Walden Research Japan

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SENSHU ELECTRIC (9824)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY10/2016		67,666	2,802	2,978	1,585	155.2	40.0	3,429
FY10/2017		74,956	3,202	3,455	2,289	226.6	45.0	3,662
FY10/2018CoE		78,000	3,550	3,720	2,530	250.4	50.0	-
FY10/2017	YoY	10.8%	14.2%	16.0%	44.5%	-	-	-
FY10/2018CoE	YoY	4.1%	10.9%	7.7%	10.5%	-	-	-
Consolidated Half Year (Million Yen)		**Sales**	**Operating Profit**	**Recurring Profit**	**Profit Attributable to Owners of Parent**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 to Q2 FY10/2017		36,807	1,612	1,738	1,163	-	-	-
Q3 to Q4 FY10/2017		38,149	1,590	1,717	1,126	-	-	-
Q1 to Q2 FY10/2018CoE		39,300	1,840	1,930	1,280	-	-	-
Q3 to Q4 FY10/2018CoE		38,700	1,710	1,790	1,250	-	-	-
Q1 to Q2 FY10/2018CoE	YoY	6.8%	14.1%	11.0%	10.0%	-	-	-
Q3 to Q4 FY10/2018CoE	YoY	1.4%	7.5%	4.3%	11.0%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (7 February 2018)

Investment and Growth

SENSHU ELECTRIC or independent general/technology trading company with electric cables as the mainstay merchandises, having been listed onto TSE1 from TSE2 on 9 November 2017, is planning to see long-term steady growth being assured by management strategy to aggressively implement investment. For example, the Company's midterm management plan (FY10/2017 to FY10/2021) is calling for CAGR of 8.1% for sales and 10.9% for earnings. Basically, earnings as a whole for the Company come from FA (Factory Automation) Cables mainly associated with capital expenditure by semiconductor industry and automotive industry. Most recently, demand here remains buoyant. Meanwhile, this is also true of "original product" to carry high gross profit margin in particular amongst others here, according to the Company. "Original product" refers to literally original and thus high-added-value product not being exposed to competition with peers, to be developed by the Company in conjunction with suppliers, i.e., manufacturers of electric cables, for customers seeking for FA Cables customized to each of their own equipment, etc. to be developed, manufactured and sold, through so-called "spec-in" services. The strengths of the Company also lies in its established capability of distribution warehouses to deliver "original product" on a just-in-time basis for customers. While revealing management strategy to focus on "original product" going forward, the Company is currently implementing large-scale investment in distribution warehouses and sales offices to further beef up own capabilities in there. On top of this, the Company is also working on an issue to develop new business domains with electric cables as the core competence, e.g., trying to get at booking of sales as early as by the end of FY10/2018 for the first time in regards to agriculture-related business.

In FY10/2017, sales came in at ¥74,956m (up 10.8% YoY), operating profit ¥3,202m (up 14.2%) and operating profit margin 4.3% (up 0.2% points). On a parent basis, sales of FA Cables, i.e., the key source of earnings, came in at ¥26,976m (up 10.5%), having accounted for 38.3% of total, while 98.0% of operating profit as a whole for the Company was earned on a parent basis. Meanwhile, sales of Non-Cables or another source of earnings came in at ¥10,208m (up 8.9%), having accounted for 14.5% of total. Collectively, they accounted for 52.8% of sales, while having accounted for the bulk of gross profit, according to the Company. Due to strengths of capital expenditure by semiconductor industry and automotive industry, sales of FA Cables were favorable. The Company suggests that sales of "original product" were also favorable as the Company successfully provided customers with solutions by means of extensively coping with their diverse customization needs associated with capital expenditure through "spec-in" services. On top of this, sales of Non-Cables were also favorable and thus earnings as a whole for the Company were buoyant. Meanwhile, another driver for earnings came from consolidated add-ons turning positive from negative due mainly to improving sales and earnings of consolidated subsidiary in China in charge of locally selling electric cables.

