Western Digital

F1Q27 Review: Pricing Momentum and EB Recovery Support Positive Earnings Revision; Capex Concerns Overblown

Overweight

WDC, WDC US
Price (22 Oct 26):$354.19
▲**Price Target (Dec-27):$650.00**
Prior (Dec-27):$600.00

IT Hardware/ Telecom & Networking Equipment

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WDC delivered meaningful upside across revenue, margins, and earnings in F1Q27, driven by a substantially stronger pricing environment, with ASP/TB growth accelerating to +28% y/y (vs. +18% in F4Q26 and +3% a year ago), while EB growth (+22%) and cost/TB reductions (-4%), tracked more in line. Importantly, the F2Q27 outlook points to a continuation of favorable pricing trends, supported by contractual price escalators, LTA renewals, favorable pricing on uncontracted volumes, and continued adoption of higher-capacity drives, alongside an anticipated acceleration in EB shipments, as F1Q27 was characterized as a "floor," while management also reiterated a return to the 25%+ EB growth trajectory by F3Q27, supported by the transition to 40TB ePMR drives (30%/50% of nearline EB shipments in F2Q/F3Q27), followed by the introduction of HAMR in 1H CY27. Against a strong demand backdrop, with existing hyperscalers and an expanding cohort of neoclouds and others collectively signaling 25%+ EB growth through the next decade, capex is expected to track above the 4%-6% of revenue range over the next two years. While the higher investment requirements are likely to raise concerns, WDC sought to alleviate those anxieties by emphasizing that spending is primarily directed toward head and media manufacturing to offset longer production cycles associated with HAMR and support higher platter count per drive, rather than expand underlying unit manufacturing capacity, enabling higher EB output while limiting incremental fixed assembly cost. While near-term cost/TB reductions remain pressured by product transitions and input-cost inflation, management underscored confidence in a return to -10% reductions through higher areal density and value-engineering initiatives. To that end, we believe the print reinforces a constructive supply-demand backdrop for WDC and the broader HDD industry, with continued pricing strength and accelerating EB shipments supporting further margin expansion and earnings leverage. We raise our FY27/FY28 revenue and EPS estimates to $21.5 bn/$25.65 and $30 bn/$ 41.10, respectively, reflecting strong EB shipment growth and ASP/TB assumptions, partially offset by more modest near-term cost reductions, and increase our Dec-27 price target to $650 (vs. $600 prior) based on the raised outlook.

- **F1Q27 (Sep-end) Results: Revenue and earnings track ahead of consensus and guidance driven by better-than-expected pricing trends.** Revenues tracked to $4.38 bn (vs. JPMe of $4.17 bn, consensus of $4.15 bn and guidance in the range of $4.00-$4.20 bn), up +55% y/y, driven by strong demand across data centers (+22% y/y in Nearline EB shipments) as well as favorable pricing, with ASP/TB growth accelerating further to +28% y/y (vs. +18% y/y in F4Q26). The favorable pricing environment drove gross margins to 58.1% (vs. JPMe of 56.5% and consensus of 55.9%), which in combination with strong operating leverage, led to operating margins of 49.1% (vs. JPMe of 47.0% and consensus of 46.5%) and EPS of $4.64 (vs. JPMe of $4.17 and consensus of $4.10).
- **F2Q27E (Dec-end) Guide: Pricing momentum and EB recovery supports**

Key Changes (FYE Jun)

	Prev	Cur	Δ
Adj. EPS - 27E ($)	21.45	25.65	19.6%
Adj. EPS - 28E ($)	35.15	41.10	16.9%

Quarterly Forecasts (FYE Jun)

Adj. EPS ($)

	2026A	2027E	2028E
Q1	1.78	4.64A	7.64
Q2	2.13	5.80	9.35
Q3	2.72	7.03	11.23
Q4	3.56	8.18	12.91
FY	10.24	25.65	41.10

Style Exposure

Quant	Current	Hist %Rank (1=Top)			
Factors	%Rank	6M	1Y	3Y	5Y
Value	60	78	47	27	2
Growth	28	16	33	94	62
Momentum	3	6	10	3	8
Quality	2	11	8	45	14
Low Vol	69	69	59	37	56
ESGQ	6	16	6	10	41

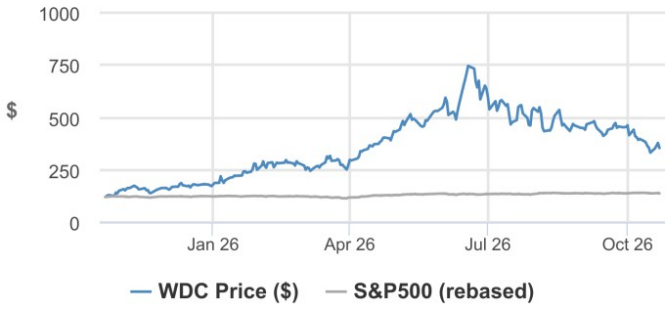
Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 6 for analyst certification and important disclosures.

