

**HAGIHARA INDUSTRIES (7856 JP)***DECLINE IN BARCHIP SALES VOLUMES LED TO WEAKER THAN EXPECTED 1H OP. NO CHANGE IN FULL-YEAR GUIDANCE.***EXECUTIVE SUMMARY**

## ➤ What are the key points of FY25 1H earnings results?

Hagihara Industries [HI] (7856 JP) reported FY25 (Oct year-end) 1H earnings results on 9 June 2025, producing 1H operating profit [OP] of ¥899mil (-30.8% YoY) on sales of ¥16,400mil (+0.2% YoY) versus 1H OP guidance of ¥1,160mil (-10.7% YoY) on sales of ¥16,780mil (+2.5% YoY). Although 1H sales hit a record in semi-annual sales, 1H OP declined -30.8% YoY.

## ➤ Reasons for YoY decline in 1H OP?

There are three reasons: (1) Sales mix worsened due to weak BarChip sales, (2) a one-off cost (approx. ¥200mil) for the replacement of the core system, and (3) higher depreciation costs (approx. +¥170mil YoY / +20.7% YoY).

## ➤ 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 (3-year CAGR +25.2%) on sales of ¥33,000mil (CAGR of +3.3%). HI forecasts FY25 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 them 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?

Under the current medium-term plan (FY23~FY25), the company has allocated total capital spending of ¥14,000mil, comprising ¥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)		23,100	Market Cap (\$mil)			154
22-day Average Trading Volume (¥mil)		48	22-day Average Trading Volume (\$mil)			0.3
Share performance (%)	7856	TOPIX	Earnings Summary (¥mil, %)	FY23	FY24	FY25 CE
Share price (¥, 14 Jul 2025)	1,553	2,812.34	Sales	31,245	33,118	34,000
3mo (from 14 Apr)	7.8	13.0	OP	1,979	2,097	2,400
6mo (from 14 Jan)	4.6	4.8	OPM (%)	6.3	6.3	7.1
YTD (from 6 Jan)	-0.6	2.0	EBITDA	3,482	3,806	4,537
1yr	1.3	-3.2	EPS (¥)	223.09	110.63	162.49
5yrs	9.1	78.7	Financial Leverage (X)	1.5	1.5	1.4*
Per-share and Valuations	7856	TOPIX	Net D/E Ratio (X)	0.0	0.0	0.0*
EPS (¥, FY25 CE)	162.49	182.48	FCF	-74	1,263	2,000
DPS (¥, FY25 CE)	65.0	N/A	Shareholder Return Summary	FY23	FY24	FY25 CE
BPS (¥,FY24)	2,088.91	1,875.16	Dividend (¥)	50	60	65
FCFPS (¥, FY25EST)	134.3	N/A	Dividend Payout (%)	22.4	54.2	40.6
Forward PER (X)	9.6	14.82	Dividend Yield (%)	N/A	N/A	4.2
PBR (x)	0.7	1.50	DOE (%)	2.4	2.9	3.1*
PCFR (x)	11.6	N/A	Treasury Shares (%)	N/A	N/A	6.00
EV/EBITDA (X)	5.0	N/A	ROE (%)	11.6	5.3	7.7

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

## FY25 1H RESULTS

Hagihara Industries [HI] (7856 JP) reported FY25 1H (Oct year-end) earnings results on 9 June 2025, coming in with 1H operating profit [OP] of ¥899mil (-30.8% YoY) on sales of ¥16,400mil (+0.2% YoY) versus 1H OP guidance of ¥1,160mil (-10.7% YoY) on sales of ¥16,780mil (+2.5% YoY).

Hagihara Industries (7856 JP): Earnings Summary								
(¥mil / Oct year-end)	FY23		FY24		FY25			
	1H	FY	1H	FY	1H	YoY (%)	1H CE	1H vs 1H CE (%)
Sales	15,930	31,245	16,374	33,118	16,400	0.2	16,780	-2.3
OP	1,010	1,979	1,299	2,097	899	-30.8	1,160	-22.5
OPM (%)	6.3	6.3	7.9	6.3	5.5	-2.4ppt	6.9	-1.4ppt
RP	1,091	2,250	1,432	2,190	973	-32.0	1,210	-19.5
RPM (%)	6.8	7.2	8.8	6.6	5.9	-2.9ppt	7.2	-1.3ppt
NP*	2,246	3,118	980	1,518	1,211	23.6	1,340	-9.6
NPM (%)	14.1	10.0	6.0	4.6	7.4	+1.4ppt	8.0	-0.6ppt

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

FY25 1H sales growth was essentially flat (+0.2% YoY). Despite contributions of +¥229mil from price hikes and a +¥377mil / +13.0% YoY increase in ENG segment sales, the performance of the Plastic Product [PLS] segment suffered due to weak sales volumes (-¥603mil) for products such as BarChip, flexible container bags and blue sheet offset those positive factors, leading to segment sales dipping -2.6% YoY.