FY10/2018 Company forecasts are going for prospective sales of ¥78,000m (up 4.1% YoY), operating profit of ¥3,550m (up 10.9%) and operating profit margin of 4.6% (up 0.3% points). Meanwhile, Company being keen on sharing earnings with shareholders is going for annual dividend renewing record high by paying ¥50.0 per share, implying payout ratio of 20.0%, in FY10/2018, which is up ¥5.0 from ¥45.0, implying payout ratio of 19.9%, in FY10/2017. On a parent basis, Company forecasts are going for prospective sales of ¥72,700m (up 3.3%), operating profit of ¥3,260m (up 3.9%) and operating profit margin of 4.48% (up 0.03% points). One of the reasons why Company forecasts are not going for fast growth is that assumptions are rather conservative on sales of FA Cables and Non-Cables, i.e., the sources of earnings, respectively, ¥28,140m (up 4.3%) and ¥10,430m (up 2.2%). Still, consolidated add-ons are expected to enlarge and thus rather faster growth as a whole for the Company.

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2.0 Company Profile

Integrated General/Technology Trading Company with Electric Cables as the Mainstay Merchandises

Company Name	SENSHU ELECTRIC CO., LTD. Company Website (Japanese Only) IR Information (Japanese Only) Share Price (Japanese)
Established	18 November 1949
Listing	9 November 2017: Tokyo Stock Exchange 1st Section (Ticker: 9824) 8 November 2002: Tokyo Stock Exchange 2nd Section 24 June 1991: Osaka Stock Exchange 2nd Section
Capital	¥2,575m (As of the end of October 2017)
No. of Shares	10,800,000 shares, including 694,766 treasury shares (As of the end of October 2017)
Main Features	● Purchasing and selling electric cables more than 50,000 items ● FA Cables mainly for capital expenditure, the key earnings pillar ● Co-development of "original product" with manufacturers of electric cables
Businesses	Ⅰ. Electric Cables Business
Top Management	Representative Director and President: Motohide Nishimura
Shareholders	Trust Accounts (SWCC SHOWA HD, etc.) 9.3%, BBH for Fidelity Low-priced Stocks F 8.7%, Motohide Nishimura 7.2% (As of the end of October 2017)
Headquarters	Suita-city, Osaka-prefecture, JAPAN
No. of Employees	Consolidated: 687, Parent: 515 (As of the end of October 2017)

