

Polaris Holdings (3010)

Stars aligning, full steam ahead

Share price: ¥162 Market cap: ¥20.1bn

Q2 FY3/2024 results update

21 November 2023

- Strong print underlining strength of the market environment and a transformed business** – Q1-2 FY3/2024 results were ahead of expectation and a positive surprise. Recovering demand was robust at the mainstay hotel operations, with segmental sales growth of 97.3% YoY driven by both domestic and inbound travelers and new hotel openings. Domestic Q2 FY3/2024 RevPAR increased by 76.3% YoY and overseas by 25.1% YoY, indicating highly positive demand characteristics. The sale of two hotel assets has generated funds used to de-lever the balance sheet, with the equity ratio reaching 28.2% in Q2 FY3/2024 signifying a major improvement in financial stability. Solid execution of the business model transformation at Polaris is generating positive returns.



Source: Bloomberg

Revising earning estimates

- Reflecting higher RevPAR and growing rooms under management** – Polaris has upwardly revised its FY3/2024 company guidance for the second time, reflecting the outperformance at the hotel operations, and the positive impact from the Red Planet Hotels Manila Corporation acquisition, as well as one-time gains. We have adjusted our earnings estimates for FY3/2024 and beyond to reflect 1) a higher total RevPAR and 2) an accelerated increase in rooms under management. The company is on track to have 8,312 rooms by end-FY3/2024 (+6.2% YoY) and nearly 9,000 rooms under management by spring 2025.
- Valuations** – on our revised earnings estimates the shares are trading on PER FY3/2025 of 10.2x, with underlying OP growth (excluding one-time gains in real estate disposals) of approximately 100% YoY. We believe valuation multiples will undergo expansion given the high earnings visibility, increasing financial stability, and strengthening market recognition and track record.

Price Performance				
	YTD	1M	3M	12M
Abs (%)	+68.8	+9.5	-5.8	+57.3
Rel (%)	+34.8	+4.3	-10.8	+31.0
Company sector				
Real Estate Management/Services Hotels, Restaurants & Leisure (GICS)				
Stock data				
Price (¥)	162			
Mkt cap (¥bn)	20.1			
Mkt cap (\$m)	136.1			
52-week range (¥)	89-219			
Shares O/S (m)	124.1			
Average daily value (\$m)	0.7			
Free float (%)	21.6			
Foreign shareholding (%)	83.5			
Ticker	3010			
Exchange	Tokyo Standard			
Net Debt/Equity (x)	4.4			
FFO leverage (x)	N/A			
BBG BUY HOLD SELL	0 0 0			

Source: Bloomberg

Year-end	3/2022	3/2023	3/2024E	3/2025E	3/2026E
Sales (¥bn)	3.71	7.02	22.52	21.97	24.68
OP (¥bn)	(1.33)	0.00	3.15	2.75	3.70
NI (¥bn)	(1.83)	0.53	2.99	1.83	2.49
EPS (¥)	(25.98)	4.98	27.89	17.09	23.21
DPS (¥)	-	-	-	-	-
Sales growth YoY (%)	+24.9	+89.0	+221.0	-2.5	+12.3
OP growth YoY (%)	N/A	N/A	+102,284	-12.9	+34.8
NP growth YoY (%)	N/A	N/A	+460.1	-38.7	+35.8
EPS growth YoY (%)	N/A	N/A	+460.1	-38.7	+35.8
PER (x)	N/A	32.5	5.8	9.5	7.0
EV/EBITDA (x)	N/A	44.3	8.9	10.4	7.9
EV/Sales (x)	8.9	4.7	1.5	1.5	1.3
PBR (x)	104.4	6.9	3.1	2.2	1.7
ROE (%)	N/A	18.4	46.8	19.8	20.6
ROCE (%)	N/A	0.0	18.1	15.0	19.4
FCF yield (%)	N/A	(0.6)	58.1	31.0	18.7
Dividend yield (%)	-	-	-	-	-

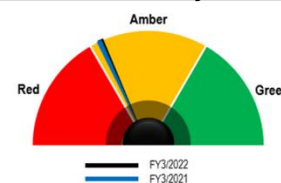
Source: Company, Astris Advisory (estimates)

*Note: outstanding dilution is 19.4%

Business Overview

Polaris Holdings is a hotel operator with three domestic key franchises - Best Western Japan, KOKO HOTEL, and Value The Hotel. It is shifting its business model towards low-risk management contracts and as an owner/operator.

