

Sanki Engineering Co., Ltd.

1961

Tokyo Stock Exchange Prime Market

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FISCO Ltd.

<https://www.fisco.co.jp>

■ Index

■ Summary	01
1. 1H FY3/23 results: Posted an operating loss due to construction project delays, but orders received and balance carried forward to the next period were at high levels	01
2. FY3/23 results outlook: Operating profit is forecast to increase 4.2% YoY, unchanged from the initial forecast	01
3. “Century 2025” moves on to the Phase 3 medium-term management plan	01
4. Actively returns profit to shareholders: Plans on dividend ratio of 56.7% and total return ratio of 93.6% in FY3/23	02
■ Company outline	03
1. Company outline	03
2. History	03
■ Business description	04
1. Outline of business by segment	04
2. Strengths, distinguishing traits, and competitors	05
3. Main competitors	05
4. Trend in orders received and the economic environment	06
■ Business trends	06
1. 1H FY3/23 results overview	06
2. Financial condition	10
3. Cash flow conditions	11
■ Outlook	12
■ Medium-term management plan	13
1. What is the “Century 2025” long-term vision?	13
2. Basic policy of Phase 3	14
3. “Century 2025” Phase 3 results and management targets	14
4. Phase 3 (FY3/26) KPI	15
5. Update on progress of measures	15
■ Shareholder return policy	16

Summary

Posted an operating loss in 1H FY3/23, but orders received increased sharply

Sanki Engineering Co., Ltd. <1961> (hereafter, “the Company”) is an engineering company whose main business is the planning, design, manufacture, supervision, installation, sale and consultation of systems and equipment for construction facilities (mainly HVAC systems) and plant facilities (mainly water and sewage treatment and disposal plants, etc.) in office buildings, schools, hospitals, shopping centers, industrial plants, R&D centers and other facilities. The Company’s strengths include comprehensive engineering capabilities across a diverse range of business operations, combined with advanced technology and credibility accumulated over a history of nearly 100 years.

1. 1H FY3/23 results: Posted an operating loss due to construction project delays, but orders received and balance carried forward to the next period were at high levels

The Company reported 1H FY3/23 results, with net sales of ¥73,510mn (down 12.6% YoY), an operating loss of ¥1,260mn (compared with profit of ¥1,025mn in the same period of the previous fiscal year), an ordinary loss of ¥751mn (profit of ¥1,310mn), and a loss attributable to owners of parent of ¥770mn (profit of ¥863mn). Net sales declined, mainly because customers revised some project schedules due to impact from delays in the delivery of materials and equipment. There was an operating loss mainly because an increase in selling, general and administrative (SG&A) expenses in connection with a recovery from the COVID-19 pandemic (hereafter, “COVID-19”) could not be offset due to impact from lower sales. On the other hand, orders received were a strong ¥118,914mn (up 23.2% YoY). In particular, orders received for industrial HVAC, where the Company has strengths, grew 97.5% YoY, nearly doubling. As a result, balance carried forward to the next period at the end of 1H FY3/23 stayed at a high level at ¥196,142mn (up 27.3% YoY).

2. FY3/23 results outlook: Operating profit is forecast to increase 4.2% YoY, unchanged from the initial forecast

For FY3/23, the Company is currently forecasting ¥210,000mn in orders received (up 3.8% YoY), ¥200,000mn in net sales (up 3.5%), ¥9,500mn in operating profit (up 4.2%), ¥10,000mn in ordinary profit (up 1.9%) and ¥6,900mn in profit attributable to owners of parent (up 6.3%). The forecast gross profit margin is 15.8% (up 0.2 ppt), while SG&A expense are forecast to rise by 4.2%. The Company stated that it anticipates uncertain factors to continue, such as the impact of COVID-19 and the increase in raw material costs, but with a brisk investment environment, it expects to meet its target through steady sales from existing projects.

3. “Century 2025” moves on to the Phase 3 medium-term management plan

The Company has announced “Century 2025” as its long-term vision for the 10-year period from FY3/17 to FY3/26, the 100th anniversary of its foundation. To achieve the targets of the vision, the Company has divided the 10-year period into three phases and promoted business strategies based on its medium-term management plans. From FY3/23, the Company entered the final Phase 3. The ultimate goal of the long-term vision (Phase 3 target), is to be “The Company of Choice” for even more stakeholders. The Company’s quantitative targets for the final year, FY3/26, are ¥220.0bn in net sales, gross profit margin of 16.5%, ¥12.0bn in ordinary profit, dividend payout ratio of 50% or higher, and ROE of 8.0% or above. These are by no means easy targets, but we at FISCO believe the important point is not merely how the Company will achieve quantitative targets, but also how it will change qualitatively in areas that can’t be seen, such as improvements in construction quality and productivity, work style reforms and growth investment. The further changes made by the Company going forward will be important to monitor.