Source: Company Data

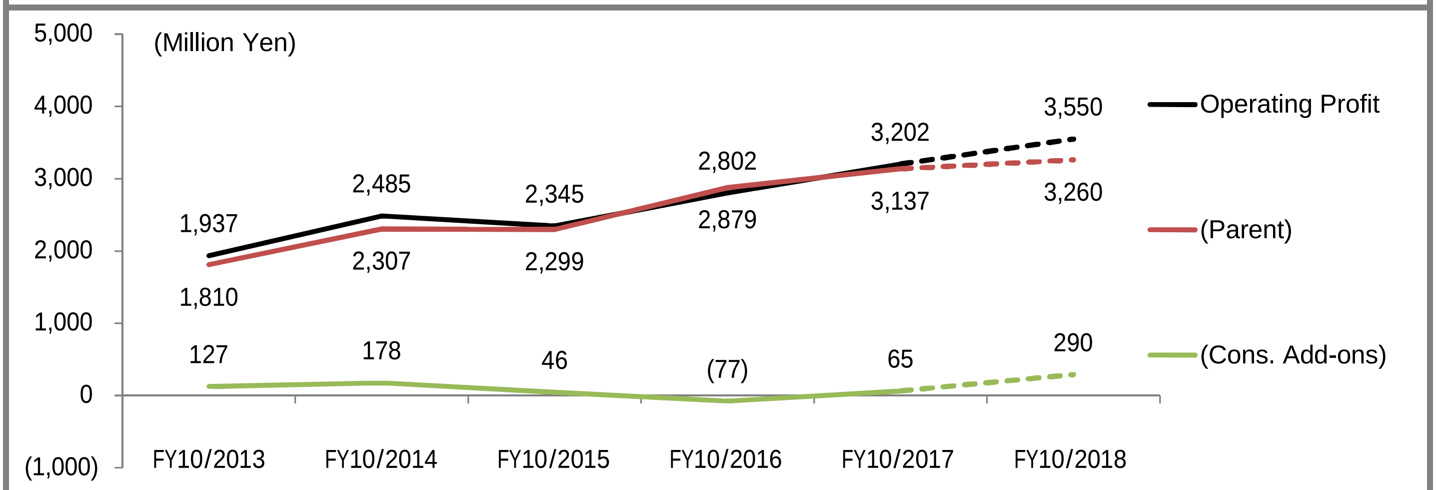
3.0 Recent Trading and Prospects

FY10/2017 Results

In FY10/2017, sales came in at ¥74,956m (up 10.8% YoY), operating profit ¥3,202m (up 14.2%), recurring profit ¥3,455m (up 16.0%) and profit attributable to owners of parent ¥2,289m (up 44.5%), while operating profit margin 4.3% (up 0.2% points). Profit attributable to owners of parent surged due mainly to non-reappearance of impairment loss of ¥187m and loss on disposal of fixed assets of ¥75m, both booked as extraordinary loss in FY10/2016.

Meanwhile, initial Company forecasts were exceeded by ¥206m (0.3%) in sales, by ¥242m (8.2%) in operating profit, by ¥275m (8.6%) in recurring profit and by ¥189m (9.0%) in profit attributable owners of parent. As far as sales are concerned, Company forecasts were just met effectively, while earnings were unexpectedly driven by improving consolidated add-ons.

Operating Profit

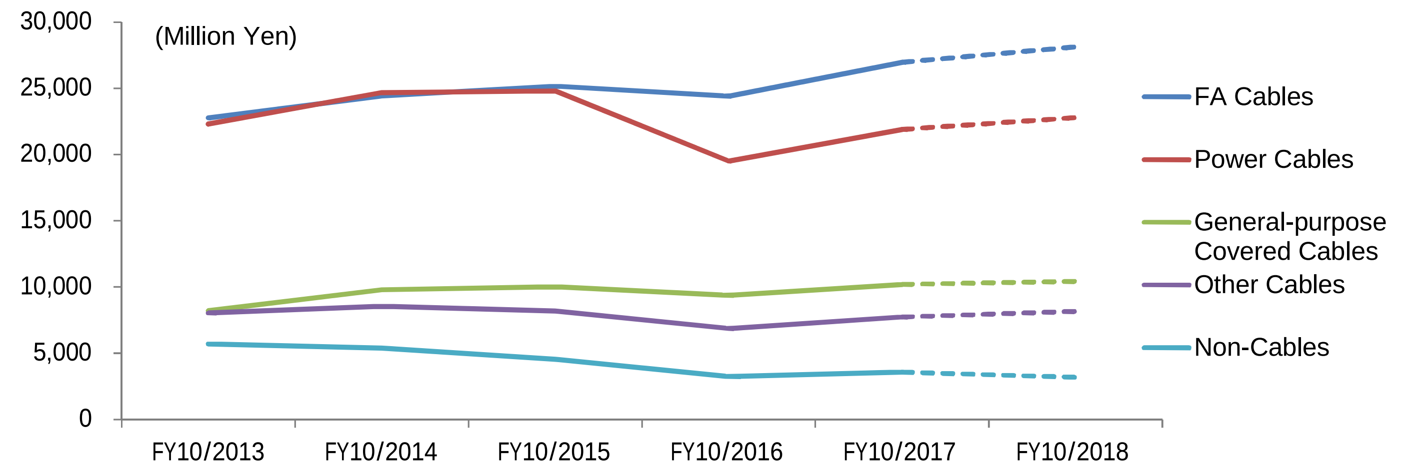


Source: Company Data, WRJ Calculation

On a parent basis, sales came in at ¥70,404m (up 11.0%), operating profit ¥3,137m (up 9.0%) and operating profit margin 4.46% (down 0.09% points), having accounted for 93.9% of above-mentioned consolidated sales and 98.0% in operating profit. Thus, consolidated add-ons were ¥4,522m (up 6.7%) in sales and ¥65m (versus operating loss of ¥77m in the previous year) in operating profit, suggesting operating profit margin of 1.4% (up 3.2% points) for consolidated add-ons. More importantly, the Company suggests this turnaround of consolidated add-ons for earnings is expected to be followed by further improvement in FY10/2018.

