



Takachiho Koheki | 2676

TSE Prime

Q2 Follow-up

Aiming to transform from “selling goods” to “selling services” by growing service businesses

Summary

■ Tech-trading company providing everything from electronics products to IT solutions

Takachiho Koheki (hereafter, the Company) is a trading company highly specialized in electronics technology that has identified the underlying needs of its customers to introduce the world's cutting-edge electronics products to Japan ahead of competitors. With engineering employees accounting for over 40% of its workforce, the Company is a highly specialized technical organization with a total of about 25,000 customer accounts, and its solid customer base is one of its assets.

■ H1 FY2025/3 Earnings results

In H1 FY2025/3, the Company surpassed initial estimates, reporting consolidated net sales of JPY13,314 mn (+4.6% YoY), operating profit of JPY936 mn (+31.2% YoY), ordinary profit of JPY811 mn (-23.2% YoY), and profit attributable to owners of parent (hereinafter, net profit) of JPY594 mn (-17.2% YoY). H1 operating profit reached a record high for the second consecutive year since going public.

■ FY2025/3 Full-year Earnings forecast

The Company's full-year FY2025/3 earnings forecast calls for net sales of JPY 26,900 mn (+6.6% YoY), operating profit of JPY 2,050 mn (+39.9% YoY), ordinary profit of JPY 2,000 mn (+8.9% YoY), and net profit of JPY 1,490 mn (+3.6% YoY), with the Cloud Service & Support segment expected to drive earnings growth. The dividend forecast for FY2025/3 is JPY160.0 per share, up by JPY 2.0 from FY2024/3.

■ Progress of New 2022-2024 Medium-Term Management Plan

Given that the Company has maintained its initial full-year FY2025/3 earnings forecast, it might likely achieve the performance targets for the final year of its medium-term management plan.

■ Share price insights

SIR thinks that Takachiho Koheki's elevated valuation reflects its substantially higher operating profit growth and dividend payout ratio compared to industry peers. The Company is transforming its business model from “selling products” to “selling services,” with the aim of growing its service business centered on the Cloud Service & Support segment. Equity market is likely to expect the Company to further boost its corporate value by increasing its ROE through service business growth, in SIR's view.

JPY mn, %	Net Sales	YoY	Operating profit	YoY	Ordinary profit	YoY	Net profit	YoY	EPS ^{*1} (JPY)	DPS (JPY)
FY2022/3	20,784	0.9	1,024	15.6	1,247	34.6	878	60.2	98.4	55.0
FY2023/3	23,360	12.4	1,376	34.4	1,588	27.3	1,205	37.2	134.2	133.0
FY2024/3	25,224	8.0	1,465	6.5	1,835	15.6	1,437	19.3	157.9	158.0
FY2025/3 (CE)	26,900	6.6	2,050	39.9	2,000	8.9	1,490	3.6	163.1	160.0
FY2024/3 H1	12,729	14.5	713	22.2	1,057	18.2	717	9.2	78.9	53.0
FY2025/3 H1	13,314	4.6	936	31.2	811	(23.2)	594	(17.2)	64.9	58.0

Source: Compiled by SIR from the Company TANSIN financial statements.

Note 1: Historical EPS is calculated using diluted EPS. Note 2: Figures may differ from the Company's materials due to differences in SIR's financial data processing and the Company's reporting standards.



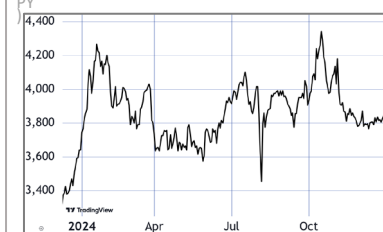
Focus Points:

Takachiho Koheki specializes in proposal-based consulting sales grounded in advanced technology, with over 40% of its employees having an engineering background. The company has announced that it will maintain a dividend payout ratio of 100% until it reaches a three-year average ROE of 8%, which has aroused interest among investors.