Astris-Sustainability ESG rating



Reference Ratings	
MSCI	N/A
Sustainalytics	N/A
Refinitiv	N/A
S&P Global	N/A
Bloomberg	N/A

Next events

Q3 FY3/2024 results February 2024

Tel: +81 3 6868 8797s

Email: Corporateresearch@astrisadvisory.com

This report has been commissioned and paid for by the company

Recent results

Q1-2 FY3/2023 results

Figure 1: Key financials

(¥bn)	Q1-2 FY3/2023	Q1-2 FY3/2024	Growth YoY (%)
Sales			
Domestic	3.11	13.22	+324.6
Overseas	-	0.90	-
Total sales	3.11	14.12	+353.4
Gross profit	2.89	7.90	+173.3
Gross margins (%)	92.9	56.0	
Operating profit			
Domestic	0.03	2.60	N/A
Overseas	-	0.02	N/A
Total Operating profit/(loss)	0.03	2.62	N/A
Operating margins (%)	1.0	18.6	
Domestic	1.0	19.7	
Overseas	-	2.6	
Recurring profit	(0.06)	2.18	-
Net income attributable to the parent	(0.11)	2.56	-

Source: Company

Figure 2: Per business segment (pre-elimination)

(¥bn)	Q1-2 FY3/2023	Q1-2 FY3/2024	Growth YoY (%)
Sales			
Hotel operations	3.10	6.11	+97.3
Real estate	0.18	8.29	N/A
Operating profit/(loss)			
Hotel operations	0.17	0.73	+339.6
Real estate	0.02	2.29	N/A
Operating margins			
Hotel operations	5.3	11.9	
Real estate	10.2	27.6	

Source: Company

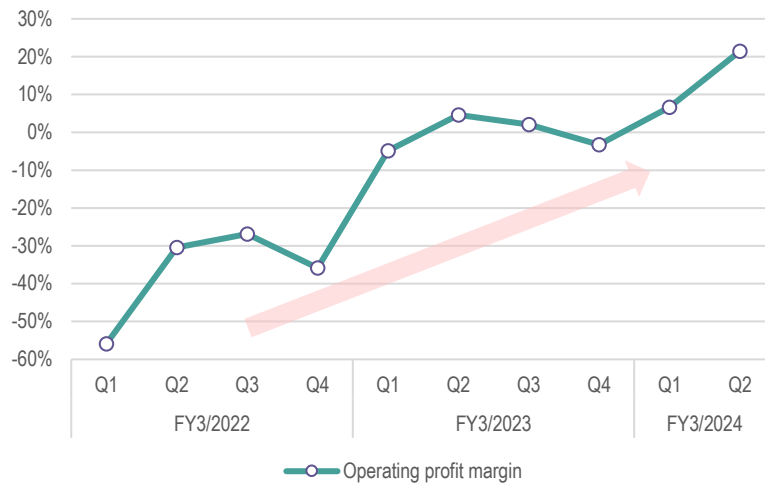
Key highlights

Q1-2 FY3/2024 results were ahead of guidance and a positive surprise. When we unpack the details, we believe there are the following core themes:

- **Hotel operation in full recovery mode** – the combination of domestic and inbound demand and new hotel openings has driven a major recovery profile for the mainstay business. Domestic quarterly RevPAR grew 76.3% YoY with overseas at 25.1% YoY, indicating rising demand in both markets.
- **Acceleration of business expansion and mix improvement** – there have been four new hotel openings in Q1-2 FY3/2024 (KAYA Kyoto Nijo Castle BW Signature Collection by Best Western, and three KOKO hotels in Sendai). In Q2 FY3/2024 there were 8,312 rooms under management, an increase of 59.3% from FY3/2023. The company continues to improve the hotel portfolio mix by increasing the proportion of hotels managed under ‘Management Contract/Variable Rent Type’ hotels to manage risk. 1,028 rooms under this type were introduced in Q2 FY3/2024 (647 rooms for the new hotel openings in Kyoto and Sendai, and 381 rooms from the two disposed hotels).
- **Asset sale and balance sheet improvement** – the company completed the disposal of Best Western PLUS Fukuoka Tenjin Minami (236 rooms, acquired March 2021)

