Japan Steel Works (5631.T)

Benefits from tight supply-demand in gas turbines/nuclear intact; cost assumptions revised; new TP of ¥11,500; Buy

5631.T	12m Price Target: **¥11,500**	Price: **¥8,029**	Upside: **43.2%**

Since our initiation of coverage in September 2025 (our report), the core of our equity story for Japan Steel Works has been consistent: we think the company can benefit from volume growth and price improvement driven by tight supply/demand for large critical components used in gas turbines and nuclear power, as well as its relatively lean fixed cost structure. Our fundamental view is unchanged, but after scrutinizing FY3/27 guidance disclosed in May, we now expect costs to come in above our previous estimates, mainly in the material & engineering business. On the other hand, we raise our segment profit estimates for the industrial machinery products business, reflecting expanding demand for ESS-related film manufacturing equipment and stronger-than-expected growth in defense-related sales.

Based on these changes, we lower our company-wide operating profit estimates for FY3/27-FY3/30 by an average of 5%. In addition, as we have lowered our OPM forecast for the material & engineering business, we narrow the EV/EBITDA premium used in our target price calculation from +20% to +10%. Our new target price is ¥11,500 (previously ¥13,000). We still view JSW as a rare company that can benefit from tight global supply/demand for large components used in thermal and nuclear power plants, and we maintain our Buy rating.

BUY

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Key Data

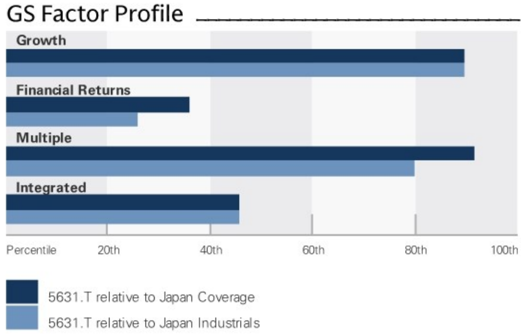
Market cap: ¥591.0bn / $3.7bn
Enterprise value: ¥639.4bn / $4.0bn
3m ADTV: ¥9.8bn / $61.7mn
Japan
Japan Industrials
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	3/26	3/27E	3/28E	3/29E
Revenue (¥ bn)	274.9	311.5	356.9	389.0
Op. profit (¥ bn) New	**25.3**	**28.0**	**35.5**	**45.0**
Op. profit (¥ bn) Old	25.3	28.5	37.2	48.7
Op. profit CoE (¥ bn)	24.5	27.0	–	37.0
EPS (¥) New	**261.4**	**264.2**	**334.9**	**423.9**
EPS (¥) Old	261.4	269.0	351.0	459.0
P/E (X)	32.2	30.4	24.0	18.9
P/B (X)	2.9	2.6	2.5	2.3
CROCI (%)	7.3	8.6	9.4	9.8

	3/26	6/26E	9/26E	12/26E
EPS (¥)	58.4	50.3	57.1	70.6

GS Factor Profile



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

BUY

Japan Steel Works (5631.T)

