Hitachi (6501.T): CFO meeting: Shift to services, 800VDC contributions, and sound financial management are keys to multiple expansion

Ryo Harada
+81(3)4587-9865 | ryo.harada@gs.com
Goldman Sachs Japan Co., Ltd.

Hiroki Muramatsu
+81(3)4587-9872 | hiroki.muramatsu@gs.com
Goldman Sachs Japan Co., Ltd.

We attended a company-hosted group discussion with Hitachi CFO Tomomi Kato on September 25.

Positives included comments that Hitachi Energy has room for margin improvement through productivity gains, and on the potential for upside at Hitachi High-Tech from pulled-forward business. Uninterruptible power supply (UPS) business in the domestic market is strong. The company also cited growing probability that it will achieve the targets for Hitachi Energy and company-wide margins that it disclosed at its June 2026 Investor Day. It said improvement is needed at GlobalLogic, where earnings have been sluggish recently due to price pressure from customers. Hitachi is looking to boost AI talent to propel business growth.

For Hitachi's stock multiple to expand from its current level, we believe keys will include: 1) a higher ratio of services and software through growth in the HMAX platform and an increased Lumada ratio (clarifying its value in AI utilization), 2) an expansion of Hitachi Energy's TAM through contributions from 800VDC products, and 3) the execution of an optimal financial strategy (pursuing strategically necessary acquisitions, and otherwise implementing more aggressive shareholder returns).

Key takeaways

Company comments unless otherwise noted.

FY3/27 outlook

- Demand at Hitachi Energy remains very strong, and the company sees potential for upside. The sales outlook has not changed significantly from the figures at the time of the 1Q upward revision, but management looks for upside on the profit front.
- In addition to initiatives to improve productivity, such as enhancing production setups and employee skills, Hitachi is also progressing with paring of loss-related costs.
- Hitachi Energy faces risks related to conditions in the Middle East. The impact was not as significant as anticipated in 1Q, but it materialized nonetheless.
- In the CI segment, Hitachi High-Tech had a very strong 1Q, and the company sees upside possibility for semiconductor production equipment from 2Q onward.

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The outperformance versus guidance in 1Q was due to more pulled-forward business than initially expected, and Hitachi has expectations on this front for 2Q and beyond as well.

- The full-year guidance for corporate items and eliminations includes the Middle East impact, as well as strategic investments at the corporate level (AI, cybersecurity, regional strategies). Risks other than the Middle East are not included in corporate items and eliminations.

Medium- to long-term outlook

- Hitachi Energy's adjusted EBITA margin is already approaching 15% in FY3/27, and management thinks the target of 15%+ for FY3/28 announced at the Investor Day can be exceeded.
- For Hitachi as a whole, management has set an EBITDA margin target of 13-15% for FY3/28, but given that the outlook for FY3/27 is 13.0%, it thinks a level above the midpoint of this range can be achieved.

DSS

Productivity improvement from AI

- Hitachi aims to improve DSS segment productivity by 30% with AI by FY3/28 and believes this will have a considerable earnings impact if achieved. It is true that price pressure from customers increases with the use of AI, and GlobalLogic is currently being affected. On the other hand, in Japan, there is an acute shortage of personnel, so no price pressure is occurring at this time.
- A 30% improvement could lead to negotiations with customers, but if Hitachi can propose high-value-added systems that lead to top-line growth and bottom-line/CF improvement for the customer, it thinks it should also see correspondingly large compensation.
- IT-related demand is very strong in Japan, and Hitachi expects this to continue for about the next 10 years.

GlobalLogic turnaround

- GlobalLogic's growth has slowed from when it was first acquired, due to investment restraint in the automotive industry (a key customer area) and pricing pressure stemming from AI.
- Employee skill sets are an issue, and AI expertise needs to be increased.
- Hitachi sees a need to optimize the workforce and bring in personnel who can meet AI demand, so it anticipates some turnover. It thinks GlobalLogic can grow if it can focus more business on industries where AI is a tailwind.
- It is being integrated with Hitachi Digital Services. Anand Birje has been appointed CEO of the Digital Engineering & AI Solutions Business Unit that GlobalLogic sits within. Mr. Birje has long experience in the technology industry on the US West Coast, and Hitachi has high hopes for the turnaround.
- In forward deployed engineer (FDE) initiatives, GlobalLogic's agile development

methods have sometimes been incompatible with customers accustomed to traditional waterfall-style development, but if the FDE approach becomes more common in Japan, Hitachi thinks GlobalLogic's potential contribution will increase.

