Electronic Components Sector

Western Digital's 1Q FY2027 results: Implications for Japan's electronic components sector

Japan Equity Research
Technology - Electronic Components

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- **Earnings summary and company outlook:** Western Digital (WDC; covered by Joseph Cardoso) announced July-September 2026 (1Q FY2027) results on October 23 (early morning Japan time). July-September sales totaled US$4.38 billion (+56% YoY, +17% QoQ), above guidance (midpoint of US$4.10 billion; +9% QoQ) and the Bloomberg consensus estimate of US$4.15 billion. The QoQ growth was driven by higher shipment capacity and a favorable pricing environment. The non-GAAP gross margin was 58.1% (+14.2ppt YoY, +3.7ppt QoQ), substantially above the guidance midpoint of 55.5% and the Bloomberg consensus estimate of 55.9%. Mix improvements from the shift to higher-capacity drives, along with the favorable pricing environment and improvement in manufacturing operations contributed. Western Digital's inventory for July-September 2026 was US$1.78 billion, up by US$270 million from April-June 2026. Inventory turnover was around 82 days, up five days QoQ.
- 2Q FY2027 (October-December 2026) sales guidance is US$5.10 billion (midpoint; +69% YoY, +16% QoQ), well above the Bloomberg consensus of US$4.59 billion. The company expects significant sales growth, supported by strong demand across all end markets and continued favorable pricing. Non-GAAP gross margin guidance is 60.5% (midpoint, +2.4ppt QoQ), considerably above the Bloomberg consensus of 57.8%. Western Digital expects gross margin improvement to continue, supported by the shift to higher-capacity drives and a favorable pricing environment. On pricing, the company plans to benefit from price increase clauses in long-term agreements (LTAs) and higher spot prices for nearline HDD customers without LTAs. As for products, Western Digital expects a mix shift to higher-capacity drives to contribute. Management also commented that higher areal density enables it to expand capacity shipments without increasing unit volumes, which helps control fixed costs.
- **Implications for the Japanese electronic components sector:** Both July-September results and October-December guidance significantly exceeded consensus, and earnings growth is accelerating. Western Digital stated that it has good visibility on demand from all of its seven top customers through 2030-2031, and long-term earnings visibility is increasing. The company's core strategy remains unchanged. Western Digital continues to shift to higher-capacity drives through areal density gains and to raise per-TB pricing, while maintaining its stance of not adding to unit-based production capacity. We maintain our view that unit volume growth is unlikely to be the main driver for HDD component manufacturers overall. Regarding TDK, we believe that although the future of the HDD head business sale is uncertain, captive manufacturers are restraining production capacity expansion for HDD heads and shifting existing production capacity to HAMR, so TDK should be able to gain HDD head market share. TDK is our top pick among HDD-related stocks.

Key Takeaways

- **Earnings trends**: (1) In July-September 2026, Western Digital's total capacity shipped increased 22% YoY and 7% QoQ to 248EB (exabytes), of which 223EB was for nearline HDDs (+22% YoY and +7% QoQ) and 25EB was for

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non-nearline HDDs (+19% YoY and +14% QoQ). Nearline HDDs continued to drive the increase in shipment growth. (2) By application, July-September cloud-related sales increased 54% YoY and 16% QoQ to US$3.86 billion. Client-related sales came to US $310 million (+110% YoY and +36% QoQ). Consumer-related sales were US$220 million (+35% YoY and +17% QoQ). Cloud-related sales increased QoQ, driven by sustained demand for nearline HDDs and the ramp-up of the latest ePMR HDDs, and accounted for 88% of total sales. (3) Price per GB was 1.8 cents in July-September (+28% YoY, +9% QoQ). The company commented that price improvement spread to both nearline and non-nearline HDDs, and was also seen in client and consumer applications. Western Digital said that high-capacity drives help customers reduce their total cost of ownership (TCO) by improving rack density and lowering power consumption, and that further increases in capacity leave room for per-TB pricing to rise over the next three to four quarters. (4) The company commented that the demand outlook is clear through 2030-2031 for all of its seven top customers. (5) Management expects capex to slightly exceed its 4-6% of sales range over the next two years. The company explained its intentions to continue investing in heads and media and factory automation, supporting higher areal density and greater capacity. Management said that it will not make capital investments to add production capacity on a unit basis. (6) Western Digital stated that it has historically procured some heads and media externally, and that combining in-house production with external procurement allows it to compare and evaluate the performance of its own components against externally sourced products. The company explained that externally procured products are mainly for low-capacity drives, while all high-capacity advanced platforms use heads manufactured in-house.