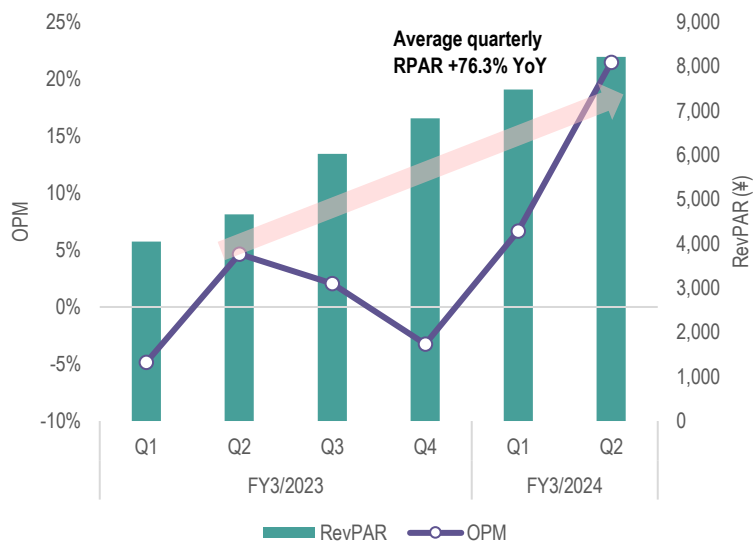
and Fino Hotel Sapporo Odori (145 rooms, acquired December 2021), with hotel operations continuing under Polaris Holdings. The company has repaid ¥5.03bn of long-term debt, resulting in a major improvement in the equity ratio – this denotes a major decline in reliance on debt financing. We estimate that the company will reach a positive net cash position in FY3/2025.

Figure 3: Quarterly operating margin trend



Source: Company

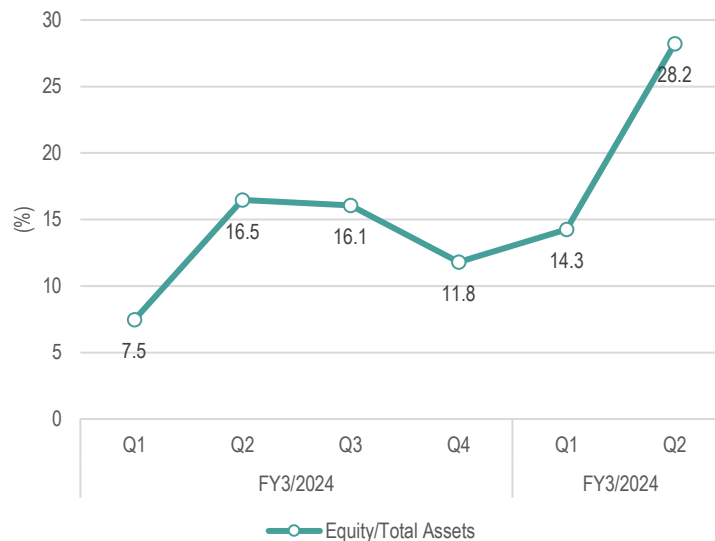
Figure 4: Quarterly trend in OPM and Domestic RevPAR



Source: Company



Figure 5: Quarterly trend equity ratio



Source: Company

FY3/2024 revised company guidance

The company has revised its FY3/2024 guidance upward for the second time this FY, reflecting the all-around strength in the business with strong hotel performance, increasing numbers of rooms under management, and the acquisition of Red Planet's management company.

Figure 6: Company guidance revisions for FY3/2024

(¥bn)	FY3/2024 (original)	FY3/2024 (previous)	FY3/2024 (new)	Difference (prev. vs. new) (%)
Sales	12.00	21.00	22.10	+5.2
Operating profit	0.80	2.73	3.07	+12.6
OPM (%)	6.7	13.0	13.9	
Recurring profit	0.10	2.13	2.34	+9.7
Net income	0.04	1.78	2.67	+50.0
EPS (¥)	0.34	14.56	21.75	+49.4

Source: Company

We believe earnings visibility is high, given the following developments:

- Increasing the number of rooms under management** – the company is on track to have 8,312 rooms under management by end-FY3/2024, with a further 643 rooms scheduled to open. The company will then have almost 9,000 rooms, an increase of 14.4% from FY3/2023 with a total of 7,830 rooms.
- Improve the sales mix** – the company continues to actively manage its portfolio, changing its model towards a hotel operator model, a higher return format that is not capital intensive. By increasing the number of 'Management Contract/Variable-Rent' hotels during the pandemic, the company strengthened its resilience and future expansion will continue targeting competitive fixed and variable-rent hotel projects to drive scale and profitability.

The company has also highlighted the following items related to the revision to company guidance:



- A one-time lease termination gain of ¥0.37bn for a closed domestic hotel property and a land lease agreement for an unprofitable overseas hotel operation.
- Accretive earnings from the acquisition of Red Planet Hotels Manila Corporation in October 2023.
- Reversal of store closing losses worth ¥0.06bn recognized in FY3/2023.



Astris earnings estimates and key assumptions

We have revised our key earnings forecasts for FY3/2024 and beyond as follows. The key changes to our assumptions are as follows:

- **Raising TRevPAR** – we have increased our estimates, given the strong trend in domestic RevPAR recovery YoY, as well as the stability in the overseas operations in the Philippines.
- **Increasing the average number of rooms** – we have raised our estimates for FY3/2025 and FY3/2026, in light of new hotel openings and the growth in the number of rooms under management.

We have left our OPM assumptions unchanged.

