

**NIPPO LTD. (9913 JP)**

LONG-TERM STRATEGY INCORPORATES FINANCIAL LEVERAGE TO PROACTIVELY REDUCE CAPITAL COST

**EXECUTIVE SUMMARY****FY24 1H earnings**

Nippo Ltd. [hereafter Nippo] produced FY24 1H operating profit [OP] of ¥839mil (-10.7% YoY) on sales of ¥22,116mil (+9.4% YoY). In Q2 alone, the firm produced Q2 OP of ¥495mil (+9.5% YoY / +43.9% QoQ) on sales of ¥11,277mil (+12.0% YoY / +4.0% QoQ).

**FY24 1H results: positives and negatives**

While the overall FY24 1H earnings were largely in line with expectations, the firm's individual segment performance is quite varied. Positive drivers were found in the Electronics Segment, which saw solid demand for PCBs used in generative AI, dry films and wafer polishing jigs. Negative factors were mainly in the Mobility segment which continued to be affected by weak auto production and the slowdown in demand for power train parts in China.

**FY24 Guidance**

Nippo made no change to the full-year FY24 guidance which calls for OP of ¥1,950mil (+1.7% YoY) on sales of ¥42,000mil (+0.2% YoY). While management expects earnings in the Electronics segment to remain steady, they are still guiding for a YoY decline in the Mobility segment. Although the Mobility segment will see an improvement from Q3 onwards, it will not be enough to offset the weak 1H performance.

**Shareholder Returns**

Nippo will maintain an annual cash dividend of ¥76/share which generates a dividend pay-out ratio of 49.3%.

**Key Takeaway from the Long-term Strategy 2031**

Nippo revised its capital policy by incorporating financial leverage up to a net D/E ratio of 0.6x. By doing so, the firm aims to proactively and promptly capture investment opportunities while at the same time reducing the capital cost. Growth focus will be given to 1) new functions, 2) Eco products, 3) R&D and 4) promoting productivity as well as investing in human capital through improved remuneration, motivation-linked incentives and hiring and training skilled staff members.

**Nippo Ltd. (9913 JP): Share Information**

Market Cap (¥mil)		19,200	Market Cap (\$mil)		125	
30-day Average Trading Volume (¥mil)		2.1	30-day Average Trading Volume (\$mil)		0.01	
Share performance (%)	9913	TOPIX	Earnings Summary (¥mil, %)	FY22	FY23	FY24CE
Share price (¥, 26 Nov 2024)	2,109	2,689.55	Sales	38,886	41,922	42,000
3mo	+5.1	+1.1	OP	1,912	1,918	1,950
6mo	+6.1	-2.8	OPM (%)	4.9	4.6	4.6
YTD	+50.2	+13.7	EBITDA	3,152	3,362	3,450*
1yr	73.8	+15.1	Financial Leverage (X)	2.2	2.0	2.5*
5yrs	+285.6	+58.3	Net D/E Ratio (X)	-0.1	-0.2	0.0*
Per-share and Valuations	9913	TOPIX	FCF	1,370	2,124	3,500*
EPS (¥, FY24 CE)	154.18	179.35				
DPS (¥, FY24 CE)	76.00	N/A	Shareholder Return Summary	FY22	FY23	FY24CE
BPS (¥, June-24)	1,647	1970.45	Dividend (¥)	33.00	74.00	76.00
FCFPS (¥, FY24EST)	383.48	N/A	Dividend Payout (%)	23.4	52.4	49.3
Forward PER (X)	13.7	14.74	Dividend Yield (%)	N/A	N/A	3.63
PBR (x)	1.3	1.34	DOE (%)	1.9	2.5	2.5*
PCFR (x)	5.5	N/A	Treasury Shares (%)	N/A	0.2	N/A
EV/EBITDA (X)	4.8	N/A	ROE (%)	10.1	9.8	9.3

Source: Nippon-IBR based on data on Bloomberg and Toyo Keizai

\* Nippon-IBR estimates

## FY24 1H RESULTS

Nippo produced FY24 1H OP of ¥839mil (-10.7% YoY) on sales of ¥22,116mil (+9.4% YoY). In Q2 alone, the firm came in with OP of ¥495mil (+9.5% YoY / +43.9% QoQ) on sales of ¥11,277mil (+12.0% YoY / +4.0% QoQ).

