

Polaris Holdings (3010)

Strong underlying growth profile to continue

Q3 FY3/24 results update

- Hotel demand ahead of expectations** – Q1-3 FY3/2024 results were driven by strong underlying demand for hotel operations. The domestic business was boosted by a robust market environment where visitor numbers for domestic and overseas customers exceeded pre-pandemic levels, helping drive Q3 FY3/2024 RevPAR by 43.5% YoY. Despite a high run rate versus company guidance for sales and exceeding recurring profit and net income, there has been no revision from the company, indicating a potential for an overshoot in our view. We believe inbound and domestic demand will be sustained.

Maintaining our earning estimates

- Reflecting continued RevPAR growth** – although there is an indication of a potential overshoot in our view, we have maintained our current assumptions for FY3/2024 and beyond. We have maintained our estimated average number of rooms under management. The company operated 8,312 rooms in Q2-FY3/2024 (+6.2% YoY) and we believe it is on track to operate nearly 9,000 rooms under management by spring 2025.
- Valuations** – on our earnings estimates the shares are trading on PER FY3/2025 of 12.6x, with underlying OP growth (excluding one-time gains in real estate disposals) of approximately 140% YoY. We maintain that valuations will undergo multiple expansions given the high earnings visibility, increasing financial stability, and developing a track record.

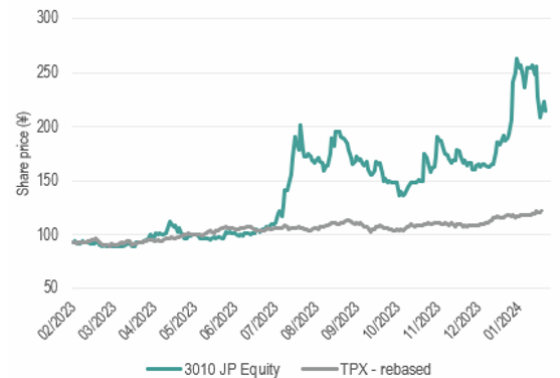
Year-end	3/22	3/23	3/24E	3/25E	3/26E
Sales (¥bn)	3.71	7.02	22.52	21.97	24.68
OP (¥bn)	(1.33)	0.00	3.15	2.75	3.70
NI (¥bn)	(1.83)	0.53	2.99	1.83	2.49
EPS (¥)	(25.98)	4.98	27.89	17.09	23.21
DPS (¥)	-	-	-	-	-
Sales growth YoY (%)	+24.9	+89.0	+221.0	-2.5	+12.3
OP growth YoY (%)	N/A	N/A	+102,284	-12.9	+34.8
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	43.2	7.7	12.6	9.3
EV/EBITDA (x)	(38.1)	53.1	10.7	12.4	9.4
EV/Sales (x)	10.7	5.6	1.8	1.8	1.6
PBR (x)	138.5	9.2	4.2	2.9	2.2
ROE (%)	(949.7)	18.4	46.8	19.8	20.6
ROCE (%)	(13.5)	0.0	18.1	15.0	19.4
FCF yield (%)	(51.7)	(0.5)	43.8	23.3	14.1
Dividend yield (%)	-	-	-	-	-

Source: Company, Astris Advisory (estimates)

*Note: outstanding dilution is 19.4%

Share price: ¥215 Market cap: ¥26.7bn

20 February 2024



Source: Bloomberg

Price Performance

	YTD	1M	3M	12M
Abs (%)	+30.3	+15.0	+36.1	+131.2
Rel (%)	+17.1	+9.6	+22.7	+75.6

Company sector

Real Estate Management/Services
Hotels, Restaurants & Leisure (GICS)

