Toray Industries (3402.T)

IR Day 2: Growth potential in carbon fiber composite materials for aerospace/defense, and AI materials such as MLCC/DFR films, thin-film inductor coils

3402.T	12m Price Target: **¥1,520**	Price: **¥1,109**	Upside: **37.1%**

BUY

Atsushi Ikeda
+81(3)4587-9940 | atsushi.ikeda@gs.com
Goldman Sachs Japan Co., Ltd.

Yuri Izumikawa
+81(3)4587-3643 | yuri.x.izumikawa@gs.com
Goldman Sachs Japan Co., Ltd.

Toray held the second day of its IR Day event on June 9. We summarize the key points below. In the carbon fiber composite materials business, we look for Toray to benefit from recovery in commercial aircraft demand, and we expect earnings in the business to be more clearly driven by the aerospace and defense fields (where contribution margins are high), backed by growth in space applications accompanying satellite constellations and expanded rocket launches, as well as increased demand for defense applications in Japan and in the core US and European markets. For the films business in performance chemicals, we came away with a better understanding of high volume growth potential in process films for use in AI, semiconductors, and electronic components, driven by value-added applications such as MLCC, DFR, and ABF, as well as thin-film inductor coils used in AI servers and other applications. Additionally, we were reassured by management expressing confidence in its outlook to largely pass on raw material price increases—which are a strong concern in the stock market amid the Middle East situation—to sales prices through progress in formula-based pricing. We maintain our Buy rating relative to the sector.

Key Data

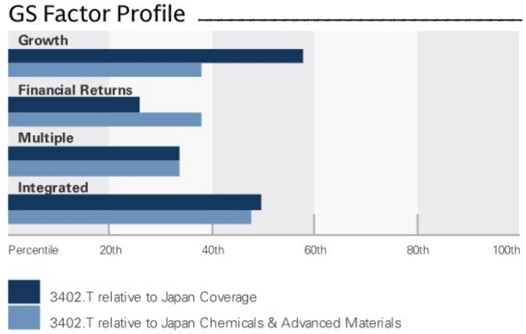
Market cap: ¥1.7tr / $10.8bn
Enterprise value: ¥2.5tr / $15.7bn
3m ADTV: ¥6.0bn / $37.7mn
Japan
Japan Chemicals & Advanced Materials
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	3/26	3/27E	3/28E	3/29E
Revenue (¥ bn)	2,585.1	2,684.2	2,794.7	2,901.4
Op. profit (¥ bn) New	**97.2**	**142.7**	**166.8**	**182.4**
Op. profit (¥ bn) Old	117.3	152.7	176.7	–
Op. profit CoE (¥ bn)	–	160.0	–	–
EPS (¥) New	**54.6**	**69.3**	**83.7**	**92.8**
EPS (¥) Old	54.4	75.1	89.5	–
P/E (X)	18.7	16.0	13.2	11.9
P/B (X)	0.9	0.9	0.8	0.9
CROCI (%)	7.6	12.7	9.9	9.8

	3/26	6/26E	9/26E	12/26E
EPS (¥)	27.0	–	–	–

GS Factor Profile



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

Performance chemicals business

Resins & chemicals

Hiroyuki Sato, Corporate Vice President of the Resins & Chemicals Division, gave a presentation.

In terms of earnings drivers, Toray anticipates a substantial boost to profits from the investments made during the previous medium-term plan in engineering plastics for automobiles (mainly xEVs) and in PPS resins. It also aims for early approval in the US and Europe for the veterinary drug Rapros, which is currently sold mainly in Japan, and thinks the drug could fuel earnings growth in animal

BUY

Toray Industries (3402.T)

