

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange Prime Market

6-Oct.-2023

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

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Summary

FY3/24 1Q results generally in line with the Company's forecasts

Based in Shizuoka Prefecture, TOKAI Holdings Corporation <3167> (hereafter, also “the Company”) is a comprehensive lifestyle infrastructure company that is developing “energy and lifestyle-related business,” primarily the provision of liquefied petroleum (LP) gas, and “information and communications business.” Based on its strengths of “customer power” with over 3.30mn customers, “comprehensive capabilities” to provide a wide range of products and service in a one-stop manner, and “marketing abilities” to immediately address customer needs, it continues to steadily grow.

1. FY3/24 1Q results overview

In FY3/24 1Q (April–June 2023) consolidated results, net sales increased 4.2% year on year (YoY) to ¥53,971mn, while operating profit decreased 26.0% to ¥2,484mn. Sales increased and profit declined, but this was generally in line with the Company's forecasts. Net sales increased for the third consecutive term and set a record high thanks to higher sales from an increase in the number of continuing customers primarily in the energy business and CATV business and to expansion in the recurring revenue business for corporate clients within the information and communications business. With regard to profits, profit increased from an increase in the number of continuing customers, but declined due to the energy business recording lower profit resulting from a decline in residential gas sales volume caused by high temperatures and other factors and due to personnel expenses increasing by ¥0.3bn as a result of wages being raised throughout the Group. The number of continuing customers at the end of FY3/24 1Q stood at 3,312,000, an increase of 99,000 YoY and 13,000 from the end of FY3/23.

2. Outlook for FY3/24

For FY3/24 consolidated results, the Company has maintained its initial forecasts of net sales growth of 4.3% YoY to ¥240,000mn and operating profit growth of 0.5% to ¥15,000mn. Net sales are expected to increase in all business segments, particularly in the construction equipment and real estate business and the information and communications business for corporate customers. In addition, the Company targets steady growth in continuing customers with an increase of 84,000 to 3,384,000. Operating profit is projected to remain at the same level as the previous year as it will be weighed down by a ¥1.0bn increase in personnel expenses, but this is regarded as necessary investment to achieve sustained growth. 2Q has also been marked by higher temperatures than expected, so gas sales volumes may trend down, but this would be offset by a decline in purchase prices. Recurring profit is expected to increase 12.9% YoY to ¥15,000mn, the first increase in two years, because the equity-method investment loss posted in the previous fiscal year will drop out. As a part of its decarbonization efforts, the Company participated in the initial public offering of Repower Energy Development Corporation (REDC), which operates a hydropower business in the Philippines, in July 2023 and announced that it had acquired 65 million shares (an investment ratio of 10%) for approximately ¥0.8bn. Through this investment, the Company will help further develop the sustainable energy market in the Philippines and enhance the country's infrastructure.

Summary

3. New medium-term management plan

Under the New Medium-Term Management Plan 2025 announced in May 2023, the Company will work for sustainable growth by expanding the customer base and providing services that lead to the realization of diverse lifestyles and decarbonization, while strengthening investments in human capital. Aiming for steady growth, its results targets for FY3/26, the last year of the plan, are net sales of ¥260.0bn, operating profit of ¥17.5bn (for average annual growth rates of 4.1% and 5.5% respectively), and 3.57mn continuing customers. By business segment, the Company is planning to increase growth on a relative basis in the information and communications business and the construction equipment and real estate business. In the latter's case, it will consolidate the resources of companies that have joined the Group via M&A and leverage its comprehensive capabilities to promote business expansion in the Chukyo area. In its mainstay business as well, it envisions steady growth from customer base expansion. In addition, the Company's long-term vision is targeting net sales of ¥400.0bn, operating profit of ¥30.0bn, and 5.0mn continuing customers in FY3/31. While also utilizing M&A, the Company will work for further growth as a comprehensive lifestyle infrastructure company.

