Bando Chemical Industries | 5195

Sponsored Research
March 9, 2022

Sessa Investment Research

Mostly recovered to pre-pandemic levels
Cost drivers such as raw material price hikes require close attention

▷Cum. Q3 FY3/22 Results: Revenue up 19% YoY, core operating income up 95% YoY

－In cumulative Q3 FY3/22, the company reported ¥69.6 bn in revenue (+18.8% YoY), ¥6.29 bn in core operating income (+95.0% YoY), ¥7.01 bn in operating income (+101.6% YoY), and ¥5.52 bn in profit attributable to owners of parent (+120.0% YoY). Both revenue and profit continued to rise as the company recovered from the COVID-19 pandemic. Although a weaker yen boosted revenue for the three-month period of 3Q, higher prices for primary commodities and higher transportation costs drove up costs, pushing profit margins lower.

Automotive Parts Business: Sales rose in Europe, the US, and Asia thanks to a recovery in automobile production. China also showed sales growth due to production increase in major clients. Domestic revenue also increased because of mainly a recovery in automobile production and aggressive sales promotion to repair market. As a result, the Automotive Parts segment reported **revenue of ¥30,590 mn (+ 24.1% YoY) and segment income of ￥2,429 mn (+88.7% YoY)**.

Industrial Products Business: In addition to higher sales of power transmission belts for industrial machinery, sales of power transmission belts for agricultural machinery were strong in Japan, China, and other Asian countries. As a result, **segment revenue came to ¥25,195 mn (+13.0% YoY) and segment income to ¥2,738 mn (+68.8%).**

Advanced Elastomer Products Business: Sales of both high-performance films and precision parts increased, with **segment revenue coming in at ￥10,523 mn (+23.6% YoY) and segment income at ￥536 mn (vs. a loss of ￥308 mn in cum. 3Q FY3/21).**

Other: Sales in the robot device business rose, but overall **segment revenue was ¥3,917 mn (-0.7% YoY) and segment income was ¥280 mn (-0.6% YoY).**

▷FY3/22 Earnings Forecast: No change from initial forecast

－3Q progress vs. full-year forecasts was 77.4% for revenue while the company already achieved full-year targets for core operating income. However, the company maintained its forecasts in light of downside risks and the possibility of incurring one-time operating expenses as it reviews its bonus system.

FY	Revenue (¥ mn)	YoY (%)	Core Oper. Income (¥ mn)	YoY (%)	Oper. Income (¥ mn)	YoY (%)	Net profit ATOP (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
3/2018	91,263	3.3	–	–	6,336	7.5	4,795	-3.1	104.69	30.00
3/2019	94,318	3.9	6,503	-2.8	6,815	-4.8	5,457	7.0	119.09	32.00
3/2020	90,247	-4.3	5,252	-19.2	2,056	-69.8	682	-87.5	14.93	32.00
3/2021	81,371	-9.8	4,938	-6.0	5,377	161.4	3,943	477.7	86.57	26.00
3/2022 (CE)	90,000	10.6	6,000	21.5	6,500	20.9	4,500	14.1	98.75	40.00
3Q 3/2021	58,619	-14.8	3,225	-25.1	3,481	-18.3	2,511	-20.7	55.13	6.00
3Q 3/2022	69,646	18.8	6,291	95.0	7,018	101.6	5,523	120.0	122.36	16.00

Notes: Based on IFRS for FY3/19 after. No continuity before that. Source: Sessa Partners from company materials

3Q FOLLOW-UP

Focus Points:
Long-established rubber and elastomer company. Pioneer in rubber belt manufacturing with high market share in automotive accessory drive power transmission belts. Operates Automotive Parts, Industrial Products, Advanced Elastomer Products, and Other business. Targeting ¥120.0 bn in revenue and new business / new product ratio of at least 30% in the 2nd stage of its mid-to-long term business plan, "Breakthroughs for the future".