Rating since Jun 17, 2022

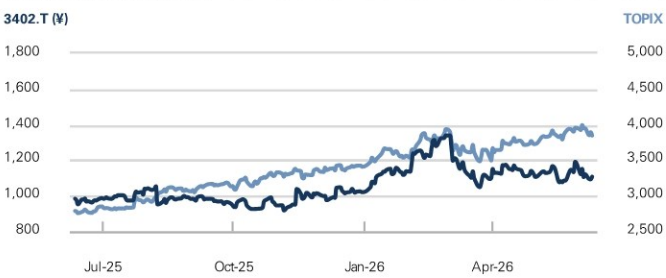
Ratios & Valuation

	3/26	3/27E	3/28E	3/29E
P/E (X)	18.7	16.0	13.2	11.9
P/B (X)	0.9	0.9	0.8	0.9
FCF yield (%)	3.9	3.1	5.3	6.1
EV/EBITDAR (X)	9.7	8.3	7.5	7.7
EV/EBITDA (excl. leases) (X)	9.7	8.3	7.5	7.7
CROCI (%)	7.6	12.7	9.9	9.8
ROE (%)	4.8	5.8	6.5	7.3
Net debt/equity (%)	36.7	33.7	31.3	44.3
Net debt/equity (excl. leases) (%)	36.7	33.7	31.3	44.3
Interest cover (X)	4.9	6.7	8.1	9.2
Days inventory outst, sales	74.8	74.0	72.7	71.8
Receivable days	88.2	89.1	89.0	89.1
Days payable outstanding	55.9	55.2	55.1	55.1
DuPont ROE (%)	4.6	5.2	5.9	7.0
Turnover (X)	1.1	0.8	0.8	0.9
Leverage (X)	1.3	1.8	1.8	1.8
Gross cash invested (ex cash) (¥)	1,360.7	2,727.2	2,895.1	3,054.1
Average capital employed (¥)	2,410.0	2,483.0	2,591.9	2,630.9
BVPS (¥)	1,099.0	1,247.9	1,307.6	1,209.6

Growth & Margins (%)

	3/26	3/27E	3/28E	3/29E
Total revenue growth	0.9	3.8	4.1	3.8
EBITDA growth	(10.6)	22.7	9.5	5.0
EPS growth	9.6	26.9	20.8	10.9
DPS growth	11.1	10.0	9.1	0.0
EBIT margin	3.8	5.3	6.0	6.3
EBITDA margin	9.0	10.6	11.2	11.3
Net income margin	3.1	3.7	4.2	4.4

Price Performance



	3m	6m	12m
Absolute	(5.9)%	11.6%	13.1%
Rel. to the TOPIX	(10.4)%	(1.7)%	(18.1)%

Source: FactSet. Price as of 10 Jun 2026 close.

Income Statement (¥ bn)

	3/26	3/27E	3/28E	3/29E
Total revenue	2,585.1	2,684.2	2,794.7	2,901.4
Cost of goods sold	(2,065.0)	(2,130.5)	(2,205.6)	(2,281.0)
SG&A	(346.9)	(333.0)	(344.3)	(360.0)
R&D	(75.9)	(78.0)	(78.0)	(78.0)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**232.0**	**284.7**	**311.8**	**327.4**
Depreciation & amortization	(134.8)	(142.0)	(145.0)	(145.0)
EBIT	**97.2**	**142.7**	**166.8**	**182.4**
Net interest inc./(exp.)	(19.7)	(19.9)	(19.1)	(18.4)
Income/(loss) from associates	21.5	13.0	15.0	15.0
Pre-tax profit	**107.6**	**147.8**	**174.7**	**191.0**
Provision for taxes	(18.2)	(37.7)	(44.7)	(49.3)
Minority interest	(9.9)	(11.0)	(12.3)	(13.4)
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**79.5**	**99.1**	**117.7**	**128.3**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**79.5**	**99.1**	**117.7**	**128.3**
EPS (basic, pre-except) (¥)	**54.6**	**69.3**	**83.7**	**92.8**
EPS (diluted, pre-except) (¥)	**54.6**	**69.3**	**83.7**	**92.8**
EPS (basic, post-except) (¥)	**54.6**	**69.3**	**83.7**	**92.8**
EPS (diluted, post-except) (¥)	**54.6**	**69.3**	**83.7**	**92.8**
DPS (¥)	20.0	22.0	24.0	24.0
Div. payout ratio (%)	36.6	31.7	28.7	25.9

Balance Sheet (¥ bn)

