

HAGIHARA INDUSTRIES (7856 JP)

THE FIRM GUIDES FOR CONSERVATIVE FY25 EARNINGS FORECAST GIVEN UNCLARITY SURROUNDING EXTERNAL FACTORS.

EXECUTIVE SUMMARY

➤ What are the key points of FY24 earnings results?

Hagihara Industries (hereinafter HI) reported FY24 (Oct year-end) earnings results on 10 December with FY24 operating profit [OP] of ¥2,097mil (+6.0% YoY) on sales of ¥33,118mil (+6.0% YoY) versus an OP target of ¥2,200mil (+11.2% YoY) on sales of ¥32,000mil (+2.4% YoY). While sales overshoot the firm's guidance, OP fell short due to costs associated with a core system renewal and real estate acquisition tax incurred on the Kasaoka Factory.

➤ Why does HI assume FY25 1H OP growth will be negative?

Hagihara Industries is guiding for FY25 1H OP of ¥1,160mil (-10.7% YoY) on sales of ¥16,780mil (+2.5% YoY), and full -year FY25 OP of ¥2,400mil (+14.4% YoY) on sales of ¥34,000mil (+2.7% YoY). The weak 1H OP performance is due to tough comps as the firm saw FY24 1H OP boosted by successful price hikes and an improved sales mix in the PLS segment. Management expect 2H OP of ¥1,240mil (+50.1% YoY / +6.9% HoH) on sales of ¥17,220mil (+2.8% YoY / +2.6% HoH).

➤ Will the firm achieve the current medium-term plan's targets in the final year (FY25)?

HI aims to meet the targets that were missed during the previous medium-term (FY20~FY22), which call for recurring profit [RP] of ¥3,300mil (CAGR over 3 years of +25.2%) on sales of ¥33,000mil (CAGR of +3.3%). HI forecasts FY25 recurring profit [RP] of ¥2,500mil (+14.2% YoY) vs the RP target of ¥3,300mil. This is because the firm initially planned to include the subsidies for the Kasaoka Factory in non-operating profit but later changed to include in extraordinary profit in the FY25 forecast. The firm is guiding for FY25 sales of ¥34,000mil (+2.7% YoY).

➤ What is the firm's capital allocation policy?

In the current medium-term plan (FY23~FY25), the firm has budgeted to spend ¥14,000mil – ¥10,500mil for investments and ¥3,500mil for shareholders' return. In FY25, HI plans to pay an annual dividend of ¥65.00/share vs. ¥50.00/share planned under the medium-term plan. Total return to shareholders in FY25 will likely be 70% (40% or more from dividends). The firm plans to cancel excess treasury shares above 5% of shares outstanding.

Hagihara Industries (7856 JP): Share Information

Market Cap (¥mil)		21,800	Market Cap (\$mil)		140	
22-day Average Trading Volume (¥mil)		81	22-day Average Trading Volume (\$mil)		0.5	
Share performance (%)	7856	TOPIX	Earnings Summary (¥mil, %)			
Share price (¥, 24 January 2025)	1,465	2,751.04	Sales	FY23	FY24	FY25CE
3mo	-4.8%	+5.1%	OP	31,245	33,118	34,000
6mo	-4.3%	+1.5%	OPM (%)	1,979	2,097	2,400
YTD	-6.3%	-1.20%	EPS (¥)	6.3	6.3	7.1
1yr	-1.5%	+12.7%	EBITDA	223.1	110.6	162.5
5yrs	-8.7%	+63.3%	Financial Leverage (X)	3,615	3,885	4,275*
Per-share and Valuations		7856	TOPIX	Net D/E Ratio (X)		
EPS (¥, FY25CE)	162.49	177.8	FCF	0.0	0.0	N/A
DPS (¥, FY25CE)	40.00	N/A	Shareholder Return Summary			
BPS (¥, Oct-24)	2,088.91	N/A	Dividend (¥)	FY23	FY24	FY25CE
FCFPS (¥, FY25EST)	82.6*	N/A	Dividend Payout (%)	50	60	65
Forward PER (X)	9.0	15.7	Dividend Yield (%)	22.4	54.2	40.0
PBR (x)	0.7	1.43	DOE (%)	N/A	N/A	4.4
PCFR (x)	17.7	N/A	Treasury Shares (%)	2.4	2.9	N/A
EV/EBITDA (X)	5.1	N/A	ROE (%)	N/A	N/A	6.0
				2.6	3.3	3.6