By category (on a parent basis), sales of FA Cables came in at ¥26,976m (up 10.5%), having accounted for 38.3% of total and sales of Non-Cables ¥10,208m (up 8.9%), having accounted for 14.5%. Collectively, they accounted for 52.8%, while the bulk of gross profit as a whole, according the Company. In regards to FA Cables, sales are large, while including those of high-added-value “original product”. Thus, they are very important as a constituent of gross profit as a whole.

Sales by Category (On a Parent basis)



Source: Company Data, WRJ Calculation

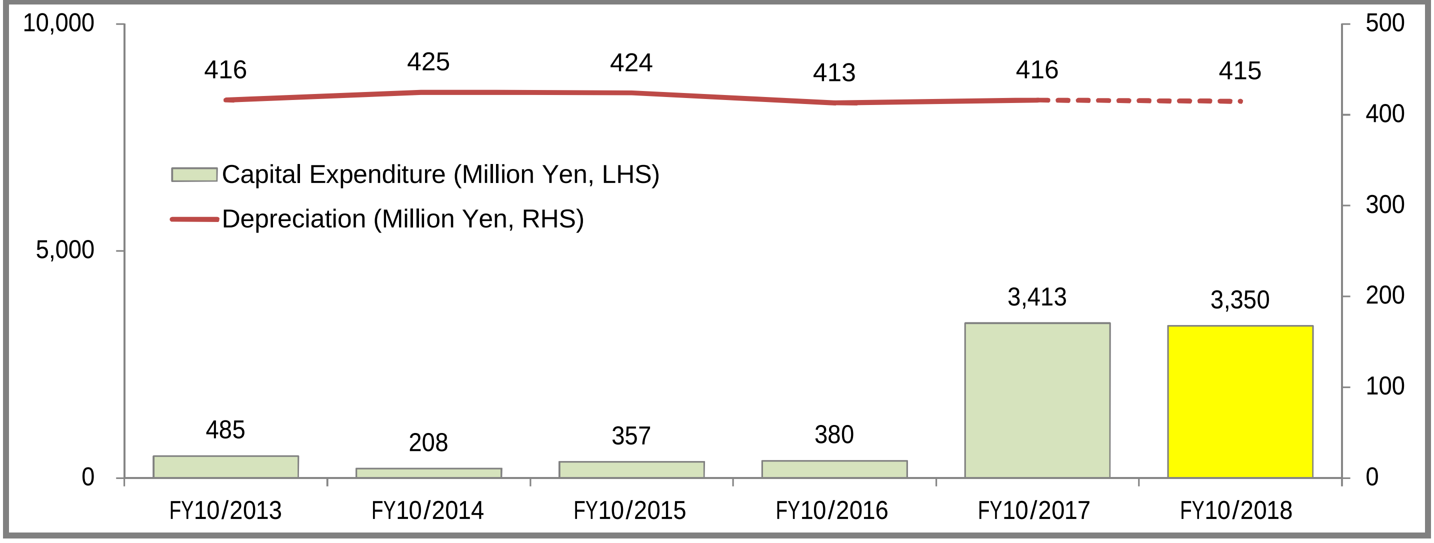
That is to say, the Company's operations to sell FA Cables mainly associated with capital expenditure by semiconductor industry and automotive industry are crucially important as the source of earnings. Amongst others, "original product" is the key earnings pillar. "Original product" refers to literally original and thus high-added-value product not being exposed to competition with peers in the first place, to be developed by the Company in conjunction with suppliers, i.e., manufacturers of electric cables, for customers seeking for FA Cables customized to each of their own equipment, etc. to be developed, manufactured and sold, through "spec-in" services. In fact, they are not supposed to be sold even by co-development partners, i.e., manufacturers of electric cables and thus the Company is purely the only supplier.

Meanwhile, "original product" is also adopted by automotive industry, etc. as a part of their production lines, being co-developed through "spec-in" services in the same manner. Thus, the Company provides final users represented by finished car manufacturers with customized solutions on every single needs associated with their capital expenditure. In all those operations, the Company is so competitive with high capability to cope with co-development, while the strengths relates to its established capability of distribution warehouses to deliver "original product" on a just-in-time basis for customers.

