

SUN-WA TECHNOS CORPORATION8137 Tokyo Stock Exchange
First Section

13-Jan.-17

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Hiroyuki Asakawa**■ May Exceed the Plan for FY3/17 with Steady Progress of Medium-Term Management Plan Challenge 1500**

Sun-Wa Technos Corporation <8137> (hereinafter, also “the Company”) is an independent trading company that specializes in technology products. One of the strengths of the Company is that it has three business divisions of electrical machinery, electronics, and general machinery. Another strength is the Company’s two-way trade in which it sells equipment and materials for manufacturers’ production lines and then buys and sells the products made by these manufacturers to other companies. By utilizing these strengths, Sun-Wa Technos has expanded its businesses.

Sun-Wa Technos aims to strengthen and expand engineering and global SCM (supply chain management) solutions businesses under its current Challenge 1500 medium-term management plan. Both businesses have made steady progress so far since the implementation of Challenge 1500. In engineering business, the Company has established an integrated solutions structure to supply design, production, installation, and maintenance, including through use of business alliances with other firms. It steadily accumulated results with organic EL lines and other facilities in 1H FY3/17. In global SCM solutions business, the Company is making inroads, mainly at important customers, and increasing transaction value.

Profits surpassed the forecast in 1H FY3/17. While Sun-Wa Technos made downward revision to the forecast at the 1Q announcement, the 1H results ended up at around initial profit estimates. This happened because business conditions varied significantly between 1Q and 2Q. Demand recovered sharply for smartphone-related business in China and semiconductor-related business in China and South Korea in 2Q, driving the Company’s growth.

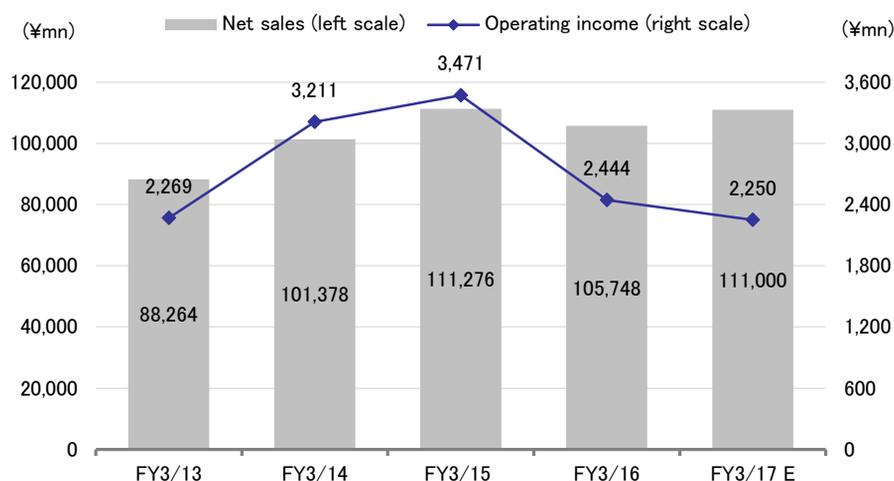
Sun-Wa Technos is maintaining its revised FY3/17 forecast from the 1Q announcement. However, we see a solid possibility of profits surpassing the revised forecast and reaching initial forecast in light of recent 2Q result, the prospect of steady business conditions in 2H, and the cautious ¥100/\$ assumption used for 2H. We cannot rule out uncertainty in 4Q activity in the current volatile environment, but expect the engineering business, a key component of the medium-term management plan, to demonstrate its value in such conditions.

Sun-Wa Technos is promoting the New Life project as a new initiative. This effort aims to expand opportunities for female employees and sell products leveraging the vantage point and ideas of women, thereby spurring earnings growth. The New Life Promotion Office, a sales team that mainly consists of women, is currently engaged in selling AEDs, LED lighting, and other products. While the initiative does not have much direct impact on earnings at this point, the switch to a corporate culture that gives women, who comprise about 40% of all employees, more opportunity should inspire male employees as well and help raise earnings over the longer term.

■ Check Point

- Sales and profits fell in 1H FY3/17, though profit items exceeded the downward-revised forecast
- Focus on engineering business and global SCM solutions business
- FY3/17 forecast for lower profits on increased sales, but profits could rise due to recovery in Chinese capital investment demand and gain from forex rate difference

Net Sales and Operating Income



■ Details of 1H FY3/17 Results

Sales and profits fell in 1H FY3/17, though profit items exceeded the downward-revised forecast

Sun-Wa Technos reported 1H FY3/17 results with lower sales and profits at ¥50,006mn in net sales (down 8.2% YoY), ¥1,082mn in operating income (down 23.6%), ¥1,102mn in ordinary income (down 28.7%), and ¥763mn in net income attributable to owners of the parent (down 26.1%). It reduced 1H and FY3/17 full year forecast at the 1Q announcement, and 1H results surpassed the revised forecast for each profit item under operating income.