Figure 7: Astris Advisory earnings estimates

Year-end	FY3/2024 company guidance (current)	FY3/2024 E (Old)	FY3/2024 E (new)	FY3/2025 E (old)	FY3/2025 E (new)	FY3/2026 E (old)	FY3/2026 E (new)
TRevPAR (¥)	N/A	5,688	6,222	6,542	7,155	6,869	7,513
Growth YoY (%)		+60.0	+75.0%	+15.0	+15%	+5.0	+5.0%
Average No. of rooms	N/A	6,396	6,396	6,396	8,413	6,396	9,000
Growth YoY (%)		+50.5	+18.3	-	+31.5	+60.7	+7.0
Sales (¥bn)	22.10	21.28	22.52	16.12	21.97	17.55	24.68
Growth YoY (%)	+214.9	+203.2	+221.0	-24.3	-2.5	+8.9	+12.3
OP (¥bn)	3.07	2.98	3.15	2.01	2.75	2.63	3.70
OPM (%)	13.9	14.0	14.0	12.5	12.5	15.0	15.0
EBITDA (¥bn)	N/A	3.51	3.72	2.34	3.19	2.98	4.20
FCF (¥bn)	N/A	6.40	10.10	0.24	5.38	1.64	3.26
FCF margin (%)	-	30.1	44.8	1.5	24.5	9.4	13.2
FCF conversion (%)	-	238.9	337.5	13.8	205.4	75.6	91.5
FCF yield (%)	-						
Diluted FCF yield (%)	-						

Source: Astris Advisory

Note: FCF conversion is FCF/Pre-tax Profit

Figure 8: Current domestic hotel portfolio

Name	Location	Rooms	Contract type
BW Osaka Tsukamoto	Osaka	105	Fixed rent lease
BW Plus Hotel Fino Chitose	Chitose	154	Fixed rent lease
BW Plus Hotel Fino Osaka Kitahama	Osaka	129	Fixed rent lease
BW Hotel Fino Tokyo Akasaka	Tokyo	87	Fixed rent lease
BW Hotel Fino Shin Yokohama	Yokohama	108	Fixed rent lease
VTH Ishinomaki	Miyagi	82	Fixed rent lease
VTH Narahakidoekimae	Fukushima	107	Fixed rent lease
CLOSED Kinuura Grand Hotel	Aichi	165	Fixed rent lease
Sure Stay Plus Hotel Shin-Osaka	Osaka	108	Fixed rent lease
KOKO HOTEL Osaka Namba	Osaka	100	Variable rent lease
BW Hotel Fino Osaka Shinsaibashi	Osaka	179	Management contract
KOKO HOTEL Ginza Itchome	Tokyo	305	Management contract
KOKO HOTEL Sapporo Ekimae	Sapporo	224	Management contract
KOKO HOTEL Fukuoka Tenjin	Fukuoka	159	Management contract
KOKO HOTEL Hiroshima Ekimae	Hiroshima	250	Management contract
KOKO HOTEL Kagoshima Tenmonkan	Kagoshima	295	Management contract
KOKO HOTEL Premier Kanazawa Korinbou	Kanazawa	207	Management contract
KOKO HOTEL Premier Tokyo Nihonbashi Hamacho	Tokyo	223	Management contract
KOKO HOTEL Nagoya Sakae	Nagoya	204	Management contract
KOKO HOTEL Osaka, Shinsaibashi	Osaka	211	Management contract
KOKO HOTEL Kobe, Sannomiya	Kobe	141	Management contract
KOKO HOTEL Premier Kumamoto	Kumamoto	205	Management contract
KOKO HOTEL Residence Tokyo, Asakusa Kappabashi	Tokyo	47	Management contract
KOKO HOTEL Residence Tokyo, Asakusa Tawaramachi	Tokyo	42	Management contract
KAYA Kyoto Nijo Castle, BW Signature Collection by BW	Kyoto	57	Management contract
NEW KOKO HOTEL Sendai Kotodai Park	Sendai	230	Management contract
NEW KOKO HOTEL Sendai Station West	Sendai	170	Management contract
NEW KOKO HOTEL Sendai Station South	Sendai	190	Management contract
*BW Plus Fukuoka Tenjin Minami	Fukuoka	236	Owner-and-operator => Variable rent lease
VTH Higashi Matsushima Yamoto	Miyagi	407	Owner-and-operator
VTH Sendai Naton	Miyagi	314	Owner-and-operator
VTH Furukawa Sanbongi	Miyagi	495	Owner-and-operator
KOKO HOTEL Tsukiji Ginza	Tokyo	188	Owner-and-operator
*Fino Hotel Sapporo Odori	Sapporo	145	Owner-and-operator => Variable rent lease
Domestic total		6,044	

Source: Company

*Note: hotels disposed of in FY3/2024

The Philippine overseas platform is to operate the “Red Planet” brand hotels as an owner-operator. Furthermore, Red Planet The Fort is scheduled for a soft opening in February 2024.

