29 Oct 2026 07:24:40 ET | 10 pages

Fujitsu (6702.T)

Q2 results: Negative, steep profit decline on unexpected unprofitable projects and rising memory prices

CITI'S TAKE

Q2 earnings were weakened by unexpected unprofitable projects and soaring component prices. July-September (Q2) OP came in at just ¥55bn, down 23% YoY, due to the impact of unprofitable projects (¥5bn) and soaring component prices (¥5bn), falling short not only of consensus (¥76.8bn) but also of our bearish forecast (¥67bn). In the Service Solutions business, orders rose 7% YoY, holding firm centered on manufacturing and defense. On the other hand, the emergence of unprofitable projects weighed on earnings, and adjusted OP came in at just ¥70.9bn, down 1% YoY. In the Hardware Solutions business, the impact of rising component costs was unexpectedly large, and adjusted OP was ¥8.2bn, down 26% YoY. Management expects the impact of soaring component prices to be limited in H2, but we think uncertainty may linger.

Implications — Although management left full-year guidance unchanged, we expect the market to focus on downside risk following today's results. As a result, we consider a near-term share price decline to be unavoidable. However, we continue to see upside to corporate value from the CPU MONAKA business and the physical AI business, and we think the valuation adjustment accompanying a share price decline would offer even more attractive entry points.

Buy	
Price (29 Oct 26 15:30)	¥4,322.0
Target price	¥5,000.0
Expected share price return	15.7%
Expected dividend yield	1.3%
Expected total return	17.0%
Market Cap	¥7,458,017M
	US$47,252M

Masahiro Shibano[AC]

Moriya Koketsu

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

人在草木间

citivelocity.com

Fujitsu

Valuation

We set our TP based on FY3/27E EPS. We apply a 30% premium to the average PER ratio of 21x for IT services to derive a target PER of 27x, which we assign to FY3/27E EPS of ¥188, resulting in a target price of ¥5,000. While the PER is currently depressed due to concerns about AI substitution, we believe a premium should be applied given hardware business themes such as defense and quantum computing, as well as the AI business itself.

Risks

Risks related to the attainment of our target price include 1) the replacement of domain knowledge resulting from AI evolution, 2) accelerated and deeper in-housing by business firms, 3) lower revenues resulting from IT investment being allocated to AI investment instead, and 4) unexpected surges in memory prices. If these factors vary significantly from our expectations, the share price may diverge from our target price.