Review of 1H FY3/17 Results

	1H FY3/16		1H FY3/17			
	Results	Forecasts	Revised forecasts	Results	YoY change	Vs. revised forecasts
Net sales	54,457	55,000	51,000	50,006	-8.2%	-1.9%
Gross profit	6,748	-	-	6,331	-6.2%	-
Gross profit margin	12.4%	-	-	12.7%	-	-
SG&A expenses	5,331	-	-	5,249	-1.5%	-
SG&A expenses ratio	9.8%	-	-	10.5%	-	-
Operating income	1,417	1,050	800	1,082	-23.6%	35.3%
Operating income margin	2.6%	1.9%	1.6%	2.2%	-	-
Ordinary income	1,545	1,150	850	1,102	-28.7%	29.7%
Net income attributable to owners of the parent	1,033	800	600	763	-26.1%	27.3%

Source: Prepared by FISCO from Company materials

Sales and profits fell in 1H FY3/17, but we think results content contained many positive aspects. One is earnings momentum. Quarterly breakdown of 1H shows large differences between 1Q and 2Q, particularly in earnings. Operating income declined 89.7% YoY in 1Q due to heavy impact from the forex rate's shift toward yen's appreciation and tougher slowdown in China and other emerging economies than anticipated. These conditions spurred the Company's decision to make downward revision to the results forecast at the 1Q announcement.

In 2Q, however, demand for the Company's core factory automation products rapidly recovered thanks to pick-up in capital investment by smartphone manufacturers in China and stronger activity in the semiconductor industry in China and South Korea. Operating income hence significantly regained momentum to a decline of just 0.6% YoY. We think 1Q FY3/17 was the earnings bottom because demand recovery that started in 2Q has been continuing in 3Q.

Yen's appreciation caused estimated setbacks of about ¥3,000mn in net sales and ¥270mn in ordinary income (including forex loss from non-operating income) in 2Q.

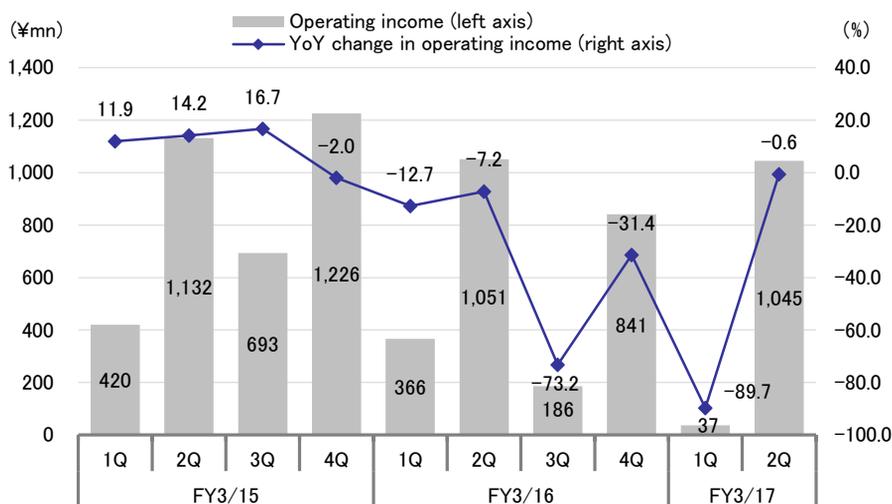


SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange First Section

13-Jan.-17

Quarterly Results Trends



Source: Prepared by FISCO from Company materials

Sun-Wa Technos has three business divisions of electrical machinery, electronics, and general machinery, and trends in these divisions are reviewed below.

Electrical machinery sales dropped 9.8% YoY to ¥9,115mn. The main source of sales decline was control equipment for solar power systems. Increased sales of servo motors and other products for the industrial machinery industry, meanwhile, offer a positive sign. For servo motors, a leading product in this business, the Company delivers YASKAWA Electric Corporation's (6506) servo motors to Chinese machinery firms that insert the motors into production equipment used in production lines of local smartphone and semiconductor firms.

Electronics sales declined 9.3% YoY to ¥36,704mn, primarily because of weaker sales of electronic components for amusement products. Yet the Company steadily expanded sales of electronic components to the automotive industry and showcase LED lighting to retail stores. We think growth in electronic components for automotive use deserves attention. Sun-Wa Technos newly established "automotive sales department" to cover the automotive industry in April 2016 and is positioning this as a priority area. It is positive to see clear results from these efforts. While the business is still small, it has substantial room to grow.

General machinery sales climbed 7.9% YoY to ¥4,186mn. Higher sales of production facilities to LCD and industrial machinery industries fueled sales growth. Sun-Wa Technos is working to strengthen engineering business (as explained below), and this involves proposal sales of systems that combine products from the three core divisions. An example is sales related to production equipment for organic EL devices. These new efforts also helped boost division sales.



SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange
First Section

13-Jan.-17

Sales Trends by Business Segment

	FY3/16						FY3/17			(¥mn)
	1Q	2Q	1H	3Q	4Q	Full year	1Q	2Q	1H	
Electrical machinery	4,664	5,443	10,108	3,880	5,080	19,069	3,857	5,258	9,115	
YOY	8.6%	-9.9%	-2.2%	-25.3%	-28.8%	-15.8%	-17.3%	-3.4%	-9.8%	
Electronics	19,609	20,859	40,469	16,937	20,186	77,593	17,128	19,575	36,704	
YOY	13.8%	8.6%	11.0%	-16.7%	-14.8%	-3.6%	-12.7%	-6.2%	-9.3%	
General machinery	1,204	2,676	3,880	1,935	3,269	9,084	1,667	2,518	4,186	
YOY	-32.6%	20.8%	-3.1%	38.9%	19.1%	11.6%	38.5%	-5.9%	7.9%	
Total net sales	25,478	28,979	54,457	22,754	28,537	105,748	22,654	27,352	50,006	
YOY	9.3%	5.5%	7.2%	-15.5%	-15.0%	-5.0%	-11.1%	-5.6%	-8.2%	

Source: Prepared by FISCO from Company materials

Sales increased (YoY) in Japan and Europe/US from a regional segment perspective. Asia, which mainly consists of emerging countries such as China, incurred steep sales and profit setbacks with net sales down 27.5% to ¥11,843mn and operating income down 38.2% to ¥308mn.

At the quarterly level, we think significant improvement in income for the mainstay Japan segment in 2Q is notable. Sales climbed 29.0% in 2Q compared to 1Q and operating income returned to a profit in 2Q. While income normally expands in 2Q compared to 1Q for seasonal factors, the 2Q outcome still indicates a recovery trend.

Results Trend by Geographical Market

	FY3/16						FY3/17			(¥mn)
	1Q	2Q	1H	3Q	4Q	Full year	1Q	2Q	1H	
Japan	Net sales	18,570	21,523	40,093	17,896	22,005	79,995	17,931	23,136	41,068
	YOY	1.7%	0.8%	1.2%	-5.5%	-5.1%	-2.1%	-3.4%	7.5%	2.4%
	Operating income	93	832	925	34	620	1,580	-85	837	751
	YOY	-54.6%	8.2%	-5.0%	-91.0%	-19.9%	-25.8%	-	0.6%	-18.8%
Asia	Operating income margin	0.5%	3.9%	2.3%	0.2%	2.8%	2.0%	-0.5%	3.6%	1.8%
	Net sales	7,816	8,520	16,336	6,384	7,376	30,097	5,774	6,068	11,843
	YOY	32.7%	21.3%	26.5%	-27.8%	-34.5%	-8.8%	-26.1%	-28.8%	-27.5%
	Operating income	257	242	500	142	210	853	141	167	308
Europe/US	YOY	16.3%	-26.8%	-9.7%	-48.9%	-51.0%	-32.3%	-45.1%	-31.2%	-38.2%
	Operating income margin	3.3%	2.8%	3.1%	2.2%	2.8%	2.8%	2.4%	2.8%	2.6%
	Net sales	837	888	1,726	722	1,236	3,685	1,044	847	1,892
	YOY	8.7%	26.0%	17.0%	-3.7%	2.6%	7.4%	24.7%	-4.6%	9.7%
Operating income	22	-14	7	-7	2	2	-14	31	16	
	YOY	37.5%	-	-79.1%	-	-94.3%	-96.6%	-	-	122.4%
	Operating income margin	2.6%	-1.6%	0.4%	-1.0%	0.2%	0.1%	-1.3%	3.7%	0.8%

Source: Prepared by FISCO from Company materials

■ Progress with the Challenge 1500 medium-term management plan

Focus on engineering business and global SCM solutions business

(1) Overview of Challenge 1500

Sun-Wa Technos is currently implementing the Challenge 1500 three-year medium-term management plan that covers FY3/17-19. The plan's content continues and builds upon the previous JUMP 1200 medium-term management plan that ended in FY3/16, and it is close enough to view the two plans jointly as a "six-year" initiative. The Company solidified the organization and operations for realizing its vision during JUMP 1200 and is seeking achievement of the goals utilizing the organization and operations in Challenge 1500.

The Challenge 1500 medium-term management plan lists four items as the basic policies. It highlights "systems, equipment, and parts/components sales business," "engineering business," and "global SCM solutions business" in the business strategy to achieve plan goals. In particular, Sun-Wa Technos focuses on the engineering business and the global SCM solutions business in its current medium-term management plan. Fuller descriptions of progress in these areas are given below. Reinforcement of "systems, equipment, and parts/components sales business" overlaps with bolstering sales in three existing business divisions, and we think the perspective is roughly the same as the "engineering business."