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Price Performance



	YTD	1m	3m	12m
Abs	105.6%	-23.8%	-36.4%	194.0%
Rel	93.7%	-22.5%	-38.6%	179.6%

Company Data

Shares O/S (mn)	383
52-week range ($)	799.87-117.23
Market cap ($ mn)	135,654.80
Exchange rate	1.00
Free float (%)	99.4%
3M ADV (mn)	7.86
3M ADV ($ mn)	3,528.5
Volatility (90 Day)	87
Index	S&P 500
BBG ANR (Buy | Hold | Sell)	21|7|0

Key Metrics (FYE Jun)

$ in millions	FY26A	FY27E	FY28E	FY29E
Financial Estimates				
Revenue	12,919	21,471	30,066	39,194
Adj. EBIT	4,817	11,832	18,673	25,833
Adj. EBITDA	5,192	12,341	19,387	26,764
Adj. net income	3,892	9,781	15,462	21,309
Adj. EPS	10.24	25.65	41.10	57.50
BBG EPS	10.04	21.02	33.13	-
Cashflow from operations	3,929	9,103	14,710	20,680
FCFF	3,929	9,103	14,710	20,680
Margins and Growth				
Revenue Growth Y/Y (%)	(2.7%)	66.2%	40.0%	30.4%
EBIT margin	37.3%	55.1%	62.1%	65.9%
EBIT Growth Y/Y (%)	56.6%	145.6%	57.8%	38.3%
EBITDA margin	40.2%	57.5%	64.5%	68.3%
EBITDA Growth Y/Y (%)	47.2%	137.7%	57.1%	38.1%
Net margin	30.1%	45.6%	51.4%	54.4%
Adj. EPS growth	56.0%	150.4%	60.2%	39.9%
Ratios				
Adj. tax rate	16.0%	17.1%	17.1%	17.5%
Interest cover	-	-	-	-
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM
ROE	54.0%	85.0%	78.3%	62.9%
Valuation				
FCFF yield	2.9%	6.7%	11.0%	15.8%
Dividend yield	-	-	-	-
EV/Revenue	10.5	6.3	4.5	3.4
EV/EBITDA	26.0	10.9	7.0	5.0
Adj. P/E	34.6	13.8	8.6	6.2

Summary Investment Thesis and Valuation

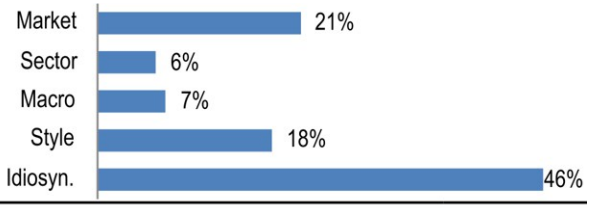
Investment Thesis

We rate Western Digital shares Overweight driven primarily by the opportunity for significant upside to consensus estimates, with the HDD industry positioned to benefit from both strong demand stemming from hyperscaler capex plans as well as pricing tailwinds. WDC is a powerhouse in storage, with its portfolio comprising next-generation HDD solutions that are addressing the growing data storage requirements at data center/ cloud/AI infrastructure customers. Near- and medium-term fundamentals continue to improve as the industry is being disciplined in adding new capacity and focusing on profitable growth.