Key Indicators

Share price (24/7/8)	3,825
YH (24/1/4)	4,375
YL (24/5/1)	3,450
10YH (24/1/4)	4,375
10YL (18/12/25)	851
Shrs out. (mn shrs)	10.172
Mkt cap (JPY bn)	38.91
Equity ratio(FY24/3)	73.3%
FY25/3 P/E (CE)	23.3x
FY24/3 P/B (act)	2.15x
FY24/3 ROE (act)	8.6%
FY25/3 DY (CE)	4.2%

Stock Price Chart (1 year)



Source: TradingView

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H1 FY2025/3 Earnings result

Summary

In H1 FY2025/3, Takachiho Koheki reported consolidated sales of JPY 13,314 mn (+4.6% YoY), operating profit of JPY 936 mn (+31.2% YoY), ordinary profit of JPY 811 mn (-23.2% YoY), and net profit of JPY 594 mn (-17.2% YoY). H1 operating profit reached a record high for the second consecutive year since going public.

Reasons behind the sales and operating profit growth include gains in the number of cloud service licenses and acquisition of new maintenance contracts in the Cloud Service & Support segment, as well as strong sales of office security systems to foreign companies in the System segment and improved profitability in the Global business. Ordinary profit fell YoY owing to the absence of foreign exchange gains (JPY298 mn) recorded in H1 FY2024/3 and the recording of foreign exchange losses (JPY147mn) on foreign currency-denominated transactions.

The following is an overview of each segment.

Cloud Service & Support segment

In the Cloud Service & Support segment, sales came in strong at JPY1,773 mn (+23.2% YoY) thanks to an increase in MSP service and cloud network product subscriptions, as well as the acquisition of major maintenance contracts. Operating profit came to JPY386mn (+61.2% YoY) on the back of higher cloud service sales and improved profitability in the maintenance business. The Company had 18,929 MSP service contracts at the end of H1 FY2025/3, with 1,635 new contracts added during H1. The average monthly cancellation rate for H1 was 0.76%, calculated by dividing the number of cancellations per month by the total number of contracts at the end of the previous month.

Sales in the maintenance business totaled JPY848 mn (+7.6% YoY) and sales in the cloud service business totaled JPY925 mn (+42.1% YoY).

System segment

In the System segment, sales reached JPY4,726mn (+8.3% YoY) and operating profit came to JPY84mn, an improvement of JPY181mn from the loss posted in H1 FY2024/3 due to the absence of expenses related to additional construction work. The Retail Solution business achieved sales of JPY1,645 mn (+2.6% YoY), thanks to strong demand for major projects targeting GMS. In the Business Solution business, sales reached JPY1,667 mn (+23.1% YoY) on the back of strong sales of access control systems and surveillance camera systems to offices of foreign companies. In the Global business, sales came to JPY1,413 mn (+0.4% YoY) as a result of securing major projects, which offset the impact of delays in Thailand related to the formulation of the country's national power plan.

Device segment

In the Device segment, sales stood at JPY6,814 mn (-1.6% YoY) and operating profit was JPY465 mn (-18.6% YoY). Sales in the Electronics business fell 9.2% YoY to JPY4,211mn, despite strong sales of electronic components for consumer electronics, owing to ongoing inventory adjustments by customers. In the Mechatronics business, sales rose 13.9% YoY to JPY2,602 mn, thanks to steady sales of mechanical components for bank terminals resulting from the introduction of new banknotes, as well as mechanical components for multifunction printers and in-house developed components for residential equipment.