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

FY24 RESULTS

Hagihara Industries [HI] (7856 JP) reported FY24 (Oct year-end) earnings results on 10 December 2024 with FY24 operating profit [OP] of ¥2,097mil (+6.0% YoY) on sales of ¥33,118mil (+6.0% YoY) versus an OP target of ¥2,200mil (+11.2% YoY) on sales of ¥32,000mil (+2.4% YoY). FY24 recurring profit [RP] fell -2.7% YoY to ¥2,190mil, due to the sharp strengthening of the yen as of the end of September, when HI's overseas subsidiaries end their accounting year. This led to a FOREX valuation loss of -¥58mil, vs a FOREX gain of +¥65mil in 1H. However, FY24 sales overshot guidance thanks to a recovery in the Engineering Products [ENG] segment's revenues, on the back of a boost in demand for paper slitters for secondary lithium-ion battery [LiB] insulators.

Hagihara Industries (7856 JP): Earnings Summary									
(¥mil / Oct year-end)	FY23			FY24					
	1H	2H	FY	1H	2H	FY	YoY (%)	FYCE	FY vs FYCE (%)
Sales	15,930	15,314	31,245	16,374	16,744	33,118	6.0	32,000	3.5
OP	1,010	968	1,979	1,271	825	2,097	6.0	2,200	-4.7
OPM (%)	6.3	6.3	6.3	7.8	4.9	6.3	-0.0ppt	6.9	-0.5ppt
RP	1,091	1,159	2,250	1,405	784	2,190	-2.7	2,300	-4.8
RPM (%)	6.8	7.6	7.2	8.6	4.7	6.6	-0.6ppt	7.2	-0.6ppt
NP*	2,246	871	3,118	960	558	1,518	-51.3	1,600	-5.1
NPM (%)	14.1	5.7	10.0	5.9	3.3	4.6	-5.4ppt	5.0	-0.4ppt

Source: Hagihara Industries' earnings results materials
* NP attributed to the parent's shareholders

FY24 full-year sales increased +¥1,873mil (+6.0% YoY), of which ¥1,481mil (+30.3% YoY) came from the ENG segment. However, the Plastic Products [PLS] segment only saw a +1.5% YoY sales rise to ¥391mil. Although price hikes reflected the surge in raw material costs, adding +¥981mil YoY to segment sales, volumes declined, especially for artificial grass yarn and laminated cloth, reducing segment sales by -¥749mil YoY. Weaker yen also helped sales improve on the YoY basis (+¥158mil YoY).

While the overall FY24 OPM stayed flat at 6.3% (+0.0ppt YoY), the 2H OPM deteriorated to 4.9% from 1H's 7.8%, due to an increase in the cost of core IT system renewals, most of which were booked as part of the PLS segment's 2H costs. As a result, the segment SG&A increased +¥317mil YoY.

In the ENG segment, sales increase boosted the segment OP by +¥389mil YoY, which was offset by worsened profitability on the back of change in sales mix (-¥176mil YoY) and increase in the segment SG&A (-¥104mil YoY) due to cost associated with participating in trade expos etc.

Segment Sales and OP (Cumulative)									
(¥mil / Oct year-end)	FY21		FY22		FY23		FY24		
	1H	FY	1H	FY	1H	FY	1H	FY	YoY (%)
PLS Segment Sales	10,872	22,540	12,327	25,570	13,550	26,353	13,473	26,744	1.5
Segment OP	941	1,576	557	1,176	912	1,655	1,046	1,665	0.6
Segment OPM (%)	8.7	7.0	4.5	4.6	6.7	6.3	7.8	6.2	-0.1ppt
ENG Segment Sales	2,235	5,165	2,163	4,382	2,379	4,891	2,900	6,373	30.3
Segment OP	329	677	184	200	98	324	225	432	33.4
Segment OPM (%)	14.7	13.1	8.5	4.6	4.1	6.6	7.8	6.8	+0.2ppt
Total Sales	13,107	27,705	14,490	29,953	15,930	31,245	16,374	33,118	6.0
Total OP	1,270	2,254	742	1,377	1,010	1,979	1,271	2,097	6.0
OPM (%)	9.7	8.1	5.1	4.6	6.3	6.3	7.8	6.3	-0.0ppt

