

FY24/3 1Q results rocketed off to a good start with operating profit up 2.2x YoY

Full-year platform sales are expected to increase 156.3%

Earnings Summary

▷ Takamiya announced its 1Q results for FY24/3 on August 4, after the close of trading. Key figures on a consolidated basis were sales of ¥9,896 mn (+9.7% YoY), operating profit rose 125.5% YoY, to ¥409 mn, ordinary profit rose 41.0%YoY, to ¥615 mn, and quarterly net profit rose 33.0%YoY, to ¥417 mn. An overview by business segment is as follows.

▷ **Business overview by segment:** In the **Sales business segment** operating profit rose 116.0%YoY, to ¥275 mn, on a 17.1% rise in sales, to ¥2,895 mn. In the four divisions included in this segment, sales were up in the Temporary construction equipment, Environment, and Used equipment sales, but down in construction materials. In the environment business, agricultural and solar-related sales expanded about 5.2 times YoY to ¥469 mn, accounting for about 90% of the increase in sales in the sales business. On the other hand, sales of the Temporary construction equipment were only 2.8% higher at ¥2,084 mn. Among these, Iq system sales declined 3.1%YoY, to ¥687 mn, as customers have continued becoming dependent on rentals, partly due to the sales price hikes. Operating profit for the **Rental Business Segment** rose 54.6% YoY, to ¥613 mn, on an 11.2% rise in revenues, to ¥6,346 mn. Rental demand was strong, especially for maintenance and repair work in the Tokyo metropolitan area, and rental volume of temporary construction equipment, such as the Iq system, increased. **Overseas Business Segment** operating profit was down 61.9% YoY, to ¥40mn, on a 10.7% decline in sales, to ¥1,824mn. At Hory Korea, despite good construction demand in South Korea, sales declined as a result of a move toward rental use as in Japan; at DIMENSION-ALL INC. (Philippines), although economic activity is on a recovery track, sales remained at the same level as a year earlier due to construction delays and postponement of construction starts.

▷ **The company's FY24/3 earnings forecast:** There are no changes to the full-year guidance that was announced on May 11. Demand for temporary construction equipment appears to be resilient due to active nationwide social infrastructure renovation projects. With redevelopment work rising steadily in the Tokyo metropolitan area, construction volume is likely to remain strong this fiscal year. Platform sales for FY24/3, which include sales from the purchase and rental of Iq system, which is a prerequisite for using the company's platform, are expected to expand about 56%, to ¥4.1 bn (+156.3% YoY), as forecasted at the beginning of the period.

FY	Net Sales (¥mn)	YoY (%)	Oper. profit (¥mn)	YoY (%)	Ord. 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	20.1	14.0
FY23/3	41,894	5.3	2,253	33.9	2,400	22.9	1,460	51.3	30.28	14.0
FY24/3(CE)	48,000	14.6	3,800	68.7	3,580	49.1	2,420	65.7	51.95	14.0
FY23/3 1Q	9,017	(2.4)	181	133.2	436	198.0	313	-	6.52	-
FY24/3 1Q	9,896	9.7	409	125.5	615	41.0	417	33.0	8.64	-
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.

1Q 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 (8/25)	502
YH (8/7)	579
YL (1/10)	357
10YH (15/1/5)	1,197
10YL (16/2/12)	306
Shrs out. (mn shrs)	46.586
Mkt cap (¥ bn)	23.5
Shr equity ratio (3/31)	32.4%
24.3 P/E (CE)	9.7x
23.3 EV/EBITDA	45.14
23.3 P/B (act)	1.18x
23.3 ROE (act)	7.4%
23.3 DY (act)	2.8%

1Y Chart



Toshihiko Nakajima
Senior Analyst

research@sessapartners.co.jp



This report was prepared by Sessa Partners on behalf of the subject company. Please refer to the legal disclaimer at the end for details.

Operating profit rose approx. 2.2x YoY

Sales and Rental businesses drove earnings growth

Number of companies purchasing the Iq System grew steadily

Iq System nearing record quarterly utilization rate of 76.8%

1Q FY24/3 earnings summary

In 1Q FY24/3, Takamiya reported consolidated sales of ¥9,896 mn (+9.7% YoY), operating profit of ¥409 mn (+125.5% YoY), recurring profit of ¥615 mn (+41.0% YoY), and net profit of ¥417 mn (+33.0% YoY). In terms of segment operating profit, the sales and rental businesses drove earnings growth with substantial increases in both sales and profit. 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 ¥2,895 mn (+17.1% YoY) and operating profit of ¥275 mn (+116.0% YoY). In the temporary construction equipment division, interest in the "Takamiya Platform" was strong, and inquiries for new procurement, replacement, and additional purchases were firm. However, sales remained flat YoY as customers continued to use rental equipment instead of purchasing due to concerns about construction delays caused by soaring material prices and personnel shortages, as well as uncertainties regarding the future outlook. In terms of pricing, the company raised selling prices by about 20% in response to the sharp rise in raw material prices, which also encouraged customers to shift from purchasing to renting equipment. Temporary construction equipment-related sales rose due to a marked increase in the volume of construction and civil engineering work.