By division, the Electronics segment, which generated 46.9% of 1H sales, enjoyed strong orders as we explain in more details below. The Medical and Precision Device segment also saw improved sales mix on the back of solid growth in medical equipment parts orders.

On the other hand, the Mobility segment earnings were negatively affected by Japanese OEM makers' certification issues that led to a suspension in production, and a slowdown in orders for power train parts in China.

Despite FY24 1H sales increasing +9.4% YoY, OP declined -10.7% YoY due to a poor performance in the Mobility segment. Profitability fell due to upfront costs relating to the manufacture of a new product (brake control unit) commencing in the Vietnam factory, in addition to the general weak demand from the auto industry.

Nippo Ltd. (9913 JP): Earnings Summary										
¥mil	FY23				FY24					
	Q1	Q2	1H	FY	Q1	YoY (%)	Q2	YoY (%)	1H	YoY (%)
Sales	10,148	10,067	20,215	41,922	10,839	6.8	11,277	12.0	22,116	9.4
COGS	8,370	8,326	16,696	34,751	9,102	8.7	9,384	12.7	18,486	10.7
Gross Profit	1,777	1,741	3,518	7,170	1,737	-2.3	1,892	8.7	3,629	3.2
GPM (%)	17.5	17.3	17.4	17.1	16.0	-1.5ppt	16.8	-0.5ppt	16.4	-1.0ppt
SG&A	1,289	1,289	2,578	5,252	1,392	8.0	1,397	8.4	2,789	8.2
SG&A / Sales (%)	12.7	12.8	12.8	12.5	12.8	+0.1ppt	12.4	-0.4ppt	12.6	-0.1ppt
OP	487	452	939	1,918	344	-29.4	495	9.5	839	-10.7
OPM (%)	4.8	4.5	4.6	4.6	3.2	-1.6ppt	4.4	-0.1ppt	3.8	-0.9ppt
RP	528	569	1,097	2,150	446	-15.5	533	-6.3	979	-10.7
NP*	335	420	755	1,457	284	-15.2	388	-7.6	672	-11.1

Source: Nippon-IBR based on Nippo's earnings results materials

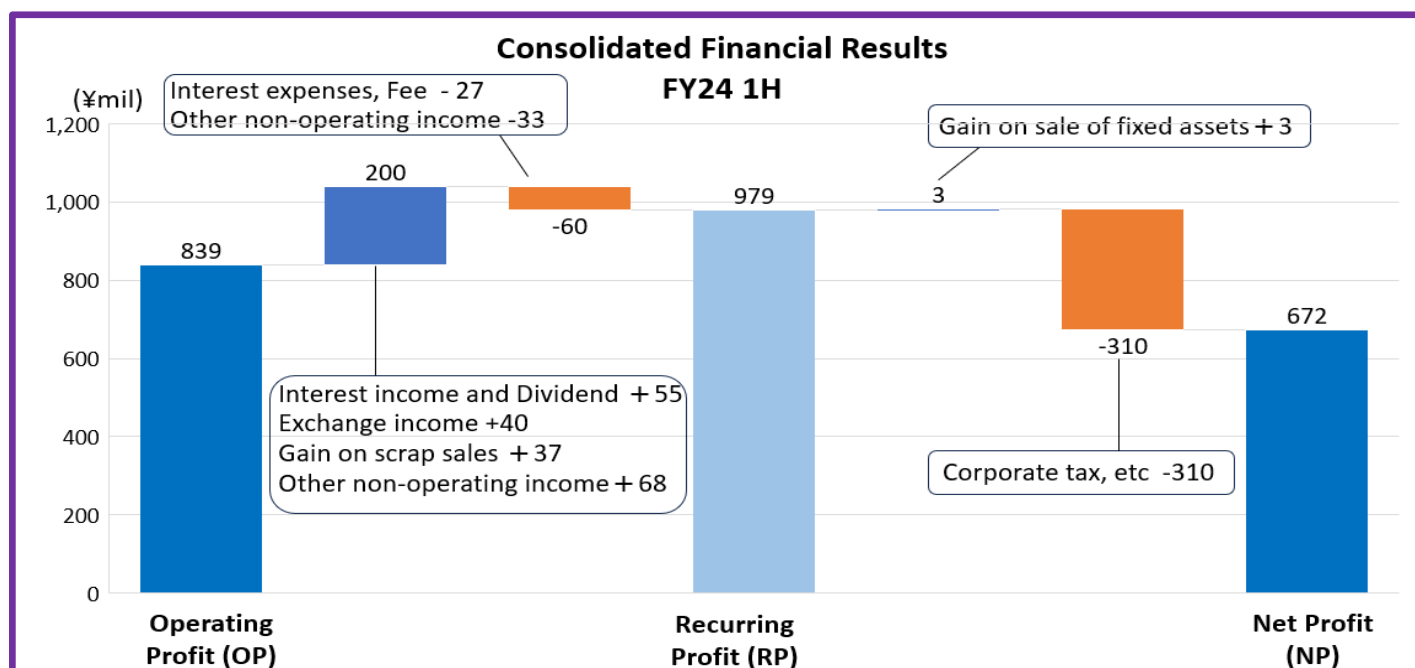
\* Net profit attributed to the parent's shareholders

