Walden Research Japan

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Shinwa (3447)

Cons. Fiscal Year (IFRS) (Million Yen)		Revenue	Operating Profit	Profit Before Income Taxes	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2017		15,194	2,631	2,559	1,680	121.9	-	761.2
FY03/2018		16,586	2,306	2,238	1,459	105.9	43.0	868.0
FY03/2019CoE		16,900	2,370	2,313	1,500	108.8	44.0	-
FY03/2018	YoY	9.2%	(12.3%)	(12.5%)	(13.1%)	-	-	-
FY03/2019CoE	YoY	1.9%	2.7%	3.3%	2.8%	-	-	-
Cons. Half Year (IFRS) (Million Yen)		**Revenue**	**Operating Profit**	**Profit Before Income Taxes**	**Profit Attributable to Owners of Parent**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 to Q2 FY03/2018		8,062	1,214	1,180	766	-	-	-
Q3 to Q4 FY03/2018		8,523	1,091	1,058	693	-	-	-
Q1 to Q2 FY03/2019		8,624	1,004	974	627	-	-	-
Q3 to Q4 FY03/2019CoE		8,275	1,365	1,338	872	-	-	-
Q1 to Q2 FY03/2019	YoY	7.0%	(17.3%)	(17.5%)	(18.1%)	-	-	-
Q3 to Q4 FY03/2019CoE	YoY	(2.9%)	25.1%	26.5%	25.8%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (6 February 2019)

Next Generation Scaffold

Shinwa, manufacturing temporary materials and logistics equipment, is trying to get at long-term growth by means of beefing up sales of Next Generation Scaffold. The current mainstay Wedge Tightened Scaffold adopted for detached housing, etc. does not have major market growth potentials going forward, but the Company sees the market for Next Generation Scaffold adopted for high-rise building, etc. will remain buoyant in the foreseeable future, consistently replacing existing Prefabricated Scaffold with its capability to shorten construction period and to improve construction efficiency. The Company, having not being exposed to existing Prefabricated Scaffold as "manufacturer of system for scaffold" at all, is heavily involved with business to supply temporary materials leasing operators and general contractors with own competitive Next Generation Scaffold, benefiting from the said changeover on a net basis. On top of this, the Company suggests its strategy to cultivate markets overseas should accelerate growth potentials in a long-term view. Meanwhile, the Company is keen on sharing earnings with shareholders as another strategy for management, going for payout ratio of 40% or more with its dividend policy, resulting in prospective annual dividend of ¥44.0 per share, implying payout ratio of 40.5% in FY03/2019. On top of this, the Company is keen on IR activities, including those for overseas institutional investors.

IR Representative: Corporate Planning Department, Niwa / Aoki (+81 584 66 4436 ir@shinwa-jp.com)

2.0 Company Profile

Manufacture of Temporary Materials and Logistics Equipment

Company Name	Shinwa Co., Ltd. Website IR Information (Japanese) Share Price (Japanese)
Established	1 August 1979
Listing	20 March 2018: Tokyo Stock Exchange 2nd Section (ticker: 3447) 21 June 2018: Nagoya Stock Exchange 2nd Section
Capital	¥100m (as of the end of September 2018)
No. of Shares	13,788,400 shares (as of the end of September 2018)
Main Features	● Leading the market for Wedge Tightened Scaffold adopted for detached housing, etc. in Japan ● Surging sales for Next Generation Scaffold adopted for high-rise building, etc. ● Also involved with diverse logistics equipment, represented by bulk containers for liquid transport
Business Segment	Ⅰ. Manufacture of temporary materials and logistics equipment
Top Management	Representative Director: Hiroshi Yamada
Shareholders	GOLDMAN SACHS INTERNATIONAL 8.6%, BNY GCM Client JPRDSIGFEAC 6.4%, Japan Trustee Trust Account 6.2% (as of the end of September 2018)
Headquarters	Kaizu-city, Gifu-prefecture, JAPAN
No. of Employees	Consolidated: 163, Parent: 139 (as of the end of September 2018)