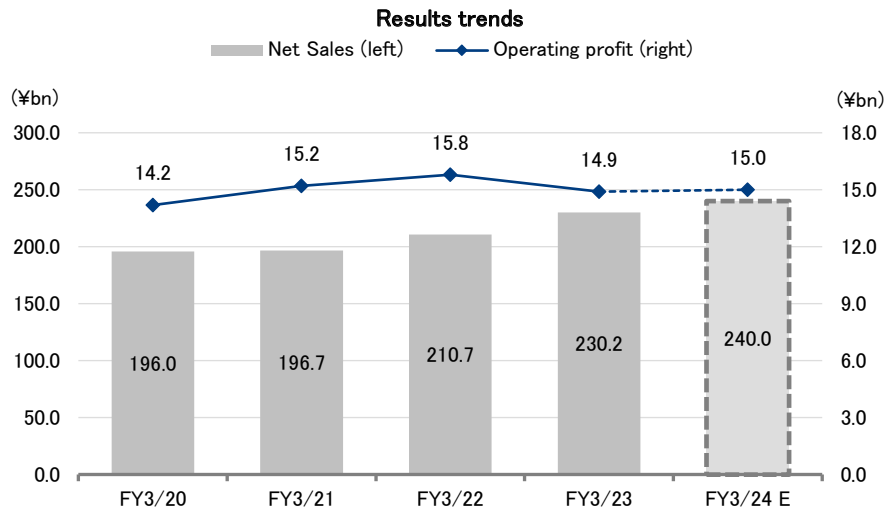
4. Shareholder return policy

For its shareholder return policy, the Company actively returns profits to shareholders by paying dividends and providing perks and gifts to shareholders. The Company's policy on dividends is to pay stable and continuous dividends targeting a dividend payout ratio in the 40-50% range. In FY3/24, the Company plans to pay a dividend per share of ¥32.0 (dividend payout ratio of 49.2%), which is the same amount as the previous fiscal year. As for shareholder rewards, the Company provides various perks and gifts such as QUO cards to shareholders with 100 or more shares at the end of March and September depending on the number of shares held. The estimated total investment yield per share unit, including the gifts to shareholders, based on the current share price level (closing price of ¥901 on August 9, 2023) is in the range of 4.6% to 8.1% (depending on whether the shareholder selects a QUO card or an Aqua product as the gift). In addition, the Company's policy is to flexibly acquire treasury shares if deemed necessary.

Key Points

- In FY3/24 1Q results, sales increased and profits fell, but results have generally been in line with the Company's forecasts
- For FY3/24 results, the Company has maintained its initial forecasts of increased sales and profits
- Aiming for steady growth, its results targets for FY3/26 are net sales of ¥260.0bn and operating profit of ¥17.5bn
- Policy is to pay a dividend payout ratio of 40% to 50% and also to flexibly acquire treasury shares

Summary



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

Result trends

In FY3/24 1Q results, sales increased and profits fell, but results have generally been in line with the Company's forecasts

1. FY3/24 1Q results overview

In the FY3/24 1Q consolidated results, net sales increased 4.2% YoY to ¥53,971mn, operating profit declined 26.0% to ¥2,484mn, recurring profit decreased 22.8% to ¥2,617mn, and net income attributable to owners of the parent declined 25.4% to ¥1,338mn. Net sales increased for the third consecutive term and set a record high thanks to higher sales from an increase in the number of continuing customers primarily in the energy business and CATV business and to expansion in the information and communications business for corporate customers. With regard to profits, profit increased from an increase in the number of continuing customers, but declined by ¥1.0bn YoY in the energy business due to a decrease in residential gas sales volume from high temperatures, higher customer acquisition costs, and other factors. Profit was also weighed down by a ¥1.0bn increase in personnel expenses resulting from a Group-wide wage increase that was part of the Company's investment in human capital.

Regarding the current state of operating profit compared to the Company's forecasts, the energy business suffered a ¥0.2bn decline due to high temperatures and other factors, but there was a ¥0.2bn upswing in the information and communications business from greater cost efficiency in customer acquisition and increased sales from corporate customers, so, overall, profit appears to be proceeding according to plan. Continuing customers at the end of FY3/24 1Q numbered 3,312,000, an increase of 99,000 YoY and 13,000 from the end of FY3/23.

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Result trends

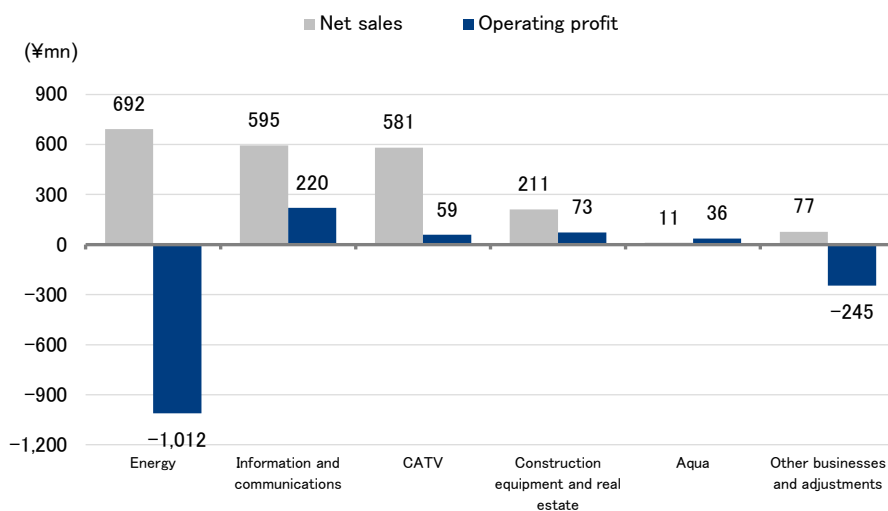
FY3/24 1Q consolidated results

(¥mn)