Key Indicators	
Share price (3/8)	815
YH (1/5)	926
YL (3/8)	805
10YH (18/1/23)	1,424
10YL (12/11/13)	472
Shrs out. (mn, shrs)	47.213
Mkt cap (¥bn)	35.316
EV (¥bn)	37.159
Shr eqty ratio (21/03)	60.6%
FY3/22 P/E (CE)	8.1x
FY3/21 P/B (act)	0.48x
FY3/21 ROE (act)	5.9%
FY3/22 DY (CE)	4.9%

Share Price Chart (52 weeks)

Source: Sessa Partners from SPEEDA

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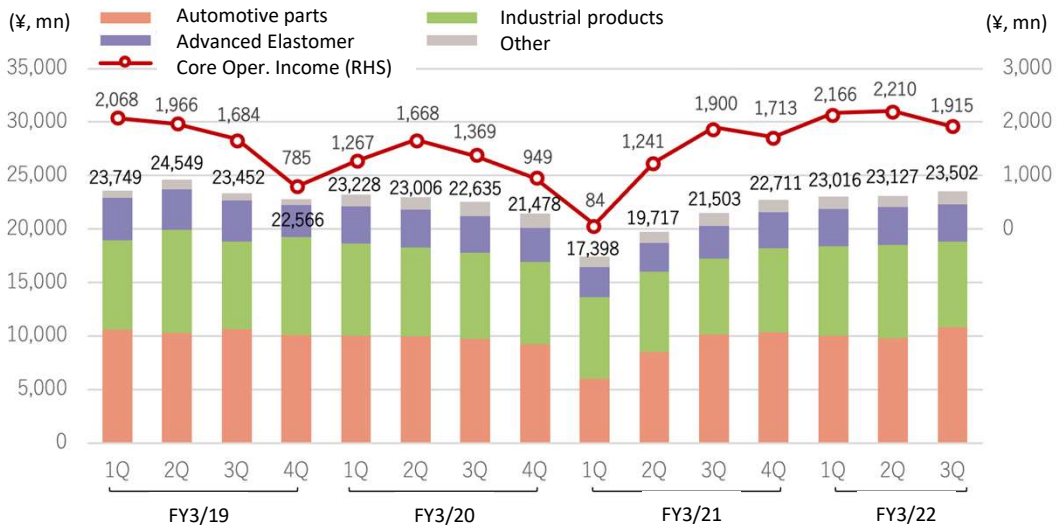
▷Announced change of president: Director Tomio Ueno to assume position

—On January 31, 2022 the company announced the appointment of President Mitsutaka Yoshii as Chairman and Director Tomio Ueno as President and Representative Director. The company will pursue its next stage of growth under the new management structure starting on April 1, 2022.

▷Share Price Trend: Reached a recent high in September 2021, but continued to adjust downward in the near term

—The company's share price hit a recent high of ¥994 on September 14, 2021, but has adjusted downward since. Going forward, investors should closely monitor developments in the automotive industry as well as raw material prices.

Quarterly Consolidated Revenue & Core Operating Income Trend



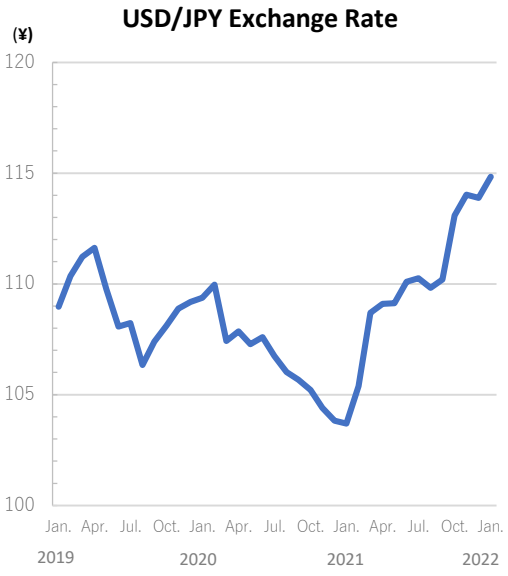
Note: Revenue in the graph is based on sales to external customers. Figures in the report differ as they include inter-segment sales and transfers. The same applies to the graphs for each of the other segments below.
Source: Sessa Partners from company materials