Figure 9: Hotel Portfolio in the Philippines

Name	Location	Rooms	Contract type
Red Planet Davao	Davao	155	Owner-and-operator
Red Planet Manila Ortigas	Pasig	182	Owner-and-operator
Red Planet Aurora Boulevard	Quezon	167	Owner-and-operator
Red Planet Manila Aseana City	Paranaque	200	Owner-and-operator
Red Planet Manila Amorsolo	Makati	189	Owner-and-operator
Red Planet Angeles City	Angeles	165	Owner-and-operator
Red Planet Cebu	Cebu	150	Owner-and-operator
Red Planet Manila Mabini	Manila	167	Owner-and-operator
Red Planet Manila Bay	Manila	150	Owner-and-operator
Red Planet Manila Binondo	Manila	171	Owner-and-operator
Red Planet Manila Makati	Makati	213	Owner-and-operator
Red Planet Cagayan de Oro	Cagayan de Oro	159	Owner-and-operator
Red Planet Quezon Timog	Davao	140	Owner-and-operator
NEW Red Planet The Fort	Bonifacio Global City	245	Owner-and-operator
Total		2,453	

Source: Company



Peer group – valuation table

Figure 10: Peer analysis on key profitability and valuation metrics – hotel and leisure sector peers

Ticker	Company/Index	Mkt Cap US\$ (m)	Profitability				Valuation					
			OPM LTM (%)	OPM 10-yr average (%)	ROE LTM (%)	ROIC LTM (%)	EV/EBITDA 12M Fwd (x)	EV/Sales 12M Fwd (x)	Div yield 12M Fwd (%)	FCF yield 12M Fwd (%)	PER 12M Fwd (x)	PBR (x)
3010 JP	Polaris Holdings Co., Ltd	132	14.4	-10.4	74.5	-11.3	10.4	1.5	-	31.0	9.5	3.1
Domestic companies												
9616 JP	Kyoritsu Maintenance Co., Ltd.	1,617	6.2	5.3	8.8	3.5	15.4	1.6	0.8	-2.3	24.7	3.0
4681 JP	Resorttrust, Inc.	1,620	7.2	9.8	9.1	4.6	7.6	1.2	2.4	2.9	15.8	2.0
9708 JP	Imperial Hotel Ltd	741	4.3	-3.8	7.0	-1.3	20.3	1.7	0.4	0.3	88.8	2.7
9722 JP	Fujita Kanko Inc.	327	6.7	-13.1	7.3	-4.5	7.1	1.1	0.4	10.1	9.1	3.9
9713 JP	Royal Hotel, Ltd.	106	-2.1	-9.8	90.6	-1.4	31.4	0.3	-	-	109.2	1.3
6565 JP	ABHOTEL Co., Ltd.	218	36.9	23.2	26.9	5.1	8.7	3.9	0.5	8.0	14.8	3.5
5261 JP	RESOL HOLDINGS Co., Ltd.	195	3.2	4.6	9.5	3.7	21.9	1.7	1.0	1.7	21.8	2.0
6076 JP	Amaze Co., Ltd.	123	24.4	17.7	16.8	6.2	5.2	1.7	1.7	5.6	8.0	1.3
9723 JP	Kyoto Hotel, Ltd.	59	8.7	-8.6	61.4	-2.6	2.4	16.8	-	5.0	23.8	6.6
6547 JP	Greens Co. Ltd.	183	12.1	-2.8	120.6	-9.9	6.4	0.8	1.0	10.5	8.2	754.7
9704 JP	Agora Hospitality Group	38	-6.0	-10.6	-12.3	-3.1	-	1.9	-	-	-	1.6
9720 JP	HOTEL NEWGRAND	39	0.9	-3.8	0.1	-4.6	12.8	1.3	-	1.7	38.6	2.0
4691 JP	Washington Hotel Corp.	62	13.5	-22.1	40.5	-9.4	7.5	0.5	-	18.0	7.4	1.3
Simple average			8.9	-1.1	29.7	-1.0	12.2	2.6	1.0	5.6	30.8	60.4
Overseas companies												
AC FP	Accor SA	9,222	13.6	7.0	14.1	1.8	10.6	2.1	3.5	6.6	16.0	2.1
CHH US	Choice Hotels International	5,658	28.8	28.7	158.9	31.1	12.7	4.5	1.0	5.6	16.9	78.5
WH US	Wyndham Hotels & Resorts	6,467	37.1	23.3	31.0	7.3	12.5	5.9	1.8	6.5	18.2	7.6
WTB LN	Whitbread PLC	7,918	22.2	5.6	8.3	7.0	9.7	3.3	3.0	5.9	14.9	1.7
NHH SM	NH Hotel Group SA	1,825	16.6	-4.4	19.6	2.7	6.5	1.9	3.2	13.7	13.1	1.8
Simple average			23.7	12.0	46.4	10.0	10.4	3.5	2.5	7.7	15.8	18.3