Rating since Sep 26, 2025

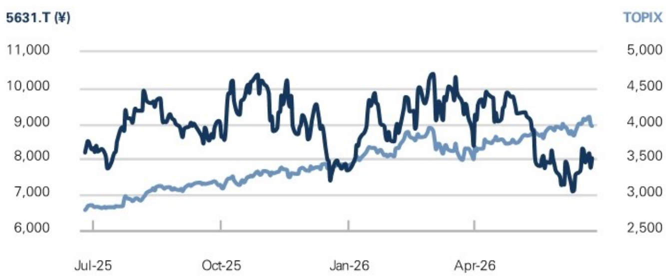
Ratios & Valuation

	3/26	3/27E	3/28E	3/29E
P/E (X)	32.2	30.4	24.0	18.9
P/B (X)	2.9	2.6	2.5	2.3
FCF yield (%)	(6.5)	(5.0)	(1.3)	4.2
EV/EBITDAR (X)	18.4	16.4	13.8	11.1
EV/EBITDA (excl. leases) (X)	18.4	16.3	13.8	11.0
CROCI (%)	7.3	8.6	9.4	9.8
ROE (%)	9.5	8.9	10.6	12.4
Net debt/equity (%)	5.0	20.8	26.1	18.8
Net debt/equity (excl. leases) (%)	3.9	19.8	25.2	18.0
Interest cover (X)	34.8	28.0	32.3	40.9
Days inventory outst, sales	179.2	182.0	186.5	181.9
Receivable days	90.1	84.5	84.1	86.1
Days payable outstanding	75.9	45.2	43.7	44.7
DuPont ROE (%)	9.0	8.6	10.2	11.9
Turnover (X)	0.6	0.6	0.7	0.7
Leverage (X)	2.0	2.1	2.2	2.1
Gross cash invested (ex cash) (¥)	421.2	476.4	516.1	530.5
Average capital employed (¥)	191.8	246.6	287.3	306.7
BVPS (¥)	2,885.9	3,056.1	3,273.9	3,549.8

Growth & Margins (%)

	3/26	3/27E	3/28E	3/29E
Total revenue growth	10.6	13.3	14.6	9.0
EBITDA growth	12.0	13.7	21.8	22.1
EPS growth	7.1	1.1	26.7	26.6
DPS growth	7.0	2.2	24.5	26.5
EBIT margin	9.2	9.0	9.9	11.6
EBITDA margin	12.5	12.5	13.3	14.9
Net income margin	7.0	6.2	6.9	8.0

Price Performance



	3m	6m	12m
Absolute	(13.3)%	2.4%	0.9%
Rel. to the TOPIX	(22.1)%	(11.9)%	(29.2)%

Source: FactSet. Price as of 24 Jun 2026 close.

Income Statement (¥ bn)

	3/26	3/27E	3/28E	3/29E
Total revenue	274.9	311.5	356.9	389.0
Cost of goods sold	(210.6)	(235.1)	(267.7)	(291.8)
SG&A	(39.0)	(48.4)	(53.7)	(52.3)
R&D	–	–	–	–
Other operating inc./(exp.)	–	–	–	–
EBITDA	**34.3**	**39.0**	**47.5**	**58.0**
Depreciation & amortization	(9.0)	(11.0)	(12.0)	(13.0)
EBIT	**25.3**	**28.0**	**35.5**	**45.0**
Net interest inc./(exp.)	(0.5)	(0.8)	(0.9)	(0.9)
Income/(loss) from associates	(0.0)	–	–	–
Pre-tax profit	**27.8**	**28.0**	**35.5**	**45.0**
Provision for taxes	(8.5)	(8.4)	(10.7)	(13.5)
Minority interest	(0.1)	(0.2)	(0.2)	(0.3)
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**19.2**	**19.5**	**24.7**	**31.2**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**19.2**	**19.5**	**24.7**	**31.2**
EPS (basic, pre-except) (¥)	**261.4**	**264.2**	**334.9**	**423.9**
EPS (diluted, pre-except) (¥)	**261.4**	**264.2**	**334.9**	**423.9**
EPS (basic, post-except) (¥)	**261.4**	**264.2**	**334.9**	**423.9**
EPS (diluted, post-except) (¥)	**261.4**	**264.2**	**334.9**	**423.9**
DPS (¥)	92.0	94.0	117.0	148.0
Div. payout ratio (%)	35.2	35.6	34.9	34.9

Balance Sheet (¥ bn)

	3/26	3/27E	3/28E	3/29E
Cash & cash equivalents	77.8	75.0	70.6	84.1
Accounts receivable	67.6	76.6	87.8	95.7
Inventory	139.4	171.3	193.3	194.5
Other current assets	26.9	26.9	26.9	26.9
Total current assets	**311.6**	**349.8**	**378.6**	**401.1**
Net PP&E	69.8	86.8	99.8	106.8
Net intangibles	3.7	3.7	3.7	3.7
Total investments	26.5	26.5	26.5	26.5
Other long-term assets	18.4	18.4	18.4	18.4
Total assets	**430.0**	**485.2**	**526.9**	**556.5**
Accounts payable	28.3	29.9	34.2	37.3
Short-term debt	12.0	25.8	19.9	20.2
Short-term lease liabilities	0.6	0.6	0.6	0.6
Other current liabilities	88.1	95.7	105.1	111.7
Total current liabilities	**129.1**	**152.0**	**159.8**	**169.8**
Long-term debt	74.1	93.9	111.8	111.1
Long-term lease liabilities	1.6	1.6	1.6	1.6
Other long-term liabilities	11.3	11.3	11.3	11.3
Total long-term liabilities	**87.1**	**106.8**	**124.8**	**124.0**
Total liabilities	**216.2**	**258.8**	**284.5**	**293.8**
Preferred shares	–	–	–	–
Total common equity	**212.4**	**225.0**	**241.0**	**261.3**
Minority interest	**1.4**	**1.4**	**1.4**	**1.4**
Total liabilities & equity	**430.0**	**485.2**	**526.9**	**556.5**
Net debt, adjusted	8.4	44.7	61.1	47.2