	3/26	3/27E	3/28E	3/29E
Cash & cash equivalents	265.3	225.2	221.8	–
Accounts receivable	642.7	667.4	694.8	721.4
Inventory	538.6	550.1	563.8	577.2
Other current assets	82.4	82.4	82.4	82.4
Total current assets	**1,529.0**	**1,525.0**	**1,562.8**	**1,381.0**
Net PP&E	0.0	1,193.9	1,188.9	1,183.9
Net intangibles	206.4	206.4	206.4	206.4
Total investments	356.1	369.1	384.1	399.1
Other long-term assets	156.6	156.6	156.6	156.6
Total assets	**2,247.9**	**3,450.9**	**3,498.7**	**3,326.9**
Accounts payable	317.2	327.2	338.7	350.3
Short-term debt	392.6	361.0	331.0	301.0
Short-term lease liabilities	–	–	–	–
Other current liabilities	148.2	148.2	148.2	148.2
Total current liabilities	**858.0**	**836.4**	**817.9**	**799.5**
Long-term debt	512.9	512.9	512.9	512.9
Long-term lease liabilities	–	–	–	–
Other long-term liabilities	178.2	178.2	178.2	178.2
Total long-term liabilities	**691.2**	**691.1**	**691.1**	**691.1**
Total liabilities	**1,549.1**	**1,527.5**	**1,509.1**	**1,490.6**
Preferred shares	–	–	–	–
Total common equity	**1,626.0**	**1,784.6**	**1,838.5**	**1,671.7**
Minority interest	**127.8**	**138.8**	**151.1**	**164.5**
Total liabilities & equity	**3,219.8**	**3,450.9**	**3,498.7**	**3,326.9**
Net debt, adjusted	640.3	648.7	622.1	813.9

Cash Flow (¥ bn)

	3/26	3/27E	3/28E	3/29E
Net income	79.5	99.1	117.7	128.3
D&A add-back	134.8	142.0	145.0	145.0
Minority interest add-back	9.9	11.0	12.3	13.4
Net (inc)/dec working capital	(16.9)	(26.1)	(29.6)	(28.4)
Other operating cash flow	4.5	(13.0)	(15.0)	(15.0)
Cash flow from operations	**211.8**	**213.0**	**230.4**	**243.3**
Capital expenditures	(148.7)	(160.0)	(140.0)	(140.0)
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Others	81.8	0.0	–	–
Cash flow from investing	**(66.9)**	**(160.0)**	**(140.0)**	**(140.0)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	(29.1)	(31.5	[illegible]	[illegible]
Inc/(dec) in debt	23.7	(31.7	[illegible]	[illegible]
Other financing cash flows	(111.4)	(30.0	[illegible]	[illegible]
Cash flow from financing	**(116.8)**	**(93.1**	[illegible]	[illegible]
Total cash flow	**28.0**	**(40.1**	[illegible]	[illegible]
Free cash flow	63.1	53.[illegible]	[illegible]	[illegible]

Source: Company data, Goldman S[illegible] health. While we think veterinary drugs are unlikely to make full-scale contributions during the current medium-term plan period, sales could potentially reach nearly 10 times the current level at their peak, in our view, and because their profitability is high, the contribution to core operating profits will likely be substantial.

Regarding the soaring input prices caused by the Middle East situation, management noted that formula-based pricing has advanced considerably, especially with engineering plastics customers. Negotiations to shorten the timing for implementing price revisions in response to sharp increases are also progressing, and we think company comments indicating its improved ability to respond to rapid changes in the business environment should provide investors with some reassurance. For the resins & chemicals business as a whole, Toray aims to improve sales from the FY3/26 result of ¥341.1 bn to ¥380 bn in FY3/29, core operating profits from ¥30.8 bn to ¥39 bn, and ROIC from 10% to 12%.

Films business
Takashi Kambara, Corporate Vice President and General Manager of the Films Division, gave a presentation.

Toray attributes its competitive edge in the films business to its polymer technology (synthesis/molecular design), nanotechnology (alloying/multi-layer), and film forming technology (solution casting, melt extrusion/casting, structural and surface design/control) cultivated over its long history. The basic strategy is a complete shift from plastic films to functional films, meaning it aims to consistently provide value enhancement for customers and support growth across the entire supply chain.