Four Basic Policies and Three Business Strategies in Challenge 1500

Basic policies in Challenge 1500
Contribute to customers' product manufacturing with our core businesses of electrical machinery, electronics, and general machinery
Provide unique high value-added solutions
Provide the latest technology information as a technology trading company
Strengthen group capabilities by enhancing the global network

Three business strategies
Systems/equipment and parts/components sales business
Engineering business
Global SCM solutions business

Source: Prepared by FISCO from Company materials

Sun-Wa Technos sets business goals of ¥137,000mn in net sales, ¥4,300mn in operating income, and ¥4,500mn in ordinary income for FY3/19 in Challenge 1500. While targets in FY3/17 forecast differ considerably with these goals, the main reason is disparity in the forex assumption. The Company utilized the ¥117/\$ rate from when it formulated the plan. It is important to recognize the possibility of Sun-Wa Technos making flexible revisions depending on changes in the external environment, such as the forex rate, in FY3/17 and also subsequent fiscal years.

Business Goals in Challenge 1500

	FY3/16 results	Challenge 1500 medium-term management plan		
		FY3/17 goals	FY3/18 goals	FY3/19 goals
Net sales	105,748	117,000	126,000	137,000
Operating income	2,444	2,800	3,500	4,300
Operating income margin	2.3%	2.4%	2.8%	3.1%
Ordinary income	2,645	3,000	3,700	4,500
Ordinary income margin	2.5%	2.6%	2.9%	3.3%

Source: Prepared by FISCO from Company materials



SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange
First Section

13-Jan.-17

Priority business issues from the previous medium-term management plan vital to growth as a solutions provider

(2) Progress in the engineering business

a) Business overview

Engineering business at Sun-Wa Technos is a sales approach for “proposing products from the three business divisions of electrical machinery, electronics, and general machinery as system solutions, rather than standalone items.” We can use the example of a food supermarket to help explain the positioning of engineering business. Up to now, the Company has been selling ingredients, such as meat, fish, and vegetables, to customers. Engineering business, meanwhile, involves preparing these individual ingredients for delivery to customers. The extent of processing can vary from selling a prepared item to selling a meal box. The Company does not book sales as the engineering business and related income is allocated to the electrical machinery, electronics, and general machinery divisions.

Sun-Wa Technos has consistently addressed engineering business as a top priority since the previous medium-term management plan, JUMP 1200, period. This is because expansion of engineering business is equivalent to moving beyond positioning as a sales agent and becoming a solutions provider. The Company can pursue higher profitability than is possible in sales agent business for products from other companies to the extent that it earns margin equal to the added value from “solutions.”

We have asserted that the Company’s efforts to strengthen engineering business clearly head in the right direction and are sufficiently meaningful in terms of feasibility and contributions to corporate earnings. They offer genuine potential. We base this view on a number of reasons. The Company’s engineering business corresponds to areas that its procurement sources and sales destinations want to “unload to realize smooth operations.” In other words, it involves “recruitment of outsourcing needs.” Additionally, it reflects the close trust relationships between the Company and major procurement sources and sales destinations. The third reason is that Sun-Wa Technos Asia (Thailand) has been building a track record, including trial-and-error activities, since the JUMP 1200 period, and rollout of engineering business in the domestic market is continuing in Challenge 1500.

b) Progress status

Sun-Wa Technos restructured in April 2015 and established the FA system sales department, industrial solutions department, and engineering department. It also utilized the headquarters move as an opportunity to integrate the electrical machinery, electronics, and general machinery divisions at headquarters from January 2016 and has promoted integrated machinery and electronics sales covering these three divisions since then. The Company brought the engineering department into the headquarters too from October 2016 and established operations for leveraging overall capabilities and aggressively promoting the unique engineering business.

Sun-Wa Technos has been achieving solid results from these initiatives. One example is a production line for organic EL displays. While it previously delivered robots, control consoles, and other equipment on a standalone basis, it handles the system, installation, and maintenance altogether in the latest deal. In the US too, the Company is currently making progress with a solutions proposal built around a control console for a machine tool manufacturer.

However, it is difficult to obtain detailed information on the engineering business because many projects are still in discussions and require confidentiality. The engineering business currently mainly involves the addition of a system (software) portion to products handled by electrical machinery and general machinery divisions. Using an analogy of a curry dish, products from the electrical machinery and general machinery divisions represent the meat and vegetables and system integration (SI) is the sauce. SI procurement value totaled about ¥1.4bn in 1H FY3/17, and we expect the engineering business (sauce portion) to reach roughly ¥3bn in FY3/17.

