MARUKA FURUSATO Corporation | 7128

Sponsored Research
September 29, 2023

Sessa Investment Research

Upwardly revised forecast thanks to strong sales of machinery and tools, but orders have not bottomed out yet

2Q Flash

Executive summary

- In 1H FY23/12, MARUKA FURUSATO reported a number of noteworthy developments in both its business and financial results, including an upward revision of its earnings forecast, M&A activity, progress in the Smart Factory field, and a share buyback announcement. In particular, since the company announced its first share buyback of up to ¥4 bn on August 21, its share price has clearly risen, indicating that the equity market has begun to recognize the progress of management focused on improving capital efficiency. On the other hand, the share price remains negative at -15% since the beginning of the year, and considering that other machinery trading company stocks are generally +20% and machinery stocks are +50-60%, the company's shares have underperformed the peers by a considerable margin. As a result, the stock has begun to appear less expensive when looking at the P/E ratio and other multiples, offering an easier entry point for investors than before.

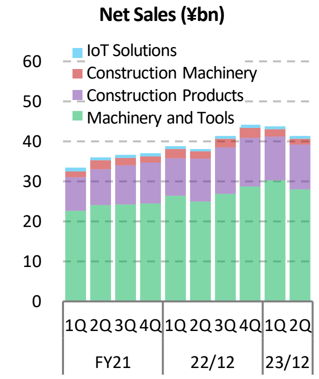
FY2023/12 2Q results

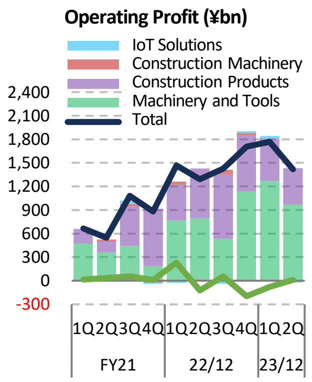
- In the January-June FY23/12 earnings results announced on August 8, 2023, sales grew 10.7% YoY to ¥85.16 bn, and operating profit rose 15.4% YoY to ¥3.19 bn. Compared to the 1H plan disclosed at the beginning of the period, net sales were up by ¥1.16 bn, and operating profit was up by ¥0.69 bn. In light of the strong progress, the company upwardly revised its full-year earnings forecast on the same day, raising projected net sales from ¥170 to ¥171.0 bn (+¥1.0 bn) and operating profit from ¥5.7 bn to ¥6.0 bn (+¥0.3 bn).

The mainstay Machinery & Tools segment drove the uptick with sales reaching ¥58.33 bn, up by ¥0.93 bn from the initial 1H forecast, and segment profit coming in at ¥2.24 bn, coming in ¥0.94 bn higher. In 2022, the company accumulated orders due to supply constraints caused by the semiconductor shortage and lagged behind on recording sales, while it has been making progress in filling its order backlog in 2023. In addition, tool sales were also strong thanks to high factory utilization rates driven by increased production by automobile manufacturers.

FY	Net sales (¥mn)	YoY (%)	OP (¥mn)	YoY (%)	NP (¥mn)	YoY (%)	EPS (¥)	DPS (¥)
FY2019	175,395	-	6,892	-	5,620	-	-	-
FY2020	145,028	*-17.3*	4,539	*-34.1*	2,996	-	-	-
FY2021	143,180	*-1.3*	3,178	*-30.0*	3,065	-	-	-
2022/12	162,416	*13.4*	5,895	*85.5*	4,531	*47.8*	178.9	113.0
2023/12 CE	171,000	*5.3*	6,000	*1.8*	4,700	*3.7*	185.1	65.0
2022/12 2Q	76,911	-	2,760	-	3,311	-	86.2	-
2023/12 2Q	85,159	*10.7*	3,186	*15.4*	2,598	*19.0*	102.6	-

Source: SIR from the company materials
Note: Before FY2021, The adjusted amount of the two groups' revenues for the period.
The DPS for FY22/12 includes a commemorative dividend of ¥50.





Source: Complied by SIR from the company IR material.
Note: Before FY2021, The adjusted amount of the two groups' revenues for the period.

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Overseas sales, which accounts for about 30% of the segment's total sales, rose sharply by 38.3% YoY to ¥17.49 bn. In addition to the strong sales of machine tools and injection molding machines, which had enjoyed robust orders in 2022, the weaker yen helped boost earnings mainly in North America, which accounts for about 50% of overseas sales, and China, which accounts for 25% of overseas sales. Although the company does not disclose the foreign exchange rate assumptions used in its forecasts, the divergence between the timing of the forecasts and recent trends suggests that the yen's depreciation was a factor in the upward revision of its forecasts.

The Construction Products segment, the next largest in terms of earnings volume, posted sales of ¥22.13 bn, ¥1.13 bn higher than the initial 1H forecast, while segment profit came in ¥140 mn lower than the initial 1H forecast. Although gross construction demand itself was firm, driven by major projects, demand for small and medium-sized facilities, the company's core business, did not appear particularly strong.

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