Stock data

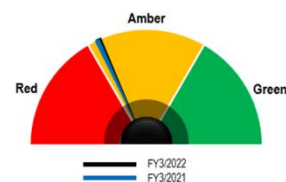
Price (¥)	215
Mkt cap (¥bn)	26.7
Mkt cap (\$m)	177.5
52-week range (¥)	89-271
Shares O/S (m)	124.1
Average daily value (\$m)	1.0
Free float (%)	21.5
Foreign shareholding (%)	83.5
Ticker	3010
Exchange	Tokyo Standard
Net Debt/Equity (x)	4.4
FFO leverage (x)	N/A
BBG BUY HOLD SELL	0 0 0

Source: Bloomberg

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, variable-rent lease 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

Q4 FY3/2024 results May 2024

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This report has been commissioned and paid for by the company

Recent results

Q1-3 FY3/23 results

Key financials

(¥bn)	Q1-3 FY3/23	Q1-3 FY3/24	Growth YoY (%)	FY3/24 company guidance	Run-rate vs. guidance (%)
Sales					
Domestic	4.98	16.69	+235.4	-	
Overseas	-	1.55	-	-	
Total sales	4.98	18.24	+266.6	22.10	82.5
Gross profit	4.62	11.79	+155.2	-	
Gross margins (%)	92.9	64.6		-	
Operating profit					
Domestic	0.07	2.84	-	-	
Overseas	-	0.18	-	-	
Total Operating profit/(loss)	0.07	3.02	-	3.07	98.4
Operating margins (%)	1.4	16.5		13.9	
Domestic	1.4	17.0		-	
Overseas	-	11.6		-	
Recurring profit	(0.08)	2.38	-	2.34	101.7
Net income attributable to the parent	(0.13)	2.84	-	2.67	106.4

Source: Company

Per business segment (pre-elimination)

(¥bn)	Q1-3 FY3/23	Q1-3 FY3/24	Growth YoY (%)
Sales			
Hotel operations	4.96	10.23	+106.3
Real estate	0.27	8.29	-
Operating profit/(loss)			
Hotel operations	0.28	1.33	+369.9
Real estate	0.05	2.26	-
Operating margins			
Hotel operations	5.6	13.0	
Real estate	19.4	27.3	

Source: Company

Key highlights

Q1-3 FY3/2024 results were ahead of expectation and indicated **strong and sustained underlying growth in hotel operations**, with segmental sales growing 106.3% YoY and operating margins reaching 13.0%. Total operating profit has benefitted from the one-time asset sale of two hotel properties in Q2 FY3/2024 in the real estate segment, but we maintain that the outlook for earnings remains positive. With the hotel industry experiencing both domestic and foreign overnight guests returning and exceeding pre-COVID levels, the company's domestic hotel operation continued to see strong demand in Q3 FY3/2024, with the occupancy rate reaching 80%, the average daily rate at ¥10,796 (+34.5% YoY), and RevPAR at ¥8,645 (+43.5% YoY). Overseas hotels also saw Q3 FY3/2024 RevPAR of 986 Pesos (approximately ¥2,650), growing at 25.7% YoY.

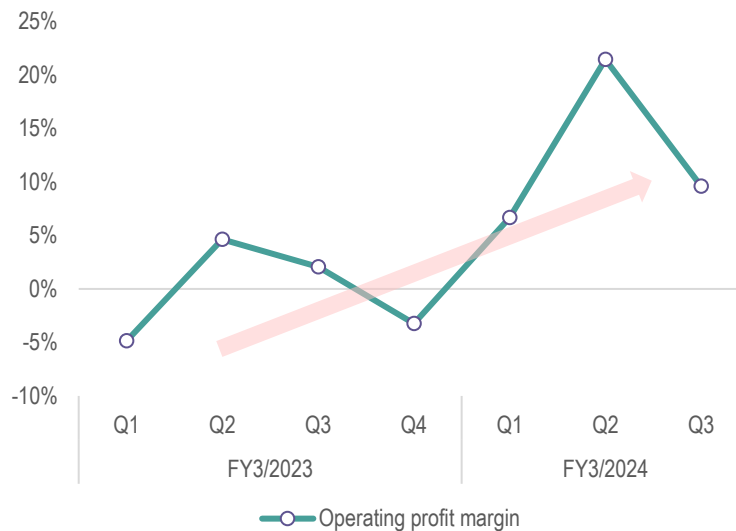
The company has maintained conservative FY3/2024 guidance, which given the strong Q1-3 FY3/2024 run-rate implies some cost hikes into Q4 FY3/2024. Although this possibility remains, we believe there is greater upside potential to guidance, given 1) continued

inbound tourism demand, and 2) the ongoing business expansion and mix improvement in the hotel portfolio, which should help drive growth YoY.