Cash Flow (¥ bn)

	3/26	3/27E	3/28E	3/29E
Net income	19.2	19.5	24.7	31.2
D&A add-back	9.1	11.0	12.0	13.0
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	(44.9)	(39.5)	(28.8)	(6.0)
Other operating cash flow	(0.3)	7.6	9.4	6.6
Cash flow from operations	**(16.9)**	**(1.5)**	**17.2**	**44.8**
Capital expenditures	(23.7)	(28.0)	(25.0)	(20.0)
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Others	6.6	–	–	–
Cash flow from investing	**(17.1)**	**(28.0)**	**(25.0)**	**(20.0)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	(6.8)	(6.9)	(8.6)	(10.9)
Inc/(dec) in debt	43.9	33.6	12.0	(0.4)
Other financing cash flows	(1.3)	0.0	0.0	0.0
Cash flow from financing	**35.9**	**26.7**	**3.4**	**(11.3)**
Total cash flow	**1.9**	**(2.8)**	**(4.4)**	**13.5**
Free cash flow	(40.6)	(29.5)	(7.8)	24.8

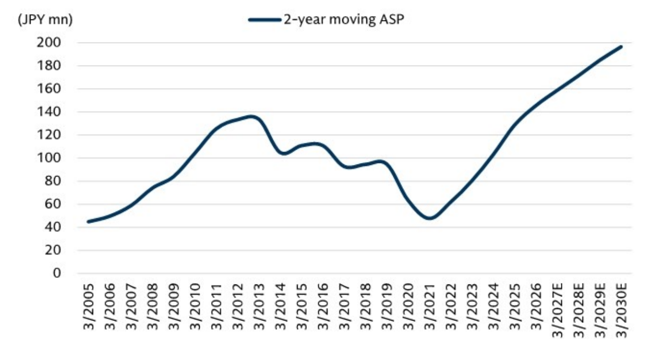
Source: Company data, Goldman Sachs Research estimates.

Solid edge in large special steel products for gas turbines and nuclear power
Japan Steel Works has the capacity to cast and forge steel ingots of up to 670 tonnes, among the largest in the world. We estimate the company holds a high share supplying global OEMs large shafts for gas turbine combined cycle (GTCC) power generation and primary system components for nuclear power, where high strength and safety are required.

The large special steel industry has extremely high barriers to entry, and supplier switching costs for heavy electrical equipment OEMs are substantial. In the current environment, where global OEMs are broadly benefiting from a buildup in order backlogs and improved margins at the time of order receipt, our view remains unchanged that the company, which holds structural competitive advantages within the global power capex expansion theme, is well-positioned to benefit from growth in shipment volumes and price improvements.

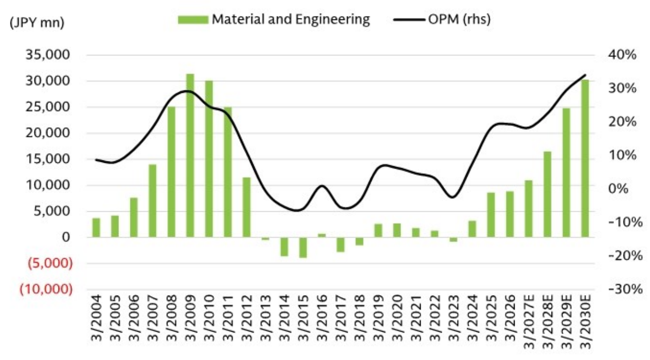
We estimate that the upward price trend for large gas turbine and nuclear-related components supplied by JSW is ongoing. On a shipment volume basis, we do not expect large shafts or nuclear primary system components to exceed the peak levels seen in around 2010. However, we expect the material & engineering business OPM to surpass its historical peak, as unit price improvement has advanced considerably compared to the previous cycle.