	FY3/23 1Q		FY3/24 1Q		YoY
	Results	% of sales	Results	% of sales	
Net sales	51,803	-	53,971	-	4.2%
Operating profit	3,355	6.5%	2,484	4.6%	-26.0%
Recurring profit	3,389	6.5%	2,617	4.8%	-22.8%
Net income attributable to owners of the parent	1,795	3.5%	1,338	2.5%	-25.4%
Number of continuing customers (thousand)	3,213	-	3,312	-	3.1%

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

FY3/24 1Q YoY change by business segment



Note: Operating profit values are prior to allocating indirect costs and other costs
 Source: Prepared by FISCO from the Company's 1Q results press release.

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Result trends

Number of customers by key service

	(thousand)					
	FY3/21 1Q-end	FY3/22 1Q-end	FY3/23 1Q-end	FY3/24 1Q-end	YoY change amount	Change from precious FY-end
Energy	718	752	791	830	39	10
LP gas	657	687	720	755	35	9
City gas	61	64	71	75	4	1
Information and communications	760	781	823	840	17	-1
ISP	711	-	-	-	-	-
Existing ISP and related services	383	391	413	403	-10	-3
Hikari Collaboration	328	337	351	365	14	1
LIBMO	50	53	58	72	14	1
CATV	1,161	1,206	1,240	1,293	53	6
Broadcast service	864	878	891	915	24	1
Communications service	297	328	349	379	30	5
Aqua	159	164	166	165	-1	1
Mobile	211	201	187	176	-11	-2
Security	16	16	16	16	0	0
Total	3,012	3,108	3,213	3,312	99	13

Note 1: The number of customers under a thousand are rounded to the nearest thousand. Information and Communications and CATV both offer communications services, and so their numbers are excluded from total figures.

Note 2: Information and communications services (existing ISP and related services) include contracts for ISP add-on services of PC home support service from FY3/21 4Q and PC remote service support from FY3/22 4Q.

Source: Prepared by FISCO from the Company's 1Q results press release.

Net sales by segment

	(¥mn)				
	FY3/21 1Q	FY3/22 1Q	FY3/23 1Q	FY3/24 1Q	YoY
Energy	17,634	18,998	23,274	23,966	3.0%
Information and communications	12,650	12,619	12,873	13,468	4.6%
CATV	8,226	7,996	8,239	8,820	7.1%
Construction equipment and real estate	3,819	5,542	4,641	4,852	4.5%
Aqua	1,896	1,921	1,860	1,871	0.6%
Other businesses and adjustments	885	1,319	915	992	8.5%
Total	45,113	48,396	51,803	53,971	4.2%

Source: Prepared by FISCO from the Company's 1Q results press release.

Operating profit by segment

	(¥mn)				
	FY3/21 1Q	FY3/22 1Q	FY3/23 1Q	FY3/24 1Q	YoY
Energy	1,972	1,578	1,936	924	-52.3%
Information and communications	1,110	1,224	1,236	1,456	17.8%
CATV	1,367	1,459	1,559	1,618	3.8%
Construction equipment and real estate	233	263	53	126	137.7%
Aqua	271	37	62	98	58.1%
Other businesses and adjustments	-1,171	-1,337	-1,494	-1,739	-
Total	3,783	3,226	3,355	2,484	-26.0%

Note: Values are shown prior to allocating indirect costs and other costs

Source: Prepared by FISCO from the Company's 1Q results press release.

Result trends

(1) Energy business

In the energy business, net sales increased 3.0% YoY to ¥23,966mn, while operating profit (operating profit is prior to allocation of indirect costs and other costs, which is a different calculation method than that used in the financial results, and applies to values below as well) declined 52.3% to ¥924mn. The primary factors behind the decline in profit were ¥0.3bn from lower residential LP gas sales volume, a ¥0.3bn increase in customer acquisition costs, and a ¥0.3bn increase in personnel expenses.

Net sales from the LP gas business totaled ¥19,336mn, largely unchanged YoY. Customers at end-1Q steadily increased by 35,000 YoY to 755,000, but residential sales volume declining by 3% due to higher temperatures (an increase of 1°C) had an effect. The number of customers increased by 9,000 compared to end-FY3/23. The breakdown of which was 9,000 new customers, 5,000 acquired through M&A and alliances, and 5,000 lost due to discontinuation or cancellation. There was a net increase in 1Q FY3/23 of 5,000 customers (8,000 new acquisitions, 2,000 from M&A and alliances, and 5,000 lost due to discontinuation or cancellation), so compared to this both new acquisitions and M&A/alliances showed steady growth. By area, customers increased by 5,500 in existing areas and by 3,500 in new areas, so there were steady increases in both.