1. Cum. 3Q FY3/22 results

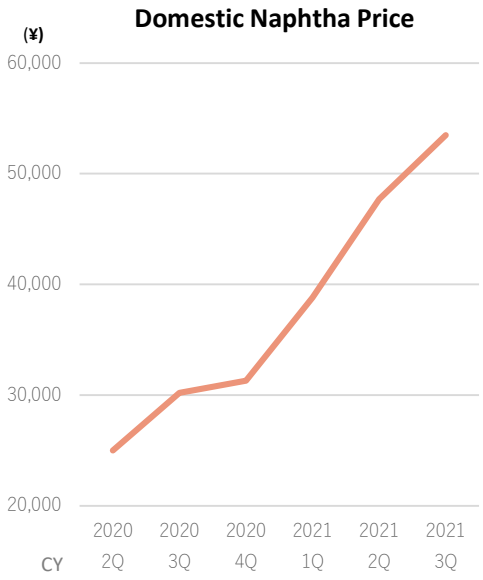
1） Revenue up 19% YoY and operating income nearly doubled. Returned to pre-COVID earnings levels

In cum. 3Q FY3/22, the company posted revenue of ¥69,646 mn (+18.8% YoY), core operating income of ¥6,291 mn (+95.0% YoY), operating income of ¥7,018 mn (+101.6% YoY), and profit attributable to owners of parent of ¥5,523 mn (+120.0% YoY), recovering to pre-pandemic levels from cum. 3Q FY3/21, which was greatly affected by COVID-19.

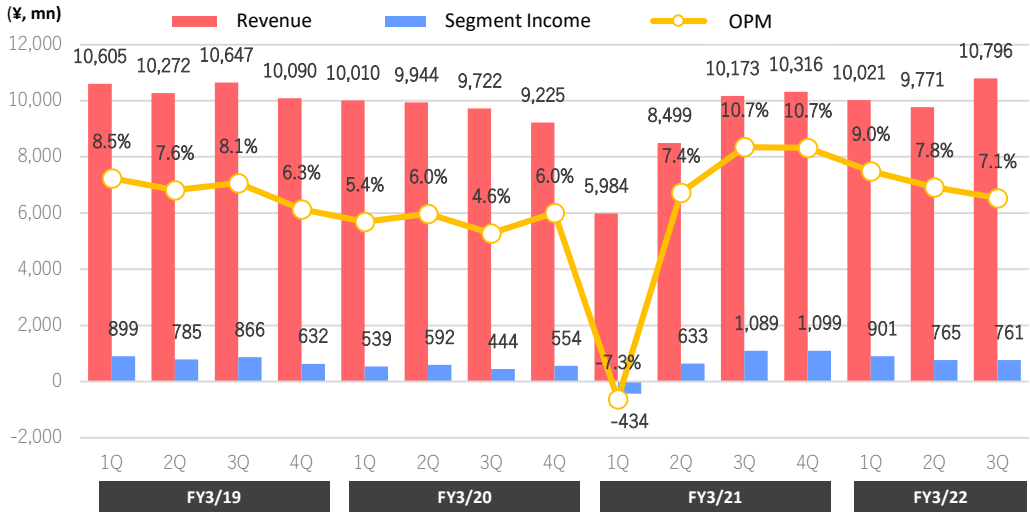
For the three-month period of 3Q, revenue rose 9.3% YoY to ¥23,502 mn, slowing down from the 32.3% rise in 1Q and 17.3% growth in 2Q. 3Q core operating income of ¥1,915 mn (core operating income margin of 8.1%) was down from ¥2,166 mn (9.4%) in 1Q and ¥2,210 mn (9.6%) in 2Q. This was mainly due to substantial increases in costs in 3Q, with higher primary commodity prices and soaring logistics costs caused by supply network constraints offsetting the boost in revenue from a weaker yen in 3Q. Compared to 3Q FY3/21, the yen has weakened 9%, and the price of domestic naphtha, the main raw material for the company's belts, has risen about 80% YoY in the July-September period.