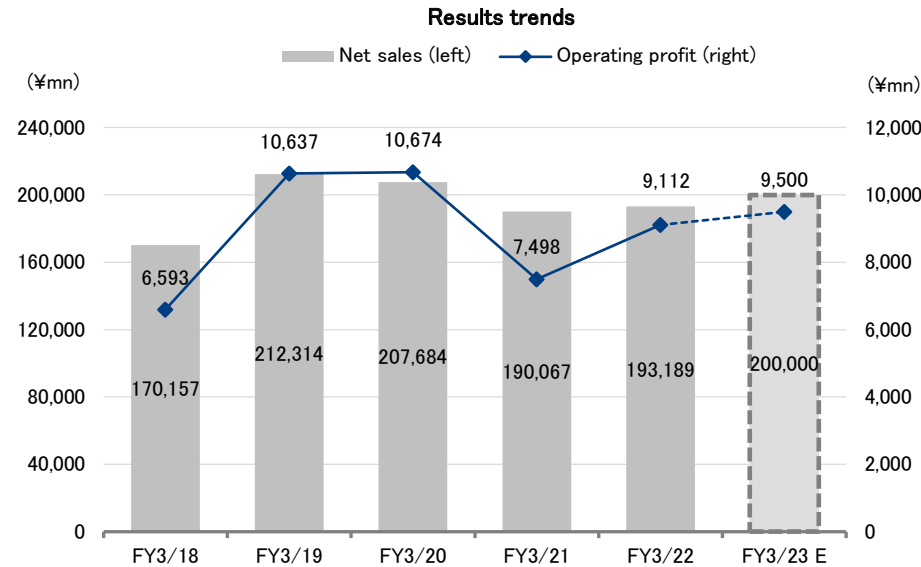
Summary

4. Actively returns profit to shareholders: Plans on dividend ratio of 56.7% and total return ratio of 93.6% in FY3/23

The Company has proactively conducted shareholder returns with stable dividends up to now, dividend hikes in recent years, and acquisition of treasury stock. The annual dividend (including extra dividends) was ¥80 in FY3/21 and ¥85 in FY3/22, and the Company plans to pay an annual dividend (ordinary dividend) of ¥70 in FY3/23. With regard to treasury stock, the Company acquired 1,000,000 shares in FY3/22 and plans to acquire another 1,500,000 shares in FY3/23, of which it had already acquired 80,000 shares as of the end of September 2022. In addition, the Company retired 1,500,000 shares of treasury stock on August 15, 2022. As a result, the Company forecasts a dividend ratio of 56.7% and a total return ratio of 93.6% in FY3/23. As such, we at FISCO believe the Company is deserving of high marks for its proactive shareholder returns policy, rather than simply aiming to increase operating results.

Key Points

- A facilities construction company affiliated with Mitsui and a domestic leader. Is currently implementing measures to improve its profit margin
- In FY3/23, operating profit is forecast to increase 4.2% YoY. Has moved to the final stage of the medium-term management plan
- Actively returns profits to shareholders. Forecasts a total return ratio of 93.6% in FY3/23



Source: Prepared by FISCO from the Company's financial results

Company outline

A comprehensive engineering company conducting the Facilities Construction Business and the Plants & Machinery Systems Business with strengths in advanced technology and credibility cultivated over a long history

1. Company outline

Sanki Engineering is a facilities company that was established in 1925 as a spin-off of the machinery division of the former Mitsui & Co., Ltd. The first large projects for the Company were the Shiga manufacturing plant of Toyo Rayon (currently, Toray Industries, Inc. <3402>), and a refrigerated warehouse for Aomori Seihyo. Initially, the Company engaged in heating, plumbing, and the supply of construction materials. It has subsequently branched out into electrical work, developing integrated plant construction planning, design and installation as its main operations.

After the war, the Company steadily grew on robust construction demand and surpassed ¥1bn in capital in 1958. In subsequent years, the Company participated in projects undertaken in preparation to host the Tokyo Olympic Games in 1964, and grew in tandem with the expansion of the Japanese economy. The Company diversified from the Facilities Construction Business, such as heating, ventilation, air-conditioning (HVAC), plumbing, and electrical systems, into other types of facilities, such as transport equipment, conveyance systems, water treatment facilities and waste treatment facilities. Today, it is a leading comprehensive facilities construction company. The Company's shares were listed on the Tokyo Stock Exchange (TSE) in 1950. Currently it is listed on the TSE Prime market.

2. History

Prior to the 90th anniversary of its establishment in FY3/16, the Company announced the “Century 2025” long-term vision headed toward its 100th anniversary in 2025. It completed Phase 1 in FY3/19, the first step, reaching initial targets. Since April 2020, it has been promoting Phase 2, and in FY3/22, it has mainly achieved the targets. The Company has entered Phase 3, the final phase of “Century 2025,” in FY3/23. The Company's activities going forward to its 100th anniversary in 2025 will be a focus point.

History

1925	Sanki Engineering Co., Ltd. established as a spin-off of the machinery division of the former Mitsui & Co., Ltd.
1935	10th anniversary of its establishment. Had 5 branches, 6 sub-branch offices, 3 affiliated companies, and around 300 employees
1958	Capital exceeded ¥1,000mn
1963	Completed the Sagami Plant (currently, the Yamato Plant)
1964	Participated in projects relating to the Tokyo Olympic Games, including the Yoyogi National Gymnasium, and the NHK Broadcast Center
1982	Newly established Technical R&D Institute in Yamato City, Kanagawa Prefecture, equipped with facilities for basic research and for large-scale experiments
2000	Opened the Shonan Training Center (Yokosuka City, Kanagawa Prefecture) and strengthened human resource development
2011	Relocated its head office to the current location in the Tsukiji area of Tokyo
2016	Announced its long-term vision “Century 2025”
2018	Opened Sanki Techno Center, a comprehensive training and research facility (Yamato City, Kanagawa Prefecture)
2019	Opened the Yamato Product Center, and completed the STeP (Sanki Techno Park) project

Source: Prepared by FISCO from the Company's website, etc.

Business description

Three main segments, particularly strong in industrial HVAC

1. Outline of business by segment

The Company's main businesses come under three segments – Facilities Construction Business, Plants & Machinery Systems Business, and Real Estate Business. Its main activities are design and construction management of various facilities. The Company obtains about half of its orders directly from facility owner clients and half indirectly through general contractors.

Just as the size of the orders varies widely from a few million yen to a few billion yen, the order completion time varies from a few weeks to a few years for longer orders. The profitability of an order varies depending on factors such as labor and material costs and the management construction schedule, and some orders end up more or less profitable than originally planned.