- **New products and technologies**: (1) Mass production of the latest ePMR HDDs with up to 40TB capacity is ramping up smoothly. Management expects this platform to account for nearly 30% of nearline HDD capacity shipped in October-December 2026 and to reach 50% in January-March 2027. The company expects capacity shipped to continue increasing from FY2027. (2) Western Digital plans to complete certification of first-generation HAMR at two hyperscaler customers in January-March 2027, and is on track to begin mass production and shipments in 1H 2027. The company expects to begin certification at two additional customers in 1H 2027. (3) Management plans to begin certification of second-generation HAMR (5TB/platter, 11 disks) in 2H 2027. (4) The company commented that its high bandwidth drive technology (HBDT) HDDs are currently being sampled by multiple customers and that evaluations are favorable.

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Figure 1: WDC: Earnings summary

(USD mn, %)	FY2024 1Q	2Q	3Q	4Q	FY2025 1Q	2Q	3Q	4Q	FY2026 1Q	2Q	3Q	4Q	FY2027 1Q
			CY2024				CY2025				CY2026		
(non-GAAP)	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
	* retrospective adjustment (from 3Q FY25, Flash business has been spun off as Sandisk)												
Sales	2,750	3,032	1,752	2,004	2,212	2,409	2,294	2,605	2,818	3,017	3,337	3,747	4,381
yoy % chg.	-26.4%	-2.4%	-37.5%	-25.0%	-19.6%	-20.5%	30.9%	30.0%	27.4%	25.2%	45.5%	43.8%	55.5%
qoq % chg.	2.9%	10.3%	-42.2%	14.4%	10.4%	8.9%	-4.8%	13.6%	8.2%	7.1%	10.6%	12.3%	16.9%
Gross Profit	113	470	528	706	826	926	920	1,077	1,237	1,391	1,684	2,037	2,544
GM (%)	4.1%	15.5%	30.1%	35.2%	37.3%	38.4%	40.1%	41.3%	43.9%	46.1%	50.5%	54.4%	58.1%
OP	-443	-91	153	296	407	591	596	732	856	1,019	1,287	1,655	2,153
OPM (%)	-16.1%	-3.0%	8.7%	14.8%	18.4%	24.5%	26.0%	28.1%	30.4%	33.8%	38.6%	44.2%	49.1%
R&D	431	444	-	-	-	-	245	262	294	289	294	284	283
as a % of sales (%)	15.7%	14.6%	-	-	-	-	10.7%	10.1%	10.4%	9.6%	8.8%	7.6%	6.5%
CAPEX	124	150	-	-	-	-	129	71	73	92	145	108	227
as a % of sales (%)	4.5%	4.9%	-	-	-	-	5.6%	2.7%	2.6%	3.0%	4.3%	2.9%	5.2%
Inventory													
Inventories	3,497	3,216	-	1,387	-	1,291	1,311	1,291	1,393	1,349	1,357	1,511	1,781
Inventory turns	2.93	3.05	-	-	-	-	4.22	4.70	4.74	4.78	4.89	4.77	4.46
Inventories turnover days	124	120	-	-	-	-	86	78	77	76	75	77	82
Sales by end market													
Cloud	872	1,071	1,455	1,712	1,909	2,096	2,007	2,329	2,510	2,673	2,970	3,335	3,855
yoy % chg.	-52.3%	-12.5%	20.7%	72.2%	118.9%	95.7%	37.9%	36.0%	31.5%	27.5%	48.0%	43.2%	53.6%
qoq % chg.	-12.3%	22.8%	35.9%	17.7%	11.5%	9.8%	-4.2%	16.0%	7.8%	6.5%	11.1%	12.3%	15.6%
as a % of total	31.7%	35.3%	83.0%	85.4%	86.3%	87.0%	87.5%	89.4%	89.1%	88.6%	89.0%	89.0%	88.0%
Client	1,147	1,122	140	137	139	140	137	140	146	176	167	225	307
yoy % chg.	-6.7%	3.0%	-85.6%	-86.8%	-87.9%	-87.5%	-2.1%	2.2%	5.0%	25.7%	21.8%	60.6%	110.0%
qoq % chg.	10.8%	-2.2%	-87.5%	-2.1%	1.5%	0.7%	-2.1%	2.2%	4.3%	20.5%	-5.2%	34.7%	36.4%
as a % of total	41.7%	37.0%	8.0%	6.8%	6.3%	5.8%	6.0%	5.4%	5.2%	5.8%	5.0%	6.0%	7.0%
Consumer	731	839	157	155	164	173	150	136	162	168	200	187	219
yoy % chg.	7.8%	5.7%	-74.8%	-75.9%	-77.6%	-79.4%	-4.5%	-12.3%	-1.2%	-2.9%	33.5%	37.8%	35.2%
qoq % chg.	13.7%	14.8%	-81.3%	-1.3%	5.8%	5.5%	-13.3%	-9.3%	19.1%	3.7%	19.2%	-6.4%	16.9%
as a % of total	26.6%	27.7%	9.0%	7.7%	7.4%	7.2%	6.5%	5.2%	5.7%	5.6%	6.0%	5.0%	5.0%
Exabytes shipped (HDD only)													
Total Exabytes	-	-	-	144.0	165.0	176.0	166.0	190.0	204.0	215.0	222.0	231.0	248.0
yoy % chg.	-	-	-	-	-	-	-	31.9%	23.6%	22.2%	33.7%	21.6%	21.6%
qoq % chg.	-	-	-	-	14.6%	6.7%	-5.7%	14.5%	7.4%	5.4%	3.3%	4.1%	7.4%
Nearline	-	-	-	125.0	141.0	154.0	145.0	170.0	183.0	192.0	199.0	209.0	223.0
yoy % chg.	-	-	-	-	-	-	-	36.0%	29.8%	24.7%	37.2%	22.9%	21.9%
qoq % chg.	-	-	-	-	12.8%	9.2%	-5.8%	17.2%	7.6%	4.9%	3.6%	5.0%	6.7%
Non-Nearline	-	-	-	19.0	24.0	22.0	21.0	20.0	21.0	23.0	23.0	22.0	25.0
yoy % chg.	-	-	-	-	-	-	-	5.3%	-12.5%	4.5%	9.5%	10.0%	19.0%
qoq % chg.	-	-	-	-	26.3%	-8.3%	-4.5%	-4.8%	5.0%	9.5%	0.0%	-4.3%	13.6%
HDD ASP /GB ($)	-	-	-	0.0139	0.0134	0.0137	0.0138	0.0137	0.0138	0.0140	0.0150	0.0162	0.0177
yoy % chg.	-	-	-	-	-	-	-	-1.5%	3.0%	2.5%	8.8%	18.3%	27.9%
qoq % chg.	-	-	-	-	-3.7%	2.1%	1.0%	-0.8%	0.8%	1.6%	7.1%	7.9%	8.9%