The Electronics segment contributed ¥1,612mil (+18.3% YoY) to FY24 1H sales as the firm saw solid growth in print circuit boards [PCBs] used in generative AI servers, dry film (Vietnam factory), and wafer polishing jigs (Okinawa factory).

The Mobility Segment contributed only +¥114mil (+1.4% YoY) to FY24 1H sales as (1) production suspensions by Japanese OEM on the back of certification problems weighed on demand, and (2) the weak performance of auto markets in China and ASEAN countries, led to a weaker-than-expected performance.

The Medical and Precision Devices segment added +¥186mil (+5.5% YoY) to FY24 1H sales thanks to solid orders for the firm's medical equipment parts at the Khorat (Thailand) factory.

FY24 1H OP declined -10.7% YoY (-¥100mil YoY) despite the +¥110mil improvement in gross profit [GP] on the back of higher sales (+¥85mil) and a reduction in energy costs (+¥25mil). On the other hand, the +8.2% YoY increase in SG&A reduced OP by -¥210mil, reflecting an increase in personnel costs including pay rises (¥101mil), as well as higher R&D (¥17mil), depreciation (¥48mil) and other overhead costs (¥44mil).



Source: Nippon-IBR based on Nippo's earnings results materials

## FY24 OUTLOOK

Nippo maintains its FY24 guidance for static growth with OP of ¥1,950mil (+1.7% YoY) on sales of ¥42,000mil (+0.2% YoY) based on the following assumptions for 2H:

- **Electronics Segment:** Recovery in smartphone parts continues to be slow but solid order for PCBs for generative AI servers, dry films and wafer polishing jigs will lead segment sales growth.
- **Mobility Segment:** Orders are expected to recover from Q3 onwards, however it will unlikely be enough to offset the weak 1H performance.
- **Costs / Capex:** 1) Costs associated with building new business model. 2) The firm plans to proactively invest in new products and new merchandise which will mean promotion costs will become a factor weighing on earnings.

Based on Nippo's revised dividend policy, the FY24 annual DPS is estimated at ¥76.00, which generates a dividend pay-out ratio of 49.3%.

Nippo Ltd. (9913 JP): Earnings Summary and Guidance						
(¥mil)	FY23		FY24			
	1H	FY	1H	YoY (%)	FYCE	YoY (%)
Sales	20,215	41,922	22,116	9.4	42,000	0.2
COGS	16,696	34,751	18,486	10.7	N/A	N/A
Gross Profit	3,518	7,170	3,629	3.2	N/A	N/A
GPM (%)	17.4	17.1	16.4	-1.0ppt	N/A	N/A
SG&A	2,578	5,252	2,789	8.2	N/A	N/A
SG&A / Sales (%)	12.8	12.5	12.6	-0.1ppt	N/A	N/A
OP	939	1,918	839	-10.7	1,950	1.7
OPM (%)	4.6	4.6	3.8	-0.9ppt	4.6	+0.1ppt
RP	1,097	2,150	979	-10.7	1,950	-9.3
NP*	755	1,457	672	-11.1	1,380	-5.3

Source: Nippon-IBR based on Nippo's earnings results materials

\* Net profit attributed to the parent's shareholders

## FY24 OUTLOOK BY SEGMENT

### Electronics Segment

Nippo guides for FY24 segment OP of ¥1,400mil (+10.1% YoY) on sales of ¥19,100mil (+1.0% YoY), which were revised with the Q1 results from the previous guidance of ¥1,350mil (+6.1% YoY) on sales of ¥19,000mil (+0.5% YoY). This implies 2H OP of ¥572mil (-14.2% YoY / -30.9% HoH) on sales of ¥8,674mil (-14.0% YoY / -16.8% HoH).