Management positions process films in the electronic components, optical, and semiconductor fields, as well as OPP film capacitor applications, as growth drivers. In particular, for PET films used in MLCC manufacturing processes—where Toray holds a global market share of c.50%—the company projects double-digit (%) annual sales growth for its films due to the rapid expansion of AI servers. In DFR PET films, it looks for market growth of c.10% annually in semiconductor package substrates (an area in which it excels), driven by trends toward higher semiconductor performance, finer circuit board wiring, and larger, multi-layered boards. Release films are also promising, with Toray materials being adopted in the latest models. Regarding ultra-thin OPP films for xEV capacitors, although currently impacted by the EV slowdown, adoption of Toray's OPP films is progressing amid expansion for PCUs (Power Control Units) in response to growing electrification demand, and we see potential for OPP films to be a medium-term driver.

Driven by volume expansion and product mix improvements in these growth areas, as well as the promotion of structural reforms at European and US film subsidiaries and business structural reforms in battery separators, Toray looks for core operating profits to grow substantially, from ¥14.5 bn in FY3/26 to ¥29 bn in FY3/29.

Electronic & information materials business
Masahiro Hirano, Corporate Vice President and General Manager of the Electronic & Information Materials Division, gave a presentation.

Management positions materials in the semiconductor and electronic components fields as growth drivers leading up to FY3/29. In particular, it sees strong growth potential for thin-film inductor coils used in AI servers and other applications. It emphasized efforts to bolster its winning pattern strategy via collaboration with joint venture partner Samsung Electro-Mechanics, which holds top share in thin-film power inductors. We also see scope for growth in polyimide-based buffer coatings, mainly for memory applications, given recovery in memory demand and rises in the number of wafers processed.

Regarding the rewiring layer for CoWoS, which is a stronghold of competitor Asahi Kasei, management noted it is strengthening its efforts by leveraging its nearly 50-year technological background in polyimides, aiming to secure adoption around 2028-2030. We also believe trends in material and technology development for co-packaged optics, such as multi-core plastic optical fibers for communications utilizing Toray's NANODESIGN technology, will attract stock market attention, and we have high expectations for this as well. For the electronic & information materials business as a whole, Toray aims to increase sales from the FY3/26 result of ¥82 bn to ¥100 bn in FY3/29, core operating profits from ¥8.1 bn to ¥17 bn, and ROIC from 10% to 11%.

Carbon fiber composite materials business

Takashi Yoshiyama, Senior Vice President and General Manager of the Torayca & Advanced Composites Division, gave a presentation.

Under the IGNITION 2028 medium-term plan, the company outlined a policy of fully utilizing existing resources and advancing with structural reforms to promote business expansion and margin improvement as its growth engine. Management expects global carbon fiber demand to grow at a strong pace of 9% annually from 2025 to 2028, centered on recovery in commercial aircraft demand and the expansion of renewable energy demand. By application, it forecasts 10% annual growth for aerospace and defense. It aims to raise core operating profits from the FY3/26 result of ¥17.6 bn to ¥47 bn in FY3/29 (an increase of by ¥29.4 bn), and improve ROIC by 4 pp, from 2% to 6%.

In commercial aircraft, Boeing's production plans call for eight 787 aircraft per month by the end of 2025 and 10 aircraft per month in the second half of 2026. The first deliveries of the 777X to airlines are scheduled for 2027. Toray's supply bases include its domestic sites in Ehime and Ishikawa, as well as Toray CMA (Toray Composite Materials America) in the US, Toray CFE (Toray Carbon Fibers Europe) in France, and Toray Advanced Composites in the US and the Netherlands, and its policy is to prioritize supply from existing certified manufacturing lines while reorganizing operations at production bases in Japan, the US, and Europe in order to offer reliable supply. Regarding Airbus, although some Toray materials have been adopted in the A350, the certification period for CFRP is long, and management said that while it will likely be difficult to achieve significant results by around 2028, it aims to have some growth in the business. While it is difficult for airlines to switch primary structural materials such as main wings and fuselages due to performance differences in carbon fibers among individual companies, Toray sees opportunities in tail assemblies and secondary structural materials.

Regarding next-generation passenger aircraft, Boeing has announced the development of a next-generation narrow-body single-aisle aircraft to succeed the 737 MAX from the mid-2030s, and Airbus is aiming for a late-2030s entry into service for an environmentally friendly next-generation single-aisle aircraft to succeed the A320neo family. Calculating backwards roughly 10 years from planned launches, Toray views the period around 2027-2028 as the timeframe for material selection, and looks to win business in next-generation aircraft by leveraging its carbon fiber production in France and CFRP production facilities at a Dutch subsidiary. It sees developing and proposing optimal materials for the high-rate production of next-gen single-aisle aircraft as a key issue, alongside driving specification inclusion.