The balance sheet demonstrates a stable and improving equity ratio YoY, the company 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.

Q2 FY3/24 benefitted from one-time asset sale, but underlying trend remains on a positive trajectory into Q3 FY3/24

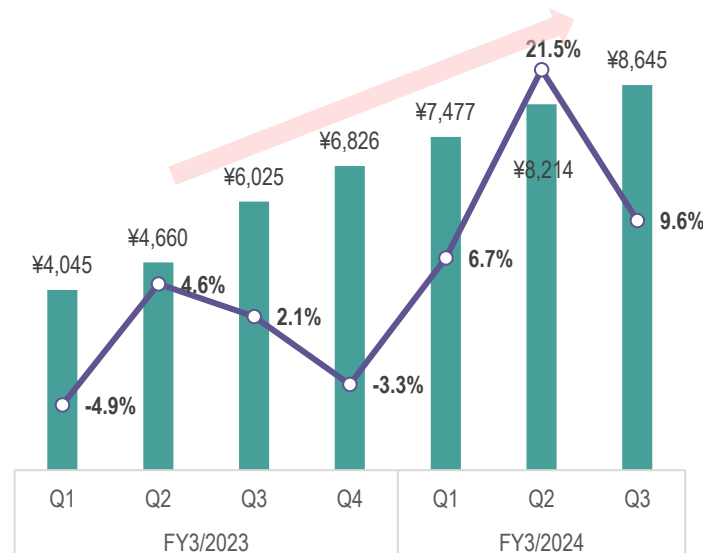
Quarterly operating margin trend (%)



Source: Company

Domestic RevPAR growth remains in the double-digit territory at 43.5% YoY, driving overall profitability

Quarterly trend in total OPM (%) and Domestic RevPAR (¥)

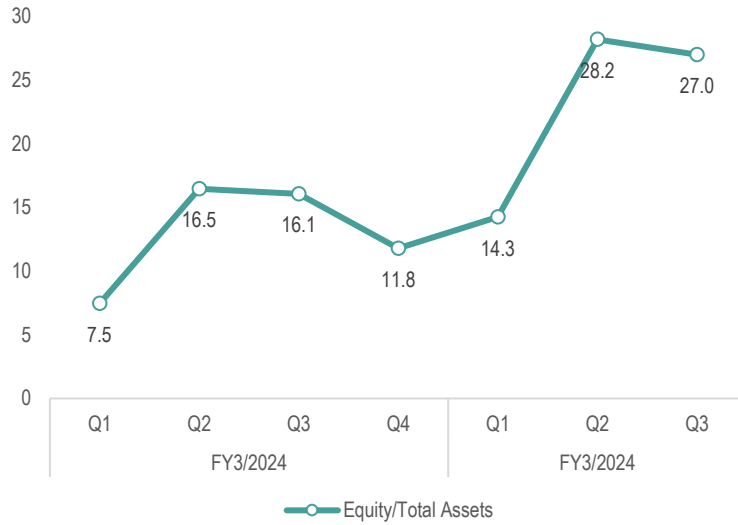


Source: Company



Balance sheet shows trend of reducing reliance on debt financing

Quarterly trend equity ratio (%)