Although 1H sales achieved record semi-annual sales, 1H OP declined -30.8% YoY due to the following reasons:

- Sales mix worsened due to a weaker than expected fall in sales of BarChip, which will be further explained below.
- A one-off cost of approx. ¥200mil incurred for replacement of the core system.
- Higher depreciation costs (approx. +¥170mil YoY / +20.7% YoY).

Consequently, the 1H OPM declined -2.4ppt YoY to 5.5%, due mainly to lower utilisation rate on the back of decline in sales volume and worsened sales mix given weaker-than-expected sales of BarChip.

## FY25 1H SEGMENT EARNINGS

Hagihara Industries (7856 JP): Segment Sales and OP (Cumulative)								
(¥mil / Oct year-end)	FY23		FY24		FY25			
	1H	FY	1H	FY	1H	YoY (%)	FY CE	YoY (%)
PLS Segment Sales	13,550	26,353	13,473	26,744	13,123	-2.6	27,625	3.3
Segment OP	912	1,655	1,068	1,665	630	-41.0	1,728	3.8
Segment OPM (%)	6.7	6.3	7.9	6.2	4.8	-3.1ppt	6.3	+0.0ppt
ENG Segment Sales	2,379	4,891	2,900	6,373	3,277	13.0	6,375	0.0
Segment OP	98	324	230	432	268	16.4	672	55.4
Segment OPM (%)	4.1	6.6	7.9	6.8	8.2	+0.2ppt	10.5	+3.8ppt
Total Sales	15,930	31,245	16,374	33,118	16,400	0.2	34,000	2.7
Total OP	1,010	1,979	1,299	2,097	899	-30.8	2,400	14.4
OPM (%)	6.3	6.3	7.9	6.3	5.5	-2.5ppt	7.1	+0.7ppt

Source: Hagihara Industries' earnings results materials

Plastic Products [PLS] Segment

The PLS segment saw FY25 1H OP declined -41.0% YoY to ¥630mil on sales of ¥13,123mil (-2.6% YoY). Segment earnings were mostly affected by the weaker-than-expected decline in BarChip sales, which fell -10.7% YoY to ¥2,519mil to hit approx. 45% of expected full-year BarChip sales of ¥5,599mil. There has been increasing competition from cheaper products which are used at mining sites. Plastic reinforcement for concrete structures used in mines are not required to be high quality and always face pricing competition – a factor that HI had managed to avoid.

While HI tried to supply the market via OEM supply to a large chemical company, negotiations fell through. Capturing the volume zone, such as demand in mines, is important to maintain its factory utilisation rate. Due to lower utilisation rates, FY25 1H GPM of BarChip worsened by some -6ppt~7ppt YoY. HI has changed its sales strategy for the mining market and has launched lower-price products to capture sales volume. Construction use, which has stricter quality standard criteria, has been growing steadily.

1H sales of Industrial Materials, such as flexible container bag, were also weak, declining -6.8% YoY to ¥2,653mil, on the back of slower cargo movement due to macroeconomic weakness.

Hagihara Industries (7856 JP): PLS Segment - Sales Breakdown by Products									
(¥mil / Oct year-end)		FY22	FY23	FY24		FY25			
Product type	Main product / application	FY	FY	1H	FY	1H	YoY (%)	FY CE	YoY (%)
<b>Sheets. construction materials</b>	Sheets, laminated fabric, sandbags	5,804	5,935	2,988	6,114	3,002	0.5	6,276	2.6
<b>Industrial materials</b>	FIBC: flexible container bag, yarn	7,538	6,635	2,847	5,768	2,653	-6.8	5,911	2.5
<b>Synthetic fibre for concrete reinforcement (BarChip)</b>	Infrastructure, construction, mining	4,825	5,289	2,822	5,325	2,519	-10.7	5,599	5.1
<b>Lifestyle materials</b>	Adhesive-related, artificial grass, Meltac	6,433	7,565	4,401	8,729	4,554	3.5	9,022	3.4
<b>Others</b>	Procured products, etc.	967	927	412	806	393	-4.6	815	1.1
<b>PLS Total</b>		25,570	26,353	13,473	26,744	13,123	-2.6	27,625	3.3
Source: Hagihara Industries' earnings results materials									