(1) Facilities Construction Business

The Facilities Construction Business engages in activities including planning, design, installation, maintenance, and repair of facilities including office buildings, schools, hospitals, shopping centers, factories, R&D centers, and other facilities. The scope of activities handled by this business is extensive and can be further divided into the following sub-segments.

a) HVAC and plumbing for buildings

The HVAC and plumbing for buildings business provides HVAC, water supply and wastewater systems, plumbing, area heating and cooling systems, kitchen systems, and disaster readiness systems for general buildings and facilities, such as office buildings, schools, hospitals, department stores, hotels, and warehouses.

b) Industrial HVAC

The industrial HVAC business provides HVAC for factories and research facilities of all industries, especially clean room systems for semiconductor plants and pharmaceutical and food processing plants, which are areas of strength for the Company, as well as special air-conditioning systems and appurtenances for manufacturers of medical equipment and the like, in addition to environmental control systems and so forth for automobile manufacturers. This is a strong field for the Company, partly because of its historical background.

c) Electrical systems

The electrical systems business provides electrical equipment systems, communications-related systems, electrical civil works, and so forth.

d) Facility systems

The facility systems business offers project management and consulting services for the construction or relocation of offices and dealing rooms of financial institutions and other industries. It also provides central monitoring and automatic control systems, internet protocol (IP) solutions, network solutions, business continuity plan (BCP) solutions and other services for large-scale buildings.

Business description

(2) Plants & Machinery Systems Business

The Plants & Machinery Systems Business encompasses machinery systems and environmental systems as two sub-segments.

a) Machinery systems

The machinery systems business supplies materials handling systems, including various transportation equipment (conveyors, sorting systems, etc.), and conveyance systems for factories and automated warehouses. Demand is centered on private-sector companies and is affected by capital investment trends.

b) Environmental systems

The environmental systems business provides facilities such as for water treatment (including water and sewage treatment and disposal, industrial wastewater disposal, and sludge treatment and incineration), waste treatment (including waste incineration and landfill wastewater treatment), and others. Customers are mainly local government entities and so forth.

(3) Real Estate Business

The Real Estate Business utilizes vacant land, such as former factory sites, and manages real estate lease business and building management business.

2. Strengths, distinguishing traits, and competitors**(1) Broad business domain and one-stop solutions**

Many companies in Japan provide similar facilities construction services, but the Company's strength lies in the wide range of its businesses, which includes HVAC for building, plumbing, industrial HVAC, electrical systems, facility systems, automated control systems for buildings, transportation systems, and water treatment facilities. The Company can provide services for many types of facilities and solutions covering all phases from planning and design to installation, maintenance, repair, and replacement, depending on the life cycle of the building. This capability allows its customers to place one-stop orders to resolve their problems. Making use of "total engineering" and "life-cycle engineering," which combines a wide variety of businesses horizontally, enables the Company to provide optimal systems with high added value, which is its notable feature and the Company's strength.

(2) Top-class technology and high-quality customer base

One of the Company's main strengths is the advanced technology it has accumulated since before World War II. Moreover, this top-class technology spans a wide range of fields. Furthermore, Sanki Engineering has earned a reputation for reliability over decades of business, which underpins its extensive, high-quality customer base. This can also be considered a strength of the Company. In addition to its prewar achievements, the Company's involvement in numerous post-war projects, including the construction of facilities for the Tokyo Olympic Games in 1964, has enabled it to obtain orders for recent large projects, such as the ABENO HARUKAS in Osaka and Tokyo Midtown Hibiya.

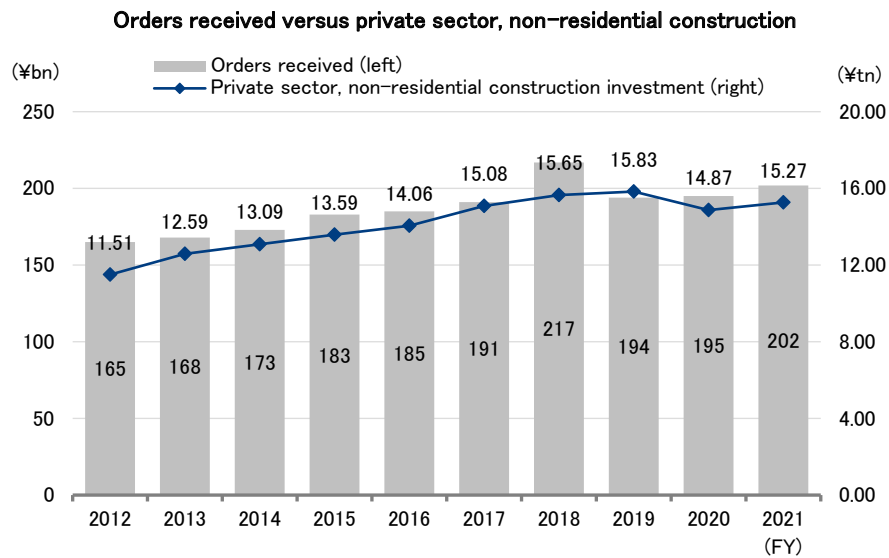
3. Main competitors

Sanki Engineering's competitors vary by project, but its main competitors among the comprehensive facilities construction companies are other large companies such as Takasago Thermal Engineering Co., Ltd. <1969>, Shinryo Corporation (unlisted), Dai-Dan Co., Ltd. <1980>, and Taikisha Ltd. <1979>. Compared to these competitors, Sanki Engineering's strengths lie in its broad business domain and its superiority in industrial HVAC systems, such as clean rooms and other factory air conditioning.

Business description

4. Trend in orders received and the economic environment

Orders received is the most important factor affecting results. Annual orders received are thought to be greatly affected by the Company’s sales efforts, as well as the overall Japanese market, or the Japanese macro-economy. As the Company’s main business is facilities construction, it is influenced by the macro indicator of private sector, non-residential construction investment. The correlation between orders received and private sector, non-residential construction investment is arguably very high.



Source: Prepared by FISCO from the Company’s financial results and the Ministry of Land, Infrastructure, Transport and Tourism’s “Integrated Statistics on Construction Work”

Business trends

Posted an operating loss in 1H FY3/23 due to lower sales. Solid momentum for orders, with balance carried forward to the next period rising 27.3% YoY and staying at a high level

1. 1H FY3/23 results overview

(1) Earnings

The Company reported 1H FY3/23 results with ¥73,510mn in net sales (down 12.6% YoY), ¥1,260mn in operating loss (¥1,025mn in operating income in the previous fiscal year), ¥751mn in ordinary loss (¥1,310mn in ordinary income), and ¥770mn in loss attributable to owners of parent (¥863mn in profit attributable to owners of parent).