Source: FactSet, Bloomberg, Astris Advisory

- **Valuations** – our key finding is Polaris looks undervalued on PER 9.5x (11.3x fully diluted) versus its domestic peers on PER 30.8x. We believe the shares should trade at a higher multiple considering 1) the robust growth profile and 2) the ongoing enhancement of the balance sheet as the company begins to generate free cash flow, making EV-based multiples more attractive.



Summary

Polaris Holdings is a hotel operator with four core franchises (three domestic, and one overseas) with the acquisition of Red Planet's business in the Philippines. During the pandemic, it underwent significant capital raising and is positioned to capitalize on the recovering hotel demand in a post-pandemic environment.

With the support of the Star Asia Group and with the key focus on stable earnings growth, the company is implementing strategic investments into substantial reforms and growth in the hotel market, which is undergoing a significant recovery from the COVID-19 pandemic.

The core element of this is to strategically shift the hotel operator model:

Shifting hotel
operator model to
higher return
formats

- Actively transitioning from the domestic legacy model involving long-term fixed rent leases towards low-risk **"Fee-For-Service"** management contracts.
- In response to the stagnation in the hotel market, Polaris Holdings is leveraging the funds and network of the Star Asia Group to expand the **"owner-operator model"**. By becoming both the owner and operator of hotel properties, the company eliminates fixed rental payments and significantly improves the financial performance of the hotels. Additionally, capital gains have been gained as a result of this ownership structure.

We estimate that Polaris Holdings will experience major growth in FY3/2024 and beyond driven by the following factors:

- The business environment will return to similar levels seen in CY2019.
- Consequent improving demand and sales mix will drive TRevPAR recovery.
- The shift in the hotel operating model is expected to improve operational leverage by reducing fixed costs and increasing earnings. We estimate an operating margin of 12%.

The shares are trading on an estimated PER FY3/2025 of 10.2x (with underlying OP growth of approximately 100% YoY).



Company description

Overview

Company is part of
the Star Asia
Group LLC

Polaris Holdings is a group company of Star Asia Group LLC (an independent investment group), and its core business is the operation of 33 domestic hotels. It operates three core domestic hotel franchises, and acquired an overseas franchise in January 2023:

- **KOKO HOTEL** – proprietary brand of 18 business hotels located in in-fill, metropolitan locations.
- **Best Western Japan** – 9 sites targeting accommodations for leisure and business travelers, the global brand originally established in the United States in 1946 (one is to be disposed of in August 2023).
- **Value The Hotel** – 5 hotels based in the Tohoku area, designed for medium to long-term stays originally intended for people involved in local regeneration projects after the Tohoku earthquake.
- Hotels operating under other brands (Fino Hotel Sapporo Odori –disposed of in August 2023).
- **Red Planet** – a portfolio of 14 hotels with 2,453 rooms in the Philippines, marking the first overseas expansion by the company. The acquisition was completed in FY3/2023 and in October 2023.

Polaris currently operates 45 hotels with 7,222 rooms both domestic and overseas. Additionally, starting from September 2023 in Sendai, Miyagi Prefecture, the company plans to operate three hotels (590 rooms) under the "KOKO HOTEL" brand, aiming to further strengthen brand awareness, marketing capabilities, operational efficiency, and initiatives for revenue enhancement for this original brand. Star Asia Group has been involved as a capital partner since November 2018 and has continued to provide both human and capital support even during the COVID-19 pandemic. Their ongoing support has contributed significantly to the substantial restructuring of Polaris Holdings' business model.

Figure 11: Timeline summary

Key corporate timeline	
September 1912	Established a silk plying factory in Gunma Prefecture as Jomoneshi
April 1961	IPO on the Tokyo Stock Exchange 2nd Section
April 1972	Commence real estate-related operations
October 2006	Change affiliated sector on TSE from 'textiles' to 'real estate'.
April 2008	Establishes Asarigawa Onsen Development
October 2008	Acquire Fino Hotels and convert it into a subsidiary Change name to Kachikaihatsu
January 2009	Establishes Best Western Hotel Japan
December 2009	Establishes Kinuura Grand Hotel
July 2015	Change affiliated sector on TSE from 'real estate' to 'services'.
October 2018	First round (¥0.64bn) equity issuance
February 2019	Second round (¥1.91bn) equity issuance and debt/equity swap
July 2020	Third round (¥1.5bn) convertible bond issuance Third round (¥1.5bn on exercise) warrants issuance
October 2021	Fourth round (¥2.80bn) equity issuance and warrant issuance (¥3.2bn)
May 2021	Change the company name from Kachikaihatsu to Polaris Holdings
January 2023	Acquisition of Red Planet's business in the Philippines