Sales of Iq System fell 3.1% YoY to ¥687 mn owing to increased reliance on rentals, but the number of companies purchasing Iq System steadily rose to 475 from 465 at the end of FY23/3, raising expectations for more repeat demand in the future.

Aside from temporary construction equipment, sales of solar-related products increased thanks to mega solar projects, and sales of agriculture-related products, such as agricultural greenhouses, also rose.

- **Temporary construction equipment sales (Iq System, G Walk, etc.)**
¥2,027 mn (1Q FY23/3) → ¥2,084 mn (1Q FY24/3)
- **Environment-related sales (solar-related products, agricultural greenhouses)**
¥90 mn (1Q FY23/3) → ¥469 mn (1Q FY24/3)
- **Material-related sales (Vibration control devices, housing construction materials)**
¥160 mn (1Q FY23/3) → ¥128 mn (1Q FY24/3)
- **Used equipment sales (used equipment purchase and sales, asset sales)**
¥193 mn (1Q FY23/3) → ¥212 mn (1Q FY24/3)

Rental business

The rental business reported sales of ¥6,346 mn (+11.2% YoY) and segment operating profit of ¥613 mn (+54.6% YoY). Rental demand was high, especially for maintenance and repair work in the Tokyo metropolitan area, and rental volume of temporary construction equipment and materials in both the building and civil engineering fields remained high, exceeding that of a year earlier. The utilization rate of rental assets in the rental business was 57.9%, up from 51.8% in 1Q FY23/3. Of this, construction-related assets had a utilization rate of 65.6% (58.4% in 1Q FY23/3), and civil engineering assets had a utilization rate of 48.6% (43.5% in 1Q FY23/3), with both fields seeing an increase.

Utilization rate for the Iq System was 72.0%, much higher than the 66.6% seen in 1Q FY23/3. While 1Q utilization rates have historically been lower than other quarters, it came close to the record high of 76.8% set in 3Q FY22/3. The three highest quarterly utilization rates were 75.9% (3Q FY20/3) → 76.1% (2Q FY20/3) → 76.8% (3Q FY22/3).

Overseas business

The overseas business generated sales of ¥1,824 mn (-10.7% YoY) and operating profit of ¥40 mn (-61.9% YoY). In the manufacturing field, both Hory Vietnam and Hory Korea maintained steady shipments of temporary construction equipment to Japan, with no major impact on procurement of raw materials and components. At Hory Korea, where the overseas sales division is located, sales fell despite domestic construction demand in South Korea, as concerns over global monetary tightening prompted customers toward renting as seen in Japan. At DIMENSION-ALL INC. (Philippines), sales were flat YoY owing to construction delays and postponements of construction starts, despite economic activity showing signs of recovery.

Net sales and Profit for each segment (1Q FY3/2023, ¥mn)

	Sales	Rental	Overseas Business	Total	Adjustment ⁽¹⁾	Amount recorded on PL ⁽²⁾
Net sales						
1. External sales	2,840	6,338	717	9,896	-	9,896
2. Inter-segment sales and transfers	54	8	1,106	1,169	(1,169)	-
Total	2,895	6,346	1,824	11,066	(1,169)	9,896
Segment profit	275	613	40	929	(520)	409

Source: Compiled by SIR from company data.

Note 1: Adjustments are corporate expenses, etc. not allocated to any reportable segment, and are included in general and administrative expenses

Note 2: Segment operating profit is the same as operating profit shown on the quarterly income statement

FY24/3 Full-year earnings forecast

Takamiya has maintained its full-year and 2Q (1H) FY24/3 earnings forecasts announced on May 11, 2023, at the time of the FY23/3 earnings announcement. The 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), ordinary profit of ¥3,580 mn (+49.1% YoY), and net profit of ¥2,420 mn (+65.7% YoY).

The 1H forecast announced at the same time calls for sales of ¥22.4 bn (+13.1% YoY), operating profit of ¥1.3 bn (+70.3% YoY), ordinary profit of ¥1,220 mn (+7.3% YoY), and net profit of ¥770 mn (+3.1% YoY). The company's earnings forecast projects earnings to grow further in 2H, as demand for temporary construction equipment for public infrastructure is high, and the company's earnings structure generally weighs heavier in 2H.

