KANTSU | 9326

TSE Growth

3Q Follow-up

Expecting securing logistics volume in the next fiscal year onward that can absorb rising costs associated with proactive investments

Summary

- In 3Q FY23/2, while sales rose, earnings fell YoY. KANTSU made KANTSU Business Service Co., Ltd. a consolidated subsidiary starting in 1Q FY23/2, and switched to consolidated accounting from FY23/2 for the first time. Since only parent company accounting basis was available last fiscal year, YoY growth rates were calculated based on comparison with non-consolidated figures of the last fiscal year. Accordingly, sales rose 3.1% YoY to ¥7,802 mn, while operating profit fell 46.4% YoY to ¥299 mn. In Logistic Service Business, this reflected a reactionary drop from the rapidly expanding e-commerce market that was buoyed by extraordinary stay-at-home demand amid the COVID-19 pandemic in the previous year, as well as temporary slowdowns and delays in international logistics caused by lockdowns in China. In addition, slowdown of their apparel clients sales due to a competition with fast fashion from overseas was partial reason of profit decline.
- The company's FY23/2 earnings forecast calls for sales of ¥10,454 mn (+3.5% YoY versus non-consolidated FY22/2 results), operating profit of ¥351 mn (-51.9% YoY), recurring profit of ¥305 mn (-55.7% YoY), and net income of ¥571 mn (+23.3% YoY). The projected increase in net income reflects extraordinary gains from the planned sale of the Higashi Osaka Primary Center's land and buildings. Although the company is steadily acquiring new customers, it is having difficulty offsetting the increase in fixed costs due to the sluggishness in logistics volume for existing apparel e-commerce customers. As a result, the company expects operating profit to fall YoY.
- The company's share price is trending around the low end of its 52-week range, and it is highly likely this valuation reflects its weak earnings outlook for FY23/2. Logistics volume for apparel e-commerce of existing customers will be a key factor to watch in FY24/2 and beyond. The logistics centers newly established in August 2022 have already been full by existing and new customers outside the apparel e-commerce sector. Accordingly, if the higher fixed costs can be offset by increased logistics volume over the next fiscal year, the company may be able to boost its earnings.

Earnings Summary

FY	Net Sales (¥mn)	YoY (%)	Oper. Profit (¥mn)	YoY (%)	Ordinary Profit (¥mn)	YoY (%)	Profit (¥mn)	YoY (%)	EPS(2) (¥)	DPS (¥)
2018/2 NC	5,255	*23.3*	161	-	140	*-78.6*	56	-	9.3	-
2019/2 NC	6,468	*23.1*	127	*-21.1*	104	*-25.7*	79	*41.1*	13.0	-
2020/2 NC	7,302	*12.9*	291	*129*	256	*146.2*	171	*117*	25.0	-
2021/2 NC	9,530	*30.5*	418	*43.6*	383	*49.6*	283	*65.5*	30.0	-
2022/2 NC	10,099	*6.0*	729	*74.5*	688	*79.6*	463	*63.9*	44.0	10.0
2023/2 C(CE)(1)	10,454	-	351	-	305	-	571	-	55.6	10.0
Quatary										
2023/2 3Q NC	7,567	*11.6*	559	*165.5*	530	*186.9*	365	*171.9*	34.8	-
2/2023 3Q C(1)	7,802	-	299	-	276	-	182	-	17.2	-

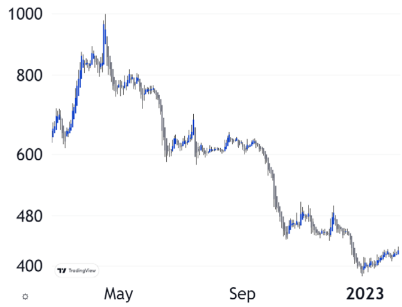
Source: compiled by SIR from TANSHIN financial statements
Note (1): YoY comparisons for 3Q FY23/2 results and FY23/2 earnings forecast are omitted as the company switched to consolidated financial reporting from 1Q FY23/2.

Focus Point

KANTSU is a logistics company that provides rear support for the EC industry. They meet rapidly expanding and more complex logistic needs through their own know-how. The Company aggressively introduces leading technology for labor saving measures and is also focusing on developing its own IT systems.

