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Western Digital (WDC.N)

Sept Quarter Results - Quick Take

CITI'S TAKE

Fundamentals – Western Digital reported Sept quarter results of $4.381B in revs (+55%yy) and EPS of $4.64. This compares with Street (FactSet) expectations of $4.144B (vs $4.10B guidance midpoint) and EPS of $4.11 (vs $4.00 guidance midpoint), respectively. Gross margins of 58.1% vs Street at 55.7% (+1420bps yy, vs 55.5% guidance midpoint). Operating margins of 49.1% vs Street at 46.4%, and 248EB total capacity shipped (+21.5%yy) vs Street (Visible Alpha) at 249EB, with pricing up by ~27%yy. We are awaiting additional commentary on the 4:30pmET earnings call. Based on these results we expect the stock to trade higher.

Buy	
Price (22 Oct 26 16:00)	US$354.19
Target price	US$740.00
Expected share price return	108.9%
Expected dividend yield	0.2%
Expected total return	109.1%
Market Cap	US$132,314M

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Guidance:

- F2Q27 (ending Dec) sales outlook of $5.1B+/-$100M vs Street at $4.567B.
- Gross margin range of 60-61% vs Street at 57.2%.
- EPS of $5.80 +/- $0.20 vs Street at $4.82.

Focus on the call will be:

- Additional hyperscaler qualifications.
- Current S/D balance.
- Further GM improvements and sustainability.
- Any change to the persistence of AI tailwinds to overall HDD demand.
- Any change in component environment that may adversely impact output.
- Any changes to current technology transition expectations.

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



Western Digital

Valuation

Our target price for WDC is $740 valued at 20x FY28 EPS estimates, in line with its market peer multiple given strong recent execution, demand visibility confidence, and continued outlook of solid and durable HDD supply/demand dynamics supportive of pricing and margins.

Risks

Downside risks that could impede the stock price from reaching our target price include:
1) returning weakness in cloud/enterprise demand from macro-induced factors could curtail storage spending, and upset the current balance in supply-demand dynamics and causing significant underutilization charges;
2) a decrease in SSD prices due to faster-than-expected HDD cannibalization by SSDs;
3) continued challenges in improving cost structure vs. the 10-15% historically; and
4) HAMR development roadmap stalls, allowing competitive threats to WDCs enterprise business from Seagate's earlier established HAMR high-capacity drives.