Source: Company



JGAAP Financial Summary

(¥bn)	FY 3/22	FY 3/23	FY 3/24E	FY 3/25E	FY 3/26E
Sales	3.71	7.02	22.52	21.97	24.68
COGS	0.28	0.51	1.58	1.54	1.48
Gross profit	3.43	6.51	20.95	20.43	23.20
Gross profit margin (%)	92.4	92.7	93.0	93.0	94.0
OP	(1.33)	0.00	3.15	2.75	3.70
OP margin (%)	(35.9)	0.0	14.0	12.5	15.0
Non-operating income	0.05	0.03	0.04	0.03	0.04
Non-operating expense	(0.34)	(0.25)	(0.20)	(0.16)	(0.18)
Recurring profit	(1.62)	(0.22)	2.99	2.62	3.56
Extraordinary gains	-	1.46	-	-	-
Extraordinary losses	(0.19)	(0.69)	-	-	-
Pre-tax profit	(1.81)	0.55	2.99	2.62	3.56
Tax	0.02	0.02	-	0.79	1.07
Effective tax rate (%)	(4.6)	(5.4)	-	30.0	30.0
Net income	(1.83)	0.53	2.99	1.83	2.49
Non-controlling NI	-	-	-	-	-
Parent attributable NI	(1.83)	0.53	2.99	1.83	2.49
Sales growth YoY (%)	+24.9	+89.0	+221.0	-2.5	+12.3
OP growth YoY (%)	N/A	N/A	+10228	-12.9	+34.8
			4		
NI growth YoY (%)	N/A	N/A	+460.1	-38.7	+35.8

Balance sheet (¥bn)	FY 3/22	FY 3/23	FY 3/24E	FY 3/25E	FY 3/26E
Cash & equivalents	2.40	4.28	8.24	19.29	20.32
Trade debtors	0.62	1.84	2.78	0.37	0.37
Real estate for sales and stock	5.95	5.86	-	-	-
Other	0.39	0.88	0.62	0.08	0.08
Current assets	9.36	12.86	11.63	19.74	20.77
Tangible assets	1.03	9.87	9.42	2.07	1.67
Intangible assets	0.01	0.03	0.03	0.03	0.03
Investment & others	1.64	1.89	1.89	1.89	1.89
Fixed assets	2.67	11.79	11.34	3.99	3.59
Total assets	12.04	24.65	22.97	23.73	24.36
Short term borrowing	1.49	1.74	0.50	0.50	0.50
Trade creditors	-	0.39	0.66	0.65	0.62
Other	0.70	2.62	4.43	4.32	4.16
Current liabilities	2.19	4.75	5.59	5.47	5.28
Long term borrowing	8.39	15.50	9.50	7.50	5.50
Other LT liabilities	1.27	1.49	1.49	1.49	1.49
Long term liabilities	9.66	16.99	10.99	8.99	6.99
Shareholder's equity	0.19	2.91	6.39	9.27	12.08
Non-controlling interests	-	-	-	-	-
Total net assets	0.19	2.91	6.39	9.27	12.08
Total liabilities & net assets	12.04	24.65	22.97	23.73	24.36

Source: Company, Astris Advisory (estimates)

Cash flow statement (¥bn)	FY 3/22	FY 3/23	FY 3/24E	FY 3/25E	FY 3/26E
Profit before tax	(1.81)	0.55	2.99	2.62	3.56
Depreciation/amortization	0.29	0.74	0.56	0.44	0.49
Other non-cash items	(0.14)	(1.30)	(0.72)	(0.50)	(0.61)
Changes in working capital	(6.15)	(0.11)	7.26	2.82	(0.18)
Cash from Operating Activities	(7.82)	(0.11)	10.10	5.38	3.26
Capex	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Acquisitions/increase stakes	-	(0.27)	-	-	-
Other investing cash flow	(0.41)	(0.46)	(0.10)	(0.28)	(0.19)
Cash from Investing Activities	(0.42)	(0.73)	(0.10)	(0.28)	(0.19)
Total cash dividends paid	-	-	-	-	-
Debt issuance/(retirement)	5.17	0.04	(6.00)	(2.00)	(2.00)
Equity financing	2.65	2.18	-	-	-
Other	0.99	(0.04)	(0.04)	(0.04)	(0.04)
Cash from Financing Activities	8.80	2.19	(6.04)	(2.04)	(2.04)
FX impact	-	-	-	-	-
Net cash flow	0.56	1.35	3.96	3.06	1.02
Free cash flow	(7.82)	(0.11)	10.10	5.38	3.26
EBITDA	(1.04)	0.75	3.72	3.19	4.20
Free cash flow margin (%)	1.7	-3.2	2.3	2.4	3.4
Free cash flow conversion (%)	24.8	N/A	40.1	39.2	47.3
EBITDA margin (%)	-28.0	10.6	16.5	14.5	17.0
Capex/sales (%)	0.8	0.2	0.2	0.1	0.1
Capex/depreciation (%)	119.5	30.4	26.3	23.3	21
CFO margin (%)	2.5	-3.1	2.4	2.6	3.5