Source: Company

Overseas visitor numbers exceeded pre-COVID levels from October 2023

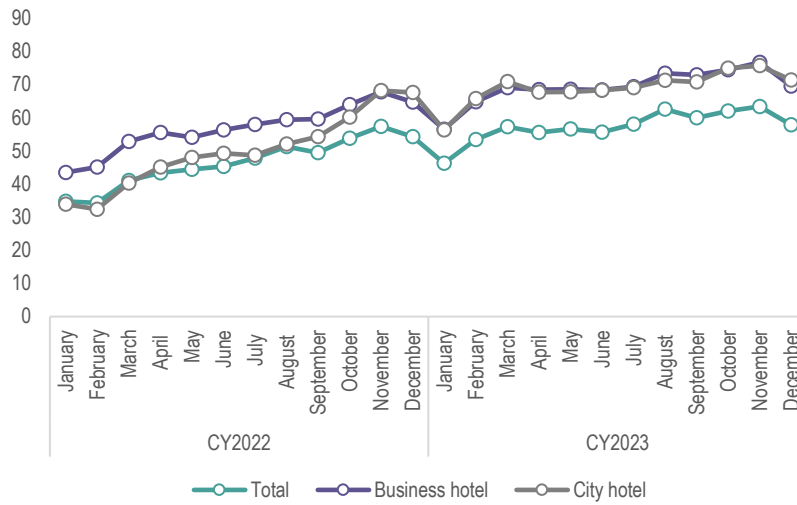
Overseas visitor arrivals

Month	CY21	CY22	Growth YoY (%)	CY23	Growth YoY (%)	Growth vs. CY19
January	46,552	17,776	-61.8	1,497,472	+8,324	-44.3
February	7,355	16,700	+127	1,475,455	+8,735	-43.3
March	12,276	66,100	+438	1,817,616	+2,650	-34.1
April	10,853	139,548	+1,186	1,949,236	+1,297	-33.4
May	10,035	147,046	+1,365	1,899,176	+1,192	-31.5
June	9,251	120,430	+1,202	2,071,441	+1,620	-28.0
July	51,055	144,578	+183	2,320,694	+1,505	-22.4
August	25,916	169,902	+555	2,157,190	+1,170	-14.4
September	17,720	206,641	+1,066	2,184,442	+957	-3.9
October	22,113	498,646	+2,155	2,516,623	+405	+0.8
November	20,682	934,500	+4,418	2,440,800	+161	+0.0
December	12,084	1,370,000	+11,237	2,734,000	+100	+8.2
CY half-year	96,292	507,600	+427	10,710,396	+2,010	-31
Full-year	245,862	3,831,900	+1,459	25,064,145	+554	-21

Source: Japan National Tourism Organization

Occupancy rates for business (Polaris' area of focus) and city hotels outperform the overall market

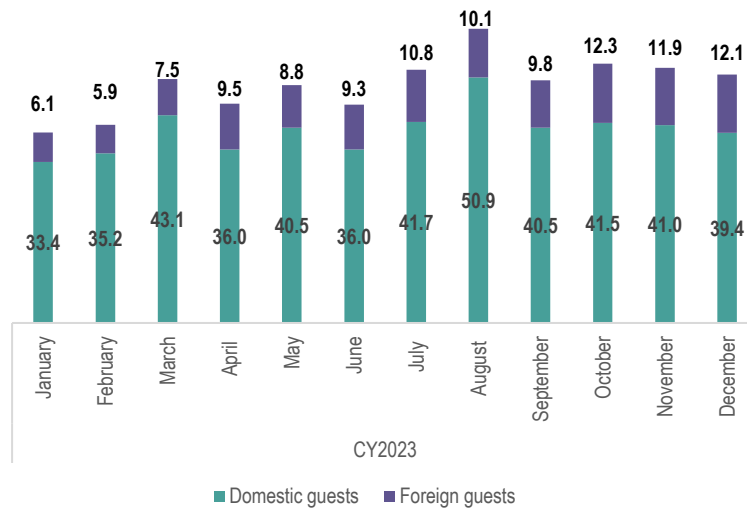
Occupancy rate trend



Source: Japan Tourism Agency

Continued momentum of foreign guest overnight stays in CY23

Trend in number of guests (per million overnight stays per month)



Source: Japan Tourism Agency



Astris earnings estimates and key assumptions

Although there is an indication of a potential overshoot in our view, we have maintained our assumptions for FY3/2024 and beyond.