Business trends

Net sales declined mainly because customers revised some project schedules due to impact from delays in the delivery of materials and equipment. The indirect cost ratio for projects increased primarily due to those project schedule revisions, such that the gross profit margin declined 0.7ppt YoY to 12.5%. However, the Company does not regard that as concerning since existing projects are not becoming less profitable and it expects the situation to improve if sales are steadily booked. Meanwhile, SG&A expenses were ¥10,422mn (up 3.9% YoY), reflecting an increase in personnel costs from ongoing investment in human resources and a rise in expenses due mainly to IT investments and recovery from COVID-19. As a result, an operating loss of ¥1,260mn was posted.

1H FY3/23 results

	1H FY3/22		1H FY3/23		YoY	
	Result	Ratio	Result	Ratio	YoY change	Change %
Orders received	96,506	-	118,914	-	22,407	23.2%
Balance carried forward	154,112	-	196,142	-	42,029	27.3%
Net sales	84,070	100.0%	73,510	100.0%	-10,560	-12.6%
Gross profit	11,058	13.2%	9,161	12.5%	-1,896	-17.1%
SG&A expenses	10,032	11.9%	10,422	14.2%	389	3.9%
Operating profit	1,025	1.6%	-1,260	-	-2,285	-
Ordinary profit	1,310	1.6%	-751	-	-2,061	-
Profit attributable to owners of parent	863	1.0%	-770	-	-1,633	-

Source: Prepared by FISCO from the Company's financial results and Summary of Financial Results

(2) Earnings by segment

The Facilities Construction Business posted net sales of ¥59,208mn (down 11.7% YoY). By sub-segment, HVAC and plumbing for buildings only posted a slight increase in sales to ¥23,612mn (up 2.0%), but that was partly because momentum was strong in the same period of the previous year, and the result was broadly in line with expectations. Industrial HVAC reported sales of ¥21,751mn (down 23.8%). In addition to the initial forecast having been for sales to decline since performance was strong the past two years, there was impact from customers revising project schedules, so sales declined significantly, but the result was in line with expectations and not especially concerning. Electrical systems posted sales of ¥9,953mn (down 9.8%). However, the decline in sales was also mainly due to brisk sales over the past two years, primarily from a large project for a datacenter, and was on par with expectations. Facility systems recorded sales of ¥3,890mn (down 9.8%), broadly flat YoY.

The Plants & Machinery Systems Business reported net sales of ¥13,068mn (down 17.5% YoY). By sub-segment, machinery systems posted sales of ¥3,151mn (down 36.4%). Key factors were the absence of a large project compared with the same period of the previous fiscal year, and some conveyor and other transportation equipment sales being affected by parts shortages. Environmental systems posted sales of ¥9,916mn (down 8.9%), reflecting a pullback due to impact from the completion of large-scale projects involving industrial waste treatment plants, sewage treatment plants, and so forth in the same period of the previous fiscal year. Additionally, Real Estate Business sales totaled ¥1,235mn (up 3.2%) and Others sales were ¥240mn (down 6.8%).

* DBO (Design Build Operate) is a commissioning method for publicly built, privately operated projects with a collective order made to private companies (such as the Company) for design, building, and operations and maintenance management.

Business trends

Regarding profit by segment, the Facilities Construction Business reported gross profit of ¥7,138mn (down 18.4% YoY). In the sub-segments, gross profit for HVAC and plumbing for buildings, industrial HVAC, and electrical systems decreased 20.1% to ¥6,514mn accompanying a decline in sales. Facilities systems posted gross profit of ¥623mn (up 4.9%). The Plants & Machinery Systems Business reported gross profit of ¥1,581mn (down 15.8%), of which machinery systems contributed ¥244mn (down 70.2%) and environmental systems contributed ¥1,337mn (up 26.2%). In the Real Estate Business and Others, gross profit was ¥491mn (down 2.7%) and ¥4mn (down 74.6%), respectively.

Net sales and gross profit by segment

	(¥mn)					
	1H FY3/22		1H FY3/23		YoY	
	Result	Ratio	Result	Ratio	YoY change	Change %
Net sales	84,070	100.0%	73,510	100.0%	-10,560	-12.6%
Facilities Construction Business	67,065	79.8%	59,208	80.5%	-7,857	-11.7%
HVAC and plumbing for buildings	23,159	27.5%	23,612	32.1%	453	2.0%
Industrial HVAC	28,559	34.0%	21,751	29.6%	-6,808	-23.8%
Electrical systems	11,033	13.1%	9,953	13.5%	-1,080	-9.8%
Facility systems	4,313	5.1%	3,890	5.3%	-422	-9.8%
Plants & Machinery Systems Business	15,832	18.8%	13,068	17.8%	-2,763	-17.5%
Machinery Systems	4,952	5.9%	3,151	4.3%	-1,800	-36.4%
Environmental Systems	10,879	12.9%	9,916	13.5%	-963	-8.9%
Real Estate Business	1,197	1.4%	1,235	1.7%	38	3.2%
Others	257	0.3%	240	0.3%	-17	-6.8%
Adjustments	-282	-	-242	-	40	-
Gross profit	11,058	13.2%	9,161	12.5%	-1,896	-17.1%
Facilities Construction Business	8,744	13.0%	7,138	12.1%	-1,606	-18.4%
Building HVAC, industrial HVAC, and electrical systems	8,149	13.0%	6,514	11.8%	-1,635	-20.1%
Facility systems	594	13.8%	623	16.0%	29	4.9%
Plants & Machinery Systems Business	1,878	11.9%	1,581	12.1%	-297	-15.8%
Machinery Systems	819	16.5%	244	7.7%	-575	-70.2%
Environmental Systems	1,059	9.7%	1,337	13.5%	277	26.2%
Real Estate Business	504	42.1%	491	39.8%	-13	-2.7%
Others	18	-	4	-	-13	-74.6%
Adjustments	-88	-	-53	-	34	-

Source: Prepared by FISCO from the Company's Summary of Financial Results

(3) Orders received by segment

In the Facilities Construction Business, orders received increased a significant 45.8% YoY to ¥100,893mn. By sub-segment, HVAC and plumbing for buildings booked a high level of orders received at ¥36,361mn (up 35.6%). In particular, there was a contribution from the acquisition of large-scale projects in 2Q. Industrial HVAC also did well, with orders received nearly doubling to ¥43,334mn (up 97.5%). There were brisk orders from the electrical machinery industry, primarily related to semiconductors. Electrical systems had orders of ¥14,578mn (down 5.3%), which is decent considering that the level in the same period of the previous fiscal year was high (¥15,393mn), driven by orders for datacenters. Facility systems had orders received of ¥6,618mn (up 31.3%), which can also be said to be solid.