Source: Bank of Japan, Tokyo interbank quotes, monthly average



Source: Sessa Partners from Ministry of Finance Trade Statistics



Source: Sessa Partners from company materials

2) Trends for individual segments

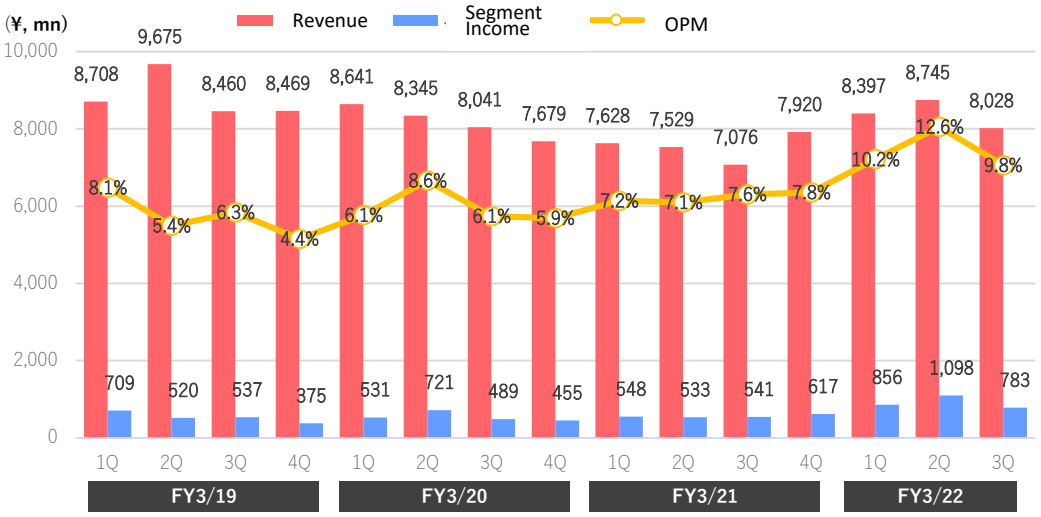
a) Automotive Parts Business (revenue: ¥30,590mn [+24.1% YoY], segment income: ¥2,429 mn [+88.7% YoY])

Automakers worldwide drastically cut production temporarily due to the COVID-19 pandemic, but are showing signs of a recovery after bottoming out in 1Q FY3/21. The company's Automotive Parts Business is also nearing pre-COVID-19 level performance in FY3/22. In cum. 3Q FY3/22, sales of products to the repair market in Japan increased due to aggressive sales efforts, and sales of accessory drive power transmission belts and system products rose on the back of a rebound in automobile production by major clients. In overseas markets, sales of auxiliary drive power transmission belts grew in China thanks to increased production by major clients and expanded sales in the repair parts market. Sales also rose in the US, Europe, and Asia.

Sales rose 6% YoY for the three-month period of 3Q, but as noted above, the bulk of the increase can be attributed to the yen depreciating 9% against the US dollar. In addition, core operating income fell 30% YoY on higher raw material prices and transportation costs.

b) Industrial Products Business (revenue: ¥25,195mn [+13.0% YoY], segment income: ¥2,738 mn [+68.8% YoY])

Quarterly Trends for Industrial Products Business



Source: Sessa Partners from company materials

In Japan, sales of power transmission belts for industrial machinery increased owing to growing demand for private-sector capital investment. Sales of power transmission belts for agricultural machinery also rose. In the overseas markets, sales of power transmission belts for agricultural machinery and industrial machinery expanded in China and other parts of Asia. In addition, sales of power transmission belts for industrial machinery rose in the US and Europe. As for carrying belts, domestic sales of conveyor belts and resin conveyor belts rose.