Exhibit 1: Japan Steel Works: ASP (sales in power & nuclear applications/major product volume)



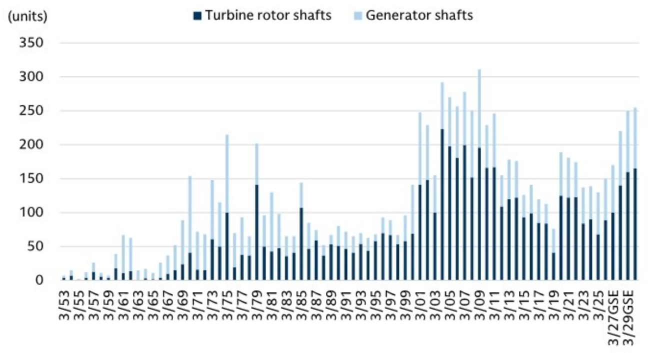
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: Japan Steel Works: Trends in M&E OP and OPM



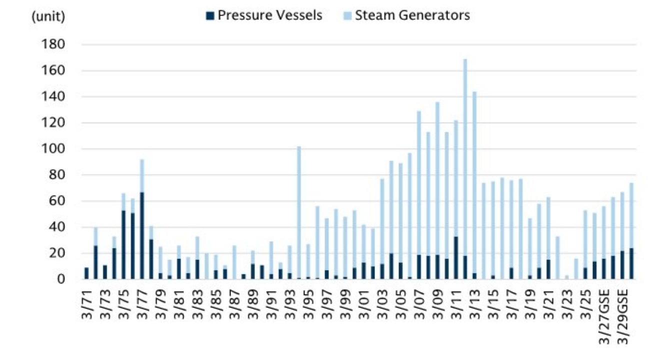
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: Japan Steel Works: Shipments of major shaft components



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Japan Steel Works: Shipments of major nuclear primary system components



Source: Company data, Goldman Sachs Global Investment Research

Estimate revisions

Material & engineering business: Strong price assumptions maintained but cost assumptions revised

FY3/27 guidance for the material & engineering business calls for operating profits of ¥9.5 bn and OPM of 16%. This is well below our previous estimates (prior to the release of FY3/26 results) for OP of ¥16 bn and OPM of 27%. We believe the gap is mainly attributable to the following two factors.

1) A larger-than-expected front-loaded increase in fixed costs: During the peak of the previous cycle around 2010, the company undertook large-scale capital investment, but was subsequently forced to book impairment charges on fixed assets due to a sharp slowdown in demand. In the current upcycle, we had assumed that JSW would only need to carry out maintenance investment on the capacity expansion investments made c.15 years ago, and could benefit from volume growth without a major increase in fixed costs. However, in light of FY3/27 guidance, while no large-scale investments have been made, it appears likely that fixed cost increases from maintenance investment and higher personnel costs have materialized to a greater extent than we previously assumed.

2) Time lag in revenue recognition: The company generally recognizes revenue on a shipment basis, which means that, compared to the percentage-of-completion method, there is a certain time lag before revenue is booked on orders with favorable margins. On this point, the fact that the high-margin order backlog will eventually be recognized as revenue remains unchanged, and we do not believe this will have a material impact on our medium- to long-term earnings forecasts.

Taking these factors into account, we maintain our price revision assumptions but revise our cost assumptions, lowering our segment OP estimates for the material & engineering business by an average of 20% over FY3/27-FY3/30. We revise our FY3/30 OPM assumption from 40% previously to 34%. Even so, we believe the current Bloomberg consensus does not incorporate the benefits of price improvement, and our FY3/29 estimate is c.45% above consensus.

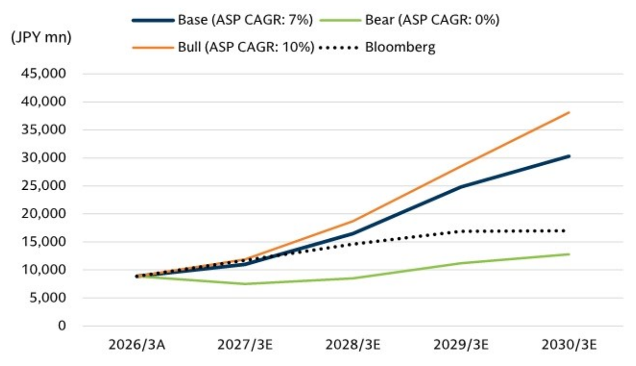
Industrial machinery products business: Factoring in ESS battery capex benefits and stronger-than-expected defense-related sales growth

For the industrial machinery products business, we raise our segment OP estimates by an average of 13% over FY3/27-FY3/30, reflecting the following two factors.