Most recently, both semiconductor industry and automotive industry have been keen on capital expenditure and sales of FA Cables have been buoyant for the Company to focus on "original product". Meanwhile, the Company suggests that sales are to remain buoyant for the foreseeable future, even when based on a conservative assumption. FY10/2018 Company forecasts assume sales of ¥28,140m (up 4.3%) for FA Cables and presumably the same sort of increases also for "original product".

As discussed so far, the Company runs operations based on a business model to hold inventory with own distribution warehouses in regards to "original product" and sales of "original product" are expected to be on the rise going forward, while the Company reveals its intention to focus on "original product" in a long-term view as a matter of fact. Thus, it is now required to beef up capabilities of distribution warehouses in order to cope with ongoing increases of volume in the future, having led to startup of large-scale capital expenditure in FY10/2017.

Capital Expenditure and Depreciation



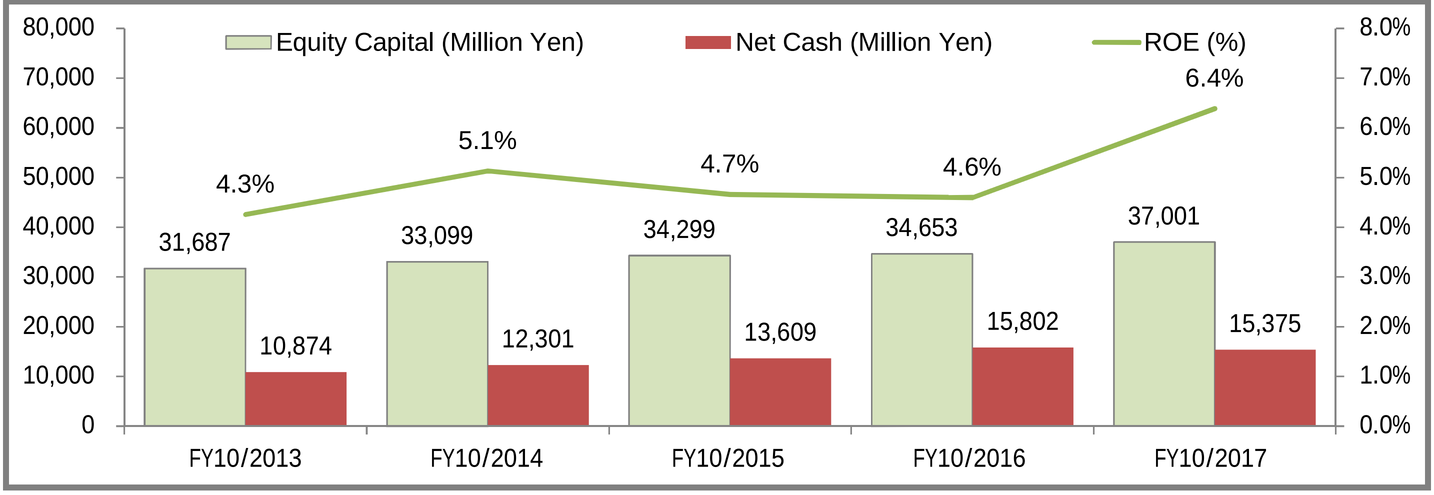
Source: Company Data, WRJ Calculation

In FY10/2017, the Company implemented capital expenditure of ¥3,413m, which is expected to be followed by that of ¥3,350m in FY10/2018. The core of the former was of procurement of land to transfer Suita Distribution Warehouse, while the latter is of building for said warehouse, respectively, ¥1,300m (38% of total) and ¥1,150m (34%). The remaining 62% of the former was of procurement of land to transfer plural sales offices, etc., while the remaining 66% of the latter is of building of said sales offices, etc.

That is to say, the Company is currently in the middle of investment in land and building with an objective to further strengthen own business foundations, i.e., distribution warehouses and sales offices to run business, which is expected to start bringing increasing positive impacts to the Company, starting in FY10/2019. Meanwhile, the Company invested also in renewal of mission critical system in FY10/2017, improving efficiency of business operations together with labor saving effects stemming from here. As well as this, transfer of Suita Distribution Warehouse, the mainstay one with the Company, is expected to bring some laborsaving innovations. To date, the Company has been intermittently expanding inventory floor in line with consistently increasing volume of "original product", having resulted in rather lowering efficiency in inventory management. Meanwhile, this problem will be gone in the new one for the Company to transfer to, which is expected to cut back the number of personnel to manage inventory, etc. At the same time, all those transfers but for this will also benefit the Company in the same manner.