Valuation

We are increasing our December 2027 price target to $650 (vs. $600 prior), based on valuing our 2028E EPS estimate at a mid-teens P/E multiple, which is largely in-line with the target multiple for the key peer Seagate- and is ahead of the historical multiple given robust HDD storage demand across data centers.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.48	0.48
Sect: Technology	0.41	0.29
Ind: Tech Hard Equip	0.21	0.08
Macro:		
Crude Oil	-0.20	-0.20
Credit Spread	0.18	0.13
Economic Surprise	-0.12	-0.11
Quant Styles:		
Momentum	0.69	0.55
DivYld	-0.56	-0.44
LowVol	-0.49	-0.42

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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better than consensus revenues, margins and earnings. Revenue is guided in the range of $5.0-$5.2 bn, implying +69% y/y growth at the midpoint (vs. JPMe of $4.5 bn and consensus of $4.6 bn). Gross margins are guided to 60%-61% (vs. JPMe of 58.5% and consensus of 58%), which implies a continuation of robust 75%+ incremental margins on a y/y basis. Operating expenses are guided to the range of $400-$410 mn (vs. JPMe of $395 mn and consensus of $405 mn), driving an implied operating margin guide of 52.6% at the midpoint (vs. JPMe of 49.7% and consensus of 49.0%), and EPS guidance of $5.60-$6.00 (vs. JPMe of $4.80 and consensus of $4.82).

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Investment Thesis, Valuation and Risks

Western Digital *(Overweight; Price Target: $650.00)*

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WDC P/E-Based Price Target

$ in Millions, except per share amounts

	NTM Qtrs 1-4	2028E
JPM Net Income	**10,896**	**17,960**
JPM EPS	$28.66	$48.12
P/E Multiple	12x	
JPM P/E Multiple		14x
Implied Equity Value	**135,655**	**242,463**
Average Diluted Share Count	383	373
Implied Share Price	**$354**	**$650**
Current Value per Share	$354.19	$354.19
Upside vs. Current		84%
Memo:		
(-) Net Cash/(Debt)	525	17,645
Enterprise Value	135,130	224,817
JPM EBITDA	13,727	22,541
Implied EV/EBITDA	*9.8x*	*10.0x*

Source: Company reports and J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks to our rating and price target include a slowdown in C
on AI infrastructure, which could present risk to demand growth fo
industry despite the current robust pipeline of investment announce
technology disruptions – including faster-than-expected migration t
driven by narrowing cost differentials between HDDs and NANI
progress on NAND density – could present headwinds to our expectat



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Western Digital: Summary of Financials

Income Statement - Annual	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue	**13,279**	**12,919**	**21,471**	**30,066**	**39,194**
COGS	(8,169)	(6,570)	(8,023)	(9,629)	(11,410)
Gross profit	**5,110**	**6,349**	**13,447**	**20,437**	**27,783**
SG&A	(618)	(460)	-	-	-
Adj. EBITDA	**3,527**	**5,192**	**12,341**	**19,387**	**26,764**
D&A	(451)	(375)	(510)	(714)	(930)
Adj. EBIT	**3,076**	**4,817**	**11,832**	**18,673**	**25,833**
Net Interest	-	-	-	-	-
Adj. PBT	**2,716**	**4,694**	**11,797**	**18,653**	**25,813**
Tax	(304)	(751)	(2,016)	(3,192)	(4,504)
Minority Interest	-	-	-	-	-
Adj. Net Income	**2,354**	**3,892**	**9,781**	**15,462**	**21,309**
Reported EPS	6.57	10.24	25.65	41.10	57.50
Adj. EPS	**6.57**	**10.24**	**25.65**	**41.10**	**57.50**
DPS	**-**	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-	-
Shares outstanding	359	380	381	376	371

Income Statement - Quarterly	1Q27A	2Q27E	3Q27E	4Q27E
Revenue	**4,381A**	**5,066**	**5,708**	**6,315**
COGS	(1,837)A	(1,994)	(2,053)	(2,140)
Gross profit	**2,544A**	**3,072**	**3,656**	**4,175**
SG&A	-	-	-	-
Adj. EBITDA	**2,257A**	**2,792**	**3,383**	**3,909**
D&A	(104)A	(120)	(136)	(150)
Adj. EBIT	**2,153A**	**2,672**	**3,247**	**3,759**
Net Interest	-	-	-	-
Adj. PBT	**2,143A**	**2,657**	**3,242**	**3,754**
Tax	(364)A	(452)	(556)	(644)
Minority Interest	-	-	-	-
Adj. Net Income	**1,779A**	**2,205**	**2,686**	**3,110**
Reported EPS	4.64A	5.80	7.03	8.18
Adj. EPS	**4.64A**	**5.80**	**7.03**	**8.18**
DPS	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-
Shares outstanding	383A	380	382	380