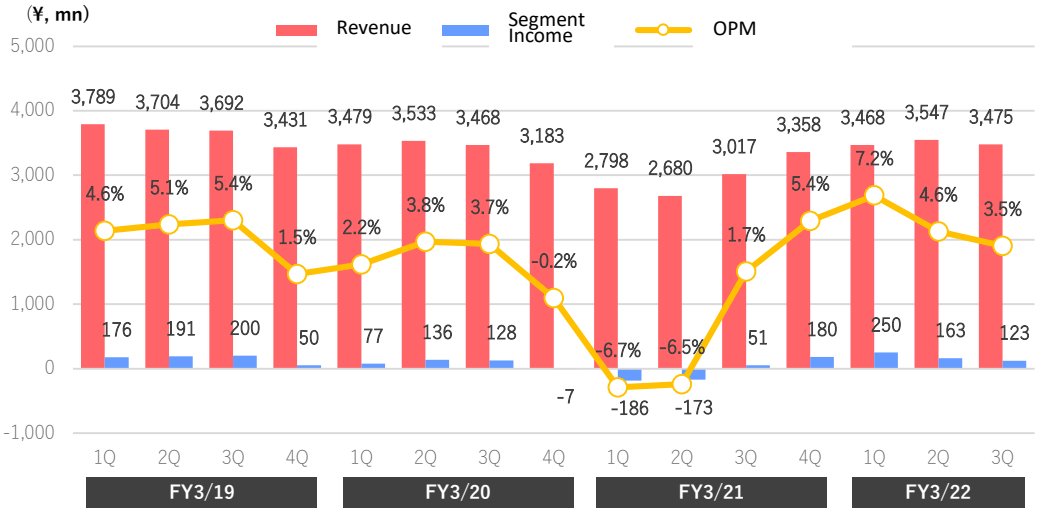
As with the Automotive Parts Business, the Industrial Products Business is also negatively affected by the sharp rise in the price of naphtha, a raw material for belts, but the company managed to curb the drop in profit margin thanks to an improved product sales mix. It managed to maintain a profit margin of just under 10% in the three-month period of 3Q.

c) Advanced Elastomer Products Business (revenue: ¥10,523mn [+23.6% YoY], segment income: ¥536 mn [loss of ¥308 mn in cum. 3Q FY3/21])

Demand for high-performance films recovered and sales of films for construction use increased. Additionally, sales of medical films and decorative display films expanded. Meanwhile, for precision parts, sales of precision belts as well as high performance rollers and cleaning blades grew reflecting production recovery at major customers.

In the three-month period of 3Q, the company felt the impact of higher raw material prices for high-performance films as well as production adjustments for OA equipment products caused by the shortage of semiconductors. As a result, core operating margin came in lower compared to 1Q and 2Q.

Quarterly Trends for Advanced Elastomer Products Business



Source: Sessa Partners from company materials

d) Other (revenue: ¥3,917 mn [-0.7% YoY], segment income: ¥280 mn [-0.6% YoY])

In Other, the company currently operates a robot device business, and electronic products business, and a medical equipment business. Revenue and profit fell slightly YoY due in part to the impact of COVID-19.

2. Full-year FY3/22 forecast: Maintained initial forecast

The company continued to maintain its full-year FY3/22 forecast, which calls for revenue of ¥90,000 mn (+10.6% YoY), core operating income of ¥6,000 mn (+21.5% YoY), operating income of ¥6,500 mn (+20.9% YoY), and profit attributable to owners of parent of ¥4,500 mn (+14.1% YoY).

Q3 progress against full-year forecast was 77.4% for revenue, 104.9% for core operating income, 108.0% for operating income, and 122.7% for profit attributable to owners of parent, with profit items already exceeding targets. Although it is unlikely that the company will post a loss in 4Q, it continued to maintain its full-year forecast. The company explained that it faces downside risks such as semiconductor supply shortages and soaring raw material prices. In addition, the company and some of its domestic subsidiaries are considering implementing changes to its bonus scheme during FY3/22, which was not part of the initial plan and may result in one-time operating expenses.

In addition to COVID-19 outbreaks and macroeconomic trends, geopolitical risks have recently emerged, and the company will need to continue to closely monitor the impact on its business performance.

The company also announced that it will end its share buyback program amounting to a maximum of ¥1 billion as part of its shareholder return program as of January 5, 2022. The company repurchased a total of ¥999,926,839 worth of shares, or 1,119,700 shares, cancelling approximately 2.37% of its outstanding shares.