1) Recovery in demand for ESS-related film manufacturing equipment: In FY3/23-FY3/24, orders for separator film manufacturing equipment for EV batteries drove growth in this business. For EV batteries, the wet process has been the standard method, in which ultra-high-molecular-weight polyethylene is homogenized with paraffin oil, formed into a film, and then the paraffin oil is removed to create pores. Meanwhile, for conventional stationary ESS applications, the dry process has been the mainstream method. Polyethylene or polypropylene molecular chains are oriented and crystallized, and pores are created between crystals through mechanical stretching. More recently, demand for the wet process is increasing even for stationary ESS batteries, as it offers superior mechanical strength and is advantageous for thinner films and higher battery capacity. We think this is providing a tailwind to demand for JSW's film sheet forming equipment. We now forecast FY3/27 orders for plastic production and processing equipment of ¥90 bn, above guidance.

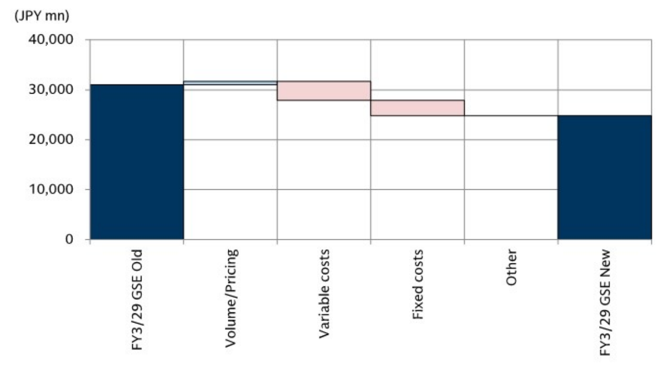
2) Stronger-than-expected growth in defense-related sales: Sales growth for defense equipment is progressing at a faster pace than we had previously assumed, and we also factor in margin improvement.

Exhibit 5: Material & Engineering segment: OP estimates comparison



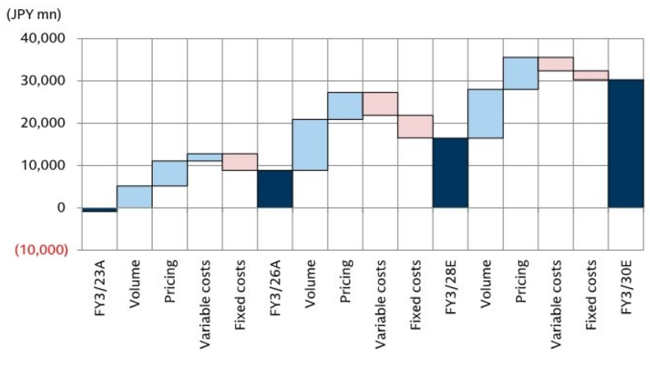
Source: Company data, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 6: Material & Engineering segment: OP bridge (GSE old vs. GSE new)



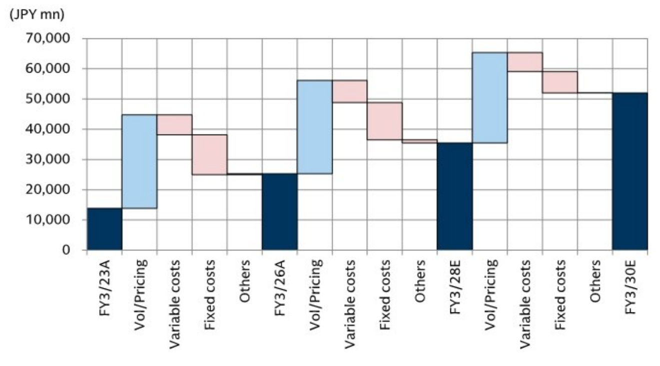
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 7: Material & Engineering segment: OP bridge (FY3/23A to FY3/30E)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 8: Japan Steel Works: Consolidated OP bridge (FY3/23A to FY3/30E)



