

Rental and Overseas Business drove double-digit profit growth FY23/3 revenue and profit growth rate is expected to exceed that of the previous fiscal year

Earnings Summary

▷ **Double-digit growth rate:** FY23/3 full-year results were announced in the last month. In its consolidated earnings, Operating profit rose 33.9%, ¥2,253 mn, on a 5.3% rise in sales, to ¥41,894 mn. Ordinary profit was up 22.9%, to ¥2,400 mn, and net profit rose 51.3%, to ¥1,460mn. Compared to the company's forecast at the time of the 3Q results announcement, net sales fell short by about 7%, but operating profit and net profit were in line. Ordinary profit was about 12% above the previous forecast.

▷ **Business overview by segment:** In the **Sales segment**, operating profit fell 27.2%YoY, to ¥1,189 mn, on a 3.5%YoY decline in revenue, to ¥13,157. In the Temporary equipment division, sales of temporary scaffolding "Iq System" increased 11.8% YoY to ¥3,917 mn, but sales of other scaffolding equipment declined. In the environment-related division, sales declined following the completion of a large agricultural high-performance glass house construction project, and the second hand division also posted lower sales.

In the **Rental segment**, operating profit rose 113.6%, to ¥2,610, on a 6.1% rise in sales, to ¥24,714 mn. Rental demand was strong, especially for maintenance and repair work in the Tokyo metropolitan area. The utilization rate of temporary construction equipment, such as the Iq System, also increased.

In the **Overseas Business segment**, operating profit increased 45.8%, to ¥404 mn, on a 40.2% rise in sales, to ¥8,986 mn. At HORY VIETNAM (Vietnam) and Hory Korea (Korea), shipments of temporary construction equipment to Japan remained strong. DIMENSION-ALL INC. (Philippines) saw an increase in inquiries related to infrastructure construction projects, following the lifting of COVID-19-related government restrictions on travel and furloughs.

▷ **The company's FY24/3 earnings forecast:** The rate of increase in both sales and profit is much higher than in FY23/3. Demand for social infrastructure renovation work is firm, and a pickup in private-sector capital investment should lead to increased demand for temporary construction equipment. New investment plans include high-end lodging facilities in anticipation of inbound demand, and new warehouse and logistics facilities for which demand expanded in response to COVID-19. In the Kansai area, following the Osaka Kansai Expo, Osaka Prefecture and Osaka City approved a comprehensive resort development plan, and stable growth in domestic construction

FY	Net Sales (¥mn)	YoY (%)	Oper. profit (¥mn)	YoY (%)	Recur. profit (¥mn)	YoY (%)	Profit ATOP (¥mn)	YoY (%)	EPS (¥)	DPS (¥)
FY19/3	42,182	16.8	2,713	60.5	2,662	65.4	1,637	30.8	37.06	11.0
FY20/3	46,065	9.2	3,703	36.4	3,541	33.0	2,370	44.8	51.28	14.0
FY21/3	38,812	-15.7	1,586	-57.2	1,569	-55.7	857	-63.8	17.89	14.0
FY22/3	39,800	2.5	1,682	6.1	1,954	24.5	965	12.5	20.10	14.0
FY23/3 (act)	41,894	5.3	2,253	33.9	2,400	22.9	1,460	51.3	31.36	14.0
FY24/3(CE)	48,000	14.6	3,800	68.7	3,580	49.1	2,420	71.0	51.95	14.0
FY23/3 2Q	19,799	-1.1	763	0.5	1,137	26.9	746	176.0	15.51	6.0
FY24/3 2Q (CE)	22,400	13.1	1,300	70.3	1,220	7.3	770	3.1	16.53	6.0

Source: compiled by SIR from the company IR material.

1) FY19/3~FY23/3 EPS – diluted shares adjusted. FY24/3 EPS – based on the average shares outstanding for the period.

23/3 Full Year Follow-Up



Focus Points:

Vertically integrated provider of construction and related equipment with potentially disruptive business model that lets users share equipment, reducing labor, transportation, storage, and maintenance costs.

Key Indicators

Share price (6/20)	524
YH (6/19)	541
YL (1/10)	357
10YH (15/1/5)	1,197
10YL (16/2/12)	306
Shrs out. (mn shrs)	46.586
Mkt cap (¥ bn)	24.41
Shr equity ratio (3/31)	31.7%
23.3 P/E (CE)	16.7x
23.3 EV/EBITDA (CE)	43.67
22.3 P/B (act)	1.27x
22.3 ROE (act)	7.6%
22.3 DY (act)	2.8%

1Y Chart



Source: TRADING VIEW

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Achieved double-digit profit growth

demand can also be expected. On the other hand, the "2021 Mid-Term Management Plan" announced on May 31, 2021, which ends in FY24/3, has been revised. During this period, performance was on an expansionary trend, but COVID-19, yen depreciation, and other factors had a greater-than-expected impact on sales, costs, and other items.