Energy

Medium- to long-term outlook

- The company sees demand at Hitachi Energy growing until at least 2035, and it is now seeing some orders with delivery dates beyond 2030.
- In addition to the three demand drivers of electrification, renewable energy, and replacement of aging infrastructure, data center-related business is also contributing.
- Hitachi Energy has announced its investment plans through 2027 and is also drawing up plans for beyond that.
- It sees productivity improvement as key for upside potential. It is promoting the use of AI and expects to start seeing the effects from FY3/29 onward. It is leveraging AI to support new hires and sees potential for top-line growth.
- Management said it will continue to consider M&A but that competition law may present hurdles to the company making acquisitions that would simply add volume.

Comparison with global competitors

- Hitachi Energy specializes in power grids, but the product scope differs from competitors like GE Vernova, which also handles gas turbines. There are also differences in product mix, with Hitachi Energy focusing on the high-voltage range.
- Hitachi Energy avoids the construction part of EPC as much as possible, whereas competitors handle all of EPC. It categorizes projects by risk and tries to avoid construction (given the risk of additional costs) to the degree possible, taking on such projects by partnering with other companies when necessary.

Mobility

- Although the mobility business has low profitability within Hitachi, it holds a top position within the industry.
- The company sees its HMAX platform as the key to further growth. Improving margins further with rolling stock itself will be difficult, so how it grows in other areas of the business is key. The signaling business it acquired previously has improved more than expected, and the company is gradually making inroads into Germany, a market it could not enter before. It aims to grow the signaling and service businesses.
- Acquired company Clever Devices provides IT services that also supply information to buses, an area Hitachi is looking into growing.

Connective industries

- In CI, Hitachi aims to improve the portfolio and grow digital services.

- For building systems, it holds the top position in Japan and China, and it looks to grow the HMAX maintenance business.

Company-wide
HMAX in the data center space

- Optimizing power consumption has become crucial, and on this front it expects the CI sector's UPS and the Energy sector's high-voltage compatible products to benefit.
- There is very strong demand for UPS in Japan, and the company sees ample scope for future growth.
- Hitachi has technology for 800VDC-related products, but it thinks commercialization is still some way off as this has not yet been standardized in the industry.

Physical AI initiatives

- Hitachi is an industry leader with Energy's power grids, Mobility's signaling systems, and CI's critical dimension-scanning electron microscopes (CD-SEM) supplied by Hitachi High-Tech.
- Hitachi's strength lies in its industry-leading products. It is advancing with physical AI initiatives by adding AI to its OT expertise.
- Hitachi sees room to strengthen peripheral areas of existing businesses. Its goal is not to acquire more hardware, but rather to connect these businesses to HMAX and expand digitalized assets.

Financial strategy

- Hitachi sees its current financial leverage as insufficient.
- Regarding shareholder returns, its thinking remains focused on stable dividends and flexible share buybacks. Core FCF may see upside from the sale of assets or the receipt of large advance payments, and Hitachi said it will take the nature and scale of that upside into account in considering its return strategy.