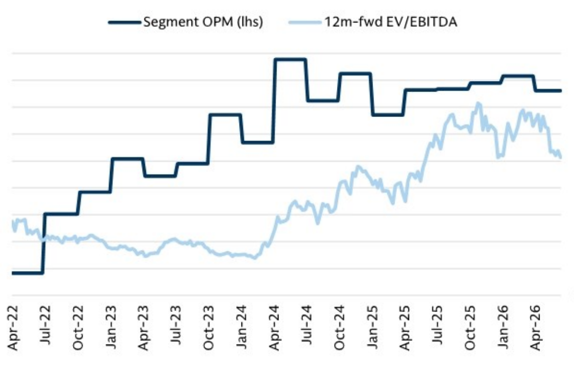
Source: Company data, Goldman Sachs Global Investment Research

Target price and our view

We believe the expansion of Japan Steel Works' EV/EBITDA multiple has a degree of correlation with the improvement in profitability of the material & engineering business. Given that we are lowering our FY3/30 OPM assumption for this business from 40% to 34%, we revise the EV/EBITDA premium used in our target price calculation from +20% to +10%. Our new 12-month target price is ¥11,500 (previously ¥13,000). We maintain our view that JSW is a rare company that can benefit from tight global supply/demand for large components used in thermal and nuclear power plants, and we maintain our Buy rating.

JSW is scheduled to disclose updates to its JGP2028 medium-term plan on July 7, and it plans to hold a briefing on July 13 that will cover measures for individual businesses. One of the key points we will be watching is whether management signals that the material & engineering business can surpass its historical peak profitability in the current cycle.

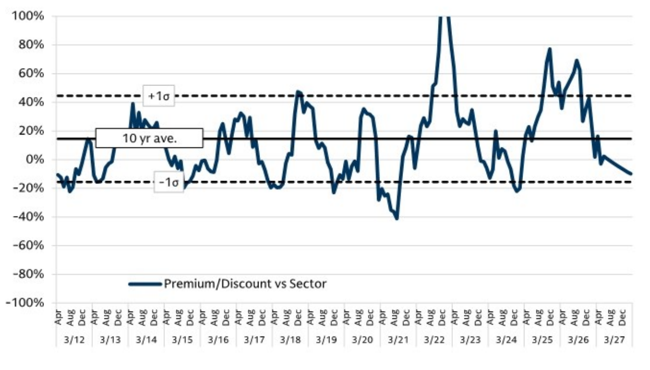
Exhibit 9: Japan Steel Works: 12m. fwd. EV/EBITDA vs Material & Engineering OPM



FY3/27 1Q OPM is based on GSE.

Source: Company data, LSEG Data & Analytics, Goldman Sachs Global Investment Research

Exhibit 10: Japan Steel Works: Sector-relative EV/EBITDA premium/discount



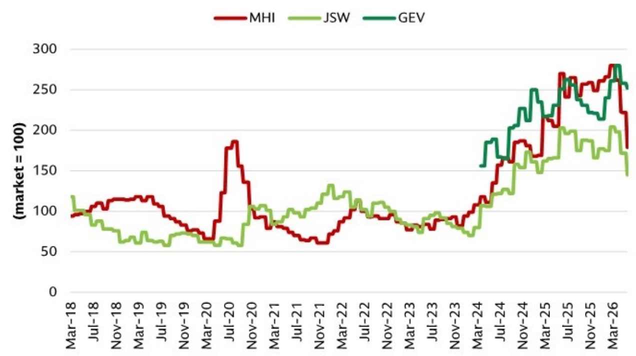
Source: Company data, LSEG Data & Analytics, Goldman Sachs Global Investment Research

Exhibit 11: Comparison of 12m. fwd. P/E

MHI: Mitsubishi Heavy Industries (7011.T)

Source: LSEG Data & Analytics, Data compiled by Goldman Sachs Global

Exhibit 12: Comparison of 12m. fwd. P/E related to market



MHI: Mitsubishi Heavy Industries (7011.T)

Source: LSEG Data & Analytics, Data compiled by Goldman Sachs Global Investment Research

Investment Thesis - Japan Steel Works (5631.T)

We are Buy-rated on Japan Steel Works. The company is a major manufacturer of special steel materials used in energy infrastructure such as gas turbine combined cycle (GTCC) plants and nuclear power, and has established a global leading position in special steel materials, including large, high-heat-resistant rotor shafts and primary system components for nuclear power generation. Against the backdrop of recent growth in new and replacement demand for GTCC and nuclear power plants, supply/demand for JSW's products is also tightening, and we see strong potential for sales and profitability in the material & engineering business to continue growing/improving steadily. Catalysts include new or update to its medium-term plan, capacity expansion in the material business without a large cost increase, and major defense equipment orders/margin improvement. While the company's valuation has reached a historically high level, we believe it is justified in light of the outlook for continued tight supply/demand for GTCC applications and the accompanying further improvement in profitability.