In the city gas business, net sales increased by 17.5% YoY to ¥4,629mn, and the number of customers increased by 4,000 to 75,000 customers. The increase in net sales was primarily due to an increase in sales unit prices under the raw material cost adjustment system. The majority of the increase in customers is attributable to an increase in contracts with equity-method affiliate T&T Energy Co., Ltd.* in Tokai area (sales commission only recorded as sales).

* T&T Energy was established in October 2019 as a joint venture between TEPCO Energy Partner, Incorporated (an investment ratio of 50%). The company operates a city gas and electricity retail business in the three prefectures of the Tokai region (Aichi, Gifu, and Mie prefecture).

(2) Information and communications business

In the information and communications business, net sales increased 4.6% YoY to ¥13,468mn, while operating profit increased 17.8% to ¥1,456mn. Sales increased for the second consecutive year and profit for the third consecutive year.

In the business for consumers, net sales rose 1.2% YoY to ¥6,035mn, and operating profit increased to ¥272mn, for increases in both sales and profits. Net sales benefited from growth in customers for Hikari Collaboration, which increased by 14,000 to 365,000 as a result of reinforcing acquisitions through an alliance with a major mobile carrier, and from an increase in customers for LIBMO (inexpensive SIM service), which grew by 14,000 to 72,000 owing to expanding the service menu and introducing a fixed-line package plan. Regarding Hikari Collaboration, the share of customers acquired through major mobile carriers has been going up, so customer sales unit prices have been coming down, but this has not had an impact on gross profit. Operating profit enjoyed a ¥0.1bn increase from the increase in Hikari Collaboration and LIBMO contracts and an ¥0.12bn increase from efforts to increase the cost efficiency of customer acquisition.

In the business for corporate clients, net sales increased by 7.5% YoY to ¥7,433mn. A factor behind the increase was steady growth in sales from recurring revenue data communications services and cloud services. Operating profit overall marked time. Despite an increase of ¥80mn from the increase in sales, there was a ¥50mn increase in personnel expenses and ¥30mn increase in electricity charges.

Result trends

(3) CATV business

In the CATV business, net sales increased 7.1% to ¥8,820mn, while operating income rose 3.8% to ¥1,618mn. The increase in net sales was attributable to the number of customers at end-1Q increasing by 24,000 to 915,000 for broadcasting services and by 30,000 to 379,000 for communication services. This was partially the result of making Okinawa Cable Network Inc. a subsidiary in October 2022. Compared to the end of FY3/23, customers increased by 1,000 for broadcasting services and by 5,000 for communication services, and contract rates for communication services have been rising as a result of promoting optical conversion of the network. Net sales were boosted by ¥370mn from adding the portion from Okinawa Cable Network. On an existing business basis, net sales rose by 2.6%, while the operating margin declined slightly from 18.9% to 18.3%. However, this was primarily due to an increase in electricity charges and personnel expenses.

(4) Construction equipment and real estate business

In the construction equipment and real estate business, net sales increased 4.5% YoY to ¥4,852mn, and operating income rose 137.7% to ¥126mn. Renovation projects and civil engineering projects were flat, but the construction segment saw sales increase by ¥0.1bn owing to an increase in orders for new construction for business, while sales also rose by ¥0.1bn in the real estate management segment, so, benefiting from the increase in sales, operating profit increased for the first time in two years.

(5) Aqua business

In the Aqua business, net sales edged up by 0.6% YoY to ¥1,871mn, while operating profit rose by 58.1% to ¥98mn. The number of customers at end-1Q declined by 1,000 YoY to 165,000, but increased by 1,000 compared to end-FY3/23 for the first increase in four quarters. The Company began handling purified water dispensers and worked to expand its customer base, and these efforts paid off in the form of dividends. Profit increased as a result of reining in customer acquisition costs.

(6) Other businesses and adjustments

In other businesses, net sales rose by 8.5% YoY to ¥992mn. Sales in the nursing care business declined 3.8% to ¥345mn due to fewer users of day services, but in the wedding ceremony business, sales increased by 20.2% to ¥260mn owing to a recovery in demand for weddings and parties. In addition, sales in the shipbuilding business rose 51.0% to ¥189mn due to an increase in ships repaired. The segment's operating loss, including internal adjustments, was ¥1,739mn, a YoY increase of ¥245mn.