Q2 FY2025/3 Results by Segment (Unit: JPY mn)

		FY3/24 Q2 Results (*)	FY3/25 Q2 Results	Increase/ Decrease	Percentage change	FY3/25 Plan	Rate of progress
Cloud Services & Support	Net sales	1,439	1,773	+333	+23.2%	4,200	42.2%
	Operating profit	239	386	+146	+61.2%	730	52.9%
	Operating profit ratio (%)	16.6%	21.8%	+5.2pt	-	17.4%	-
Systems	Net sales	4,365	4,726	+361	+8.3%	9,600	49.2%
	Operating profit	(97)	84	+181	-	380	22.2%
	Operating profit ratio (%)	(2.2%)	1.8%	+4.0pt	-	4.0%	-
Devices	Net sales	6,923	6,814	(109)	(1.6%)	13,100	52.0%
	Operating profit	571	465	(106)	(18.6%)	940	49.5%
	Operating profit ratio (%)	8.3%	6.8%	(1.5pt)	-	7.2%	-
Consolidated total	Net sales	12,729	13,314	+585	+4.6%	26,900	49.5%
	Operating profit	713	936	+222	+31.2%	2,050	45.7%
	Operating profit ratio (%)	5.6%	7.0%	+1.4pt	-	7.6%	-

Source: Excerpted from the company's IR material.

FY2025/3 Full-year Earnings Forecast

Summary

The Company's full-year FY2025/3 earnings forecast calls for consolidated sales of JPY 26,900 mn (+6.6% YoY), operating profit of JPY 2,050 mn (+39.9% YoY), recurring profit of JPY 2,000 mn (+8.9% YoY), and net profit of JPY 1,490 mn (+3.6% YoY).

The Company has announced an interim dividend of JPY 58.0 per share and a year-end dividend of JPY 102.0 per share, bringing the annual dividend for FY2025/3 to JPY 160.0 per share, an increase of JPY 2.0 per share from FY2024/3. As mentioned in the H1 earnings summary, H1 results surpassed initial forecasts, but the Company has maintained its full-year FY2025/3 earnings forecast. It attributes this mainly to the fact that there are many uncertain factors in H2, such as the production plans of customers, particularly in the Devices segment.

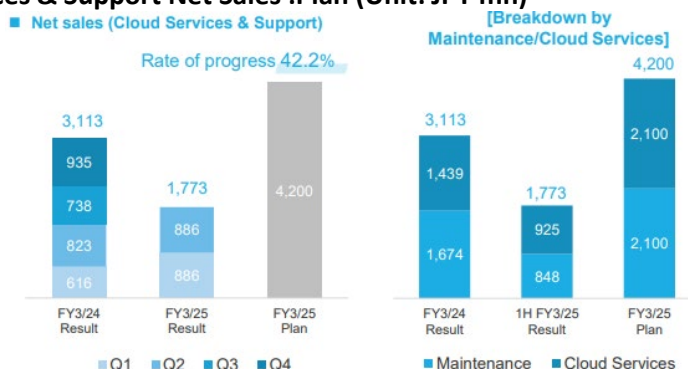
Cloud Service & Support

In the Cloud Service & Support segment, the Company projects sales of JPY 4,200 mn (+34.9% YoY) and operating profit of JPY 730 mn (+37.7% YoY). The Company expects JPY 2,100 mn (+25.4% YoY) to come from the maintenance business, and JPY 2,100 mn (+45.9% YoY) from the cloud service business.

For its maintenance business, the Company aims to achieve its sales target by securing major maintenance contracts, increasing the number of client's facilities under existing contract, and revising prices for existing contracts and spot customers.

In the Cloud Service business, the Company plans to bolster its MSP service distributor strategy and focus on winning major projects by targeting large companies. In terms of cloud network products, it expects sales to grow on the back of adoption in factories and logistics facilities. For other cloud services, the Company aims to boost sales by stepping up cross-selling based on its in-house developed *Cloom* platform and by launching new products in areas like cyber security.

Cloud Services & Support Net Sales :Plan (Unit: JPY mn)



Source: Excerpted from the company's IR material.

