

KANTSU | 9326

TSE Growth

4Q Follow-up

FY2/22 Earnings

Sales growth slowed owing to a review of low-margin contracts, but profit margins improved substantially and the company achieved record profits.

Summary

Although full-year FY2/22 sales fell about 6% short of the company's ¥10,756 mn forecast, this was intentional, as the company switched from low-margin freight contracts that had been in place since FY2/21, and focused on acquiring new contracts. As a result, operating profit and net income grew substantially, up 74.5% YoY and 63.9% YoY, respectively, while operating profit margin improved to 7.2% from 4.4% in FY2/21. In the three-month-period of 4Q, sales were down 8% YoY and operating profit was down 17.9% YoY. According to the company, this was a reactionary decline from the sharp increase in demand in 4Q FY2/21 (+38.8% YoY) stemming from the spread of COVID-19. The company's FY2/23 forecast calls for continued strong growth, with sales rising 18.9% YoY, operating profit increasing 29.3% YoY, and net income growing 31.2% YoY.

¥mn, %	Net Sales	YoY	Oper. Profit	YoY	OPM	Profit ATOP	YoY	EPS	DPS
2/2018 NC *1	5,255	-	161	-	3.1	56	-	-	-
2/2019 NC	6,468	23.1	127	-21.1	2.0	79	41.1	13.0	-
2/2020 NC	7,302	12.9	291	129.1	4.0	171	116.5	25.0	-
2/2021 NC	9,530	30.5	418	43.6	4.4	283	65.5	31.7	-
2/2022 NC	10,099	6.0	729	74.5	7.2	463	63.9	45.7	10
2/2023 C*2 (CE)	12,002	18.9	943	29.3	7.92	608	31.2	59.3	10

Source: compiled by SIR from TANSHIN financial statements. *1: Non-consolidated, *2: Consolidated

Logistics Services Business

Sales rose 4.6% YoY despite the above-mentioned switching of freight contracts for existing customers, which dragged sales by approximately ¥1.2 bn YoY, as the company focused on acquiring new customers. It is worth noting that the company transformed into a highly profitable company in just one year, with segment profit margin almost doubling to 6.4% from 3.5% in FY2/21. In FY2/21, the company opened two logistics centers in Amagasaki-shi, Hyogo Prefecture and one in Niiza-shi, Saitama Prefecture, but the Niiza-shi center opened in February 2022, and it will start contributing to results in FY2/23. Total floor area rose 41% YoY to 60,700 tsubo in FY2/22, but the company managed to reach full capacity quickly thanks to its proactive sales efforts. Kantsu was quick to incorporate marketing activities in response to the COVID-19 pandemic, and has demonstrated strong execution by hosting online facility tours and engaging in SEO initiatives.

IT Automation Business

Cloud Thomas, the company's main product, performed well. Segment sales were up 46.0% YoY to ¥433 mn, and profit was up 10.3% YoY to ¥122 mn. Segment profit growth had lagged behind sales growth mainly because of a higher cost of sales



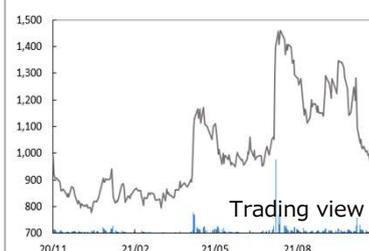
Focus Point

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 also aggressively introduces leading technology to reduce labor needs and is focusing on its own IT systems.

Key Indicators

Share price (5/26)	759
YH (21/7/21)	1,583
YL (22/1/28)	555
10YH (21/7/21)	1,583
10YL (20/3/19)	334
Shrs out. (mn shrs)	10,269
Mkt cap (¥ bn)	7.795
EV (¥ bn)	9.81
Equity ratio	28.75%
FY3/21 ROE (act)	21.5%
FY3/21 P/B (act)	2.86x
FY3/22 P/E (CE)	16.8x
FY3/22 DY (CE)	1.3%