Engineering Products [ENG] Segment

The Engineering Products [ENG] segment reported FY25 1H OP of ¥268mil (+16.4% YoY) on sales of ¥3,277mil (+13.0% YoY). Positive factors that drove FY25 1H segment earnings are as follows:

- The sales of film slitters surged +51.1% YoY to ¥2,119mil, thanks primarily to increasing demand for slitting display materials in China.
- However, tough comps saw screen changer sales – mainly used to recycle PET bottles - fell -35.0% YoY to ¥693mil vs ¥1,066mil in FY24 1H sales. HI's recycling equipment, including screen changers, can also be used to separate plastic-aluminium hybrid materials into plastic and metal packages – a compulsory process to recycle such hybrid materials. The separated aluminium can then be sold to aluminium processing companies as a recycled material. These hybrid packaging materials are used in pharmaceutical and food packaging.

Hagihara Industries (7856 JP): ENG Segment - Sales Breakdown by Products									
(¥mil / Oct year-end)		FY22	FY23	FY24		FY25			
Product type	Main product / application	FY	FY	1H	FY	1H	YoY (%)	FY CE	YoY (%)
<b>Paper slitters</b>	Electronics materials (insulation), Electronic component wrapping	392	519	387	1,148	402	3.9	654	-43.0
<b>Film slitters</b>	Soft packaging materials, optical materials, battery materials	2,862	3,109	1,402	3,484	2,119	51.1	4,046	16.1
<b>Screen changers, recycling machines</b>	PET bottle recycling, etc.	1,055	1,021	1,066	1,529	693	-35.0	1,300	-15.0
<b>Others</b>	Winders, etc	71	241	25	211	62	148.0	374	77.3
<b>ENG Total</b>		4,382	4,891	2,900	6,373	3,277	13.0	6,375	0.0
Source: Hagihara Industries' earnings results materials									

## FY25 OUTLOOK

Management guides for full-FY25 OP of ¥2,400mil (+14.4% YoY) on sales of ¥34,000mil (+2.7% YoY), based on Naphtha and FOREX assumptions of ¥75,000/kl and ¥150/US\$, respectively. Although FY25 1H sales and OP fell short of guidance by -2.3% and -22.5%, respectively, there has been no change to the full-year guidance. This suggests that 2H earnings need to achieve OP of ¥1,501mil (+88.1 YoY / +66.9% HoH) on sales of ¥17,600mil (+5.1% YoY / +7.3 HoH).

The recovery in 2H earnings is based on the following assumptions:

- A recovery in sales volumes of BarChip for construction use by cultivating users overseas.
- Continued solid sales in the ENG 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)	FY23			FY24			FY25				
	1H	2H	FY	1H	2H	FY	1H	2H CE	YoY (%)	FY CE	YoY (%)
Sales	15,930	15,314	31,245	16,374	16,744	33,118	16,400	17,600	5.1	34,000	2.7
OP	1,010	968	1,979	1,299	798	2,097	899	1,501	88.1	2,400	14.4
OPM (%)	6.3	6.3	6.3	7.9	4.8	6.3	5.5	8.5	+3.8ppt	7.1	+0.7ppt
RP	1,091	1,159	2,250	1,432	757	2,190	973	1,527	101.7	2,500	14.2
RPM (%)	6.8	7.6	7.2	8.8	4.5	6.6	5.9	8.7	+4.2ppt	7.4	+0.7ppt
NP	2,246	871	3,118	980	537	1,518	1,211	1,019	89.5	2,230	46.9
NPM (%)	14.1	5.7	10.0	6.0	3.2	4.6	7.4	5.8	+2.6ppt	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

FY25 is the last year of the ongoing “v for J” – v-shape recovery medium-term plan [MTP] which started in FY23. Given the shortfall in achieving the previous MTP, the new MTP starts with a revisit of the previous plan's targets.

Management guides for FY25 RP of ¥2,500mil (+14.2% YoY) on sales of ¥34,000mil (+2.7% YoY), compared to the MTP's FY25 target of ¥3,300mil (3-yr CAGR +25.2%) on sales of ¥33,000mil (CAGR of +3.3%). HI had initially planned to include contributions from subsidies for the Kasaoka Factory at the non-operating profit level but later made it an extraordinary profit in the FY25 forecast, hence the change to the RP forecast. The firm plans to announce the next MTP at the time of FY25 results, which is planned for Dec 2025.

## CAPITAL ALLOCATION DURING THE MEDIUM-TERM PLAN

Hagihara Industries' capital allocation policy in the current medium-term plan (FY23~FY25) calls for total capital allocation of ¥14,000mil: ¥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 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 strategic investments and CAPEX, 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 subsidies. 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 yet disclosed its ROIC targets or cost of capital.

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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)



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