The conservative 2H earnings forecast reflects management's concern that 1) order recovery post-production adjustments will remain sluggish, and 2) further CAPEX for the dry film business in the Khorat Factory in Thailand. However, there are also positive factors such as 1) the ongoing strong demand for high-margin circuit board materials used in generative AI and base stations and 2) solid orders for semiconductor wafer polishing jigs.

### Mobility Segment

Nippo is eyeing full-year FY24 OP of ¥1,400mil (-9.3% YoY) on sales of ¥16,500mil (-0.5% YoY), further revised from the previous OP guidance (revised at Q1 results) of ¥1,500mil (+0.5% YoY), although there is no change in sales guidance. Based on the revised full-year guidance, 2H earnings are estimated at OP of ¥932mil (+20.3% YoY / +99.1% HoH) on sales of ¥8,261mil (-2.3% YoY / +0.3% HoH).

Based on customers' production plan, the order environment will likely recover from Q3 onwards. However, management assumes that any recovery in the 2H will unlikely offset the worse-than-expected 1H performance, despite efforts to reduce COGS by increasing automation so as to reduce labour costs.

Although domestic production is likely to recover, the ASEAN markets, especially Thailand, still suffers from a lack of demand for pick-up trucks on the back of removal of subsidies for auto loans.

### Medical and Precision Devices Segment

Management revised full-year FY24 segment OP of ¥300mil (+80.7% YoY) from the previous guidance of ¥200mil (+20.5% YoY), on no change in sales guidance (¥6,700mil +1.3% YoY). 2H earnings are, therefore, estimated at OP of ¥118mil (+35.6% YoY / -35.2% HoH) on sales of ¥3,156mil (-3.2% YoY / -10.9% HoH).

FY24 segment sales are estimated to remain flat YoY, with solid orders for medical equipment parts offsetting the weakness in the printer parts business. The firm remains cautious on the outlook for the printer parts orders given the uncertainty regarding printer makers' decisions to change production plan and volumes.

Nippo Sangyo (9913 JP): Sales and OP by Segment										
¥mil		FY23		FY24						
		1H	FY	1H	YoY (%)	Initial FY CE	YoY (%)	Revision FY24Q1 FYCE	NEW FYCE	NEW YoY (%)
Electronics	Sales	8,814	18,904	10,426	18.3	19,000	0.5	19,100	19,100	1.0
	OP	605	1,272	828	36.9	1,350	6.1	1,400	1,400	10.1
	OPM (%)	6.9	6.7	7.9	+1.1ppt	7.1	+0.4ppt	7.3	7.3	+0.6ppt
Mobility	Sales	8,125	16,578	8,239	1.4	16,600	0.1	16,500	16,500	-0.5
	OP	768	1,543	468	-39.1	1,550	0.5	1,500	1,400	-9.3
	OPM (%)	9.5	9.3	5.7	-3.8ppt	9.3	+0.0ppt	9.1	8.5	-0.8ppt
Medical and Precision Equipment	Sales	3,358	6,617	3,544	5.5	6,700	1.3	6,700	6,700	1.3
	OP	79	166	182	130.4	200	20.5	200	300	80.7
	OPM (%)	2.4	2.5	5.1	+2.8ppt	3.0	+0.5ppt	3.0	4.5	+2.0ppt