Source: Hagihara Industries' earnings results materials

Plastic Products [PLS] Segment

The PLS segment saw FY24 OP rise +0.6% YoY ¥1,665mil on sales of ¥26,744mil (+1.5% YoY). The segment earned 67.2% (¥17,976mil, -0.9% YoY) from the Domestic businesses, while the remaining 32.8% (¥8,768mil, +6.7% YoY) was generated from the Overseas businesses. Segment sales saw a mixture of positive and negative factors.

The positive factors were as follows:

- Price hikes to reflect the surge in energy and raw material costs.
- Although BarChip sales only grew +0.7% YoY, due to withdrawal from mining-related business in Australia on the back of excessive competition, HI cultivated demand from new applications such as being used in floors and road works. In Japan, BarChip was deployed in guideways of linear motor car.
- Other industrial materials saw sales growth of +4.5% YoY to ¥5,768mil, thanks to improved demand for flexible container bags for food-related use after inventory adjustments had been completed.
- Record-breaking heat during the summer in Japan boosted demand for high value-added products such as heat shielding sheets.
- Overseas demand for Meltac cloth for food containers was solid thanks to the weaker yen as well an increase in production capacity.

Negative factors were:

- Sales of artificial grass yarns fell YoY due to decline in public works.
- In general, customers continued to refrain from buying materials such as yarns under the inflationary environment.

PLS Segment - Sales Breakdown by Products									
(¥mil / Oct year-end)		FY21	FY22	FY23	FY24				
Products	Usage	FY	FY	FY	1H	FY	YoY (%)	FYCE	FY vs FYCE (%)
Sheets & Construction Materials	Sheets, Laminated cloths, sandbags	5,421	5,804	5,935	2,988	6,114	3.0	5,771	5.9
Others	Flexible container bags	5,360	6,109	5,521	2,847	5,768	4.5	6,073	-5.0
BarChip	Infrastructure, construction, mines	3,680	4,825	5,289	2,822	5,325	0.7	5,924	-10.1
Living Materials	Adhesive products, artificial grass yarns, Meltac	7,125	7,862	8,678	4,401	8,729	0.6	8,358	4.4
Others	Merchandise	951	967	927	412	806	-13.1	833	-3.3
PLS Total		22,540	25,570	26,353	13,473	26,744	1.5	26,962	-0.8

Source: Hagihara Industries' earnings results materials

Engineering Products [ENG] Segment

The Engineering Products [ENG] segment reported FY24 OP of ¥432mil (+33.4% YoY) on sales of ¥6,373mil (+30.3% YoY). 86.7% of the segment sales came from the domestic sales (¥5,526mil / +45.3% YoY).

Positive factors that drove FY24 segment earnings are as follows:

- The sales of paper slitters surged +121.1% YoY to ¥1,148mil, thanks to increasing demand for slitting insulators used in secondary LIBs.
- Sales of screen changers, whose main use is to recycle PET bottles, also saw solid sales growth of +49.7% YoY to ¥1,529mil. HI's recycling equipment such as screen changer can also be used to separate plastic-aluminium hybrid materials into plastic and metal packages, which is a compulsory process to recycle such hybrid materials. The separated aluminium can then be sold to aluminium processing companies as a recycled material. Such hybrid packaging materials are used in pharmaceutical and food packaging.
- Film slitters, which generate the largest proportion of the segment sales, also saw a +12.0% YoY rise in sales to ¥3,484mil.

