

Nitto Denko (6988.T)

New medium-term plan unveiled

CITI'S TAKE

Nitto Denko held an MTP briefing at 13:00 on May 29. As [we previously reported](#), the numerical targets had already been disclosed in the notification issued to convene the meeting of shareholders. The new medium-term plan emphasizes the launch of new businesses, particularly in semiconductors, so as to transform the business portfolio. Nitto Denko has recently indicated it aims to create new businesses in non-display markets, and given the affinity between the company's core technologies and technologies needed in the field of semiconductors, we find the direction per se reasonable. We get the impression that the plan to offer total solutions for foldable smartphones was slightly toned down. Electric release tape appears to be progressing unproblematically. Plans for cash flow and the balance sheet show more discipline than the previous medium-term plan did, raising expectations for additional shareholder returns. Overall, though, there were no major surprises.

Semiconductors – Currently, Nitto Denko's semiconductor-related products center on process materials (back-grinding tape and dicing tape), but it says it will expand into semiconductor substrate and packaging materials going forward. Semiconductor-related product sales were c¥45bn in FY3/26, but Nitto Denko is targeting c¥65bn in FY3/29 and over ¥100bn in FY3/31 (operating margin target of 30%+). Specifically, in semiconductor substrate and packaging materials, the company highlighted these focus products: 1) sheet electronic components (equipment for initial mass-production is being installed, with commercialization expected by FY3/29), 2) thin substrates for chip mounting (where Nitto Denko is applying circuit material technology, with commercialization expected from FY3/30), and 3) high-speed communication interposers (technical challenges have been identified via joint development with IBM, with commercialization expected from FY3/31). The medium-term plan allocates ¥300-400bn for capex, with over ¥63bn dedicated to semiconductor-related products.

Foldable smartphones – In foldable smartphones, Nitto Denko has been aiming to offer a total solution, providing multiple materials such as OCA, process protection film, and anti-reflection film as a solution package, but this time it stated that first, it is important to launch each material individually and that ultimately it wants to provide a total solution. In FY3/27, the company expects c¥3bn in sales from OCA for foldables (the adoption status of other materials such as process protection film and anti-reflection film remains unclear). Additionally, for smartphone tapes (in industrial tape), Nitto Denko newly indicated that revenue per unit could increase 2.1x from the OLED era in the foldable era.

Electric release tape — We get the impression of increasing tangibility in the transition from current battery fixing applications for specific smartphones to smartphone housing applications, housing applications for other devices, and battery fixing applications for smartphones for customers other than existing ones. Nitto Denko decided in December 2025 to invest in a new factory to increase production capacity for electric release tape and OCA by c70% compared to FY3/26.

Buy

Price (29 May 26 15:30)	¥2,990.5
Target price	¥3,700.0
Expected share price return	23.7%
Expected dividend yield	2.1%
Expected total return	25.9%
Market Cap	¥2,004,490M US\$12,591M

Yuta Nishiyama^{AC}

+81-3-6776-4643

yuta.nishiyama@citi.com

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

Cash flow, balance sheet — Over the period covered by the medium-term plan (three-year cumulative), cash inflows are set to include operating cash flow of ¥600bn (we are left with a conservative impression), while cash outflows include shareholder returns, with total payout ratio of 60% or more, and capex of ¥300-400bn. Nitto Denko also suggested it would use interest-bearing debt if executing on large M&A deals. New guidelines were established for the balance sheet: 1) cash and deposits capped at three months of average monthly sales and 2) the equity ratio capped at 80% each fiscal year. Considering the conservative operating cash flow plan, the range of the capex budget, the use of interest-bearing debt for M&A deals, and the new stress on balance sheet discipline, we sense there is real latitude for shareholder returns.

Nitto Denko

Valuation

We set our Nitto Denko target price at ¥3,700 (FY3/27E PER of 18x). The two-year forward FY consensus PER for the firm has ranged between 10x and 25x over the last 5-6 years. In 2020, the two-year forward FY PER reached c25x, on expansion in demand for the firm's polarizing film and semiconductor materials, spurred by pandemic-led stay-at-home demand, expansion in market share in polarizing film for OLEDs, and the rapid ramp-up in precision boards, a new product, etc. Given that we expect the firm's business portfolio to be more diversified than in the past, we set our target price using a sum-of-the-parts method referencing PERs for sector peers. We apply multiples of 15x for information fine materials (polarizers, etc.), 22x for printed circuits (HDD substrates and high-precision substrates), 20x for electronic materials (smartphone assembly tape), 22x for processing materials (tape for back-end semiconductor processes), 20x for life science, and 10x for other products.

Risks

We see the following risks that the share price will diverge from our target price on the downside: 1) a rapid decline in end-product demand, 2) a decline in the firm's market share for automotive polarizers and high-resolution substrates, and 3) if life sciences growth takes much longer than expected.

On the other hand, the share price could diverge on the upside if 1) the earnings contribution in polarizers for automotive applications is greater than we expect, 2) greater-than-expected contributions from new earnings drivers, such as growth in new applications, 3) industrial tape earnings improvements prove greater than expected, or 4) the company makes progress with the profit picture in life sciences.

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Appendix A-1

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Fundamental Research

Analyst: Yuta Nishiyama



Date	Rating	Target Price	Closing Price
1 14-Nov-23 02:35:31	1	*2,600	2,091
2 05-Feb-24 01:34:36	1	*3,000	2,534
3 30-Jul-24 11:27:02	1	*3,200	2,672
4 04-Nov-24 07:20:09	1	*3,300	2,438

Date	Rating	Target Price	Closing Price
5 28-Jan-25 05:37:16	1	*3,400	2,754
6 01-May-25 02:35:42	1	*3,100	2,547
7 31-Jul-25 02:35:30	1	*3,600	3,141
8 04-Nov-25 11:31:57	1	*4,400	3,843

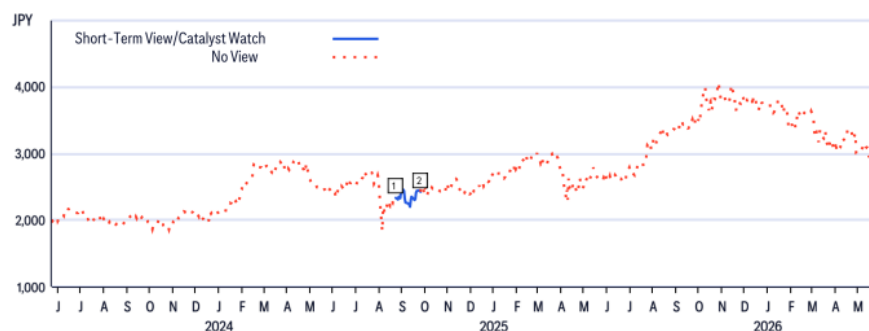
Date	Rating	Target Price	Closing Price
9 25-Mar-26 09:21:35	1	*3,800	3,210
10 30-Apr-26 06:16:14	1	*3,700	2,998

*Indicates Change

Rating/target price changes above reflect Eastern Time

Nitto Denko (6988)
Short-Term View/Catalyst Watch Research

Analyst: Yuta Nishiyama



Date	Action	Expected Direction	Duration	Closing Price
1 25-Aug-24 22:05:34	Add CW	Upside	30 Days	2,334

Date	Action	Expected Direction	Duration	Closing Price
2 25-Sep-24 22:26:41	Remove CW	Upside	30 Days	2,426

CW - Catalyst Watch, STV - Short-Term View

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