Source: Nippon-IBR based on Nippo Sangyo's earnings results materials

Nippo Sangyo (9913 JP): Sales and OP by Segment (Quarterly)												
FY23	FY23				FY24							
	Q1	Q2	Q3	Q4	Q1	Q2	1H	YoY (%)	2HCE	YoY (%)	HoH (%)	
Electronics	Sales	4,309	4,505	4,832	5,258	5,081	5,345	10,426	18.6	8,674	-14.0	-16.8
	OP	282	323	374	293	404	424	828	31.3	572	-14.2	-30.9
	OPM (%)	6.5	7.2	7.7	5.6	8.0	7.9	7.9	+0.7ppt	6.6	-0.0ppt	-1.3ppt
Mobility	Sales	4,150	3,975	4,300	4,153	4,067	4,172	8,239	5.0	8,261	-2.3	0.3
	OP	418	350	411	364	179	289	468	-17.4	932	20.3	99.1
	OPM (%)	10.1	8.8	9.6	8.8	4.4	6.9	5.7	-1.9ppt	11.3	+2.1ppt	+5.6ppt
Medical and Precision Equipment	Sales	1,728	1,630	1,640	1,619	1,734	1,810	3,544	11.0	3,156	-3.2	-10.9
	OP	36	43	25	62	79	103	182	139.5	118	35.6	-35.2
	OPM (%)	2.1	2.6	1.5	3.8	4.6	5.7	5.1	+3.1ppt	3.7	+1.0ppt	-1.4ppt

Source: Nippon-IBR based on Nippo Sangyo's earnings results materials

## REVISITING THE LONG-TERM GROWTH STRATEGY 2031

With the 1H results, Nippo recapped its long-term strategy that lasts to FY2031. There are three fundamental principles:

1. Increase the contribution to overall sales of the manufacturing business from 50% in FY23 to 67% in FY2031 and transform from a wholesale business to a manufacturer.
2. Establish the new Eco Products Business segment.
3. Proactively invest for growth by incorporating financial leverage within a net D/E ratio of 0.6x and reduce capital costs. Growth focus will be given to 1) new functions, 2) Eco products, 3) R&D and 4) promoting productivity as well as investing on human capital through pay rise, motivation-linked incentives and hiring and training skilled staff members.

Nippo has not yet detailed financial targets under the long-term strategy. Under the ongoing medium-term plan that started in FY23 and will complete in FY25, Nippo aims to:

1. Generate consolidated total OP of ¥5,730mil vs the last plan's (FY20~FY22) OP of ¥3,880mil. In the final year (FY25), Nippo is targeting consolidated OP of ¥2,000mil (3-yr CAGR +1.5%).
2. ROE of 10.0%+ on average over three years vs previous plan's average of 7.3%.
3. Achieve a PBR of 1x by improving efficiency of the balance sheet and enhancing profitability.

The current capital allocation policy that was reviewed at the beginning of FY24 states that:

- Optimal levels of working capital and cash on the balance sheet will be regularly reviewed.
- FCF and debt will be utilised to invest approx. ¥6,000mil on 1) human capital, 2) new businesses, and 3) improve operations.
- Working capital of approx. ¥4,000mil
- Interest-bearing debt can extend to approx. ¥7,400mil
- Shareholders return of approx. ¥2,000mil and aiming to achieve a 50% pay-out ratio.

## GENERAL DISCLAIMER AND COPYRIGHT

This report has been commissioned by Nippo Ltd. (the Sponsor) and prepared and issued by Nippon Investment Bespoke Research UK Ltd (Nippon-IBR), in consideration of a fee payable by the Sponsor. Fees are paid on delivery of the report in cash without recourse. Nippon-IBR may seek additional fees for the provision of follow-up research reports and associated IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options, or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however Nippon-IBR does not guarantee the accuracy or completeness of this report and has not sought for this information to be independently verified. Opinions contained in this report represent those of the Nippon-IBR analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Nippon-IBR shall not be liable for any direct, indirect, or consequential losses, loss of profits, damages, costs, or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Nippon-IBR's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Nippon-IBR has a restrictive policy relating to personal dealing and conflicts of interest. It does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees, and contractors of Nippon-IBR may have a position in any or related securities mentioned in this report, subject to its policies on personal dealing and conflicts of interest.

**Copyright:** Copyright 2024 Nippon Investment Bespoke Research UK Ltd.

For further enquiry, please contact:

Yumi Yamamoto-Tyrrell

Nippon Investment Bespoke Research UK Ltd

118 Pall Mall

London SW1Y 5EA

TEL: +44 (0)20 7993 2583

Email : [enquiries@nippon-ibr.com](mailto:enquiries@nippon-ibr.com)



- *Nippon Investment Bespoke Research UK Ltd (formerly known as NIB Research UK Ltd.) is registered in England and Wales (9100028) and is authorised and regulated by the Financial Conduct Authority <FRN: 928332>.*