COMPANY RESEARCH AND ANALYSIS REPORT

Ohashi Technica, Inc.

7628

Tokyo Stock Exchange First Section

20-Sept.-2018

FISCO Ltd. Analyst
Yuzuru Sato

FISCO

FISCO Ltd.
http://www.fisco.co.jp

The outlook for FY3/19 is higher sales and profits in all regions except for the United States

Ohashi Technica, Inc. <7628> (hereafter, "the Company") is an independent automotive parts manufacturer that supplies some 20,000 precision machined parts including those for engines, peripheral transmission components and interior and exterior parts, to about 400 Japanese automotive and automotive equipment manufacturers. Its strengths include having built a global supply structure and consulting capabilities that provide optimal proposals that respond to wide-ranging customer needs in terms of quality, cost and other issues, by combining a "factory solutions" (about 25% of net sales) via its group companies and a "fabless solutions" through collaborations with about 300 partner companies. Through a business model of making proposals for added value, the Company has sustained top-rank profitability in the automotive parts industry, with an operating income margin of approximately 10%.

1. FY3/19 1Q results

The FY3/19 1Q consolidated results were basically in line with the Company's forecasts, with net sales increasing 5.2% year on year (YoY) to ¥10,003mn and operating income rising 5.5% to ¥1,082mn. The underlying trend was the same as the previous fiscal period, as net sales decreased 7.2% and segment income declined 20.6% in the Americas due to a strong yen. However, this was covered by the growth in the results of the other regions, including Japan and Asia. In particular, net sales in Japan, which contributes more than 50% of total sales, increased 9.0% and its segment income rose 8.5%, consolidating sales and profits as a whole. It appears that steady sales of precision press parts which use the Company's pressure projection welding technology,* due to an increase in the types of vehicles from major customers which are adopting those parts, were the main factors behind this performance in addition to constant VA and VE proposal activities. The increase of production volume of electric power steering parts at the new Suzuka factory, which started operations from 2H of the previous fiscal period, was also a factor.

* Pressure projection welding technology: It is one type of welding technology for the bonding of parts made of different materials by adding pressure to the part to be processed, and applying pressure and resistance heat by passing an electric current using an electrode. For those areas where the parts must be bonded strongly, such as automotive transmission parts and engine control system parts, a feature of this technology is that it enables mass production of parts that can maintain high strength only in the core areas where this strength is necessary through a simple manufacturing process. It is attracting attention as a manufacturing technology able to realize weight and cost reductions while still producing parts that retain the same level of strength as parts produced by conventional methods.

2. FY3/19 outlook

For FY3/19, the Company has left its initial forecasts unchanged, of net sales to increase 2.6% YoY to ¥40,000mn and operating income to rise 0.7% to ¥4,250mn, so it is expecting higher sales and profits for the second consecutive fiscal period. The main reasons why the operating income margin is set to decline 0.2 of a percentage point are the increases in depreciation costs and R&D costs, and also the rise in costs relating to strengthening human resources for the future. Net income attributable to owners of the parent is forecasted to decrease 11.9% to ¥2,700mn, as the extraordinary income recorded in the previous fiscal period, of subsidy income of ¥261mn, will not be recorded in this fiscal period. By region, sales and profits are forecasted to increase by approximately 2% in Japan, while in China and in ASEAN, they are expected to rise by around 12% and 4%, respectively. In the Americas, it is assumed that the yen will be strong, with an exchange rate of around ¥107 to US$1 (rate in the previous fiscal period, approximately ¥112 to US$1), so net sales are forecasted to decrease around 1% and segment income to decline approximately 7%. Therefore, there is a possibility that the FY3/19 results will slightly exceed the Company's forecast if the exchange rate trends above the rate of \110 to US$1 going forward. However, the Company is currently investigating the impact of the raising of tariffs by the United States, and it has not incorporated this into the forecasts.

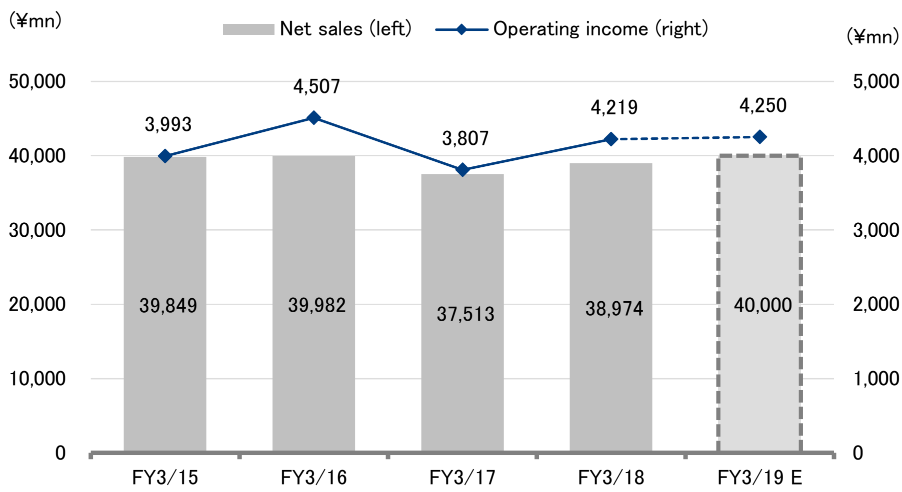
3. Aims for stable dividend growth and has in sight a dividend payout ratio of 30%

For FY3/19, the Company plans to increase the dividend per share by ¥4.0 YoY to ¥46.0 (dividend payout ratio, 25.3%) which will be the seventh consecutive fiscal year of higher dividends. It has in sight a level of 30% for the dividend payout ratio, and its policy is to stably and sequentially increase dividends. For shareholder rewards, the Company presents rice gift certificates to shareholders holding 100 shares or more at the end of March and the end of September, according to the number of shares they hold. The Company will also consider acquisition of its treasury shares in a timely manner.