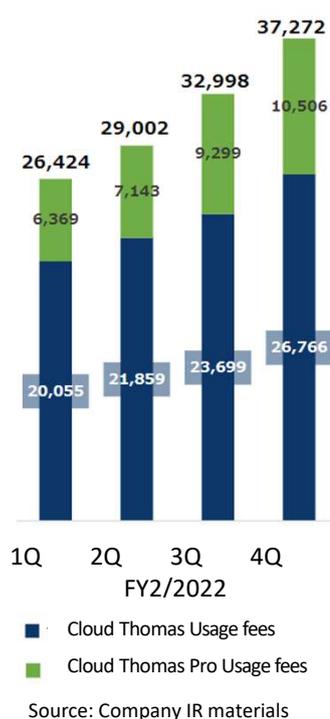
Stock Price Chart 52 Weeks



Team coverage

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Cloud Thomas Usage fees (¥ thousand)



ratio stemming from increased sales of automation hardware, as well as efforts to strengthen support, sales, and development systems. The upfront investment is appropriate and necessary considering that the service is in the early stages of expansion. The alliance with Canon IT Solutions formed in FY2/21 will start contributing fully to FY2/23 results.

What is particularly notable in this segment is the rapid growth in sales of Cloud Thomas Pro, which was launched in 2021 and is designed for large logistics centers. It includes packages for specific industries such as food, medical, and apparel, and has a higher selling price compared to the standard version. Usage fees for Cloud Thomas Pro surged 123% YoY in 4Q.

Other Business

Sales from training services for foreign technical trainees fell by about 40% YoY, as the company was unable to capture new service opportunities due to the ongoing COVID-19 pandemic. On the other hand, other training services, including employment transition support services for socially skilled people with developmental disabilities, performed well, generating sales of ¥85 mn (+26% YoY) and improving the segment P/L with loss of ¥6 mn.

FY2/23 Company Forecast

The company's FY2/23 earnings forecast calls for net sales of ¥12,002 mn (+18.9% YoY) and operating profit of ¥943 mn (+29% YoY), leaning toward a strong profit growth projection. The key drivers for this include the full contribution of improved profit margins from the freight rate revisions in FY2/21, and the company's aim to fully fill the Niiza Center and other facilities newly established in FY2/22. The company plans to increase floor space by a total of 8,300 tsubo (appx. 27,400 square meters) in Amagasaki-shi, Hyogo Prefecture, in August and December of FY2/23, which is about half of the 19,100 tsubo (appx. 63,100 square meters) added in FY2/22.

Cloud Thomas will continue to drive performance in the IT Automation Business. The company forecasts segment sales to rise 38.6% YoY to ¥600 mn, but this appears conservative considering recent results and the expected contribution of the alliance with Canon IT Solutions to full-year results in FY2/23.

It aims to firmly establish profitability in the Other Business segment by achieving full-year profitability in the employment transition support service for people with developmental disabilities.

FY2/2023 Sales Forecast by Segment

(¥ mn)	FY2/2022*	FY2/2023* CE	Change (%)
Logistics Services	9,568	11,284	17.9%
EC/catalog logistics support services	9,393	11,067	17.8%
Outsourced order processing services	111	154	38.7%
Other services	63	62	-2.8%
IT Solution Services	433	600	38.6%
Cloud Thomas	324	500	54.3%
Other services	109	100	-8.2%
Other Business	96	118	22.3%
Training services for foreign technical trainees	11	9	-14.0%
Other training services	85	108	27.0%
TOTAL	10,099	12,002	18.9%

* Non-consolidated results shown for FY2/22. Company switched to consolidated reporting starting in FY2/23.

Source: Prepared by SIR based on company earnings briefing materials

Share Price Insight

KANTSU’s share price has fallen about 50% from the high of 1,580.3 yen (adjusted) in July 2021, and the Mothers Market index has also fallen by roughly the same amount during the same period. While concerns over rising overseas interest rates and geopolitical risks have been highlighted, emerging companies have traditionally been susceptible to changes in investor portfolios triggered by changes in the external environment.

The company's financial performance has been excellent, but it is forecasting an ROE of 19.8% for FY2/23, which would be lower than the 25.5% in FY2/22. While strong performance may have boosted the company's retained earnings, a short-term assessment of its financial performance would not be particularly meaningful as the company continues to invest in logistics facilities to expand sales. The market will likely recognize the company's track record of expanding sales while continuing to invest in a disciplined manner, even while being affected by the external environment.

The company paid a dividend of 10 yen per share for the first time in FY2/22. Although the dividend payout ratio is around 21%, the shift toward returning profits to shareholders while maintaining a certain level of retained earnings is remarkable policy change.

1 Year Comparison (KANTSU, TOPIX, Mothers)



Source: Trading View

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