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Business trends

The Plants & Machinery Systems business reported orders received of ¥17,021mn (down 35.3%), which largely reflects the impact from environmental systems described below, so it can be said that the content was basically in line with plan. Machinery systems was strong, with orders received of ¥5,353mn (up 7.7%). In environmental systems, orders received declined a significant 45.3% to ¥11,667mn. However, that is because there was a pullback from orders for large-scale projects received in the same period of the previous fiscal year, and the Company intentionally curbed orders due to ample existing projects. Therefore, it is fair to say that order conditions in environmental systems are not as bad as the numbers appear.

In areas other than facilities work segments, orders received in the Real Estate Business totaled ¥1,235mn (up 3.2% YoY), and in Others totaled ¥242mn (down 12.2%). As a result, total orders received in 1H FY3/23 (including adjusted amounts) was ¥118,914mn (up 23.2% YoY), and balance carried forward to the next period at the end of 1H FY3/23 hence stayed at a high level at ¥196,142mn (up 27.3% YoY). By industry, all industries increased YoY, except for services and the public sector.

Orders for large-scale projects (orders exceeding ¥1.0bn) included 13 projects totaling ¥35,409mn. Both orders volume and value increased significantly YoY, but average value per deal was almost the same as ¥2,723mn (compared to ¥2,837mn in the same period of previous year).

Orders received by segment

	(¥mn)					
	1H FY3/22		1H FY3/23		YoY	
	Result	Compared to orders received	Result	Compared to orders received	YoY change	Change %
Orders received	96,506	100.0%	118,914	100.0%	22,407	23.2%
Facilities Construction Business	69,196	71.7%	100,893	84.8%	31,696	45.8%
HVAC and plumbing for buildings	26,814	27.8%	36,361	30.6%	9,547	35.6%
Industrial HVAC	21,947	22.7%	43,334	36.4%	21,387	97.5%
Electrical systems	15,393	16.0%	14,578	12.3%	-815	-5.3%
Facility systems	5,041	5.2%	6,618	5.6%	1,576	31.3%
Plants & Machinery Systems Business	26,304	27.3%	17,021	14.3%	-9,283	-35.3%
Machinery Systems	4,972	5.2%	5,353	4.5%	380	7.7%
Environmental Systems	21,331	22.1%	11,667	9.8%	-9,663	-45.3%
Real Estate Business	1,197	1.2%	1,235	1.0%	38	3.2%
Others	275	0.3%	242	0.2%	-33	-12.2%
Adjustments	-467	-	-477	-	-	-

Source: Prepared by FISCO from the Company's Summary of Financial Results

Breakdown of large-scale projects with orders exceeding ¥1.0bn

	(projects)		
	1H FY3/21	1H FY3/22	1H FY3/23
Offices	3	-	3
Factories	3	-	4
Research institutes	3	-	1
Hospitals and clinics	1	1	1
Other building interiors	1	2	1
Railways and airports	1	-	-
School buildings and auditoriums	-	-	1
Multipurpose building	-	-	1
Waste processing facilities	1	2	-
Water and sewage treatment plants	1	2	1
Total (projects)	14	7	13
Total (¥mn)	26,427	19,863	35,409

Source: Prepared by FISCO from the Company's Summary of Financial Results

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business trends

2. Financial condition

Looking at financial conditions at the end of 1H FY3/23, current assets totaled ¥102,839mn (down ¥22,903mn compared to the end of FY3/22). This was mainly due to decreases of ¥5,540mn in cash and deposits, decrease of ¥19,125mn in sales receivables (notes and accounts receivable, electronic record claims, notes and accounts receivable on completed construction contracts and other and contract assets), and a ¥1,444mn increase in costs on construction contracts in progress. Noncurrent assets were ¥57,101mn (down ¥764mn), which was primarily because of a decrease of ¥546mn in property, plant and equipment due to depreciation, and a decrease of ¥396mn in investments and other assets due to a decrease in investment securities. As a result, total assets at the end of 1H FY3/23 were ¥159,941mn (down ¥23,668mn).

Current liabilities were ¥59,764mn (down ¥19,446mn compared to the end of FY3/22). This was mainly due to decreases of ¥12,074mn in accounts payable (accounts payable on construction contracts, including electronic record liabilities) and a decrease of ¥524mn in short-term loans payable. Noncurrent liabilities were ¥9,843mn (down ¥277mn), with the main factors including a decrease of ¥170mn in long-term loans payable and an increase of ¥469mn in liability for retirement benefits and a decrease of ¥578mn in deferred tax liabilities. As a result, total liabilities at the end of 1H FY3/23 were ¥69,607mn (down ¥19,724mn). Total net assets totaled ¥90,333mn (down ¥3,944mn), mainly due to a decrease of ¥5,611mn in retained earnings due to payment of dividends, ¥2,121mn decrease in treasury stock due to retirement, and a decrease of ¥591mn in unrealized gains on securities.