For space and defense applications, Toray sees tailwinds from the expansion of communication networks via satellite constellations, progress in space development programs, and growing demand for rocket launches. Leveraging Toray Advanced Composites Group’s US and European bases, the company aims to make its products the de facto standard in rocket structures and fuel tanks, expand market share in space and defense applications, grow its share in the artificial satellite market, and tap into emerging markets. While Toray Advanced Composites holds a high market share in the space sector, Toray’s strategy is to aim for a wider customer base on the back of structural changes in the industry, including entry by more startups and growth in constellations. For rocket fuel tanks, management noted that in addition to carbon fiber already being widely used in solid fuel engine parts, application is also progressing in rocket cargo bays and spacecraft. In the defense sector, the company will focus on leveraging carbon fiber’s strengths as a lightweight material for use in flight (e.g., in fighter jets, drones, and space-related items). Toray’s carbon fiber composite materials have also recently been expanding into dual-use applications such as infrastructure and defense-related repairs. As focus regions, the company is working to grow both areas primarily in the US and Europe, where market sizes are much larger than elsewhere.

Earnings estimate revisions

We revise our estimates in light of 4Q3/26 results and subsequent moves in chemical/commodity market prices. We lower our operating profit estimates by 7% for FY3/27 and 6% for FY3/28, and we introduce our estimates for FY3/29. The background for our revisions is that we reflect an overall rise in raw material and fuel costs, in addition to lowering our volume outlook for automotive materials. While we roll our valuation base year forward to FY3/28 from FY3/27 previously, we also reflect recent levels and widen our sector-relative discount from -10% to -20%; as a result, our 12-month target price remains unchanged at ¥1,520.

Price Target Risks and Methodology - Toray Industries

We are Buy rated on Toray Industries with a 12-month target price of ¥1,520. Our target price is based on the materials sector EV/GCI and FY3/28E CROCI/WACC correlation (cash return multiple of 0.7X and a 20% discount) which is then discounted back to FY3/27E with WACC at 5%.

Key risks: (1) Sharp deterioration in the outlook for civil aviation demand, a key driver of earnings in the carbon fiber composite materials segment. (2) ABS resin margins worsening sharply vs. our assumptions. (3) Forex swings.

Disclosure Appendix

Reg AC

We, Atsushi Ikeda and Yuri Izumikawa, 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.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

Contributing Authors: Atsushi Ikeda Goldman Sachs Japan Co., Ltd., Yuri Izumikawa Goldman Sachs Japan Co., Ltd..

Unless otherwise stated, the individuals listed in the Contributing Authors disclosure of this report are analysts in Goldman Sachs' Global Investment Research division.

GS Factor Profile

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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).

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

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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.

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Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
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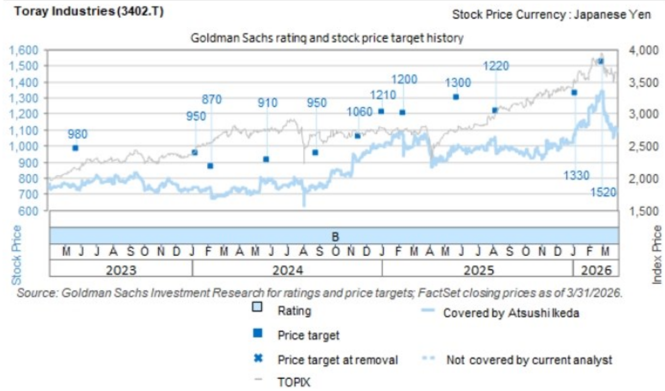
Price target and rating history chart(s)



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.

Target price history table(s)

Toray Industries (3402.T)

Date of report	Target price (¥)	Closing price (¥)
01-Mar-26	1,520	1,340
09-Jan-26	1,330	1,106
08-Aug-25	1,220	952
26-May-25	1,300	987
12-Feb-25	1,200	942
03-Jan-25	1,210	1,002
18-Nov-24	1,060	906
28-Aug-24	950	735
27-May-24	910	779
08-Feb-24	870	700
10-Jan-24	950	743

Price targets shown in table(s) are unadjusted for corporate actions.

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