FY27 1Q Gidance		
Low	Mid	High
4,000	4,100	4,200
41.9%	45.5%	49.0%
6.8%	9.4%	12.1%
55.0%	55.5%	56.0%

FY27 2Q Gidance		
Low	Mid	High
5,000	5,100	5,200
65.7%	69.0%	72.4%
14.1%	16.4%	18.7%
60.0%	60.5%	61.0%

BBG Concensus 1Q27	2Q27
4,149	4,589
47.22%	52.11%
10.72%	4.75%
2,320	2,651
55.9%	57.8%
1,925	2,247
46.4%	49.0%

Source: Bloomberg Finance L.P. consensus, company data, J.P. Morgan.
Note: Bloomberg consensus is as of the market close on Oct 22, 2026.



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TDK (6762)(6762.T/¥2,781/OW)

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TDK (6762) (6762.T, 6762 JP) Price Chart



Date	Rating	Price (Y)	Price Target (Y)
24-Jan-24	N	1492	7,000
22-Jul-25	OW	1675	2,070
14-Oct-25	OW	2212	2,600
19-Dec-25	OW	2218	2,700
03-Apr-26	OW	1946	3,200
12-Jun-26	OW	3561	5,500
09-Sep-26	OW	2775	4,500

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 24, 2002. All share prices are as of market close on the previous business day.
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