Balance sheet

	End of FY3/22	End of 1H FY3/23	YoY change
	(¥mn)		
Cash and deposits	42,779	37,239	-5,540
Notes and accounts receivable on electronic record claims, completed construction contracts and other, and contract assets	66,761	47,636	-19,125
Costs on construction contracts in progress	2,921	4,365	1,444
Current assets	125,742	102,839	-22,903
Tangible noncurrent assets	13,504	12,958	-546
Intangible noncurrent assets	1,255	1,432	177
Investments and other assets	43,106	42,710	-396
Noncurrent assets	57,866	57,101	-764
Total assets	183,609	159,941	-23,668
Accounts payable on electronic record liabilities, construction contracts	40,520	28,446	-12,074
Short-term loans payable	8,885	8,361	-524
Contract liabilities	14,754	15,603	849
Current liabilities	79,210	59,764	-19,446
Long-term loans payable	320	150	-170
Liability for retirement benefits	2,581	3,050	469
Deferred tax liabilities	670	92	-578
Noncurrent liabilities	10,121	9,843	-277
Total liabilities	89,331	69,607	-19,724
Total net assets	94,278	90,333	-3,944

Source: Prepared by FISCO from the Company's financial results and Summary of Financial Results

Business trends

3. Cash flow conditions

In 1H FY3/23, net cash used in operating activities was ¥1,201mn. The main inflows included depreciation and amortization of ¥735mn, and a decrease of ¥19,021 in trade receivables and contract assets. The main outflows were the posting of an ¥896mn loss before income taxes, a decrease of ¥12,235mn in trade payables, and a decrease of ¥4,365mn in other current liabilities. Net cash provided by investing activities was ¥216mn. The main inflow was ¥1,000mn in net proceeds from the purchase and redemption of securities. The main outflows included ¥245mn for the purchase of property, plant and equipment. Net cash used in financing activities was ¥3,668mn. The main outflows were ¥695mn in repayments of long-term borrowings, ¥134mn for the purchase of treasury shares, and ¥2,788mn for dividends paid.

Cash and cash equivalents hence decreased ¥4,540mn in 1H FY3/23 to a period-end balance of ¥40,238mn.

Statement of cash flows

	(¥mn)	
	1H FY3/22	1H FY3/23
Cash flows from operating activities	1,852	-1,201
Profit before income taxes	1,320	-896
Depreciation and amortization	796	735
Change in trade receivables and contract assets (- indicates increase)	12,342	19,201
Change in notes and accounts payable on construction contracts and other (- indicates decrease)	-7,760	-12,235
Cash flows from investment activities	-1,832	216
Purchase/redemption of securities (net)	-1,000	1,000
Purchase of property, plant and equipment	-476	-245
Cash flows from financing activities	-3,421	-3,668
Change in short- and long-term loans payable (- indicates decrease)	-696	-695
Outlays for acquisition of treasury stock	-71	-134
Cash dividends paid	-2,552	-2,788
Change in cash and cash equivalents (- indicates decrease)	-3,344	-4,540
Cash and cash equivalents at end of period	33,742	40,238

Source: Prepared by FISCO from the Company's financial results

■ Outlook

In FY3/23, operating profit is forecast to increase 4.2% YoY, recovering from 1H delays

For FY3/23, the Company is forecasting orders received of ¥210,000mn (up 3.8% YoY), net sales of ¥200,000mn (up 3.5%), operating profit of ¥9,500mn (up 4.2%), ordinary profit of ¥10,000mn (up 1.9%), and profit attributable to owners of parent of ¥6,900mn (up 6.3%). The Company stated that it anticipates uncertain factors to continue, such as the impact of COVID-19 and the increase in raw material costs, but with a brisk investment environment, it expects to meet its targets through steady sales from existing projects. However, we at FISCO believe attaining the current forecasts will not be easy since there were delays due project schedule revisions in 1H, and that there is a possibility of a shortfall. On the other hand, even if the targets for FY3/23 are not met, the Company has a significant balance carried forward to the next period, which indicates there is no need to be pessimistic about the outlook for FY3/24 onward.

Breaking down net sales, the Facilities Construction Business is expected to provide ¥162,000mn (up 4.2% YoY) with sub-segment forecasts of ¥58,000mn in HVAC and plumbing for buildings (down 6.7%), ¥65,000mn in industrial HVAC (up 13.3%), ¥26,000mn in electrical systems (up 4.3%), and ¥13,000mn in facility systems (up 17.8%). The Company projects ¥36,000mn in net sales in the Plants & Machinery Systems Business (up 1.4% YoY) with sub-segment forecasts of ¥10,000mn in machinery systems (up 3.5%) and ¥26,000mn in environmental systems (up 0.6%).

Orders received are expected to increase to ¥210,000mn (up 3.8%) and an increase of ¥10,000mn compared to the forecast announced in August 2022. In the mainstay Facilities Construction Business, orders received are expected to increase to ¥175,000mn (up 9.0% YoY). Sub-segment forecasts are for ¥64,000mn in HVAC and plumbing for buildings (up 9.2%), ¥72,000mn in industrial HVAC (up 14.1%), ¥26,000mn in electrical systems (down 6.7%), partly reflecting a fallback from a large project in FY3/22, and ¥13,000mn in facility systems (up 18.9%). The Company expects ¥33,000mn in orders in the Plants & Machinery Systems Business (down 16.6% YoY). Sub-segment forecasts are for ¥13,000mn in machinery systems (up 45.8%), while environmental systems are forecasting orders received for ¥20,000mn (down 34.7%), reflecting the high level of orders over the past two years. Considering that the orders received environment in the Facilities Construction Business will continue to be strong in 2H, there is a high likelihood of exceeding the forecast in FY 3/23.

The Company is forecasting gross profit of ¥31,500mn (up 4.2% YoY), and a gross profit margin of 15.8%. It projects SG&A expenses of ¥22,000mn (up 4.2%), mainly owing to growth in personnel expenses. As a result, it forecasts operating profit will rise 4.2% YoY to ¥9,500mn. However, an operating loss was posted in 1H, so these forecast levels are not easy, but the Company is maintaining the profitability of existing projects, and the targets should be achievable if sales are as planned in 2H.