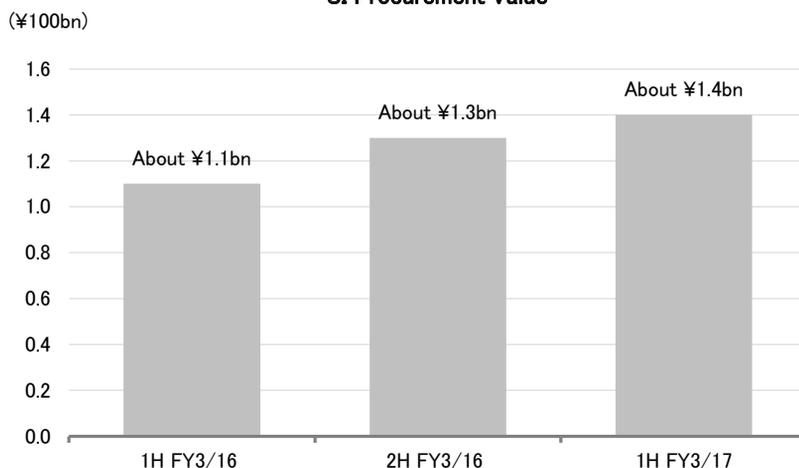


SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange
First Section

13-Jan.-17

SI Procurement Value



Source: Prepared by FISCO from Company materials

We think the roughly ¥3bn scale in engineering business as the first fiscal year of the medium-term management plan is reasonable. However, the reality that much of the “sauce” (mentioned above) consists of SI procured from other firms is an issue because of the small amount of actual profit in the case of procurement from external sources. We expect higher profit margin than now and a large contribution toward improved overall profitability if Sun-Wa Technos can handle this portion internally. We also see a solid chance of engineering business scale growing to around ¥10bn by the final fiscal year of the current medium-term management plan.

One reason for this outlook is the Company’s progress in “deals targeting growth markets,” a focus area, in 1H FY3/17. The value of deals currently being discussed has climbed sharply to about ¥21.9bn in FY3/17. “Energy saving” projects are the main driver looking at the content. This is an excellent fit with the Company’s engineering business, and it is also the market targeted in collaboration with Fujipream Corporation (4237) described below. The roughly ¥13.9bn in FY3/17 deals appears to include multiple engineering business deals, and these conditions should support future growth.

Value of Transactions Negotiated in Four Growth Markets

Markets	FY3/14 results	FY3/15 results	FY3/16 results	Deals in progress during FY3/17 (as of 2Q)
New energy	About ¥4.5bn	About ¥7.8bn	About ¥4.5bn	About ¥3.4bn
Energy savings	About ¥1.7bn	About ¥3.0bn	About ¥6.6bn	About ¥13.9bn
Nursing care and medical	About ¥0.3bn	About ¥1.1bn	About ¥1.4bn	About ¥2.3bn
Social infrastructure	About ¥0.1bn	About ¥0.8bn	About ¥1.0bn	About ¥2.3bn
Total	About ¥6.6bn	About ¥12.7bn	About ¥13.5bn	About ¥21.9bn

Source: Prepared by FISCO from Company materials



SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange First Section

13-Jan.-17

c) Alliance with Fujipream

We are focusing on the business alliance with Fujipream as an important advance in the engineering business. The two companies concluded a business alliance contract on April 5, 2016. Fujipream possesses precision lamination as a core technology and handles equipment design, production, installation, and maintenance on an integrated basis for display and LED production lines that require this technology.

The alliance covers automation systems utilizing robots with Fujipream’s mechatronics division in charge of production aspects, including proposals, designs, production, installation, and test operation, and Sun-Wa Technos leveraging its marketing and sales capabilities to expand business opportunities. Orders have already been received for the automation systems related to the alliance, and we expect further acceleration.

Our interest in the alliance with Fujipream is not just the direct economic effect from the collaboration, but also the alliance’s suggestion of where Sun-Wa Technos’s business is headed in the future. Sun-Wa Technos disbanded subsidiary Sun-Wa Tescom Corporation that handled design, production, and sales of control equipment in December 2015, and it assigned personnel absorbed from former Sun-Wa Tescom in parent operations to positions that reinforce sales and proposal capabilities. Sun-Wa Technos is steadily moving production and installation activities outside of the Company, as seen in the alliance with Fujipream, though not always to the extent of an official business alliance. We think it is enhancing capabilities and operations as a “coordinator” and expect accelerated expansion of engineering business in the current medium-term management plan period.

