



Orders are steadily increasing while gross profit margins continue to improve

Earnings Summary

On October 12, OHBA announced its 1Q results for FY24/5. For the period June-August 2023, sales increased 10.8% YoY to ¥2.73 bn, and operating profit was ¥28 mn (¥0.2 mn in YoY). Owing to seasonality, despite 1Q being the lowest quarter of the year, revenues expanded steadily, better than the full-year plan for an 8.6% increase in revenue.

Improvement in the gross profit margin is a key point in our view. Gross margin for the quarter was 31.6%, 2.0 ppt higher than 29.6% in the same period last year owing to two factors. (1) Increase in the unit price of engineers in parallel with continuous increases in *the unit price of engineers for design work outsourcing, etc.* set by the Ministry of Land, Infrastructure, Transport, and Tourism (MLIT), and (2) Previous profitability improvement factors appear to be ongoing, as a decrease in low-profit Tohoku earthquake reconstruction-related business coupled with an improving project mix from the increase in highly profitable primary government projects.

On the other hand, it should be noted that SG&A expenses are slightly rising. SG&A was ¥834 mn in the past quarter, about ¥100 mn higher than the ¥728 mn in the same period last year. This is mainly due to (1) higher labor costs associated with hiring people and raising wages and (2) the inclusion of SG&A expenses of Ohba Research and Land Surveys, which became a wholly owned subsidiary in the previous fiscal year. MLIT gives points to firms that raise wages in the general evaluation bidding system, and thus Ohba has been continuously raising wages, returning a certain amount of the unit price increase to its employees.

In 1Q, sales are lower than in other quarters, so the increase in fixed costs tends to affect the operating profit level. Gross profit rose 18.5% YoY to ¥863 mn due to higher top-line and improved gross margins, while SG&A expenses rose 14.6% to ¥834 mn, resulting in an operating profit increase of only ¥28 mn YoY. From 2Q onward, we expect to see the effects of increased top line and continued improvement in gross profit margin become more visible at the operating profit level.

Order Trends

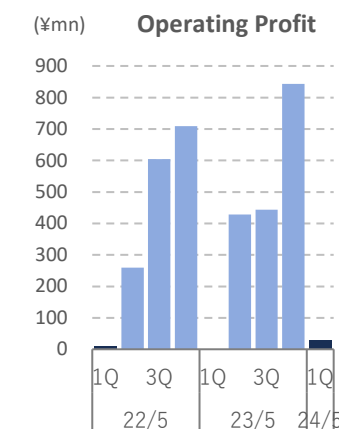
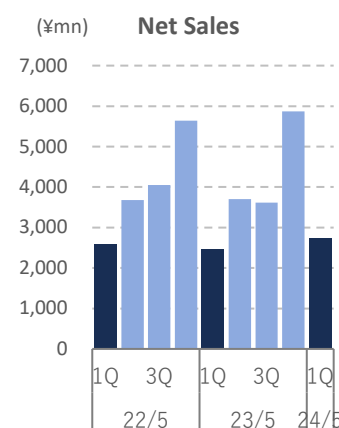
Orders received during the period from June to August 2023 increased 6.8% YoY to ¥6.35 bn, and the order backlog at the end of August rose 9.8% YoY to ¥13.06 bn. In order to strengthen Self-Defense Forces facilities, the Ministry of Defense was contracted to prepare several master plans to develop a plan to consolidate and optimize facilities at bases and garrisons across Japan. For Other projects, the firm is also involved as a cooperating company in the "Todoroki Green Project" promoted by a consortium of companies including Tokyu Corp. and Kawasaki Frontale. The company appears to be steadily accumulating projects in areas such as defense civil engineering and urban redevelopment, which were included in the new medium-term management plan announced about three months ago.

FY	Net Sales (¥mn)	YoY (%)	Oper. profit (¥mn)	YoY (%)	Profit ATOP (¥mn)	YoY (%)	EPS (¥)	DPS (¥)
19/5	15,581	-3.1	1,104	7.1	1,715	130.3	99.5	18.0
20/5	15,203	-2.4	1,145	3.6	824	-52.0	49.3	14.0
21/5	15,862	4.3	1,334	16.6	852	3.5	52.0	15.0
22/5	15,933	0.4	1,583	18.6	1,086	27.3	67.0	23.0
23/5	15,648	-1.8	1,715	8.3	1,075	-0.9	66.7	24.0
24/5 CE	17,000	8.6	1,800	5.0	1,150	6.9	71.8	34.0
23/5 1Q	2,462	-4.1	0	-98.0	11	74.5	0.7	-
24/5 1Q	2,727	10.8	28	-	22	91.8	1.4	-

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

1Q Flash

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