Price Target Risks and Methodology - Hitachi

We are Buy rated. Our 12-month target price of ¥6,600 for Hitachi is based on an EV/EBITDA multiple of 13X (base year is FY3/28E; the multiple is based on the EV/EBITDA and EBITDA margin correlation across its domestic and global competitors). Risks: **Digital systems & services:** delays and losses on large projects, weaker IT capex sentiment at customers accompanying a macroeconomic downturn, reemergence of supply disruptions for servers and other products, slower standalone growth at GlobalLogic, slower-than-expected realization of synergies between Hitachi and GlobalLogic; **Energy (Power grid):** delays on power transmission/distribution projects, a sharp rise in input costs; **Connective industries:** weaker new construction demand in China, losing out on new repair/maintenance orders to competitors in Japan, semiconductor production equipment (SPE) prices not improving over the long term a risk for the measurement and analysis systems business (Hitachi High-Tech); **Companywide:** Forex swings (¥1 appreciation vs. USD has an estimated negative impact of ¥7 bn on sales and ¥0.8 bn on adjusted EBITA) and an increase in purchase price

allocation (PPA) amortization due to forex swings.

6501.T	12m Price Target: **¥6,600**	Price: **¥5,547**	Upside: **19.0%**

Buy

Market cap: ¥25.7tr / $161.7bn
Enterprise value: ¥24.8tr / $156.2bn
3m ADTV: ¥57.7bn / $361.6mn
Japan
Japan Industrial Electronics
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	3/26	3/27E	3/28E	3/29E
Revenue (¥ bn)	10,586.8	11,705.4	12,755.9	13,906.1
Op. profit (¥ bn)	1,199.3	1,462.4	1,637.0	1,830.8
Op. profit CoE (¥ bn)	–	1,408.0	–	–
EPS (¥)	178.3	229.5	263.2	301.2
P/E (X)	24.8	24.2	21.1	18.4
P/B (X)	3.0	3.6	3.3	3.1
Dividend yield (%)	1.1	1.1	1.3	1.6
N debt/EBITDA (ex lease,X)	(0.2)	(0.6)	(0.5)	(0.4)
CROCI (%)	19.2	13.7	14.9	15.3

	6/26	9/26E	12/26E	3/27E
EPS (¥)	42.4	52.9	60.3	72.2

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 25 Sep 2026 close.

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Reg AC

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Contributing Authors: Ryo Harada Goldman Sachs Japan Co., Ltd., Hiroki Muramatsu Goldman Sachs Japan Co., Ltd..

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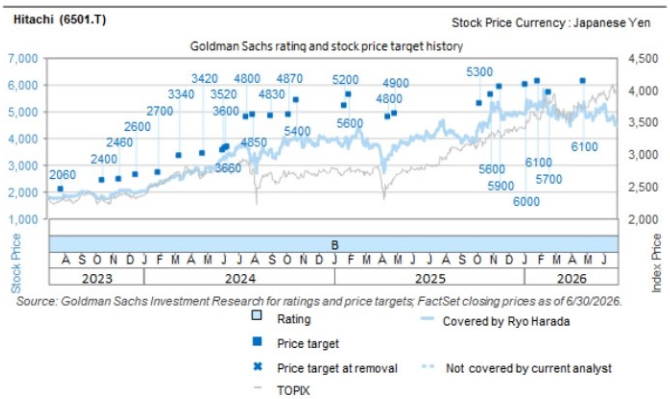
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Target price history table(s)
Hitachi (6501.T)

Date of report	Target price (¥)	Closing price (¥)
29-Jul-26	6,600	4,957
07-Jul-26	6,300	4,942
27-Apr-26	6,100	5,356
19-Feb-26	5,700	4,992
29-Jan-26	6,100	5,077
05-Jan-26	6,000	5,068
17-Nov-25	5,900	5,122
30-Oct-25	5,600	4,963
08-Oct-25	5,300	4,477
28-Apr-25	4,900	3,747
16-Apr-25	4,800	3,260
31-Jan-25	5,600	3,946
22-Jan-25	5,200	3,929
23-Oct-24	5,400	3,896
07-Oct-24	4,870	3,904
02-Sep-24	4,830	3,603
31-Jul-24	4,850	3,288
18-Jul-24	4,800	3,663
11-Jun-24	18,300	3,412
07-Jun-24	18,000	3,270
03-Jun-24	17,600	3,313
26-Apr-24	17,100	2,695
12-Mar-24	16,700	2,467
31-Jan-24	13,500	2,335
19-Dec-23	13,000	1,988
16-Nov-23	12,300	2,009
16-Oct-23	12,000	1,806

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