Astris Advisory earnings estimates

Year-end	FY3/24 company guidance	FY3/24E (old)	FY3/25E (old)	FY3/26E (new)
TRevPAR (¥)	N/A	6,222	7,155	8,063
Growth YoY (%)		+75.0%	+15%	+5.0%
Average No. of rooms	N/A	6,396	8,413	9,000
Growth YoY (%)		+18.3	+31.5	+7.0
Sales (¥bn)	22.10	22.52	21.97	26.49
Growth YoY (%)	+214.9	+221.0	-2.5	+12.3
OP (¥bn)	3.07	3.15	2.75	3.97
OPM (%)	13.9	14.0	12.5	15.0
EBITDA (¥bn)	N/A	3.72	3.19	4.50
FCF (¥bn)	N/A	10.10	5.38	3.55
FCF margin (%)	-	44.8	24.5	13.4
FCF conversion (%)	-	337.5	205.4	92.7
FCF yield (%)	-	43.8	23.3	14.1
Diluted FCF yield (%)	-	36.7	19.5	11.8

Source: Astris Advisory

Note: FCF conversion is FCF/Pre-tax Profit

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	Variable rent lease
KOKO HOTEL Sapporo Ekimae	Sapporo	224	Variable rent lease
KOKO HOTEL Fukuoka Tenjin	Fukuoka	159	Variable rent lease
KOKO HOTEL Hiroshima Ekimae	Hiroshima	250	Variable rent lease
KOKO HOTEL Kagoshima Tenmonkan	Kagoshima	295	Variable rent lease
KOKO HOTEL Premier Kanazawa Korinbou	Kanazawa	207	Management contract
KOKO HOTEL Premier Tokyo Nihonbashi Hamacho	Tokyo	223	Fixed rent lease
KOKO HOTEL Nagoya Sakae	Nagoya	204	Management contract
KOKO HOTEL Osaka, Shinsaibashi	Osaka	211	Management contract
KOKO HOTEL Kobe, Sannomiya	Kobe	141	Fixed rent lease
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
CLOSED VTH Fukuoka 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 BGC The Fort has had a soft opening in December 2023.

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 BGC The Fort	Bonifacio Global City	245	Owner-and-operator
Total		2,453	