Meanwhile, implementing large-scale capital expenditure like this suggests that the Company is now utilizing own excess cash in an efficiency way. The Company has been seeing consistency and stability with its free cash flow creation for years due to limited capital expenditure as one of the reasons, but it saw free cash flow (operating cash flow combined with investing cash flow) of negative ¥213m in FY10/2017, having resulted in net cash of ¥15,375m as of the end of the fiscal year, down ¥427m from that of the end of FY10/2016. In other words, what is going on is a switching of excess cash to business foundations to efficiently run business operations. At the end of the day, this should lead to ROE higher than before.

ROE and Net Cash

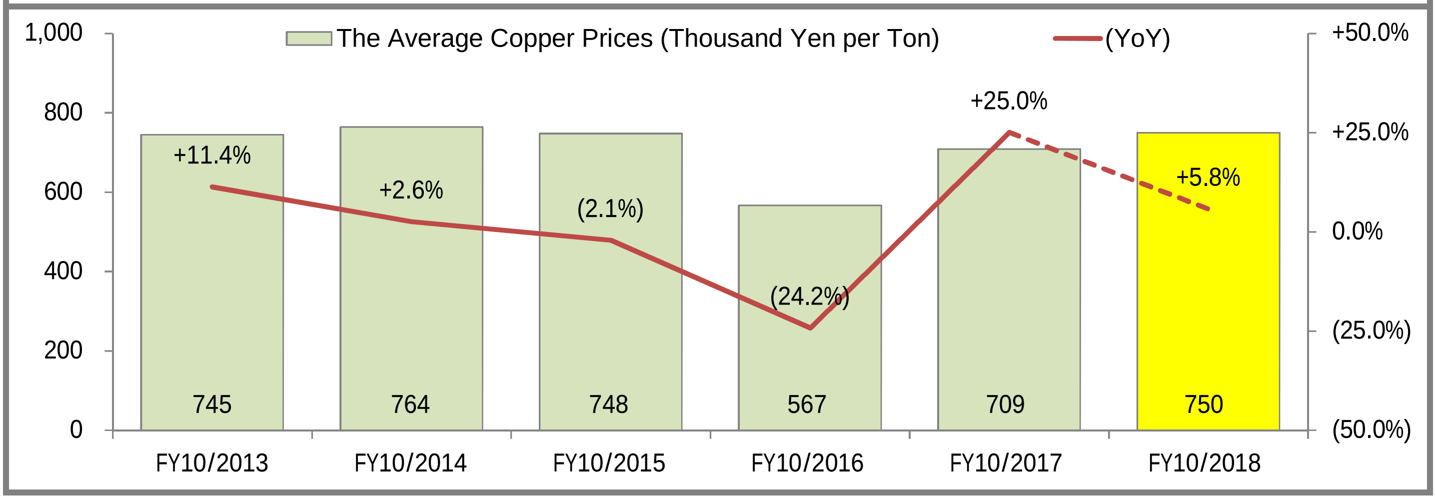


Source: Company Data, WRJ Calculation

Meanwhile, Non-Cables, being estimated as the second largest source of earnings, comprise wire terminal processing, connectors, harness-processed products, photovoltaic-related, etc., while the Company is basically involved with processing of procured merchandises here, creating added value to more than a certain extent. However, gross profit margin here is inferior to that of FA Cables to include “original product”, according to the Company.

As far as the rest of the business, i.e., Power Cables, General-purpose Covered Cables and Other Cables are concerned, the Company simply sells procured electric cables as trading company, not being able to create high added value. Collectively, they account for 47.2% of sales on a parent basis, but not much in terms of gross profit.

The Average Copper Prices



Source: Company Data, WRJ Calculation

The other issue is that half of sales as a whole for the Company is directly exposed to changes of copper prices with the Company's own rough estimates. By category, Power Cables and General-purpose Covered Cables, both mainly for applications associated with construction, are exposed a lot, while even more in regards to Other Cables, i.e., unfinished naked electric cables prior to processing as finished ones. Here, the Company is in charge of purely bridging operations to provide small-sized manufacturers of electric cables to do the processing with naked electric cables manufactured by large peers.