Business started in FY3/17, though is making inroads with ¥2.5bn in requests in a half year and further growth potential

(3) Progress in the global SCM solutions business

a) Business overview

While Sun-Wa Technos started the global SCM solutions business as part of the current medium-term management plan, its roots go back to the previous plan period. The JUMP 1200 cited “expansion and reinforcement of global logistics capabilities” as a priority measure. This business aims to utilize logistics warehouses held by Sun-Wa Technos’s 13 overseas local entities and their respective knowhow regarding warehousing and logistics to generate income by providing paid services to customers and also expand business opportunities. We think the global SCM solutions business can be implemented in a variety of ways. One example is described here. The Company delivers other items required by the customer at the same time, unrelated to whether they are Sun-Wa Technos’s catalog products or not, in addition to the ordered product when delivering products based on an order from the customer. The Company intends to operate this service as an income-earning business, obtaining margin on each of the products.

b) Status on progress

A half year has passed since the Company launched global SCM solutions business, and emphasis has been given to spreading awareness of the service to customers. These efforts have achieved considerable inroads in making the presence of this business and service known primarily to major customers, such as YASKAWA Electric and Omron Corporation (6645). Requests appear to have totaled around ¥2.5bn in 1H FY3/17. We think products covered by this service are mainly electronic parts given the nature of the business.

Sun-Wa Technos is not satisfied with the current state of the business at this point, despite steady progress in transaction value, and explains that it has significant room for improvement. The international sales division at headquarters currently controls the business from item procurement through to actual logistics. Yet the ideal format for global SCM solutions business would be establishment of operations in which each of the overseas locations leads the service and capitalizes on knowhow of local characteristics and logistics. The present state in which the international sales team makes decisions is still distant from the ideal format, and the Company believes that it needs to expand human resources and knowhow and accumulate a business manual.

We think the Company's transaction value during 1H FY3/17 offers a solid start and income potential from global SCM solutions business might have to be larger than initially anticipated. Global SCM solutions business fundamentally accommodates customer outsourcing needs, similar to the engineering business, and it is easier to utilize and place orders with global SCM solutions business from a customer perspective as a logistics and parts/materials procurement service (compared to the engineering business that requires a review each time). We will be closely monitoring its future growth.

■ “New Life” Project Initiative

Launched the New Life Promotion Office (sales team of mainly women) with the aim of leveraging female employees to improve earnings

The New Life project is a new initiative that deserves notice. Sun-Wa Technos started this effort in April 2015 to contribute to realization of a “society in which women shine.” It aims to create opportunities for women to flourish at the Company while it secures diversity in how women work, such as achieving work-life balance and contributing to earnings.

The project's beginning goes back to a person from the general affairs section becoming involved in sales of LED lighting, one of the products handled by the Company. A lead obtained from a general affairs contact at another company in an exchange of information regarding the Company's conversion to LED lighting resulted in winning a deal in 2013, and this success led to the general affairs person taking on a joint role as an LED sales person. The Company subsequently added automated external defibrillators (AEDs) to handled products. At the same time, Sun-Wa Technos, which has a roughly 40% ratio of female employees, was seeking ways to expand opportunities for women on the basis that improving their role would raise motivation throughout the entire company, including among male employees. Given this background, an idea emerged to capitalize on the female vantage point in sales of LED lighting and AED, and Sun-Wa Technos launched the New Life Promotion Office from the general affairs division and as a sales team with a majority of women in April 2016.

The New Life Promotion Office frequently holds rescue training seminars using AEDs. It is not just selling AEDs as a device, but promoting understanding of how to use an AED and its value. This AED sales style frequently attracts additional inquiries about LED lighting and other products, and the New Life Promotion Office is steadily growing income. The sales style of integrated selling of software (usage knowhow) and hardware (AEDs) has similarities with the Company’s efforts toward strengthening the engineering business described above. We think Sun-Wa Technos has robust potential if these activities by the New Life Promotion Office are symbolic of sales innovations spreading throughout the entire company.

Another benefit of the New Life project is the possibility of reforms in corporate culture and discovery of vibrant human resources from among female employees. Administrative employees are likely to be the main component of the New Life Promotion Office as a sales team from the general affairs division because some women at the Company, a technology-centric trading firm, graduated from university science departments. The New Life Promotion Office’s activities could boost earnings over the longer term by having a positive impact on these employees and contributing to recruitment of talented women, including new hires. We do not see much direct earnings impact from the New Life project in the near term and think it should be viewed from a long-term perspective given these aspects.

■ Performance Outlook

FY3/17 forecast for lower profits on increased sales, but profits could rise due to recovery in Chinese capital investment demand and gain from forex rate difference

(1) Results outlook for FY3/17

The Company forecast for ¥110,000mn in net sales (up 5.0% YoY), ¥2,250mn in operating income (down 8.0%), ¥2,450mn in ordinary income (down 7.4%), and ¥1,650mn in net income attributable to owners of the parent (down 2.4%) in FY3/17, projecting lower profits on increased sales. It made downward revision to the full year results forecast at the 1Q announcement (as noted above). While 2Q earnings surpassed the revised forecast, Sun-Wa Technos is maintaining its revised FY3/17 forecast levels from the 1Q announcement.