Maintains its initial forecast in FY3/24, expecting increased sales and profits

2. Outlook for FY3/24

The Company maintains its initial forecast for FY3/24 consolidated results and calls for net sales to rise 4.3% YoY to ¥240,000mn, operating profit to increase 0.5% to ¥15,000mn, recurring profit to increase 12.9% to ¥15,000mn, and net income attributable to owners of the parent to rise 31.5% to ¥8,500mn. The Company forecasts net sales growth in all business segments, and aims to increase the number of continuing customers by 84,000 YoY to 3,384,000. Despite only envisioning slightly higher operating profit due to a ¥1.0bn increase in personnel expenses from stepped up investment in human capital, the outlook calls for double-digit growth in recurring profit as the equity-method investment loss (¥1,977mn) posted in the previous fiscal year will drop out as well as in net income attributable to owners of the parent due to a decline in extraordinary losses. With high temperatures continuing in 2Q as well, LP gas sales volume is likely to fall short of forecasts, but purchase prices are coming down more than expected, so on a profit basis they are expected to offset one another.

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Result trends

Outlook for FY3/24

	FY3/23		FY3/24		YoY
	Results	% of sales	Company forecasts	% of sales	
Net sales	230,190	-	240,000	-	4.3%
Operating profit	14,919	6.5%	15,000	6.3%	0.5%
Recurring profit	13,289	5.8%	15,000	6.3%	12.9%
Net income attributable to owners of the parent	6,465	2.8%	8,500	3.5%	31.5%
Net income per share (¥)	49.41		65.10		31.8%
Number of continuing customers (thousand)	3,299		3,384		2.6%

Source: Prepared by FISCO from the Company's results briefing materials and 1Q results press release.

As a point of interest, the Company participated in the initial public offering of REDC, a hydropower company in the Philippines, on July 24 and announced that it had acquired 65 million shares for approximately ¥0.8bn (equity stake of 10%, 5 Philippine pesos per share). The Company is promoting low carbon and decarbonization initiatives in order to realize carbon neutrality by 2050, and this investment is part of these efforts. Through the investment, the Company will contribute to the further development of the sustainable energy market in the Philippines and to enhancing the country's infrastructure and will work to raise the corporate value of REDC.

Net sales by segment

	FY3/21	FY3/22	FY3/23	FY3/24 E	YoY
Energy	77,380	86,770	102,528	103,000	0.5%
Information and communications	50,735	51,398	53,945	57,200	6.0%
CATV	33,745	32,572	34,500	36,000	4.3%
Construction equipment and real estate	23,177	27,780	26,809	30,600	14.1%
Aqua	7,622	7,629	7,529	7,800	3.6%
Other business	4,065	4,540	4,876	5,400	10.7%
Total	196,726	210,691	230,190	240,000	4.3%

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

Operating profit by segment

	FY3/21	FY3/22	FY3/23	FY3/24 E	YoY
Energy	8,988	8,933	7,384	7,500	1.6%
Information and communications	4,344	4,721	5,270	5,400	2.5%
CATV	5,205	5,852	6,184	6,000	-3.0%
Construction equipment and real estate	2,065	2,480	2,043	2,200	7.7%
Aqua	573	325	533	500	-6.2%
Other business and adjustment	-5,949	-6,518	-6,497	-6,600	-
Total	15,226	15,794	14,919	15,000	0.5%

Note: FY3/24 E is based on an interview with the Company

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

Result trends

(1) Energy business

In the energy business, the Company is forecasting slight increases in sales and profits, with sales expected to increase by 0.5% YoY and operating profit by 1.6%. The number of customers is expected to rise by 42,000 from end-FY3/23 to 862,000 on a combined LP gas and city gas basis. Customers increased by 9,000 in 1Q, so in 2Q the Company will strengthen both new acquisitions and acquisitions via M&A and alliances. With regard to new areas, the Company opened a sales office in Ise City, its third office in Mie Prefecture, in August 2023, and will promote share expansion within the prefecture.

The Company is assuming that both purchase unit prices and sales unit prices decline by 2-3% YoY. The factors behind the change in operating profit are as follows. Sales unit prices dropping by ¥1.4bn and personnel expenses increasing by ¥0.3bn will push down profit, but this will be absorbed by a ¥1.9bn increase in profit from adding more customers. In 1Q, profit declined steeply and residential LP gas sales volumes were weaker than anticipated due to high temperatures, but purchase prices fell by more than expected and effects are also anticipated from increased business efficiency via DX, so it still looks possible for the Company to achieve its operating profit forecast.

(2) Information and communications business

In the information and communications business, the Company forecasts net sales growth of 6.0% YoY and operating profit growth of 2.5%. It expects net sales to continue to rise for corporate business and turn up for consumer business, albeit only slightly. It expects operating profit for corporate business to be basically flat even for the full year as a ¥0.2bn boost from higher sales is offset by a ¥0.2bn increase in costs from higher electricity prices. For consumer business, it expects higher sales to drive profit growth of ¥0.3bn. However, the outlook calls for a ¥0.2bn increase in costs from expansion of investment in human capital, which expects to work out to total profit growth of ¥0.1bn YoY. In 1Q, the Company's efforts to increase the efficiency of customer acquisition costs are proceeding at a pace ¥0.2bn above plans, so operating profit for the full year is also expected to rise.