Key Points

- With its strengths of fabless & factory and a global supply system, it is a manufacturer of added-value, proposal-type auto parts with an operating income margin exceeding 10%
- The outlook for FY3/19 is for higher sales and profits for the second consecutive period, with the slump in the Americas to be covered by the growth in the other regions
- Aiming for medium- to long-term growth by globally strengthening and developing its manufacturing functions and enhancing its marketing functions

Consolidated results trends



Source: Prepared by FISCO from the Company's financial results

Growth strategy

Aiming for medium- to long-term growth by globally strengthening and developing its manufacturing functions and enhancing its marketing functions

For its growth strategy going forward, the Company has set “globally strengthening manufacturing functions,” “bolstering development functions,” and “enhancing marketing functions” as its priority strategies.

In terms of “globally strengthening manufacturing functions,” in the fall of 2017, Ohashi Giken, Inc., the Company’s domestic manufacturing subsidiary, began full-scale mass production of electric power steering parts at its new factory (located in Suzuka City, Mie Prefecture), and it is currently investigating the second stage of the factory construction plan. Through the operations of this factory, Ohashi Giken intends to increase its net sales from around ¥3.2bn in FY3/17 to approximately ¥5bn in FY3/22. From the fall of 2018, the Company plans to carry out full-scale operations at a subsidiary (investment ratio, 90%) which will manufacture precision press parts. The subsidiary was established in the United States in November 2017 as a joint venture with Nakahyo Co., Ltd., which is its equity-method affiliate (investment ratio, 20%). The plan is to build a production system on the scale of ¥1bn in the next 5 years. Furthermore, the equity-method affiliate TK Co., Ltd., (investment ratio, 33.9%) which manufactures transmission parts using the pressure projection welding technology, is sequentially expanding its manufacturing facilities in order to respond to the growth in demand for this part, which is expected to realize net sales of around ¥1bn in the future. Going forward, the Company’s policy is to improve its competitiveness by strengthening its strategic partnerships with its main suppliers who possess advanced technological capabilities, which will become the driving force behind its growth. For FY3/19, it is planning capital investment of ¥1,200mn (¥844mn in the previous fiscal year).

For “bolstering development functions,” within the situation of the progress being made in the automotive industry for the major technological innovation of “electrification,” the Company is focusing on developing new technologies in order to assuredly capture the new demand created from this change. Specifically, it is advancing the development of proprietary new products and new processing technologies that will contribute to reducing the weight and cost of electric motors, for which demand is expected to grow. For FY3/19, the Company is planning R&D costs of ¥100mn (¥47mn in the previous fiscal year).

Furthermore, as these technological innovations proceed, the Company believes that quickly and accurately collecting information on customer needs will become even more important than it is today. So as a measure to respond to this, the Company organized a new marketing department in April 2018. The three personnel allocated to this department are responsible for searching for shared market needs through cross market research activities, and also conducting specific development activities.

In the future, at FISCO we expect the Company to continue to grow at rate above the industry average by targeting Japanese automotive manufacturers and electrical parts manufacturers as customers, in order to capture new demand for parts created through the growth in the need for local procurement due to globalization and from electrification.

FY3/19 consolidated earnings outlook

(¥mn)

	FY3/18		FY3/19		
	Results	% of net sales	Forecast	% of net sales	YoY
Net sales	38,974	-	40,000	-	2.6%
Operating income	4,219	10.8%	4,250	10.6%	0.7%
Ordinary income	4,306	11.1%	4,350	10.9%	1.0%
Net income attributable to owners of parent	3,065	7.9%	2,700	6.8%	-11.9%
Net income per share (¥)	206.13		181.61		

Source: Prepared by FISCO from the Company's financial results

Outlook by region

(¥mn)

	Net sales			Operating income			Operating income margin	
	FY3/18	FY3/19 E	YoY	FY3/18	FY3/19 E	YoY	FY3/18	FY3/19 E
Japan	21,363	21,800	2.0%	1,953	1,998	2.3%	9.1%	9.2%
Americas	8,273	8,150	-1.5%	1,082	1,006	-7.1%	13.1%	12.3%
China	4,549	5,100	12.1%	677	758	11.9%	14.9%	14.9%
ASEAN	2,748	2,870	4.4%	362	378	4.3%	13.2%	13.2%
Europe	2,039	2,080	2.0%	88	101	4.0%	4.3%	4.9%
Taiwan	-	-	-	40	46	12.3%	-	-
(Reconciliation)	-	-	-	14	-37	-	-	-
Total	38,974	40,000	2.6%	4,219	4,250	0.7%	10.8%	10.5%

Source: Prepared by FISCO from the Company's results briefing materials

Exchange rate (fiscal period average, vs yen)

	FY3/18 results	FY3/19			
		Jan - Mar	Apr - Jun	Full fiscal year forecast	YoY
U.S. dollar	112.19	107.36	109.60	107.00	Yen to strengthen 4.6%
Chinese yuan	16.63	17.05	16.98	16.50	Yen to strengthen 0.8%
Thai baht	3.31	3.42	3.40	3.30	Yen to strengthen 0.3%
U.K. pound	144.51	150.20	147.12	147.00	Yen to weaken 1.7%
Mexican peso	5.94	5.79	5.62	5.80	Yen to strengthen 2.4%
Taiwan dollar	3.68	3.68	3.65	3.60	Yen to strengthen 2.2%

Note: As the overseas subsidiaries' fiscal year ends in December, their January-to-March results are reflected in the 1Q results.
Source: Prepared by FISCO from the Company's results briefing materials

Disclaimer