Source: Company Data

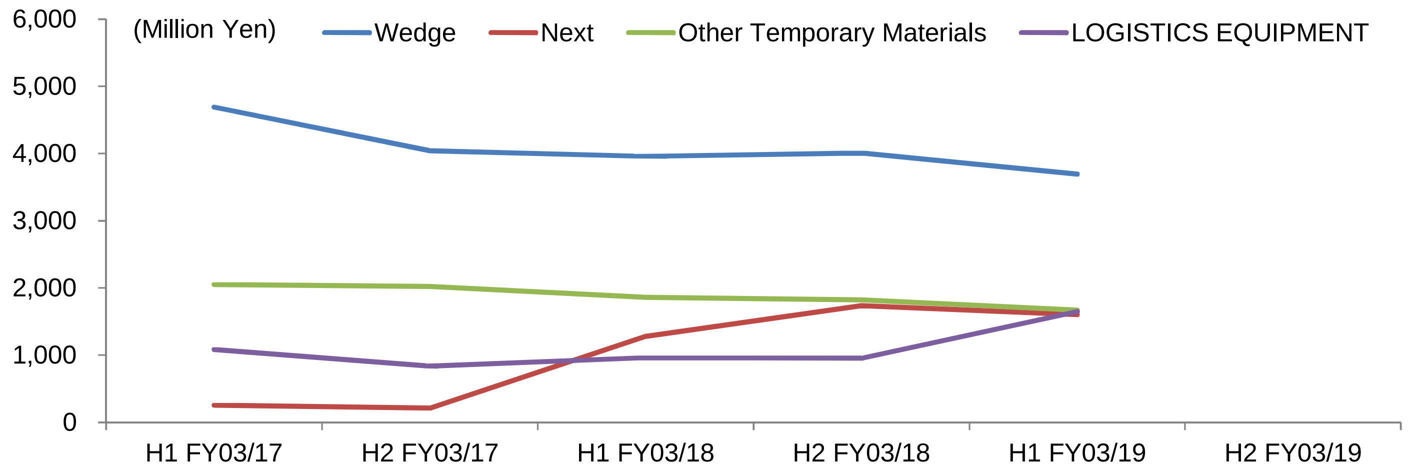
3.0 Recent Trading and Prospects

Q1 to Q2 FY03/2019 Results

In Q1 to Q2 FY03/2019, revenue came in at ¥8,624m (up 7.0% YoY), operating profit ¥1,004m (down 17.3%), profit before income taxes ¥974m (down 17.5%) and profit attributable to owners of parent ¥627m (down 18.1%), while operating profit margin 11.6% (down 3.4% points).

Compared with initial Company forecasts, revenue was better by ¥276m (3.3%), having resulted in renewal of record high in Q1 to Q2. However, operating profit was worse by ¥155m (13.4%). According to the Company, hiking procurement prices of raw materials such as steel are still going on, while passing on to selling prices was delayed. As far as we could gather, this has a lot to do with the Company's idea to place the utmost emphasis on activities to propel early restoration and/or reconstruction after a recent series of natural disasters in Japan, i.e., earthquake, typhoon and torrential rain rather than timely revising selling prices.

Revenue Breakdown



Source: Company Data, WRJ Calculation

By division, TEMORARY MATERIALS saw revenue of ¥6,973m (down 1.8%) and LOGITCS EQUIPMENT revenue of ¥1,650m (up 71.2%). Meanwhile, the former comprised that of ¥3,696m (down 6.7%) on Wedge Tightened Scaffold adopted mainly for low-rise to medium-rise facilities represented by detached housing, that of ¥1,605m (up 25.4%) on Next General Scaffold adopted for medium-rise to high-rise facilities and/or public works and that of ¥1,672m (down 10.0%) on Other Temporary Materials. Meanwhile, according to the Company's definition, "scaffold" is "something indispensable to secure anybody involved with construction at site", while adopted for "civil engineering and/or construction of large-scale facilities such as building and bridge". Thus, it is "essentially demanded for to set up any town or put up any building".

Sales of the mainstay Wedge Tightened Scaffold were sluggish. Although construction investment remained favorable in capital region, the Company suffered from worsening situations on labor shortages in other regions, having given negative impacts to sales here. Meanwhile, sales of Next Generation Scaffold were buoyant, well coping with demand to provide construction sites with solutions, i.e., improving construction efficiency, pursuing high safety, cutting back noises, etc. On the LOGITCS EQUIPMENT side, sales increased so sharply, having exceeded assumptions of Company forecasts, which was the reason for overshoot as a whole for the Company. Demand for the mainstay bulk containers for liquid transport has remained firm, while large-scale order intake having kicked in on LED-built-in multistage shelf for artificial-light-oriented plant factory as well as on rack for major Internet sales operator.

Wedge Tightened Scaffold	Next Generation Scaffold
	

Source: Company Data

In January 1988, the Company launched *SHINWA CATCHER* or Wedge Tightened Scaffold, having made a changeover to “manufacturer of system for scaffold” from “manufacturer of component for temporary materials”. To date, the Company directly supplies business operators as many as 1,400 in the number to set up this scaffold at the sites of construction, which is the largest scale out of all the peers in Japan.