System segment

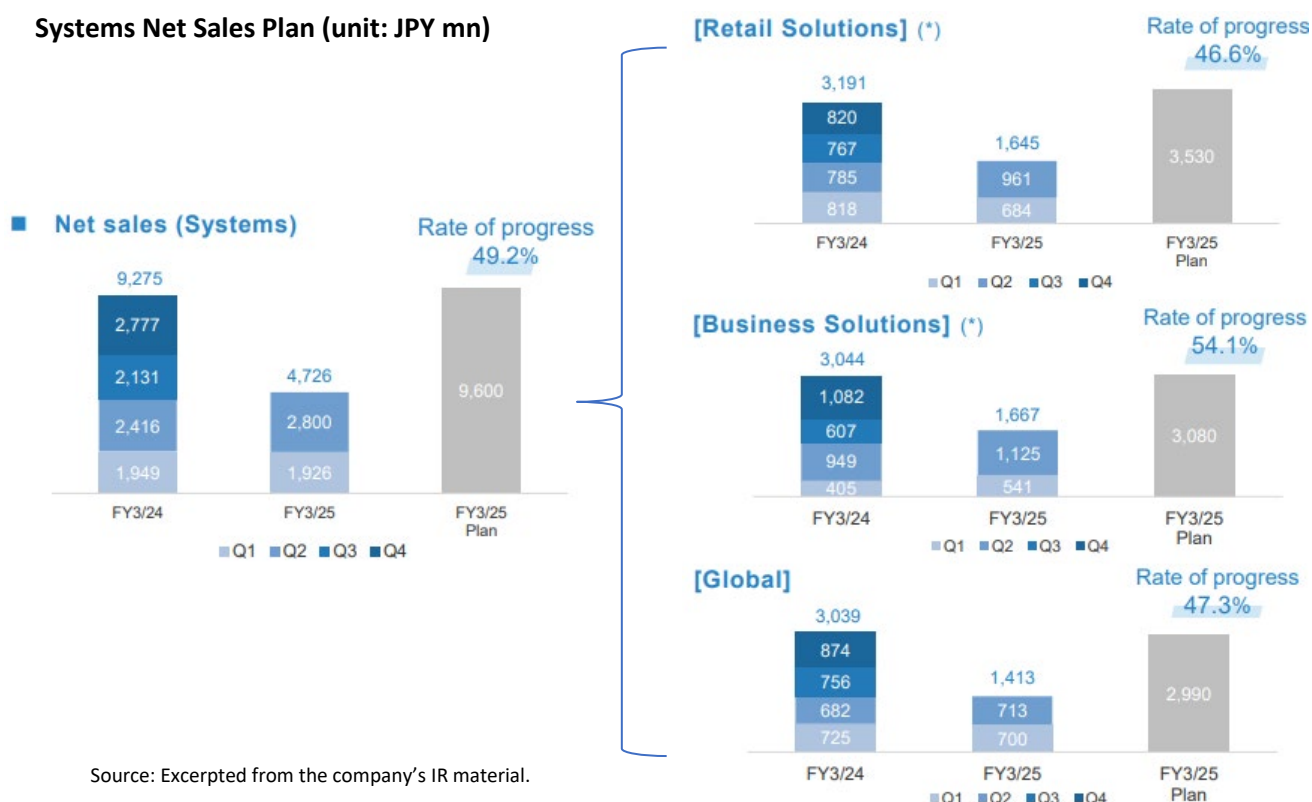
For the System segment, the Company projects sales of JPY 9,600 mn (+3.5% YoY). It expects operating profit to come in at JPY 380 mn, reversing the JPY 72 mn loss recorded in FY2024/3.

In the Retail Solution business, the Company projects sales of JPY3,530 mn (+10.6% YoY). It expects sales of surveillance cameras and facial recognition systems for GMSs to increase, thanks to the addition of new stores and replacement demand. On the other hand, it anticipates a drop in sales of security systems for the apparel industry owing to the absence of major projects seen in FY2024/3.

For the Business Solution business, the Company projects sales of JPY 3,080mn (+1.2% YoY). It expects sales of security systems for data centers and foreign company offices to grow, along with demand for additional security systems and replacements for domestic manufacturers.

The Global business expects sales to drop to JPY2,990 mn (-1.6% YoY) as it focuses on high-margin projects.

Systems Net Sales Plan (unit: JPY mn)



Source: Excerpted from the company's IR material.