Overview of FY3/17 Forecasts

(¥mn)

	FY3/16			FY3/17				
	1H	2H	Full year	1H	2H	Full year		
	Results	Results	Results	Results	Revised forecasts	Forecasts	Revised forecasts	YoY
Net sales	54,457	51,291	105,748	50,006	60,994	114,500	111,000	5.0%
Operating income	1,417	1,027	2,444	1,082	1,168	2,500	2,250	-8.0%
Operating income margin	2.6%	2.0%	2.3%	2.2%	1.9%	2.2%	2.0%	-
Ordinary income	1,545	1,100	2,645	1,102	1,348	2,700	2,450	-7.4%
Net income attributable to owners of the parent	1,033	657	1,690	763	887	1,800	1,650	-2.4%

Source: Prepared by FISCO from Company materials

We see a possibility of FY3/17 results surpassing revised forecast and reaching levels from the initial forecast. We base this view on the following two factors.



SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange
First Section

13-Jan.-17

The first reason is fundamentals. Capital investment demand recovery in China and other countries seen since 2Q is continuing. Business conditions can be confirmed in trends at other companies in related industries. The 2Q FY3/17 results reported by key customers YASKAWA Electric and Omron demonstrate demand recovery in the full range of markets, including Japan and other developed country markets, not only China. Current robust trends are likely to continue in 2H as well. Furthermore, semiconductor production equipment firms raised forecast thanks to removal of yen's appreciation headwind, and these results fit with the Company's outlook for recovery in semiconductor investments. We thus believe the 2H business environment envisioned by Sun-Wa Technos is reliable given evidence from trends at other firms.

The second reason is the forex rate. There is a possibility of the forex rate, which weighed on 2Q results, serving as a positive factor in 2H. Sun-Wa Technos lowered the 2H forex assumption from ¥110/\$ to ¥100 when it revised forecast. Current conditions with the rate approaching ¥105 mean that forex discrepancy is helping earnings. While it is obviously important to exercise caution because of strong volatility in the forex rate, we think the ¥100 level is the most conservative level within a realistic range and the Company has little risk of a negative impact from this factor.

Sun-Wa Technos cited uncertainty in 4Q as the reason for postponing revisions to FY3/17 forecast despite upside in 2Q earnings. We agree that this point should be considered, particularly given a lack of visibility related to the impact of a US policy rate hike anticipated as soon as December and the impact of the US presidential election. However, we retain expectations for the engineering business, where the Company is focusing efforts, even if these risks surface. We think the value of the Company's engineering business, which involves integrating excellent products into a system and conducting sales as a solution, should make a difference in this type of difficult environment.

Advances in automotive electronics and organic EL display and semiconductor production line capital investment likely to boost earnings

(2) View from FY3/18

We think the Company's view of earnings prospects in FY3/18 and FY3/19 from the Challenge 1500 medium-term management plan is reasonable. While weak demand continued from 4Q FY3/16 into 1Q FY3/17, conditions recovered sharply from 2Q and momentum returned to the plan and expectations.

Healthy advances by automotive electronics (particularly driverless cars) and strong capital investments in organic EL display and semiconductor production lines are likely to continue in FY3/18 as business conditions pertaining to the Company. Significant demand also exists for investments in energy and labor savings in all industries. Sun-Wa Technos has presented measures in engineering business and global SCM solutions business as explained above, and bolstered its response, including operations. FY3/18 might be the year in which it realizes benefits from improved external conditions thanks to success with these efforts.

The forex rate is a risk for the Company's goals in the current medium-term management plan because it uses a rate assumption of ¥117/\$. Investors should be aware of the possibility of earnings coming in below medium-term management plan goals from FY3/18 too, depending on the rate level at that point.



SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange
First Section

13-Jan.-17

Summary Income Statement and Major Indicators

	(¥mn)					
	FY3/14	FY3/15	FY3/16	FY3/17		
				1H results	2H E	Full year E
Net sales	101,378	111,276	105,748	50,006	60,994	111,000
YoY	14.9%	9.8%	-5.0%	-8.2%	18.9%	5.0%
Gross profit	12,680	13,988	13,256	6,331	-	-
Gross profit margin	12.5%	12.6%	12.5%	12.7%	-	-
SG&A expenses	9,469	10,516	10,812	5,249	-	-
YoY	8.9%	11.1%	2.8%	-1.5%	-	-
Ratio of SG&A expenses to sales	9.3%	9.5%	10.2%	10.5%	-	-
Operating income	3,211	3,471	2,444	1,082	1,168	2,250
YoY	41.5%	8.1%	-29.6%	-23.6%	13.7%	-8.0%
Operating income margin	3.2%	3.1%	2.3%	2.2%	1.9%	2.0%
Ordinary income	3,438	3,761	2,645	1,102	1,348	2,450
YoY	36.5%	9.4%	-29.7%	-28.7%	22.5%	-7.4%
Net income attributable to owners of the parent	2,168	2,466	1,690	763	887	1,650
YoY	42.6%	13.7%	-31.5%	-26.1%	35.0%	-2.4%
EPS (¥)	162.98	171.83	117.76	54.47	63.18	117.65
Dividend (¥)	22.00	26.00	28.00	14.00	14.00	28.00