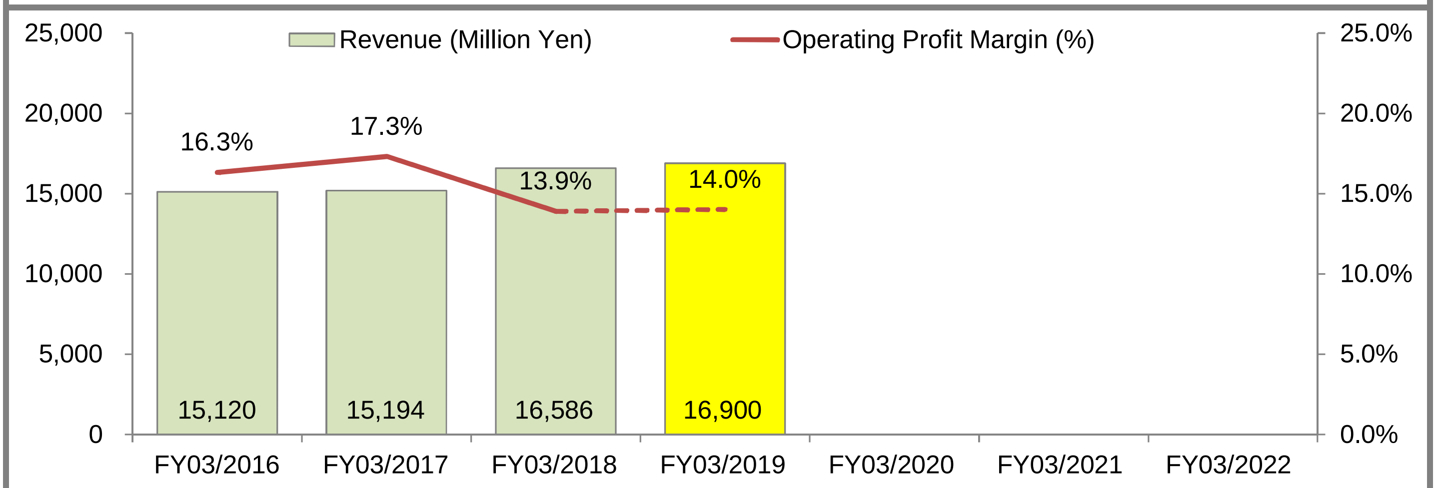
Meanwhile, it used to be the case that Prefabricated Scaffold was adopted across the board for medium-rise to high-rise facilities and/or public works, but the Company has never been involved with it as “manufacturer of system for scaffold”. More importantly, the Company launched *Silent Power System (SPS)* or Next Generation Scaffold for the said domain in May 2016 after some development period to create capability to shorten construction period and to improve construction efficiency, having led to take off in FY03/2018. In FY03/2019 to follow, revenue came in at ¥1,605m (up 25.4%) in Q1 to Q2 as mentioned earlier, suggesting ongoing strengths. This trend is to persist over the long-term, according to the Company.

For example, the key factor for surging sales on the LOGITCS EQUIPMENT side is of utilization of the Company's core technology as manufacturer of metal products, which is also true of Next Generation Scaffold. As far as this competitive Next Generation Scaffold is concerned, the Company runs the business to supply temporary materials leasing operators and general contractors, implying a potential fairly higher to efficiently beef up sales, when compared with the existing mainstay Wedge Tightened Scaffold.

Long-Term Prospects

On top of Next Generation Scaffold, the Company is looking to development of markets overseas to drive growth for the Company in a long-term view as well as to operations on the LOGITCS EQUIPMENT side and to rental business to take off on a full-fledged basis. Meanwhile, the Company argues that it manufactures products whose added value is higher than peers at the costs lower, resulting in profit margin higher. According to the Company, there are no peers carrying operating profit margin higher than 10%, while the Company has been seen operating profit margin between 13.9% and 17.3% over the past three years. The Company also suggests this range for operating profit margin is sustainable for the foreseeable future.

Long-term Prospects



Source: Company Data, WRJ Calculation

One of the reasons why the Company has seen some volatility of operating profit margin as above-mentioned is that procurement prices of raw materials represented by steel do not remain unchanged. At the end of the day, the changes will be passed on to selling prices, but it always takes time to do so. As a result, operating profit margin is under pressure when the procurement prices are on the rise and vice versa.

In regards to development of markets overseas, the Company set up office in Philippines in June 2017, which was followed by the startup, in October of the same year, of manufacture for Wedge Tightened Scaffold in partner factory based in Vietnam. So far, impacts from here have remained insignificant to business performance as a whole for the Company, but the Company is pretty keen on taking in robust construction appetite in Southeast Asian countries due to economic growth in a long-term view. The Company suggests local demand for own products to fulfill high safety standards should pick up sharply in the foreseeable future.

Meanwhile, FY03/2019 initial Company forecasts (released on 15 May 2018) are going for prospective revenue of ¥16,900m (up 1.9% YoY), operating profit of ¥2,370m (up 2.7%), profit before income taxes of ¥2,313m (up 3.3%) and profit attributable to owners of parent of ¥1,500m (up 2.8%), while operating profit margin of 14.0% (up 0.1% point).

Q1 to Q2 results were as has been mentioned, while the Company suggests that recent trading in Q3 is picking up nicely, driven by increasing restoration demand on a full-fledged basis after natural disasters. On top of this, revision on selling prices are now making progress, according to the Company. Thus, it appears revenue is still running ahead, while an earnings recovery in H2 could fully compensate for shortage of earnings in Q1 to Q2, as far as we could see.

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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