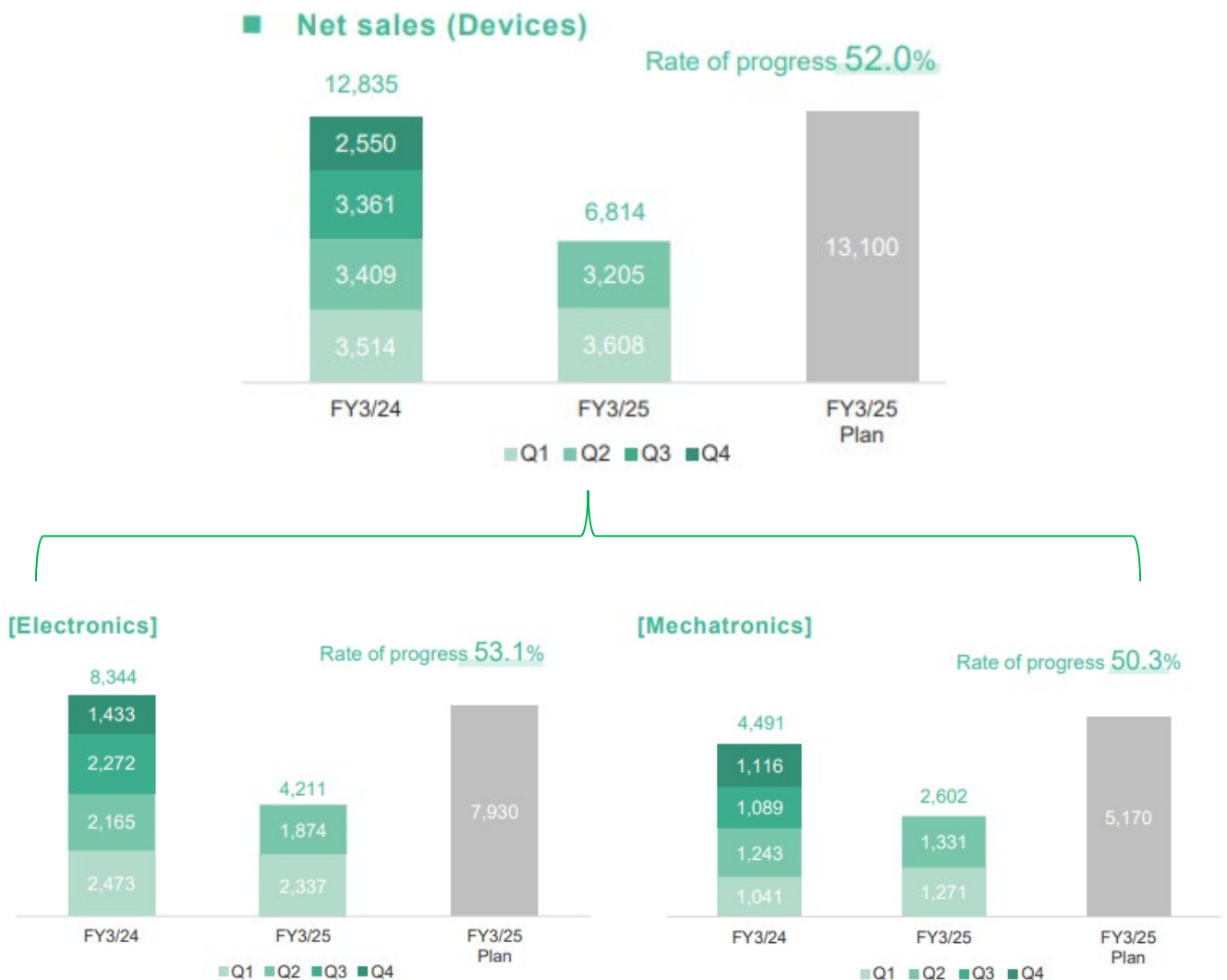
Device segment

In the Device segment, the Company projects sales of JPY 13,100 mn (+2.1% YoY), operating profit of JPY 940 mn (-6.8% YoY). Of its three segments, the Company only expects a drop in operating profit in the Device segment.