Outlook

FY3/23 forecast

	FY3/22		FY3/23 E			
	Result	Component ratio	Amount	Component ratio	YoY change	Change %
Orders received	202,250	100.0%	210,000	100.0%	7,750	3.8%
Facilities Construction Business	160,504	79.4%	175,000	83.3%	14,496	9.0%
HVAC and plumbing for buildings	58,603	29.0%	64,000	30.5%	5,397	9.2%
Industrial HVAC	63,113	31.2%	72,000	34.3%	8,887	14.1%
Electrical systems	27,856	13.8%	26,000	12.4%	-1,856	-6.7%
Facility systems	10,930	5.4%	13,000	6.2%	2,070	18.9%
Plants & Machinery Systems Business	39,554	19.6%	33,000	15.7%	-6,554	-16.6%
Machinery systems	8,914	4.4%	13,000	6.2%	4,086	45.8%
Environmental systems	30,640	15.1%	20,000	9.5%	-10,640	-34.7%
Real Estate Business	2,410	1.2%	2,400	1.1%	-10	-0.4%
Others	563	0.3%	500	0.2%	-63	-11.2%
Net sales	193,189	100.0%	200,000	100.0%	6,811	3.5%
Facilities Construction Business	155,484	80.5%	162,000	81.0%	6,516	4.2%
HVAC and plumbing for buildings	62,146	32.2%	58,000	29.0%	-4,146	-6.7%
Industrial HVAC	57,363	29.7%	65,000	32.5%	7,637	13.3%
Electrical systems	24,933	12.9%	26,000	13.0%	1,067	4.3%
Facility systems	11,040	5.7%	13,000	6.5%	1,960	17.8%
Plants & Machinery Systems Business	35,509	18.4%	36,000	18.0%	491	1.4%
Machinery systems	9,666	5.0%	10,000	5.0%	334	3.5%
Environmental systems	25,842	13.4%	26,000	13.0%	158	0.6%
Real Estate Business	2,410	1.2%	2,400	1.2%	-10	-0.4%
Others	566	0.3%	500	0.3%	-66	-11.7%
Adjustments	-781	-	-900	-	-119	15.2%
Gross profit	30,223	15.6%	31,500	15.8%	1,277	4.2%
Operating profit	9,112	4.7%	9,500	4.8%	388	4.2%
Ordinary profit	9,817	5.1%	10,000	5.0%	183	1.9%
Profit attributable to owners of parent	6,489	3.4%	6,900	3.5%	411	6.3%

Source: Prepared by FISCO from the Company's financial results and Summary of Financial Results

Medium-term management plan

“Century 2025” Phase 3, starting from FY3/23

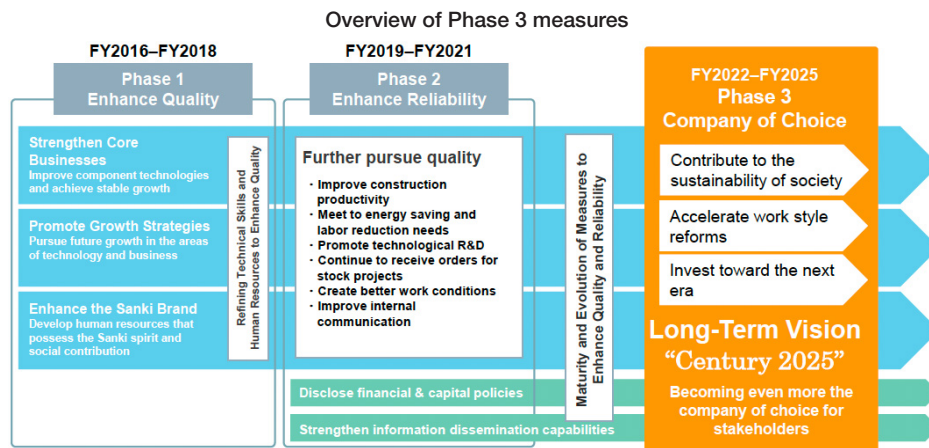
1. What is the “Century 2025” long-term vision?

In March 2016, the Company announced the long-term vision “Century 2025,” which covers the 10-year period until the 100th anniversary of its establishment. The first three years of this plan (FY3/17 to FY3/19) are Phase 1, the next three years (FY3/20 to FY3/22) are Phase 2, and the final four years (FY3/23 to FY3/26) are Phase 3. In each phase, the company has set various qualitative and quantitative goals, and it has mainly achieved these up to the completed Phase 2. The Company has entered Phase 3, starting from FY3/23, which is the finishing phase of “Century 2025.”

Medium-term management plan

2. Basic policy of Phase 3

Phase 3 is the finishing medium-term plan for the long-term vision “Century 2025.” The basic policy of the plan is to further mature and evolve its existing strategies for increasing quality and reliability, adding the three new strategies of “contribute to the sustainability of society,” “accelerate work style reforms,” and “invest toward the next era,” aiming to be the “Company of Choice” for even more stakeholders.



Note: The ESG policy in Phase 2 has evolved into the Sustainability policy in Phase 3

Source: The Company’s “Status of Business Progress in the Medium-Term Management Plan”

3. “Century 2025” Phase 3 results and management targets

The Company’s quantitative targets for the final year, FY3/26, are net sales of ¥220.0bn, a gross profit margin of 16.5%, ordinary profit of ¥12.0bn, a dividend payout ratio of 50% or higher, and ROE of 8.0% or higher. While these are by no means easy targets, we at FISCO believe that what is important is not just simply attaining the quantitative targets, but also how the Company goes about making qualitative changes that are out of sight, including construction quality and productivity enhancements, work style reforms, and growth investments.

Phase 3 (FY3/26) results targets

	(¥bn)
	FY3/26
Net sales	220.0
Gross profit	36.0
Gross profit margin	16.5%
Ordinary profit	12.0
Ordinary profit margin	5.5%

Source: Prepared by FISCO from the Company’s “Status of Business Progress in the Medium-Term Management Plan”

Phase 3 (FY3/26) management targets

Ordinary profit margin	5.0% or above
Dividend policy	Dividend payout ratio of 50% or above Annual dividend of ¥70 or above per share
Acquisition of treasury stock	Approximately 5,000,000 shares*
ROE	8.0% or above
Growth investment	Approximately ¥20bn*

* Accumulative over the period of the plan

Source: Prepared by FISCO from the Company’s “Status of Business Progress in the Medium-Term Management Plan”

Medium-term management plan

4. Phase 3 (FY3/26) KPI

As KPIs for Phase 3, the Company has newly established the targets as follows.

