for the energy segment, one of two segments with a long lead time, while providing a new margin outlook through FY2030 for the mobility segment. It plans to scale up physical AI (HMAX), a pillar of companywide strategy, by implementing it through forward deployed engineers (FDE) and returning on-the-ground expertise to HMAX. While we found the overall direction convincing in light of Hitachi's positioning, the company provided no growth rate outlook for HMAX for FY2027 onward, so we expect the stock market to take some time to factor HMAX into earnings forecasts. That said, our impression is positive, due in part to the upward revision for the energy segment.

- **Companywide strategy:** Hitachi expects AI to bring growth opportunities in (1) continuous updates to social infrastructure (advancement of operations and maintenance) through the deployment of physical AI to mission critical areas, and (2) promotion of customer AI transformation (AX). To implement physical AI, FDEs will go on the ground in the operational technology (OT) sector (energy, mobility, industry) and support operations and maintenance AX, and then integrate the expertise they gained on the ground into HMAX to expand and enhance services. FDEs will be selected from 35,000 domestic system engineers (SE) in the digital systems & services (DSS) segment to serve as resident AI specialists and main experts at client companies, provide AX support, and return on-the-ground expertise to HMAX. Hitachi said it targets 5,000 FDEs in Japan, but did not mention the timing or who will serve as FDEs overseas. It guides for FY2026 HMAX sales of ¥450 billion, up 50% YoY, and plans to maintain and accelerate this momentum by increasing FDEs.
- **Main points for each segment:** (1) Energy: Hitachi Energy raised its medium-term targets to sales CAGR through FY2027 of 19% (previously 13-15%), adjusted EBITA margin of 15% or more (13-15%), sales CAGR through FY2030 of around 15% (13-15%), and adjusted EBITA margin of 16-20% (unchanged). (2) Mobility: Hitachi said long-term service orders are accumulating and issued a FY2030 adjusted EBITA margin forecast of 13-14% (FY2027 target: 11%). It said the HMAX pipeline has grown from ¥200 billion a year ago to over ¥600 billion, and noted multimodal and other new areas as business opportunities. (3) Connective Industries: Hitachi will focus on facilities, semiconductors, diagnostics & treatment, and pharmaceutical manufacturing, where AI investment is strong. It plans to maximize customer value by mounting internally developed edge AI semiconductors on various products, collecting and analyzing on-the-ground data, and improving productivity. (4) DSS: Hitachi targets FY2030 Japan sales of ¥3-5 trillion (FY2025; ¥2.2 trillion) by making customer systems in operation AI-ready (modernization) and providing subsequent AI implementations and services, mainly in Japan. It also plans to take charge of operating systems to ensure growth of HMAX through FDE resources, security, and data infrastructure.

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Investment Thesis, Valuation and Risks

Hitachi (6501) *(Overweight; Price Target: ¥5,700)*

Investment Thesis

Hitachi's Lumada digital solution platform is contributing not only to expanding its business to a broad range of industries, supported by the digital transformation of overall society and industry, but also to converting its business model to one based mainly on services. Hitachi also has a large number of growth opportunities related to the environment (power transmission, railway systems, industry). We look for continued share buybacks along with asset sales.

Valuation

Our December 2026 price target of ¥5,700 is set 10% above the theoretical price derived from a SOTP model based on our FY2027 forecasts. We apply this premium due to (1) Hitachi's business model that can leverage its strengths as a conglomerate, (2) relatively high visibility for profit growth within the sector, and (3) management's commitment to improving capital efficiency.

Sum-of-the-parts model based on FY2027 J.P. Morgan estimates

	EBITDA (mn JPY)	EBIT (mn JPY)	D&A (mn JPY)	EV/EBITDA (x)	EV (mn JPY)	Per share (JPY)
Digital Systems & Services	583,000	453,000	130,000	10.0	5,830,000	1,334
Energy	743,000	600,000	143,000	14.0	10,402,000	2,381
Mobility	156,000	101,000	55,000	5.0	780,000	179
Connective Industries	457,000	365,000	92,000	11.0	5,027,000	1,150
Total	1,939,000	1,519,000	420,000	11.4	22,039,000	5,044
All Other / Corporate	20,400	-19,000	39,400	11.4	231,870	53
Corporate value					22,270,870	5,097
Net debt					-264,404	-61
Market value ex. major subsidiary / equity method investment					22,535,274	5,157
Number of outstanding shares (K)					4,369,444	
Hitachi Theoretical value (JPY)					5,157	
Premium					10%	
Target price (JPY)					5,700	

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

Risks to Rating and Price Target

Upside Scenario to Target Price/Rating

- Greater-than-expected expansion in demand and margin in the power transmission and distribution business
- Industry segment growth due to increase in domestic capex
- Increase in valuation premium due to higher-than-expected profitability driven by the expansion of Lumada

Downside Scenario to Target Price/Rating

- Intensified price competition in the IT services market
- Unprofitable major projects in the energy and railway areas
- Conglomerate discount due to insufficient margin improvement in Lumada

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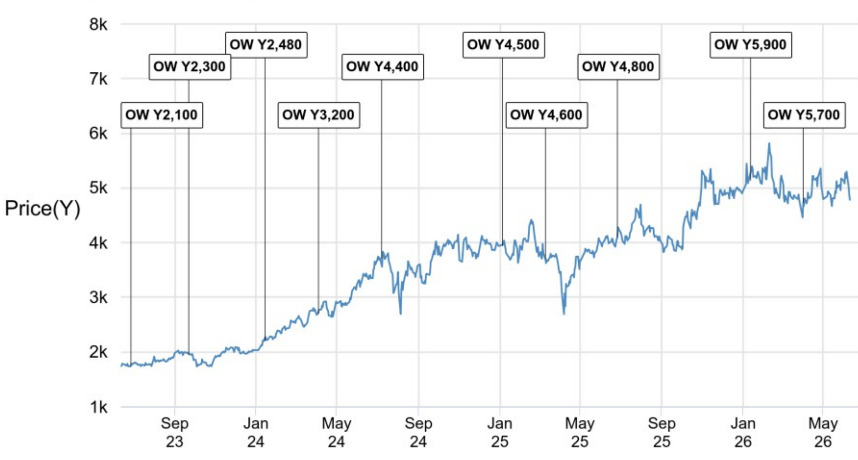
Hitachi (6501) (6501.T, 6501 JP) Price Chart



Date	Rating	Price (Y)	Price Target (Y)
28-Jun-23	OW	1743	2,100
23-Sep-23	OW	1958	2,300
15-Jan-24	OW	2200	2,480
04-Apr-24	OW	2704	3,200
08-Jul-24	OW	3709	4,400
06-Jan-25	OW	3937	4,500
11-Mar-25	OW	3703	4,600
27-Jun-25	OW	4095	4,800
12-Jan-26	OW	5135	5,900
02-Apr-26	OW	4732	5,700

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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