In the Electronics business, the Company projects full-year sales of JPY 7,930mn (-5.0% YoY). It expects orders to recover from Q4 FY2025/3, however, anticipates lower full-year sales YoY as a result of customer inventory adjustments. On the other hand, it expects higher sales of products for consumer electronics, where final products are selling well, and power supply modules for AI servers.

In the Mechatronics business, the Company expects full-year sales of JPY5,170mn (+15.1% YoY) . It expects to see higher sales of products under planning and development for mechanical components used in residential equipment and mechanical components for multifunction printers.

Devices Net Sales Plan (unit: JPY mn)



Source: Excerpted from the company's IR material.

Medium-term Management Plan

2022-2024 Medium-term Management Plan

Takachiho Koheki announced its 2022-2024 medium-term management plan (FY2023/3-FY2025/3) on February 8, 2022, and the current fiscal year, FY2025/3, is the final year of the plan. Under the plan, the Company aims to sustainably grow and boost its corporate value over the medium to long term.

Overall View of the Medium-Term Management Plan 2022-2024



Source: Excerpted from the company's IR material.

Progress

The Company's earnings results surpassed its initial plans in H1 of FY2025/3, the final year of the plan, and H1 operating profit reached a record high for the second consecutive year. Given that the Company has maintained its initial full-year FY2025/3 earnings forecast, it might likely achieve the performance targets for the final year of its medium-term management plan.

The Company has set two numerical targets with respect to its loyal customer strategy, in which it aims to expand the number of customers accounting for more than JPY30 mn in sales annually by providing added value and strengthening relationships. The first is to boost the number of loyal customers to more than 130 companies, and the second is to drive up all average sales per customer by 20%. The Company reached its target for average sales per customer one year ahead of schedule in FY2024/3, and has set a target of JPY 14 mn for FY2025/3. Progress in H1 was steady, with the number of loyal customers increasing by 8 YoY to 71 companies. Average sales per customer also rose steadily by 11% YoY.

Medium-Term Management Plan 2022-2024 (Unit: JPY mn)

FY	Medium-Term Management Plan 2022-2024			
	FY2022/3	FY2023/3	FY2024/3	FY2025/3
	act	First Year (act)	Second Year (act)	Final Year(plan)
Net sales	20,784	23,360	25,224	26,000
Operating profit	1,024	1,376	1,465	2,050
Ordinary profit	1,247	1,588	1,835	2,000
Net profit	878	1,205	1,437	1,400
ROE	6.0%	7.7%	8.6%	10.0% (target) 8.0% (*)
Dividend Per Share	JPY 55.0	JPY 133.0	JPY 158.0	(Continue until ROE achieves 8% average for 3 periods)

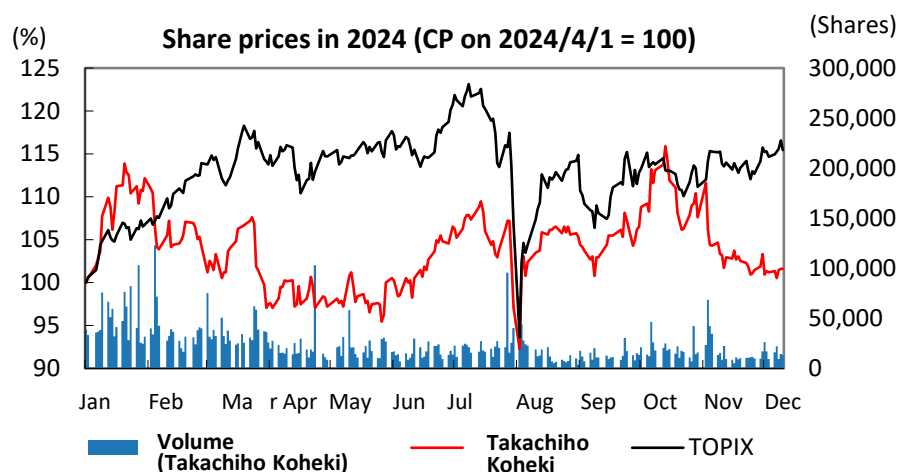
Source: compiled by SIR from the company's IR material.