Price Target Risks and Methodology - Japan Steel Works (5631.T)

We are Buy rated on Japan Steel Works with a 12-month target price of ¥11,500. We calculate our target price using our FY3/30E estimates and a target EV/EBITDA multiple set at a 10% premium to the Japan Aerospace & defense subsector average of 14X, deriving a theoretical value that we then discounting it back to FY3/28E using a cost of capital of 10%.

Key downside risks include (1) production delays in the material & engineering business, (2) a higher-than-assumed fixed cost burden due to large-scale investments in capacity expansion, and (3) a downturn in industrial machinery business earnings.

Exhibit 13: Japan Steel Works: Earnings summary

Japan Steel Works (5631.T)	3/2025	3/2026	3/2027E	3/2028E	3/2029E	3/2030E	3/2027 CoE	1Q 3/26	2Q 3/26	3Q 3/26	4Q 3/26	1Q 3/27
(mn JPY, %)												
Financial data	Actual	Actual	GSE	GSE	GSE	GSE	CoE	Actual	Actual	Actual	Actual	GSE
Revenues	**248,556**	**274,852**	**311,500**	**356,900**	**389,000**	**405,100**	**310,000**	**67,544**	**68,118**	**65,481**	**73,709**	**67,700**
EBITDA	30,624	34,306	39,000	47,500	58,000	66,000	39,100	-	-	-	-	-
Operating profits	**22,824**	**25,306**	**28,000**	**35,500**	**45,000**	**52,000**	**27,000**	**5,272**	**6,920**	**5,333**	**7,781**	**5,300**
Net profits	17,961	19,239	19,450	24,650	31,200	36,100	19,000	4,381	5,711	4,846	4,301	3,700
Depreciation expenses	7,800	9,000	11,000	12,000	13,000	14,000	12,100					
CAPEX	18,100	24,200	28,000	25,000	20,000	20,000	21,500					
R&D expenses	5,600	6,100	8,200	8,200	8,200	8,200	7,700					
EBITDA margin	12.3%	12.5%	12.5%	13.3%	14.9%	16.3%	12.6%	-	-	-	-	-
OP margin	9.2%	9.2%	9.0%	9.9%	11.6%	12.8%	8.7%	7.8%	10.2%	8.1%	10.6%	7.8%
NP margin	7.2%	7.0%	6.2%	6.9%	8.0%	8.9%	6.1%	6.5%	8.4%	7.4%	5.8%	5.5%
ROE	9.6%	9.4%	8.8%	10.5%	12.4%	13.2%	-	-	-	-	-	-
YoY changes												
Revenues	-2%	11%	13%	15%	9%	4%	13%	42%	12%	2%	-3%	0%
EBITDA	19%	12%	14%	22%	22%	14%	14%	-	-	-	-	-
Operating profits	27%	11%	11%	27%	27%	16%	7%	24%	72%	-39%	34%	1%
Net profits	26%	7%	1%	27%	27%	16%	-1%	21%	139%	-24%	-23%	-16%
OP bridge												
Volume/Pricing	11,200	7,900	14,500	16,400	17,500	12,300	13,700					
Variable costs	(2,300)	(1,400)	(3,800)	(3,600)	(4,200)	(2,000)	(3,600)					
Fixed costs	(6,200)	(3,900)	(8,000)	(4,300)	(3,800)	(3,300)	(8,100)					
FX	0	0	0	0	0	0	(400)					
Other	2,100	(100)	0	(1,000)	0	0	100					
Total	**4,800**	**2,500**	**2,700**	**7,500**	**9,500**	**7,000**	**1,700**					
Orders received												