As far as all those electric cables are concerned, cost of sales associated with copper, i.e., the key raw materials for them, account for substantial proportion of sales, while said cost of sales are exposed to changes of copper prices. That is to say, changes of copper prices generate changes of said cost of sales to the same extent. The Company estimates, as a result, that roughly half of sales as a whole for the Company is determined by changes of copper prices. At the same time, however, procurement prices of all those electric cables changes in the same way, eventually giving limited impacts to gross profit margin. Meanwhile, as far as FA Cables and Non-Cables are concerned, they are not exposed to copper prices very much in the first place and thus almost immune to the changes.

Income Statement (Cumulative, Quarterly)

Income Statement (Million Yen)	Cons.Act Q1 10/2016	Cons.Act Q1 to Q2 10/2016	Cons.Act Q1 to Q3 10/2016	Cons.Act Q1 to Q4 10/2016	Cons.Act Q1 10/2017	Cons.Act Q1 to Q2 10/2017	Cons.Act Q1 to Q3 10/2017	Cons.Act Q1 to Q4 10/2017	YoY Net Chg.
Sales	**17,657**	**35,193**	**50,853**	**67,666**	**18,143**	**36,807**	**54,912**	**74,956**	**+7,290**
Cost of Sales	14,843	29,435	42,278	56,155	15,130	30,778	45,988	62,942	+6,787
Gross Profit	2,814	5,758	8,575	11,510	3,012	6,029	8,923	12,014	+504
SG&A	2,161	4,327	6,508	8,708	2,237	4,416	6,604	8,812	+104
Operating Profit	**653**	**1,431**	**2,067**	**2,802**	**774**	**1,612**	**2,319**	**3,202**	**+400**
Non Operating Balance	47	91	132	176	63	126	193	253	+77
Recurring Profit	**700**	**1,521**	**2,199**	**2,978**	**837**	**1,738**	**2,512**	**3,455**	**+477**
Extraordinary Balance	(27)	(5)	(6)	(182)	19	22	26	13	+195
Profit before Income Taxes	673	1,516	2,193	2,796	856	1,760	2,538	3,468	+672
Total Income Taxes	289	604	891	1,214	294	597	863	1,176	(38)
NP Belonging to Non-Controlling SHs	-	-	(2)	(3)	-	-	-	2	+5
Profit Attributable to Owners of Parent	**384**	**913**	**1,303**	**1,585**	**561**	**1,163**	**1,674**	**2,289**	**+704**
Sales YoY	(10.3%)	(10.0%)	(11.6%)	(11.1%)	+2.7%	+4.6%	+8.0%	+10.8%	-
Operating Profit YoY	+17.4%	+9.7%	+20.2%	+19.5%	+18.6%	+12.6%	+12.2%	+14.2%	-
Recurring Profit YoY	+8.2%	+3.7%	+8.1%	+8.7%	+19.5%	+14.2%	+14.2%	+16.0%	-
Profit Attributable to Owners of Parent YoY	(1.1%)	+8.5%	+19.4%	+0.9%	+46.1%	+27.4%	+28.5%	+44.5%	-
Gross Profit Margin	15.9%	16.4%	16.9%	17.0%	16.6%	16.4%	16.2%	16.0%	(1.0%)
(SG&A / Sales)	12.2%	12.3%	12.8%	12.9%	12.3%	12.0%	12.0%	11.8%	(1.1%)
Operating Profit Margin	3.7%	4.1%	4.1%	4.1%	4.3%	4.4%	4.2%	4.3%	+0.1%
Recurring Profit Margin	4.0%	4.3%	4.3%	4.4%	4.6%	4.7%	4.6%	4.6%	+0.2%
Profit Attributable to Owners of Parent Margin	2.2%	2.6%	2.6%	2.3%	3.1%	3.2%	3.0%	3.1%	+0.7%
Tax Charges etc. / Pretax Profit	42.9%	39.8%	40.6%	43.4%	34.3%	33.9%	34.0%	33.9%	(9.5%)