*certain achievement

Share price insights

As of December 13, 2024, Takachiho Koheki's share price closed at JPY3,805, 13.0% low from the recent high of JPY 4,375 on October 16, but 10.3% high from the low of JPY 3,450 on August 5. It outperformed the TOPIX index from 2022 to 2023, reflecting strong earnings growth, but has underperformed TOPIX over much of 2024. The Company's fundamentals remain strong, with sales and profits expected to reach new record highs again in FY2025/3. Accordingly, the share price movement relative to TOPIX in 2024 can be seen as a correction from the strong share price performance seen prior to 2024.

In terms of valuation, its shares trade at a forward P/E of 23.3x based on the Company's FY2025/3 EPS forecast with the current share price of JPY3,805. This is considerably higher than the sector average P/E of 11.3x for 22 electronic component and semiconductor trading companies. In addition, its P/B and EV/EBITDA multiples are also significantly higher than the sector average. SIR thinks that this is supported by the expectation that the Company's operating profit growth, dividend payout ratio and operating profit margin are all higher than its peers'. On the other hand, its ROE is lower than the sector average, and the Company is aware that it needs to continue improving this. To this end, it is implementing capital efficiency-focused management, pursuing better balance sheet management such as by effectively using interest-bearing debt, and implementing a strong shareholder return policy to curb the expansion of shareholders' equity. The Company is transforming its business model from "selling products" to "selling services," and believes the key is to grow its service business centered on the Cloud Service & Support segment. Equity market is likely to expect the Company to further boost its corporate value by increasing its ROE through service business growth, in SIR's view.



Valuations

Comparable companies ^{1Dw}	PER(X)	PER(X) ²	PBR(X)	ROE(%)	OP Growth	OPM	EV/EBITDA	Dividend Payout Ratio	DY	PSR(X) ⁴⁸	Shareholders' equity ratio
	act	CE	act	act	(%) ³	(%) ⁴ CE	act (CE)	(%) ⁵ CE	(%) ⁷ CE	CE	(%)act
Takachiho Koheki	24.6	23.3	2.10	8.6	39.9	7.6	18.4	97.6	4.2	1.32	73.3
Average of 22 electronic component and semiconductor trading companies	9.7	11.3	0.84	10.0	(19.1)	3.4	5.5	46.2	4.4	0.25	47.1

Source: Compiled by SIR from SPEEDA data.

Note 1: Unless otherwise noted, share prices are based on the closing price on December 13, 2024. 2: Calculated based on the company's EPS forecast for the current term. 3: Year-on-year operating profit growth rate (average of 21 companies, as Tokyo Electron Device did not disclose its operating profit for the current fiscal year) 4: Operating profit margin for the current term (average of 21 companies, as Tokyo Electron Device did not disclose its operating profit for the current fiscal year) 5: Total dividends paid by each company / average net profit for the current term.

Comparable companies

Electronic and semiconductor trading firm (22 comps.)	MACNICA HOLDINGS(3132), KAGA ELECTRONICS(8154), Restar Holdings(3156), TOMEN DEVICES(2737), SIIX(7613), RYODEN(8084), TOKYO ELECTRON DEVICE(2760), MARUBUN(7537), TACHIBANA ELETECH(8159), HAGIWARA ELECTRIC HOLDINGS(7467), Elimatec(2715), Hakuto(7433), Shinko Shoji(8141), SUN-WA TECHNOS(8137), SANSHIN ELECTRONICS(8150), TSUZUKI DENKI(8157), KANADEN(8081), TAKEBISHI(7510), Daitron(7609), MEIJI ELECTRIC INDUSTRIES(3388), TOKAI ELECTRONICS(8071), KYOEI SANGYO(6973)
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Source: compiled by SIR from SPEEDA data.

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