(3) CATV business

For the CATV business, the Company is projecting net sales to rise by 4.3% YoY and operating profit to decline 3.0%. Net sales are expected to increase from an increase in the number of customers. At the same time, operating profit is being projected to decline by ¥0.2bn. While the increase in customer numbers will boost profit by ¥0.1bn, the Company is also projecting an additional ¥0.1bn in electricity charges and expenses of ¥0.2bn to expand human capital investment.

(4) Construction equipment and real estate business, Aqua business, and other business

In the construction equipment and real estate business, the Company projects net sales will rise 14.1% YoY and operating profit will increase 7.7%, both turning up YoY. It expects operating profit to be buoyed ¥0.2bn by growth in large equipment construction and carbon neutrality-related equipment construction, and boosted ¥0.1bn by growth in renovation work. It expects to neutralize a ¥0.1bn increase in costs from expanded investment in human capital, with profit rising ¥0.2bn YoY.

In the Aqua business, net sales are forecast to rise 3.6% YoY and operating profit to decline 6.2%. Sales will increase thanks to an increase in customer numbers, but a slight decline in operating profit is expected due to increased expenses associated with expansion of human capital investment. In the other business category, net sales are expected to increase 10.7% YoY, centering on the nursing care business and wedding ceremony business, continuing a trend of increasing sales.

Results targets for FY3/26 put net sales at ¥260.0bn and operating profit at ¥17.5bn for steady growth.

3. New Medium-Term Management Plan

(1) Overview of the New Medium-Term Management Plan 2025

The Company announced its three-year New Medium-Term Management Plan 2025, which runs through FY3/26, in May 2023. It will engage in three key initiatives: “Growth of business earning power (expansion of earnings base and rollout of new services),” “Strengthening of foundations for sustainable growth to realize a decarbonized society,” and “Full energization of human capital and organizations, the source of growth.” Its numerical management targets for the final year of the plan, FY3/26, are net sales of ¥260.0bn, operating profit of ¥17.5bn, net income attributable to owners of the parent of ¥10.0bn, and 3,570,000 continuing customers. This puts the average annual growth rate over the plan’s three years at 4.1% for net sales and 5.5% for operating profit. The plan also calls for steady growth of 2.7% in the number of continuing customers.

Additionally, the Company presented its long-term vision for FY3/30 targeting net sales of ¥400.0bn, operating profit of ¥30.0bn, and 5mn continuing customers. It will be necessary to accelerate growth from FY3/27 on in order to achieve the targets, so along with organic growth, M&A strategies are expected to be pursued as well.

Management numerical targets for the New Medium-Term Management Plan 2025 (Announced in May 2023)

	FY3/23 Results	FY3/24 Forecasts	FY3/25 Forecasts	FY3/26 Forecasts	Average annual growth rate
Net sales	230.2	240.0	250.0	260.0	4.1%
Operating profit	14.9	15.0	16.0	17.5	5.5%
Net income attributable to owners of the parent	6.5	8.5	9.0	10.0	15.4%
Cash flows from operating activities	21.2	21.7	23.0	24.4	4.8%
Number of continuing customers (ten thousand)	330	338	348	357	2.7%
Dividend payout ratio	64.8%	49.2%	40~50%		
ROE	8.2%	10.3%	10.4%	10.8%	
ROIC	8.3%	8.0%	8.2%	8.7%	
Equity ratio	41.5%	Around 40%			