The main revisions are as follows. The ¥60 bn sales target was revised to ¥48 bn. The ¥5bn operating target was revised to ¥3.8 bn. This lowers the expected operating margin to 7.9%, from a previous target of 8.3%, and lowers the ROE to 11.4%, from a previous target of 12.0%. We also lowered the target equity ratio to 31%, from 35%.

FY23/3 earnings summary

In full-year FY23/3, Takamiya reported consolidated sales of ¥41,894 mn (+5.3% YoY), operating profit of ¥2,253 mn (+33.9% YoY), recurring profit of ¥2,400 mn (+22.9% YoY), and net profit of ¥1,460 mn (+51.3% YoY). Looking at operating profit by segment, the substantial gains in the rental business and overseas business largely offset the drop in the sales business. The following is a summary of each business segment, as well as segment sales and segment operating profit.

Sales business

The sales business reported sales of ¥13,157 mn (-3.5% YoY) and operating profit of ¥1,189 mn (-27.2% YoY). In the temporary construction equipment category, some customers postponed purchases or shifted to rental equipment given concerns about construction delays stemming from soaring material prices, personnel shortages, and other factors, as well as general uncertainties about the future. In terms of pricing, the company continued negotiations on selling prices to reflect rising raw material prices. Outside of the temporary construction equipment category, sales were down YoY reflecting the completion of a large agricultural high-performance glass house construction project in 1H FY22/3. As of end-FY23/3, the company had a cumulative total of 465 Iq system customers, up by 13 companies compared to the end of 3Q. In addition, the number of repeat orders from customers in FY23/3 was 153, steadily increasing from 123 in FY22/3.

- **Temporary construction equipment sales (Iq System, G Walk, etc.)**
¥9,817 mn (FY22/3) → ¥9,346 mn (FY23/3)
- **Environment-related sales (solar-related products, agricultural greenhouses)**
¥1,786 mn (FY22/3) → ¥1,695 mn (FY23/3)
- **Material-related sales (Vibration control devices, housing construction materials)**
¥693 mn (FY22/3) → ¥873 mn (FY23/3)
- **Used equipment sales (used equipment purchase and sales, asset sales)**
¥1,332 mn (FY22/3) → ¥1,243 (FY23/3)

**Rental and Overseas
Business drove double-
digit profit growth****Rental business**

The rental business generated sales of ¥24,714 mn (+6.1% YoY) and operating profit of ¥2,610 mn (+113.6% YoY), showing a substantial gain in profits. In private construction projects, rental demand rose mainly for maintenance and repair work in the Tokyo metropolitan area, and rental volume of temporary construction equipment, including the Iq System, remained strong despite the continuing challenging business environment, with construction suspensions, delays, and postponements of construction starts since the previous fiscal year. In public works, although some construction starts were postponed, rental volume rose YoY. Rental asset utilization in the rental business has been on the rise since bottoming out in FY21/3 at 54.68%, then rising to 50.82% in FY22/3 and then reaching 55.42% in FY23/3. In contrast, utilization rate for Iq System remained high, going from 63.80% in FY21/3 to 69.05% in FY22/3 and then to 71.50% in FY23/3.

Overseas business

The overseas business posted sales of ¥8,986 mn (+40.2% YoY) and operating profit of ¥404 mn (+45.8% YoY). Shipments of temporary construction equipment to Japan were strong at HORY VIETNAM and Hory Korea. At Hory Korea, sales and rental business in Korea also expanded steadily. At DIMENSION-ALL INC. (Philippines), inquiries for temporary construction equipment for infrastructure projects increased as the Philippine government lifted travel restrictions.

Double-digit profit growth likely for second consecutive period

Semi-macro environment in the temporary construction equipment industry expected to be strong

FY24/3 full-year earnings forecast

Takamiya's full-year FY24/3 earnings forecast calls for sales of ¥48.0 bn (+14.6% YoY), operating profit of ¥3.8 bn (+68.7% YoY), recurring profit of ¥3.5 bn (+49.1% YoY), and net profit of ¥2.42 bn (+65.7% YoY). Its 1H forecast announced together with the full-year forecast calls for sales of ¥22.4 bn (+13.1% YoY), operating profit of ¥1.3 bn (+70.3% YoY), recurring profit of ¥1.2 bn (+7.3% YoY), and net profit of ¥770 mn (+3.1% YoY). The company expects earnings to expand further in 2H, reflecting its earnings model that is seasonally weighted toward 2H as it has high exposure to temporary construction demand for public infrastructure projects.

FY24/3 is the final year of Takamiya's 2021 Medium-Term Management Plan announced on May 31, 2021. Initial targets called for sales of ¥60 bn and operating profit of ¥5 bn, but these figures have been revised to reflect delays and postponements in construction starts caused by prolonged COVID-19 prevention measures, soaring raw material prices resulting from the sharp depreciation of the yen, and personnel shortages in the construction industry. The company has also been affected by a shortage of human resources in the construction industry.