Summary Balance Sheet

	(¥mn)				
	End-FY3/13	End-FY3/14	End-FY3/15	End-FY3/16	End-1H FY3/17
Current assets	39,758	45,329	49,239	46,857	46,517
Cash and deposits	7,433	6,937	7,584	6,359	5,990
Notes and accounts receivable	27,866	33,075	34,419	33,006	30,026
Non-current assets	7,497	8,369	9,509	8,581	8,596
Tangible fixed assets	4,074	4,038	3,879	3,788	3,683
Intangible fixed assets	42	76	243	240	215
Investments and other assets	3,381	4,254	5,386	4,553	4,696
Total assets	47,256	53,698	58,748	55,439	55,113
Current liabilities	28,648	30,735	32,370	28,691	28,397
Notes and accounts payable - trade	24,784	25,917	27,496	24,732	24,983
Short-term loans payable, etc.	2,250	2,528	2,782	2,317	1,612
Non-current liabilities	4,258	4,309	4,426	4,484	5,076
Long-term loans payable	2,486	2,205	2,100	2,400	3,000
Shareholders' equity	13,660	16,807	18,929	20,217	20,408
Capital stock	1,935	2,553	2,553	2,553	2,553
Capital surplus	1,341	1,958	1,958	1,958	1,958
Retained earnings	10,437	12,350	14,472	15,761	16,324
Treasury shares	-53	-53	-54	-54	-427
Accumulated other comprehensive income	646	1,847	3,022	2,045	1,232
Non-controlling interests	41	-	-	-	-
Total net assets	14,349	18,654	21,951	22,263	21,640
Total liabilities and net assets	47,256	53,698	58,748	55,439	55,113

Cash Flow Statement

	(¥mn)				
	FY3/13	FY3/14	FY3/15	FY3/16	End-1H FY3/17
Cash flow from operating activities	3,652	-1,374	1,353	-60	812
Cash flow from investing activities	-110	-127	-444	-384	38
Cash flow from financial activities	-415	769	-470	-654	647
Effect of exchange rate change on cash and cash equivalents	135	236	209	-125	-571
Net change in cash and cash equivalents	3,262	-496	647	-1,225	-368
Balance of cash and cash equivalents at beginning of period	3,687	6,949	6,453	7,100	5,875
Balance of cash and cash equivalents at end of period	6,949	6,453	7,100	5,875	5,506

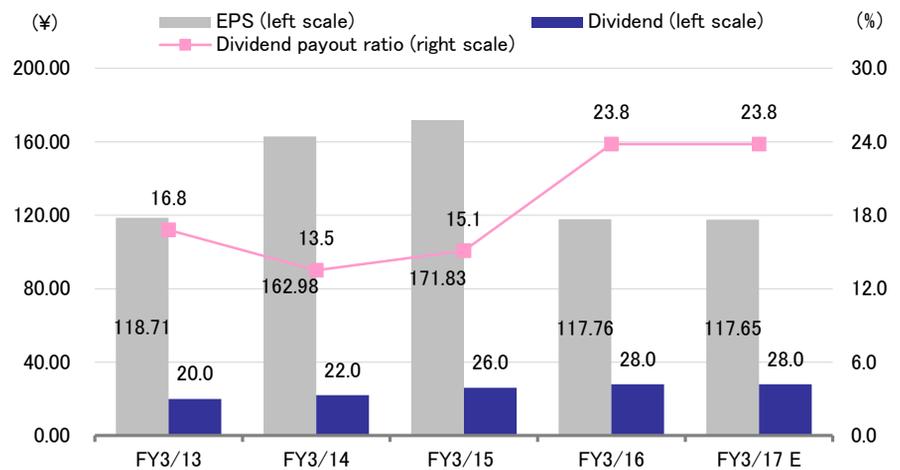
■ Shareholder Return Policy

Targeting a ¥28 dividend for FY3/17, unchanged from the previous year

The Company's basic policy is to provide returns to shareholders in the form of dividends. Management prioritizes providing stable, continuous dividends, as demonstrated in its track record to date. While remaining very aware of the need for stable dividends, the Company has also increased them in keeping with earnings growth.

The Company disclosed a target of ¥28 for FY3/17, unchanged from the previous year, with ¥14 each as the interim and period-end dividends. Although Sun-Wa Technos modestly lowered FY3/17 results forecast at the 1Q announcement (as noted above), it kept the dividend target at ¥28. While 2Q's earnings upside is lifting expectations for beating full-year profit forecast too, we think it is safest to expect the Company to pay a ¥28 dividend as initially planned. We expect the Company to increase the dividend in accordance with earnings growth, as seen in past years, over the medium term.

Net Profit Per Share, Dividend, and Dividend Payout Ratio



Source: Prepared by FISCO from Company materials

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