FY24/3 is the final year of the current medium-term management plan (FY22/3-FY24/3), and if the company reaches its projected operating profit of ¥3,800 mn, it will set a record high for operating profit, surpassing the ¥3,703 mn posted in FY20/3.

On a semi-macro level, nationwide social infrastructure repair and maintenance work is expected to remain brisk, and demand for temporary construction equipment is expected to be firm as a result. In the Tokyo metropolitan area, redevelopment work is continuing to progress, and construction volume is expected to remain strong in the current fiscal year as well. In the Kansai area, the company expects construction demand to remain stable thanks to the Osaka-Kansai Expo, which is scheduled to be held in the Osaka Bay area, as well as a comprehensive resort development plan by Osaka Prefecture and Osaka City, which has been planned in the same area and approved by the Japanese government.

Record high operating profit within reach

Continued favorable external environment underpinning demand for temporary construction equipment

Under this environment, the company will continue its medium-term management vision to “create new value through transformation and aim for sustainable growth by becoming a partner to our customers,” as set forth in its 2021 medium-term management plan, while also implementing 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

By providing high value-added services through its business platform, Takamiya aims to strengthen and expand its earnings structure in FY24/3 and beyond.

Platform sales rose 2.6x YoY

The company projects that platform sales for FY24/3, which includes sales from the purchase and rental of Iq System in cases where customers are expected to use the platform, will expand substantially to ¥4.1 bn (+156.3% YoY) as shown in its initial forecast. In addition, one of the high-value-added services offered by the Takamiya Platform is the OPERA online ordering system (service launched on April 1, 2022), which consolidates and centrally manages all services offered by the platform, replacing telephone and fax ordering for equipment. The company added 82 new users in 1Q, up from 300 users in FY23/3 when the system was first launched.

Made major investment in rental assets to address strong rental demand

The company expects to significantly boost its investment plan for FY24/3 to ¥11,923 mn, up 72.5% YoY. Of this, capital expenditures will account for ¥3,934 mn, up 3.4 times YoY, mainly for the construction of the R&D center Takamiya Lab. West, which has been delayed for over a year from initial plans due to difficulties in procuring construction materials. In addition, investments in rental assets will account for ¥7,989 mn, up 39.0% YoY, to fulfill supply responsibilities for platform users who have purchased the Iq System and are using rental equipment to cover shortfalls.

In FY24/3, the company plans to pay an interim dividend of ¥6 per share and a year-end dividend of ¥8 per share, bringing the total annual dividend to ¥14 per share, unchanged from FY23/3. Based on this, the dividend payout ratio is 27.0% (44.6% in FY23/3) with a dividend yield of 2.8% based on the closing share price on August 24, 2023.

Trading at a P/E ratio of 9.7x despite strong earnings and favorable external environment

Currently, Takamiya’s share price is ¥505 (closing price on August 24), 12.8% below the year-to-date high of ¥579 (August 7), and is valued at a low forward P/E ratio of 9.7x based on the company's forecasted EPS for FY24/3. On the other hand, the external environment affecting demand for temporary construction equipment is positive, driven by active social infrastructure renovation projects nationwide, redevelopment projects in the Tokyo metropolitan area, Osaka-Kansai Expo-related projects in the Kansai area, and a comprehensive resort development plan that has been approved by the Japanese government. Furthermore, the Iq System's work space coverage, ease of assembly, and transportation efficiency helps address the various issues set to arise with the “2024 problem” brought about by unskilled workers resulting from shortages in construction and civil engineering personnel. With the shortage of manpower, there is an urgent need to improve efficiency at construction sites, and using next-generation scaffolding equipment such as the Iq System will bring about major benefits.

LEGAL DISCLAIMER

This report is intended to provide information about the subject company, and it is not intended to solicit or recommend investment. Although the data and information contained in this report have been determined to be reliable, we do not guarantee their authenticity or accuracy.

This report has been prepared by Sessa Partners on behalf of the concerned company for which it has received compensation. Officers and employees of Sessa Partners may be engaged in transactions such as trading in securities issued by the company, or they may have the possibility of doing so in the future. For this reason, the forecasts and information contained in this report may lack objectivity. Sessa Partners assumes no liability for any commercial loss based on use of this report. The copyright of this report belongs to Sessa Partners. Modification, manipulation, distribution or transmission of this report constitutes copyright infringement and is strictly prohibited.



Sessa Partners Inc.

#5a i-o Azabu, 2-8-14
Azabujyuban, Minato-ku, Tokyo
info@sessapartners.co.jp