3. Announced a change in representative directors, with Mr. Ueno becoming the new president

At a meeting of its Board of Directors held on January 31, 2022, the company announced a change in its representative directors. Mitsutaka Yoshii, who has led the company for the past nine years as president and representative director (president and CEO), will be named chairman and representative director, and Tomio Ueno, director and managing executive officer, will replace him as president and representative director. In addition to his experience in various business fields, Mr. Ueno has overseas experience and currently serves as the managing executive officer in charge of overseas operations. The current medium- to long-term management plan spearheaded by Mr. Yoshii will come to its final year in FY3/23, and the next medium- to long-term management plan will be formulated under the new president, Mr. Ueno, to address important issues such as managing the transitionary period and decarbonization of the automotive industry. Mr. Ueno is scheduled to assume the role of president and representative director on April 1, 2022.

Tomio Ueno's career history is shown below.

New title	President and representative director (president and CEO)	
Name	Tomio Ueno	
Birth date	September 2, 1968 (53 years old)	
Career	Apr. 1992	Joined Bando Chemical Industries
	Apr. 2007	General Manager of AMP Sales Department, Nagoya Branch, Sales Headquarters
	Apr. 2011	General Manager of Human Resources & General Affairs Division
	Apr. 2013	General Manager of Sales Department, Automotive Parts Division, Belt Business Headquarters
	Apr. 2015	Deputy General Manager of Automotive Parts Division and General Manager of Planning & Administration Division
	Oct. 2017	President and Director of Bando Manufacturing (Thailand) Ltd.
	Apr. 2019	Executive Officer
	Jun. 2020	Director not on the Audit and Supervisory Board (current position)
	Apr. 2021	Managing Executive Officer in charge of Overseas Operations (current position)
Number of shares held	11,000 shares	

4. Stock Price Trends

The company's stock price has been on an upward trend since the beginning of 2021, reaching Y994 on September 14, the highest price since November 2019. However, since then, the stock price has been in a correction phase due to reports of production cutbacks by automobile companies and other factors. And, the company's share price has also been lackluster amid the overall market decline due to geopolitical risks coupled with forecasts of monetary tightening in 2022. Although the company's earnings itself has overcome the effects of COVID-19 and is on a recovery track, changes in the macroeconomic situation, rising raw material prices, and the shortage of semiconductors require investor's attention.

Bando Chemical Industries (5195) Share Price (for past 3 years)