ENG Segment - Sales Breakdown by Products									
(¥mil / Oct year-end)		FY21	FY22	FY23	FY24				
Products	Usage	FY	FY	FY	1H	FY	YoY (%)	FYCE	vs FYCE (%)
Paper Slitters	Electronics materials and parts	925	392	519	387	1,148	121.1	1,004	14.3
Film Slitters	Soft packaging materials, optical materials, LiB separators	3,413	2,862	3,109	1,402	3,484	12.0	2,692	29.4
Screen Changer, Recycling Equipment	PET bottle recycling	711	1,055	1,021	1,066	1,529	49.7	1,145	33.6
Others	Winder	115	71	241	25	211	-12.3	195	8.4
ENG Total		5,165	4,382	4,891	2,900	6,373	30.3	5,037	26.5

Source: Hagihara Industries' earnings results materials

In FY21, HI changed the segmentation of each strategic product and categorised them into different tasks to reach its Sustainability Development Goals [SDGs]. From FY24, the firm has removed details of each new category as almost all of its products are somewhat related to SDGs. For reference, the sales breakdown of SDGs-related products is shown in the table below. The firm aims to offer solutions to various issues that have been raised by its customers.

Consolidated Sales for SDGs-related Products										
(¥mil / Oct year-end)	FY22		FY23		FY24					
	1H	FY	1H	FY	1H	YoY (%)	FY	YoY (%)	FYCE	vs FYCE (%)
Climate Change Adaptations	2,119	4,259	2,477	4,894	2,478	0.0	5,007	2.3	4,607	8.7
Domestically Produced Sheets (inc. Blue Sheet)	1,106	2,238	1,371	2,550	1,319	-3.8	2,637	3.4	2,452	7.5
Adhesive Tape Cloths	1,013	2,020	1,106	2,343	1,159	4.8	2,370	1.2	2,155	10.0
Work-style Reform	2,549	5,789	3,137	6,253	3,252	3.7	6,239	-0.2	6,798	-8.2
Flame Retardant Sheets & Mesh Sheets	469	963	488	963	430	-11.9	914	-5.1	874	4.6
BarChip	2,080	4,825	2,649	5,289	2,822	6.5	5,325	0.7	5,924	-10.1
Recycling-oriented Society	589	1,131	631	1,205	1,221	93.5	1,792	48.7	1,428	25.5
Blue Sheet Branded by Eco-mark	27	76	110	184	155	40.9	262	42.4	282	-7.1
Screen Changers	492	930	373	787	635	70.2	987	25.4	693	42.4
Recycling Machines	69	124	147	234	431	193.2	542	131.6	451	20.2
Solutions for Industry & Technology Innovations	1,558	3,255	1,644	3,628	1,808	10.0	4,632	27.7	3,697	25.3
Film Slitters	1,460	2,862	1,553	3,109	1,420	-8.6	3,484	12.1	2,692	29.4
Paper Slitters	97	392	91	519	387	325.3	1,148	121.2	1,004	14.3
Total Sales of SDGs-related Products	6,817	14,435	7,889	15,980	8,761	11.1	17,671	10.6	16,532	3.5
% of Total Sales	47.1%	48.2%	49.5%	51.1%	53.5%	+4.0ppt	53.4%	+2.3ppt	51.7%	+0.5ppt

Source: Hagihara Industries' earnings results materials

FY25 OUTLOOK

Management is guiding for FY25 1H OP of $\text{¥}1,160\text{mil}$ (-8.8% YoY) on sales of $\text{¥}16,780\text{mil}$ (+2.5% YoY), and FY25 OP of $\text{¥}2,400\text{mil}$ (+14.4% YoY) on sales of $\text{¥}34,000\text{mil}$ (+2.7% YoY). The firm's FY25 assumptions for Naphtha and FOREX are $\text{¥}75,000/\text{kl}$ and $\text{¥}150/\text{US\$}$, respectively. Although FY25 1H OP is expected to decline due to tough YoY comps – FY24 1H OP was boosted by successful price hikes and an improved sales mix in the PLS segment – the firm is guiding for 2H OP of $\text{¥}1,240\text{mil}$ (+50.1% YoY / +6.9% HoH) on sales of $\text{¥}17,220\text{mil}$ (+2.8% YoY / +2.6% HoH). The recovery in 2H OP is due to improved profitability of the Engineering Products segment.