Note: Figures rounded to the nearest unit

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

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Result trends

(2) Strategy by business segment and results targets

Strategy by business segment and results targets

	Expansion of earnings base (Area/ No. of customers)	Rollout new services	Results targets			
			FY3/23		FY3/26	
Energy	<ul style="list-style-type: none"> Further develop existing operating areas (raise ARPU via cross-selling) Expand sales capabilities in Western Japan and the Chukyo region Advance M&A and alliances in LP gas and city gas 	<ul style="list-style-type: none"> Rollout new services for regional revitalization Rollout new services for solving social issues (Expand sales of TOKAI ZERO SOLAR based on the power purchase agreement (PPA) model) 	Net sales	¥102.5bn	Net sales	¥108.7bn
			Operating profit	¥7.4bn	Operating profit	¥7.8bn
			No. of customers	820,000 customers	No. of customers	940,000 customers
For corporate information and communications business	<ul style="list-style-type: none"> Expand business areas in Japan 	<ul style="list-style-type: none"> Expand cloud services overseas 	Net sales	¥29.5bn	Net sales	¥39.0bn
			Operating profit	¥4.7bn	Operating profit	¥5.1bn
			No. of customers		No. of customers	
For individual information and communications business	<ul style="list-style-type: none"> Strengthen cooperation among channels to increase the number of customers 	<ul style="list-style-type: none"> Enhance the service lineup 	Net sales	¥24.4bn	Net sales	¥25.9bn
			Operating profit	¥0.6bn	Operating profit	¥1.4bn
			No. of customers	840,000 customers	No. of customers	930,000 customers
CATV business	<ul style="list-style-type: none"> Accelerate growth of two recent acquisitions (Sendai and Okinawa) 	<ul style="list-style-type: none"> Enhance internet access services and optional services Develop and provide new businesses and new services by further developing regional business 	Net sales	¥34.5bn	Net sales	¥37.9bn
			Operating profit	¥6.2bn	Operating profit	¥6.4bn
			No. of customers	1.29mn	No. of customers	1.35mn
Construction equipment and Real estate business	<ul style="list-style-type: none"> Expand business in the Chukyo region Win combined orders through interdivisional cooperation 	<ul style="list-style-type: none"> Expand the types of work offered (construction, equipment installation, electrical work, civil engineering work, repair and maintenance work) Sell GQ system, an off-grid housing system Implement energy-saving initiatives (solar power, EV charging points, etc.) 	Net sales	¥26.8bn	Net sales	¥37.3bn
			Operating profit	¥2.0bn	Operating profit	¥3.0bn
			No. of customers		No. of customers	
Aqua business	<ul style="list-style-type: none"> Strengthen sales in the Shizuoka, Kanto and Chukyo areas (returnable/disposable bottles) 	<ul style="list-style-type: none"> Sell mains-fed purified water dispenser nationwide 	Net sales	¥7.5bn	Net sales	¥8.7bn
			Operating profit	¥0.5bn	Operating profit	¥0.8bn
			No. of customers	170,000 customers	No. of customers	190,000 customers

Source: The Company's New Medium-Term Management Plan 2025

a) Energy business

In the energy business, for FY3/26, the Company is targeting net sales of ¥108.7bn and operating profit of ¥7.8bn. This would mean 2% annual growth in both sales and profits. By promoting M&A and alliances and expanding its sales area, the Company plans to increase the number of customers for LP gas and city gas from 820,000 at end-FY3/23 to 940,000 and will differentiate itself from competitors by increasing business efficiency through DX and working to raise customer satisfaction in order to further increase its share. The Company is assuming that sales prices for LP gas, etc. will be flat from FY3/24. With regard to customer numbers, there was an increase of 110,000 even during the most recent three-year period when M&A negotiations were hindered by the COVID-19 pandemic, so FISCO believes that an increase of 120,000 is possible.

b) Information and communications business

In the information and communications business for corporate clients, for FY3/26, the Company is targeting net sales of ¥39.0bn and operating profit of ¥5.1bn. This would mean average annual growth rates of 10% for sales and 3% for profits. The cloud business is expected to expand on rampant DX demand and government contracts, and the Company will work for business expansion by further enhancing its network infrastructure. The profit growth rate will decline due to optical communication network expansion (extension to the Kyushu area) and improvements to the performance of existing networks, but this is expected to contribute to profit over the medium to long term as sales accumulate in recurring revenue businesses.

Result trends

In the information and communications business for consumers, for FY3/26, the Company is targeting net sales of ¥25.9bn and operating profit of ¥1.4bn, for average annual growth rates of 2% and 33% respectively, which shows that major profit improvement is expected. As it has done in the past the Company will work to strengthen coordination among sales channels and further enhance its service lineup with the goal of increasing customer numbers from 840,000 at end-FY3/23 to 930,000. The profit margin is expected to increase as a result of an improved sales mix and a lighter depreciation burden.

c) CATV business

In the CATV business, for FY3/26, the Company is targeting net sales of ¥37.9bn and operating profit of ¥6.4bn. This works out to average annual growth of 3% in sales and 1% in profits, so stable growth is expected. The Company plans to increase the number of customers from 1.29mn at end-FY3/23 to 1.35mn and will generate new earnings by developing new businesses and services at Group companies in line with local needs. The Company is planning and developing a variety of services, which specifically include net option services (onsite support, remote support, net security service, etc.), home appliance subscription and vacant house management services, health-related businesses originating at fitness gyms, and businesses that utilize locally produced electricity starting with a bicycle-sharing service. It also appears that the Company is continuing to consider M&A, so if deals go through, they will provide a boost.