Share Price (3 Power Transmission Belt Companies) and TOPIX Over Past 3 Years

Source: compiled by Sessa partners from SPEEDA

Quarterly Consolidated Earnings Trend by Segment

	FY3/19				FY3/20				FY3/21				FY3/22		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Revenue	**23,749**	**24,549**	**23,452**	**22,566**	**23,228**	**23,006**	**22,535**	**21,478**	**17,398**	**19,717**	**21,503**	**22,752**	**23,016**	23,128	23,502
YoY	–	–	–	–	*-2.2%*	*-6.3%*	*-3.9%*	*-4.8%*	*-25.1%*	*-14.3%*	*-4.6%*	*5.8%*	*32.3%*	*17.3%*	*9.3%*
Automotive Parts Business	10,605	10,272	10,647	10,090	10,010	9,944	9,722	9,225	5,984	8,499	10,173	10,318	10,021	9,771	10,796
YoY	–	–	–	–	*-5.6%*	*-3.2%*	*-8.7%*	*-8.6%*	*-40.2%*	*-14.5%*	*4.6%*	*11.8%*	*67.5%*	*15.0%*	*6.1%*
% of SLS	44.7%	41.8%	45.4%	44.7%	43.1%	43.2%	43.1%	43.0%	34.4%	43.1%	47.3%	45.4%	43.5%	42.3%	45.9%
Industrial Products Business	8,708	9,675	8,460	8,469	8,641	8,345	8,041	7,679	7,628	7,529	7,076	7,921	8,397	8,745	8,028
YoY	–	–	–	–	*-0.8%*	*-13.7%*	*-5.0%*	*-9.3%*	*-11.7%*	*-9.8%*	*-12.0%*	*3.1%*	*10.1%*	*16.2%*	*13.5%*
% of SLS	36.7%	39.4%	36.1%	37.5%	37.2%	36.3%	35.7%	35.8%	43.8%	38.2%	32.9%	34.9%	36.5%	37.8%	34.2%
Advanced Elastomer Products Business	3,789	3,704	3,692	3,431	3,479	3,533	3,468	3,183	2,798	2,680	3,017	3,360	3,468	3,547	3,475
YoY	–	–	–	–	*-8.2%*	*-4.6%*	*-6.1%*	*-7.2%*	*-19.6%*	*-24.1%*	*-13.0%*	*5.6%*	*24.0%*	*32.4%*	*15.5%*
% of SLS	16.0%	15.1%	15.7%	15.2%	15.0%	15.4%	15.4%	14.8%	16.1%	13.6%	14.0%	14.8%	15.1%	15.3%	14.8%
Other	646	899	650	575	1,097	1,182	1,304	1,389	988	1,007	1,235	1,116	1,129	1,062	1,201
YoY	–	–	–	–	*69.8%*	*31.5%*	*100.6%*	*141.6%*	*-9.9%*	*-14.8%*	*-5.3%*	*-19.7%*	*14.3%*	*5.5%*	*-2.8%*
% of SLS	2.7%	3.7%	2.8%	2.5%	4.7%	5.1%	5.8%	6.5%	5.7%	5.1%	5.7%	4.9%	4.9%	4.6%	5.1%
Core Operating Income	**2,068**	**1,966**	**1,684**	**785**	**1,267**	**1,668**	**1,369**	**949**	**84**	**1,241**	**1,900**	**1,713**	**2,166**	2,210	1,915
YoY	–	–	–	–	*-38.7%*	*-15.2%*	*-18.7%*	*20.9%*	*-93.4%*	*-25.6%*	*38.8%*	*80.5%*	*25.8x*	*78.1%*	*0.8%*
Core OP margin	8.7%	8.0%	7.2%	3.5%	5.5%	7.3%	6.1%	4.4%	0.5%	6.3%	8.8%	7.5%	9.4%	9.6%	8.1%
Automotive Parts Business	899	785	866	632	539	592	444	554	(434)	633	1,089	1,099	901	766	761
YoY	–	–	–	–	*-40.0%*	*-24.6%*	*-48.7%*	*-12.3%*	–	*6.9%*	*145.3%*	*98.4%*	–	*21.2%*	*-30.0%*
Segment income margin	8.5%	7.6%	8.1%	6.3%	5.4%	6.0%	4.6%	6.0%	-7.3%	7.4%	10.7%	10.7%	9.0%	7.8%	7.1%
Industrial Products Business	709	520	537	375	531	721	489	455	548	533	541	617	856	1,098	783
YoY	–	–	–	–	*-25.1%*	*38.7%*	*-8.9%*	*21.3%*	*3.2%*	*-26.1%*	*10.6%*	*35.6%*	*56.2%*	*106.0%*	*45.2%*
Segment income margin	8.1%	5.4%	6.3%	4.4%	6.1%	8.6%	6.1%	5.9%	7.2%	7.1%	7.6%	7.8%	10.2%	12.6%	9.8%
Advanced Elastomer Products Business	176	191	200	50	77	136	128	(7)	(186)	(173)	51	180	250	163	123
YoY	–	–	–	–	*-56.3%*	*-28.8%*	*-36.0%*	–	–	–	*-60.2%*	–	–	–	*141.2%*
Segment income margin	4.6%	5.0%	5.2%	1.7%	2.2%	3.8%	3.7%	-0.2%	-6.7%	-6.5%	1.7%	5.4%	7.2%	4.6%	3.5%
Other	159	303	66	2	132	94	246	122	35	108	139	57	84	63	133
YoY	–	–	–	–	*-17.0%*	*-69.0%*	*272.7%*	*61.0x*	*-73.5%*	*14.9%*	*-43.5%*	*-53.3%*	*140.0%*	*-41.7%*	*-4.3%*
Segment income margin	24.6%	33.7%	10.2%	0.3%	12.0%	8.0%	18.9%	8.8%	3.5%	10.7%	11.3%	5.1%	7.4%	5.9%	10.0%

Note: Revenue for each segment based on sales to external customers. Figures may vary slightly due to rounding. The total of segment income does not match companywide core operating income as there are adjustments such as companywide expenses that are not allocated to individual segments.

Source: Sessa Partners from company materials

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