Balance Sheet & CashFlow Statement	FY25A	FY26A	FY27E	FY28E	FY29E
Cash and cash equivalents	2,114	1,579	4,222	12,263	26,725
Accounts receivable	1,486	2,026	3,217	4,509	5,885
Inventories	1,291	1,511	2,074	2,484	2,945
Other current assets	3,742	4,055	5,768	7,660	9,699
Current assets	**5,856**	**5,634**	**9,990**	**19,923**	**36,424**
PP&E	2,343	2,476	3,462	5,154	6,183
LT investments	-	-	-	-	-
Other non current assets	1,484	1,430	1,464	1,464	1,464
Total assets	**14,002**	**13,861**	**19,237**	**30,862**	**48,392**
Short term borrowings	2,226	1,052	679	679	679
Payables	1,266	1,774	2,161	2,587	3,068
Other short term liabilities	1,926	1,414	1,448	1,448	1,448
Current liabilities	**5,418**	**4,240**	**4,288**	**4,715**	**5,195**
Long-term debt	2,485	0	0	0	0
Other long term liabilities	3,044	757	799	799	799
Total liabilities	**8,462**	**4,997**	**5,087**	**5,514**	**5,994**
Shareholders' equity	5,540	8,864	14,150	25,348	42,398
Minority interests	-	-	-	-	-
Total liabilities & equity	**14,002**	**13,861**	**19,237**	**30,862**	**48,392**
Net debt/(cash)	2,597	(527)	(3,542)	(11,584)	(26,045)
Cash flow from operating activities	**1,691**	**3,929**	**9,103**	**14,710**	**20,680**
o/w Depreciation & amortization	451	375	510	714	930
o/w Changes in working capital	(1,031)	(658)	(1,240)	(1,465)	(1,559)
Cash flow from investing activities	**150**	**(429)**	**(1,507)**	**(2,405)**	**(1,960)**
o/w Capital expenditure	-	-	-	-	-
as % of sales	-	-	-	-	-
Cash flow from financing activities	**(1,612)**	**(2,776)**	**(4,366)**	**(4,263)**	**(4,259)**
o/w Dividends paid	(44)	(184)	(256)	(263)	(259)
o/w Net debt issued/(repaid)	57	0	0	0	0
o/w Share Repurchases	(149)	(2,592)	(4,001)	(4,000)	(4,000)
Net change in cash	**235**	**721**	**3,230**	**8,041**	**14,461**
Adj. Free cash flow to firm	**1,691**	**3,929**	**9,103**	**14,710**	**20,680**

Ratio Analysis	FY25A	FY26A	FY27E	FY28E	FY29E
Gross margin	38.5%	49.1%	62.6%	68.0%	70.9%
EBITDA margin	26.6%	40.2%	57.5%	64.5%	68.3%
EBIT margin	23.2%	37.3%	55.1%	62.1%	65.9%
Net profit margin	17.7%	30.1%	45.6%	51.4%	54.4%
ROE	27.9%	54.0%	85.0%	78.3%	62.9%
ROA	12.4%	27.9%	59.1%	61.7%	53.8%
ROCE	18.8%	40.1%	79.3%	75.8%	61.7%
SG&A/Sales	4.7%	3.6%	-	-	-
Net debt/equity	0.5	NM	NM	NM	NM
Net debt/EBITDA	0.7	NM	NM	NM	NM
P/E (x)	53.9	34.6	13.8	8.6	6.2
P/BV (x)	23.9	15.2	9.5	5.3	3.1
EV/EBITDA (x)	38.3	26.0	10.9	7.0	5.0
Dividend Yield	-	-	-	-	-
Sales/Assets (x)	0.7	0.9	1.3	1.2	1.0
Interest cover (x)	-	-	-	-	-
Operating leverage	23593.0%	(2087.7%)	220.0%	144.4%	126.3%
Revenue y/y Growth	2.1%	(2.7%)	66.2%	40.0%	30.4%
EBITDA y/y Growth	226.6%	47.2%	137.7%	57.1%	38.1%
Tax rate	11.2%	16.0%	17.1%	17.1%	17.5%
Adj. Net Income y/y Growth	(2502.0%)	65.3%	151.3%	58.1%	37.8%
EPS y/y Growth	(2331.2%)	56.0%	150.4%	60.2%	39.9%
DPS y/y Growth	-	-	-	-	-

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Jun. o/w - out of which