Industrial Machinery	**258,500**	**248,213**	**275,000**	**320,000**	**360,000**	**380,000**	**261,500**	**52,639**	**37,237**	**62,693**	**95,644**	**63,800**
y/y	-7%	-4%	11%	16%	13%	6%	5%	-17%	-31%	-12%	36%	21%
of which defense	115,800	87,384	85,000	120,000	160,000	180,000	80,000	22,457	4,313	3,928	56,686	22,500
y/y	64%	-25%	-3%	41%	33%	13%	-8%	-4%	-49%	-91%	44%	0%
Material and Engineering	**49,300**	**58,184**	**77,500**	**85,500**	**95,500**	**100,500**	**76,000**	**11,791**	**21,018**	**13,400**	**11,975**	**15,100**
y/y	-11%	18%	33%	10%	12%	5%	31%	7%	81%	-16%	12%	28%
of which steel forgings and plates	42,700	52,727	67,000	75,000	85,000	90,000	65,500	9,843	19,988	12,139	10,757	12,800
y/y	-10%	23%	27%	12%	13%	6%	24%	22%	87%	-18%	18%	30%
Revenues												
Industrial Machinery	**199,000**	**226,248**	**248,500**	**280,900**	**302,000**	**313,100**	**249,000**	**57,747**	**56,178**	**53,954**	**58,369**	**55,400**
y/y	-4%	14%	10%	13%	8%	4%	10%	52%	17%	5%	-5%	-4%
of which defense	32,200	46,930	74,000	89,700	102,000	113,100	72,000	7,231	7,342	16,749	15,608	10,500
y/y	34%	46%	58%	21%	14%	11%	53%	22%	36%	91%	29%	45%
Material and Engineering	**47,100**	**45,795**	**60,000**	**73,000**	**84,000**	**89,000**	**58,500**	**9,243**	**11,258**	**10,851**	**14,443**	**11,600**
y/y	12%	-3%	31%	22%	15%	6%	28%	2%	-6%	-13%	7%	26%
of which Steel forgings and plates	38,400	39,708	49,000	63,000	74,000	79,000	48,000	8,031	10,483	8,909	12,285	10,000
y/y	16%	3%	23%	29%	17%	7%	21%	8%	10%	-12%	9%	25%
Operating profits												
Industrial Machinery	**17,500**	**20,039**	**20,000**	**23,000**	**24,200**	**25,700**	**20,800**	**4,314**	**5,879**	**3,896**	**5,950**	**3,700**
y/y	-14%	15%	0%	15%	5%	6%	4%	31%	63%	-41%	47%	-14%
OPM	8.8%	8.9%	8.0%	8.2%	8.0%	8.2%	8.4%	7.5%	10.5%	7.2%	10.2%	6.7%
Material and Engineering	**8,600**	**8,874**	**11,000**	**16,500**	**24,800**	**30,300**	**9,500**	**1,681**	**2,071**	**2,115**	**3,007**	**2,100**
y/y	169%	3%	24%	50%	50%	22%	7%	-22%	6%	-20%	64%	25%
OPM	18.3%	19.4%	18.3%	22.6%	29.5%	34.0%	16.2%	18.2%	18.4%	19.5%	20.8%	18.1%

Source: Company data, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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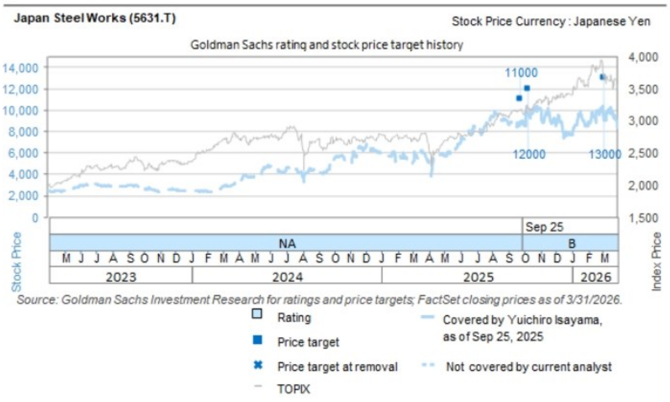

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Target price history table(s)

Japan Steel Works (5631.T)

Date of report	Target price (¥)	Closing price (¥)
06-Mar-26	13,000	9,625
10-Oct-25	12,000	9,616
25-Sep-25	11,000	8,596

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

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