In addition, management remains conservative in their outlook for the FOREX, energy costs, global demand, and the slowdown in the Chinese economy. While HI aims to pass on cost increases via price hikes, there will be a time lag of approx. 3~6 months for them to take effect. Furthermore, the firm is also concerned about customer sentiment regarding price hikes, which could negatively affect sales volume throughout FY25, especially in the PLS segment.

With regards to shareholder returns, the firm plans to pay an annual dividend of ¥65.00/share (vs ¥50.00/share planned under the Medium-term Plan) which will result in a dividend payout ratio of 40%.

Hagihara Industries (7856 JP): Earnings Summary and Guidance									
(\$mil / Oct year-end)	FY24			FY25CE					
	1H	2H	FY	1H CE	YoY (%)	2H CE	YoY (%)	FY CE	YoY (%)
Sales	16,374	16,744	33,118	16,780	2.5	17,220	2.8	34,000	2.7
OP	1,271	825	2,097	1,160	-8.8	1,240	50.1	2,400	14.4
OPM (%)	7.8	4.9	6.3	6.9	-0.9ppt	7.2	+2.3ppt	7.1	+0.7ppt
RP	1,405	784	2,190	1,210	-13.9	1,290	64.3	2,500	14.2
RPM (%)	8.6	4.7	6.6	7.2	-1.4ppt	7.5	+2.8ppt	7.4	+0.7ppt
NP*	960	558	1,518	1,340	39.6	890	59.5	2,230	46.9
NPM (%)	5.9	3.3	4.6	8.0	+2.1ppt	5.2	+1.8ppt	6.6	+2.0ppt

Source: Hagihara Industries' earnings results materials
* NP attributed to the parent's shareholders

MEDIUM-TERM PLAN “V FOR J” – RECAP AND REVISION

HI announced the current medium-term plan, which covers the three years between FY23~FY25, at the time of its FY22 results. Given the shortfall in achieving the previous medium-term plan, the new medium-term plan starts with a revisit of the previous plan's targets.

HI aims to meet the targets that were missed during the previous medium-term (FY20~FY22), which call for recurring profit [RP] of ¥3,300mil (CAGR over 3 years of +25.2%) on sales of ¥33,000mil (CAGR of +3.3%). HI forecasts FY25 recurring profit [RP] of ¥2,500mil (+14.2% YoY) vs the RP target of ¥3,300mil. This is because the firm initially planned to include subsidies for the Kasaoka Factory in non-operating profit but later changed to include in as extraordinary profit in the FY25 forecast. Management is guiding for FY25 sales of ¥34,000mil (+2.7% YoY).

CAPITAL ALLOCATION DURING THE MEDIUM-TERM PLAN

Hagihara Industries' capital allocation policy in the current medium-term plan (FY23~FY25) calls for CAPEX of ¥14,000mil, with ¥10,000mil from operating cash flow and ¥4,000mil from debt financing. Although the firm is able to finance all of the ¥14,000mil from cash flow, management plans the use of debt to optimise capital costs.

The split of the ¥14,000mil is as follows:

- ¥3,500mil is planned for shareholder returns. The firm plans to improve the total shareholder return from 54.7% in FY22 to 70% (40% or more from dividends) in FY25 and plans to cancel excess treasury shares above 5% of shares outstanding.
- ¥10,500mil for aforementioned investments, including:
 - 1) ¥4,000mil on strategic investment such as overseas production bases and strengthening of strategic products such as BarChip and Meltac cloth,
 - 2) ¥2,500mil on the Kasaoka Factory, and
 - 3) ¥4,000mil on maintenance CAPEX.

In FY25, the firm plans to spend 1) ¥1,100mil in strategic investment, and 2) ¥1,700mil in maintenance CAPEX. Investment on Kasaoka Factory totalled ¥2,500mil and was completed in FY23.

The FY25 ROE target is 8% vs 4.8% in FY23 based on NP adjusted for aforementioned extraordinary profits related to subsidiaries. Although HI has not changed its FY25 ROE target, the FY25 OPM will likely be 7.1%, short of the 10% target. Management has not disclosed its ROIC targets.

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