Key Indicators	
Share price (2/10)	415
YH (23/1/26)	425
YL (23/1/31)	391
10YH (21/7/21)	1,583
10YL (20/3/19)	334
Shrs out. (mn shrs)	10.270
Mkt cap (¥ bn)	68.45
EV (¥ bn)	88.19
Equity ratio (22/2/28)	28.75%
FY23/2 P/E (CE)	7.4x
FY22/8 P/B (act)	2.51x
FY22/2 ROE (act)	21.47%
FY23/2 DY (CE)	2.4%

Stock Price Chart 52 Weeks



Source: Trading view

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3Q FY23/2 Earnings Summary

In consolidated 3Q FY23/2, the company reported sales of ¥7,802 mn, operating profit of ¥299 mn, recurring profit of ¥276 mn, and net income of ¥182 mn. As the company began preparing quarterly consolidated financial statements from Q1 FY23/2, it has not disclosed YoY changes in earnings results in its TANSHIN.

As there is very little difference between the consolidated and non-consolidated accoints, we have calculated the YoY changes compared with the non-consolidated PL statement of Q3 FY22/2 as follows. While sales grew by a 3.1% YoY, operating profit declined by a 46.5% YoY, recurring profit declined by a 47.9% YoY, and net income declined by a 50.0% YoY. Earnings were affected by a 10% YoY drop in logistics volume stemming from a reactionary drop from the rapidly expanding e-commerce market that was buoyed by extraordinary stay-at-home demand amid the COVID-19 pandemic in the previous year, as well as temporary slowdowns and delays in international logistics caused by lockdowns in China and an impact from intensified competition among their apparel clients caused by foreign-affiliated fast fashion companies. In addition, higher fixed costs associated with the start of operations at two new logistics centers built last year also contributed to the drop in profits. The following is an overview by business. YoY changes are compared against non-consolidated results from FY22/2.

The Logistics Services Business posted sales of ¥7,352 mn (+2.5% YoY) and segment operating profit of ¥168 mn (-63.9% YoY). Although logistics volume for existing apparel e-commerce customers fell as foreign-affiliated fast fashion companies accelerated their entry into the Japanese e-commerce and app-commerce market, the company was able to secure a 2.5% YoY increase in sales thanks to higher logistics volume for beauty, supplements, general merchandise, beverages, and acquisition of new customers. On the other hand, segment operating profit in the logistics services business dropped owing to a substantial rise in fixed costs as the company began booking rent for its new Tokyo Primary Center (Niiza City, Saitama Prefecture, with a total floor area of approximately 27,400 sqm) in February 2022 and its new D2CII Logistics Center (Amagasaki City, Hyogo Prefecture, with a total floor area of approximately 13,200 sqm) in August 2022.

The IT Automation Business generated sales of ¥365 mn (+14.4% YoY) and segment operating profit of ¥122 mn (+23.9% YoY). New customer acquisitions for the Cloud Thomas and Cloud Thomas Pro warehouse management systems were strong, which led to higher sales and profit.

In other businesses, sales amounted to ¥83 mn (+15.3% YoY) and segment operating profit was positive at ¥8 mn driven by strong sales of after-school childcare services for children with disabilities and work transition support services for people with disabilities.

For company-wide SG&A expenses, rent for the new head office, taxes and dues, and depreciation related to server investments increased, which lowered operating profit. SG&A-to-sales ratio was 9.5%. On a non-consolidated basis, the this was at 8.2% in cumulative 3Q FY22/2.

Sales and segment operating profit by business

Business	(¥mn)	Consolidated FY23/2 3Q Cumulative	YoY[1]	Non-Consolidated FY22/2 3Q Cumulative
Logistics Services Business	Sales	7,352	2.5%	7,175
	Oper.profit	168	-63.9%	466
IT automation business	Sales	365	14.4%	319
	Oper.profit	122	23.2%	99
Other Businesses	Sales	83	15.3%	72
	Oper.profit	8	-	-5
Total	Sales	7,802	3.1%	7,567
	Oper.profit	299	-46.5%	559