While the company made a downward revision to its initial projections, it still expects a substantial double-digit boost in profit in FY24/3 as seen in FY23/3. The semi-macro environment surrounding the temporary construction equipment industry and construction industry will likely remain favorable. Demand for temporary construction equipment appears to be resilient thanks to social infrastructure repair work actively being carried out across Japan. In addition to warehouse and logistics facilities, where demand has been growing and firm amid the COVID-19 pandemic, a pickup in private-sector capital investment is also in the cards, with plans for high-end lodging facilities in anticipation of inbound tourism demand. The company expects construction volume to remain strong as redevelopment projects continue to progress in the Tokyo metropolitan area. Meanwhile, in the Kansai area, the Osaka Bay area is slated to host the Osaka-Kansai Expo, and the Japanese government has approved a comprehensive resort development plan by Osaka Prefecture and Osaka City that had been underway in the area. With these favorable developments, the company expects construction demand in Japan to remain stable.

The sales business, which saw a drop in profits in FY23/3, is continuing to reflect the steep rise in raw material prices in its selling prices. In addition, Takamiya expects profitability to improve on the back of growing interest in its business platform, centered on the Iq System. In the rental business, the company expects demand for the Iq System and temporary construction equipment for maintenance and repair work in the Tokyo metropolitan area to continue growing, and this should help drive strong performance in FY24/3 as well.

The company made no changes to its medium-term vision of "create new value through transformation and aim for sustainable growth by becoming a partner to our customers," or its four basic strategies of:

1. Develop services that blend hardware and software, with a focus on the Iq System
2. Strengthen products for maintenance/repairs and infrastructure redevelopment
3. Nurture businesses beyond the temporary equipment sector
4. Redevelop overseas business bases

As such, it will likely work to strengthen and expand its earnings structure by leveraging the high value-added services it provides through its business platform.

Deploying the Takamiya Platform

Business strategy going forward

At the earnings briefing, Chairman and President Takamiya explained the company's business strategy for the future. One of the highlights of the briefing was "Iq-Bid," a novel high-value-added service that enables customers to buy and sell the Iq System in a digital marketplace.

If the rental business continues to expand, investment in rental assets will continue to increase, and the impact of depreciation will also grow. Should construction volume drop in response to changes in social conditions, such as the spread of COVID-19, or due to external factors such as customer convenience, the rental asset investment and depreciation will affect earnings substantially in terms of costs. Accordingly, the company believes that it must change its non-recurring business model to ensure stable earnings, and this is why it has been promoting the Takamiya Platform to shift toward a recurring business model.

Customers purchasing the Iq System will be able to enjoy the high value-added services provided by the Takamiya Platform. The company also believes that this platform will help it generate stable earnings. One of the company's strategies involves using its customers' Iq System, whereby the company rents out its own Iq System as well as its customers' idle Iq System. Customer's Iq Systems are managed, maintained, and serviced at the company's 29 nationwide Equipment Base locations. Customers can benefit from lower costs associated with equipment storage, management, and maintenance. In addition, they can pull equipment from the company's nationwide equipment base and use it regardless of where they purchased it. Furthermore, customers have the option of purchasing or renting temporary scaffolding equipment from the company to cover any shortages that may arise when taking on construction projects, making the service highly economically convenient.

On the other hand, Takamiya can reduce its overall investment in rental assets and depreciation costs by investing in enough rental assets to cover customer equipment shortages, creating a win-win deal for both parties. This in turn will increase the number of customers using the company's high value-added services, which will drive earnings growth.

Takamiya discloses Platform sales, which provide significant economic benefits to the company and its customers. This includes sales from the purchase and rental of Iq System in cases where customers expect to use the platform. Platform sales rose from ¥600 mn in FY22/3 to ¥1.6 bn in FY23/3, and the company projects that this will grow 156.3% YoY to ¥4.1 bn in FY24/3.

The OPERA online ordering system introduced by the company not only digitally manages rental equipment orders received by phone or fax, but also provides centralized management of all services that will be offered by the platform in the future. The company introduced the Iq-Bid, a digital marketplace enabling customers to buy and sell Iq Systems to each other at this earnings briefing.

When customers buy and sell the Iq System using Iq-Bid, the price is determined by the supply-demand balance. Consequently, customers can purchase and use the Iq System with little cost depending on the selling price. The selling customer can also dispose of excess equipment and purchase additional equipment as needed in a cost-effective and easy manner. The company earns commissions from the transactions between customers, again benefiting both the company and its customers. Going forward, the company's Platform sales and Iq-Bid usage are likely to be the center of attention.

Major economic benefits for both Takamiya and its customers

Providing Iq-Bid, a digital marketplace where customers can buy and sell to and from each other

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