Key metrics	FY 3/22	FY 3/23	FY 3/24E	FY 3/25E	FY 3/26E
Profitability					
Gross margin (%)	92.4	92.7	93.0	93.0	94.0
Operating margin (%)	(35.9)	0.0	14.0	12.5	15.0
Net margin (%)	(49.3)	7.6	13.3	8.3	10.1
ROA (%)	(15.2)	2.2	13.0	7.7	10.2
ROE (%)	(949.7)	18.4	46.8	19.8	20.6
ROCE (%)	(13.5)	0.0	18.1	15.0	19.4
ROIC (%)	(19.7)	0.0	17.3	11.4	14.7
Liquidity					
Current ratio (x)	4.3	2.7	2.1	3.6	3.9
Quick ratio (x)	1.6	1.5	2.1	3.6	3.9
Leverage					
Debt/Equity ratio (x)	51.3	5.9	1.6	0.9	0.5
Net Debt/Equity ratio (x)	38.8	4.4	0.3	N/A	N/A
Equity ratio (x)	0.0	0.1	0.3	0.4	0.5
Interest cover (x)	(10.1)	0.0	15.8	17.2	20.6
Net Debt/EBITDA (x)	(7.2)	17.4	0.5	N/A	N/A
Valuation					
EPS reported (¥)	(25.98)	4.98	27.89	17.09	23.21
PER (x)	N/A	32.5	5.8	9.5	7.0
Diluted PER (x)	N/A	38.8	6.9	11.3	8.3
DPS (¥)	-	-	-	-	-
Dividend payout ratio (%)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Free cash flow yield (%)	(68.5)	(0.6)	58.1	31.0	18.7
Diluted FCF yield (%)	(57.4)	(0.5)	48.7	25.9	15.7
PBR (x)	104.4	6.9	3.1	2.2	1.7
EV/sales (x)	8.9	4.7	1.5	1.5	1.3
EV/EBITDA (x)	(31.8)	44.3	8.9	10.4	7.9
EV/EBIT (x)	(24.8)	10,733	10.5	12.0	8.9
EV/FCF (x)	N/A	N/A	3.3	6.1	10.2



Disclaimers

This report has been prepared by Astris Advisory Japan K.K. This report is based on information obtained from public sources that Astris Advisory Japan K.K. believes to be reliable but which Astris Advisory Japan K.K. has not independently verified, and Astris Advisory Japan K.K. makes no guarantee, representation, or warranty as to its accuracy or completeness. This report does not and does not attempt to, contain everything material which there is to be said about the Company. Any opinions expressed herein reflect Astris Advisory Japan K.K.'s judgment at the time the report was prepared and are subject to change without notice. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of their subject matter to be materially different from current expectations.

This report has been prepared as general information, is therefore not intended as a personal recommendation of particular financial instruments or strategies, and does not constitute personal investment advice.

The analyst hereby certifies that (i) the views expressed in this report accurately reflect the research analyst's personal views about the company and the securities that are the subject of this report, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to views expressed by that research analyst in this report.

The report has been prepared by Astris Advisory Japan K.K., a Japanese firm organized under the laws of Japan and supervised by the Japanese Financial Services Agency. Details about the extent of our regulation by local authorities are available from us upon request.

Conflict of interest

This report has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II.

Readers should assume that Astris Advisory Japan K.K. may currently or may in the coming three months and beyond be providing or seeking to provide IR/corporate advisory or other services to the company.

Investment in securities mentioned: Astris Advisory Japan K.K. has a restrictive policy over personal dealing for its directors, officers, employees, and service providers. Astris Advisory Japan K.K. does not conduct any investment business and does not hold any positions in the securities mentioned in this report.

Limitation of liability

Astris Advisory Japan K.K. assume no liability as regards any investment, divestment, or retention decision taken by the investor based on this report. In no event will Astris Advisory Japan K.K. be liable for direct, indirect, incidental, special, or consequential damages (regardless of whether being considered foreseeable or not) resulting from the information in this report.

Copyright 2023 Astris Advisory Japan K.K. All rights reserved.