Source: compiled by SIR from TANSHIN financial statements
Note (1): YoY comparisons are against non-consolidated 3Q FY22/2 figures as the company switched to consolidated reporting in 1Q FY23/2

FY23/2 Full Year Earnings Forecast

The company downwardly revised its initial consolidated earnings forecast on November 28, 2022. This was mainly due to logistics volume for existing customers falling about 10% below the initial forecast, making it difficult to absorb the increase in depreciation and expenses, especially rental expenses. The revised full-year FY23/2 earnings forecast calls for sales of ¥10,454 mn (+3.5% YoY versus non-consolidated FY22/2 results), operating profit of ¥351 mn (-51.9% YoY), recurring profit of ¥305 mn (-55.7% YoY), and net income of ¥571 mn (+23.3% YoY).

The company expects sales to rise by 3.5% YoY despite the drop in logistics volume for existing apparel e-commerce customers, mainly driven by the newly established D2CII logistics center in August 2022, as well as new online customer acquisitions and an increase in services for new customers in the IT Automation Business. On the other hand, as mentioned above in the 3Q earnings summary, the company expects operating profit to fall 51.9% YoY against non-consolidated FY22/2 results owing to an increase in fixed costs associated with higher rents for the new logistics center and a period of vacancy, as well as a rise in SG&A expenses centered on rent, taxes and dues, and depreciation and amortization for the new head office building.

The projected 23.3% YoY jump in net income to ¥571 mn is attributable to the booking of a one-time extraordinary gain and an extraordinary loss. The company plans to sell the land and buildings of its Higashi Osaka Primary Center in February 2023, and expects to post an extraordinary gain of ¥1,067 mn. On the other hand, it expects to book an extraordinary loss of ¥494 mn associated with the retirement of some software and fixed assets associated with the change in operation of logistics robots, and a provision for loss on business improvement associated with the sale of land and buildings at the Higashi Osaka Primary Center.

Medium-term Business Plan

To flexibly respond to changes in the business environment, the company established rolling KPIs for its medium-term business plan at the end of each fiscal year. The figures in the chart below are those of the medium-term business plan as of the FY22/2 earnings announcement. Given that the company downwardly revised its FY23/2 earnings forecast on November 28, 2022, the FY23/2 earnings forecast in this medium-term business plan has likely been revised to show the same figures. The company will likely revise or maintain its earnings forecast for FY24/2 onward in accordance to its rolling review process.

Medium-term business plan (rolling target)

¥mn, %	Medium-term Business Plan							
	FY22/2 act	*YoY (%)*	FY23/2 CE	*YoY (%)*	FY24/2 CE	*YoY (%)*	FY25/2 CE	*YoY (%)*
Net sales	**10,756**	***12.9***	**12,002**	***11.6***	**14,858**	***23.8***	**17,910**	***20.5***
Logistics services business	10,292	*12.5*	11,284	*9.6*	13,662	*21.1*	16,130	*18.1*
IT automation business	349	*17.5*	600	*71.9*	1,000	*66.7*	1,500	*50.0*
Other businesses	115	*33.7*	118	*2.6*	196	*66.1*	280	*42.9*
Gross profit	1,608	*42.8*	2,043	*27.1*	2,550	*24.8*	3,200	*25.5*
Operating profit	**670**	***60.3***	**943**	***40.7***	**1,250**	***32.6***	**1,647**	***31.8***
Recurring profit	635	*65.8*	902	*42.0*	1,200	*33.0*	1,600	*33.3*
Net Income	428	*51.2*	608	*42.1*	810	*33.2*	1,080	*33.3*

Source: : compiled by SIR from company IR materials

The company's growth strategies under the medium-term business plan are to (1) enhance corporate value through business expansion using M&A and transitioning to the Tokyo Stock Exchange’s Prime Market, (2) expand the Logistics Services Business by adding logistics centers, (3) invest in refrigerated logistics facilities to become the number one frozen mail-order logistics company in Japan, and (4) strengthen new customer acquisitions in the IT Automation Business by fully leveraging Cloud Thomas Pro. The growth strategy of expanding the Logistics Services Business by adding logistics centers appears to be going well, as the new D2CII Logistics Center, which was built in August 2022, was already fully occupied as of November.

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