d) Construction equipment and real estate business

In the construction equipment and real estate business, for FY3/26, the Company is targeting net sales of ¥37.3bn and operating profit of ¥3.0bn. This would mean average annual growth rates of 12% for sales and 14% for profits, so the Company is planning double-digit growth in sales and profits in this segment alone out of all its business segments. Since 2019, the Company has added a number of operating companies to the Group in the area of construction, including Nissan Tri Star Construction, Inc., which is mainly involved in civil engineering and construction projects, Chuo Denki Kogyo Co., Ltd., which conducts electrical facilities work, and Marco Polo Inc., which does large-scale repairs. Consolidating the resources of these Group companies, the Company's strategy is to expand business in the Chukyo area as a general construction company. These Group companies thus far have taken orders on an independent basis, so sales growth has also been limited, but increasing projects in which orders are taken together on a Group basis will make it possible to maximize the scope of sales, which can also be expected to produce Group synergies.

e) Aqua business

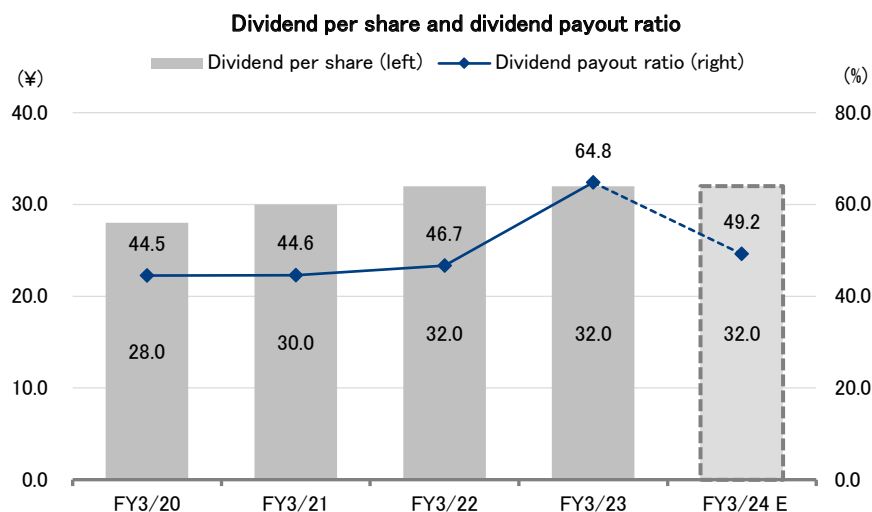
In the Aqua business, for FY3/26, the Company is targeting net sales of ¥8.7bn and operating profit of ¥0.8bn, for average annual growth of 5% and 17% respectively. The Company is strengthening sales in the Shizuoka, Kanto and Chukyo areas, and in Shizuoka Prefecture in particular, it has provided services using a returnable system, but with logistics costs rising, it will also commence sales using a one-way system. The Company began sales nationwide of water supply-type purified water dispensers in April 2023 and will utilize this as way of preventing cancellations. It is targeting an increase in customers from 170,000 at end-FY3/23 to 190,000, a gain of 20,000, but given the fact that customers have only increased by 4,000 during the past three years due in part to greater competition, it seems the Company will have to clear a fairly high hurdle to achieve this goal, and results can be expected to differ depending on whether customer acquisition or profit is prioritized.

Shareholder return policy

Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%, combined with perks and gifts to shareholders for a total investment yield level of 4% to 8%

The Company actively returns profits to shareholders by paying dividends and providing perks and gifts to shareholders, as well as by acquiring treasury shares depending on the circumstances. The Company plans to continue to pay a dividend targeting a dividend payout ratio in the 40-50% range. In FY3/24, the Company plans to pay a dividend per share of ¥32.0 (dividend payout ratio of 49.2%), which is the same amount as the previous fiscal year.

The Company also provides gifts such as QUO cards to shareholders owning 100 or more shares at the end of March and September, according to how many shares they own. The total investment yield per share unit, including the gifts to shareholders, in an estimate using the current share price level (closing price of ¥901 on August 9, 2023), is in the range of 4.6% to 8.1% (in the case that the shareholder selects a QUO card or an Aqua product as the gift).



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

Shareholder gifts

Shareholders on record at the end of March and September are presented with their choice of one of the following five type of gifts, as well as a 10% discount coupon for a standard wedding service at the Group's wedding halls, plus a discount of ¥100,000 (a maximum discount of ¥200,000) and a dining certificate with 20% discount coupon (a book of 12 certificates) for the Beau Ciel and Aoi restaurants.

Shares held	100-299 shares	300-4,999 shares	Over 5,000 shares
Aqua product	¥2,080 worth	¥4,160 worth	¥8,320 worth
QUO card	¥500 worth	¥1,500 worth	¥2,500 worth
A Group restaurant dining certificate	¥1,000 worth	¥3,000 worth	¥5,000 worth
TLC Points	¥1,000 worth	¥2,000 worth	¥4,000 worth
LIMBO monthly usage fee	¥2,100 worth	¥5,100 worth	¥11,280 worth

Source: Prepared by FISCO from the Company website



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