Source: Company



Peer group – valuation table

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

Ticker	Company/Index	Mkt Cap US\$ (m)	Profitability				EV/EBITDA 12M Fwd (x)	EV/Sales 12M Fwd (x)	Valuation			PBR (x)
			OPM LTM (%)	OPM 10-yr avg. (%)	ROE LTM (%)	ROIC 10-yr avg. (%)			Div yield 12M Fwd (%)	FCF yield 12M Fwd (%)	PER 12M Fwd (x)	
3010 JP	Polaris Holdings Co., Ltd	211	14.6	-10.4	79.8	-11.4	12.4	1.8	-	23.3	12.6	4.2
Domestic companies												
9616 JP	Kyoritsu Maintenance Co., Ltd.	1,643	7.1	5.3	10.2	3.5	14.2	1.6	0.9	1.1	22.1	3.0
4681 JP	Resorttrust, Inc.	1,780	7.8	9.8	9.6	4.6	7.9	1.2	2.2	1.4	17.3	2.2
9708 JP	Imperial Hotel Ltd	845	5.5	-3.8	8.3	-1.2	26.3	2.0	0.2	0.3	80.8	3.0
9722 JP	Fujita Kanko Inc.	533	6.7	-13.1	7.9	-4.7	10.9	1.5	0.5	5.3	18.2	6.5
9713 JP	Royal Hotel, Ltd.	119	0.2	-9.8	91.3	-1.4	14.4	0.4	-	-	0.8	1.3
6565 JP	ABHOTEL Co., Ltd.	183	36.6	23.2	25.2	5.4	7.0	3.1	0.8	10.0	11.6	2.8
5261 JP	RESOL HOLDINGS Co., Ltd.	222	6.3	4.6	14.4	3.8	16.5	1.8	1.3	1.5	16.0	2.2
6076 JP	Amaze Co., Ltd.	124	23.6	18.6	16.4	6.3	5.0	1.6	2.0	12.3	8.0	1.2
9723 JP	Kyoto Hotel, Ltd.	60	8.7	-8.6	53.2	-2.5	13.2	2.3	0.4	8.8	14.8	6.9
6547 JP	Greens Co. Ltd.	189	12.8	-2.8	98.5	-9.9	6.3	0.8	1.0	14.6	8.2	-23.4
9704 JP	Agora Hospitality Group	39	-6.0	-10.6	-12.8	-3.1	-	1.8	-	-	-	1.7
9720 JP	HOTEL NEWGRAND	37	5.3	-3.6	12.9	-4.4	9.0	1.0	0.6	8.5	13.3	1.7
4691 JP	Washington Hotel Corp.	68	13.5	-22.1	37.6	-9.4	7.6	1.4	1.2	15.0	4.1	1.4
Simple average			9.9	-1.0	28.7	-1.0	11.5	1.6	1.0	7.2	17.9	0.8
Overseas companies												
AC FP	Accor SA	10,018	13.6	7.0	13.3	1.6	11.3	2.3	3.0	6.4	17.9	2.4
CHH US	Choice Hotels International	5,848	28.8	28.7	249.7	30.9	12.8	4.6	1.0	5.4	17.4	81.1
WH US	Wyndham Hotels & Resorts	6,522	37.1	23.3	32.6	7.3	12.5	5.9	1.8	6.5	18.1	7.6
WTB LN	Whitbread PLC	7,994	22.2	5.6	8.3	7.0	9.3	3.2	3.0	5.0	15.0	1.7
NHH SM	NH Hotel Group SA	1,984	15.5	-2.7	14.2	2.9	7.6	1.9	3.2	12.4	12.9	2.0
Simple average			30.7	20.7	53.9	9.1	11.8	6.6	2.4	7.1	15.3	15.9

Source: FactSet, Bloomberg, Astris Advisory

- **Valuations** – our key finding is Polaris looks undervalued on PER 12.6x (15.0x fully diluted) versus its domestic peers on PER 17.9x. 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 demonstrating 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 and variable rent lease 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"** both overseas and domestically. 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 12.6x (with underlying OP growth of approximately 140% 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 and sports 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 domestically and overseas. In September 2023, the company started to operate three hotels (590 rooms) under the "KOKO HOTEL" brand in Sendai, Miyagi Prefecture. In addition, the company plans to start the operation of a newly built hotel (320 rooms) in the Namba area of Osaka City, Osaka Prefecture in spring 2025, under the same "KOKO HOTEL" brand. The aim is to further strengthen brand awareness, marketing capabilities, operational efficiency, and initiatives for revenue enhancement for this original brand.

In March 2024, the company plans to start operating a new Best Western Plus Nagoya Sakae (143 rooms) located in Nagoya City, Aichi Prefecture, aiming to deliver sustainable revenue growth.

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.



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	+102.2	-12.9	+34.8
			84		
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	43.2	7.7	12.6	9.3
Diluted PER (x)	N/A	51.5	9.2	15.0	11.1
DPS (¥)	-	-	-	-	-
Dividend payout ratio (%)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Free cash flow yield (%)	(51.7)	(0.5)	43.8	23.3	14.1
Diluted FCF yield (%)	(43.3)	(0.4)	36.7	19.5	11.8
PBR (x)	138.5	9.2	4.2	2.9	2.2
EV/sales (x)	10.7	5.6	1.8	1.8	1.6
EV/EBITDA (x)	(38.1)	53.1	10.7	12.4	9.4
EV/EBIT (x)	(29.7)	12,868	12.6	14.4	10.7
EV/FCF (x)	N/A	N/A	3.9	7.4	12.2



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