(1) Facilities Construction Business

- Analyze the root cause of problems/complaints (within 5 years after the completion of construction): 100%, report the results of root cause analysis: 4 times/year
- Develop digital and robotic technologies related to construction: 5 projects/year, actual cases of application of developed technology: 5 projects/year

(2) Facility Systems Business

- Orders received for consulting/facility engineering: ¥400mn
- Orders received related to NeWSICT (Next Work Style with ICT): ¥500mn
- Orders received for project management and construction work stemming from consulting-related activities: ¥2.1bn

(3) Machinery Systems Business

- Net sales of robot systems: ¥5.0bn (cumulative)

(4) Environmental Systems Business

- Orders received (cumulative): AEROWING ¥3.6bn; G3 decanter centrifuge ¥2.0bn; fluidized bed incinerator 2 units

(5) E (environment)

- Scope 1 and 2: 40% reduction in CO₂ emissions from FY2020 levels
- Scope 3: 10% reduction in CO₂ emissions from FY2020 levels
- Reduce CO₂ emissions based on the SANKI YOU Eco Contribution Point system by an additional 30% compared to the 3-year average for FY2018-2020

(6) S (society)

- Rate of childcare leave taken: Men 50%, women 100%
- Ratio of women in managerial positions in April 2026: 3.0%

(7) Others

- Investments for the next era (decarbonization technology, energy-saving and labor-reduction technologies, LCE business, digital transformation (DX)): ¥20.0bn

5. Update on progress of measures

Progress on key measures is as follows.

(1) Technology development

- Delivered an AI waste crane system to Clean Hill Tenzan

(2) Sustainability

- Disclosed information based on TCFD recommendations
- Released the Sanki Engineering Group Human Rights Policy
- Launched the new Career Return Program

Medium-term management plan

(3) Governance

- Reviewed officers' compensation system and introduced restricted stock compensation
- Promoted diversity on the Board of Directors and elected Sanki Engineering's first female Director

(4) Other topics

- Introduced a new personnel system, extended the retirement age to 65, actively promoted young employees, and raised starting salaries
- Updated company uniforms and worked on creating comfortable working environments
- Exhibited new products from the Machinery Systems Business at Logis-Tech Tokyo 2022 (Reverse Sorter, vertical conveyor and sorting system, and Meris Bianca, a sorting robot system)

■ Shareholder return policy

Proactive stance toward shareholder returns with dividend hikes and acquisition and retirement of treasury stock. Expects a dividend payout ratio of 56.7% for FY3/23 and total return ratio of 93.6%

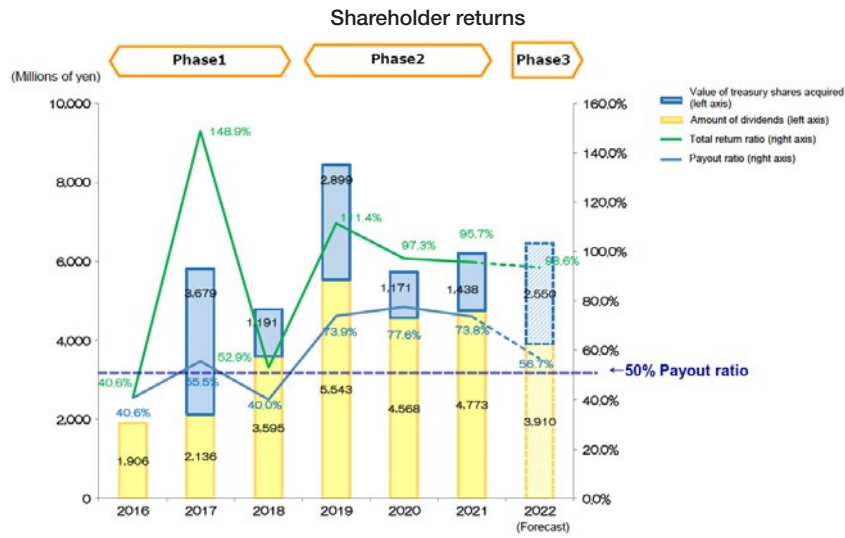
The Company actively returns profits to shareholders. While its basic annual dividend was ¥15 through FY3/14, a change in profit structure prompted a dividend increase beginning in FY3/15. In FY3/20, the Company had an initial annual dividend target of at least ¥60 and raised the dividend to ¥95 including a ¥25 extra dividend to reflect robust earnings. In FY3/21, it paid an annual dividend of ¥80, comprised of a regular dividend of ¥70 and an extra dividend of ¥10. In FY3/22, it paid a annual dividend of ¥85 (including an extra dividend of ¥15). In FY3/23, the Company plans to pay an annual dividend of ¥70 (regular dividend).

Additionally, the Company actively acquires its own shares in the market and retires them as part of the shareholder return policy. In FY3/20, it acquired 1,958,000 shares and retired 2,000,000 shares of treasury stock. In FY3/21, it acquired 1,000,000 shares and retired 1,000,000 shares of treasury stock. In FY3/22, it acquired 1,000,000 shares of treasury stock. It announced it will acquire 1,500,000 shares of treasury stock during FY3/23, and had already acquired 80,000 shares of that by the end of September 2022. Further, it retired 1,500,000 shares of treasury stock in August 2022.

If the dividends and acquisition of treasury stock are executed as described above, the Company forecasts a dividend payout ratio of 56.7% and a total return ratio of 93.6% in FY3/23. Also, the Company actively responds to stakeholders other than shareholders. For the payment terms for partner companies, it has changed to entirely cash payments for partner companies with capital of less than ¥40mn.

We at FISCO think the Company should be favorably assessed for its positive stance on shareholder returns and relationships with various stakeholders.

Shareholder return policy



Source: Prepared by FISCO from the Company's Summary of Financial Results



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