Income Statement (Million Yen)	Cons.Act Q1 10/2016	Cons.Act Q2 10/2016	Cons.Act Q3 10/2016	Cons.Act Q4 10/2016	Cons.Act Q1 10/2017	Cons.Act Q2 10/2017	Cons.Act Q3 10/2017	Cons.Act Q4 10/2017	YoY Net Chg.
Sales	**17,657**	**17,536**	**15,660**	**16,813**	**18,143**	**18,664**	**18,105**	**20,044**	**+3,231**
Cost of Sales	14,843	14,592	12,843	13,877	15,130	15,648	15,210	16,954	+3,077
Gross Profit	2,814	2,944	2,817	2,935	3,012	3,017	2,894	3,091	+156
SG&A	2,161	2,166	2,181	2,200	2,237	2,179	2,188	2,208	+8
Operating Profit	**653**	**778**	**636**	**735**	**774**	**838**	**707**	**883**	**+148**
Non Operating Balance	47	44	41	44	63	63	67	60	+16
Recurring Profit	**700**	**821**	**678**	**779**	**837**	**901**	**774**	**943**	**+164**
Extraordinary Balance	(27)	22	(1)	(176)	19	3	4	(13)	+163
Profit before Income Taxes	673	843	677	603	856	904	778	930	+327
Total Income Taxes	289	315	287	323	294	303	266	313	(10)
NP Belonging to Non-Controlling SHs	-	-	(2)	(1)	-	-	-	2	+3
Profit Attributable to Owners of Parent	**384**	**529**	**390**	**282**	**561**	**602**	**511**	**615**	**+333**
Sales YoY	(10.3%)	(9.7%)	(15.1%)	(9.5%)	+2.7%	+6.4%	+15.6%	+19.2%	-
Operating Profit YoY	+17.4%	+4.0%	+53.3%	+17.4%	+18.6%	+7.7%	+11.2%	+20.1%	-
Recurring Profit YoY	+8.2%	+0.0%	+19.8%	+10.3%	+19.5%	+9.7%	+14.2%	+21.1%	-
Profit Attributable to Owners of Parent YoY	(1.1%)	+16.8%	+56.0%	(41.1%)	+46.1%	+13.8%	+31.0%	+118.1%	-
Gross Profit Margin	15.9%	16.8%	18.0%	17.5%	16.6%	16.2%	16.0%	15.4%	(2.0%)
(SG&A / Sales)	12.2%	12.4%	13.9%	13.1%	12.3%	11.7%	12.1%	11.0%	(2.1%)
Operating Profit Margin	3.7%	4.4%	4.1%	4.4%	4.3%	4.5%	3.9%	4.4%	+0.0%
Recurring Profit Margin	4.0%	4.7%	4.3%	4.6%	4.6%	4.8%	4.3%	4.7%	+0.1%
Profit Attributable to Owners of Parent Margin	2.2%	3.0%	2.5%	1.7%	3.1%	3.2%	2.8%	3.1%	+1.4%
Tax Charges etc. / Pretax Profit	42.9%	37.4%	42.4%	53.6%	34.3%	33.9%	34.2%	33.7%	(19.9%)

Source: Company Data, WRJ Calculation

Sales by Category of Merchandises (Cumulative, Quarterly)

Sales by Category of Merchandises	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY
(Million Yen)	10/2016	10/2016	10/2016	10/2016	10/2017	10/2017	10/2017	10/2017	Net Chg.
FA Cables	6,215	12,451	18,337	24,408	6,384	13,095	19,747	26,976	+2,568
Power Cables	5,543	10,790	14,908	19,505	5,269	10,861	15,992	21,895	+2,390
General-purpose Covered Cables	1,835	3,593	5,180	6,876	1,930	3,809	5,657	7,742	+866
Other Cables	864	1,696	2,491	3,233	924	1,804	2,646	3,583	+350
Non-Cables	2,245	4,552	6,841	9,375	2,531	5,025	7,544	10,207	+832
Sales (on a Parent)	**16,702**	**33,085**	**47,756**	**63,399**	**17,038**	**34,596**	**51,589**	**70,404**	**+7,005**
Consolidated Add-ons	955	2,108	3,097	4,267	1,105	2,211	3,323	4,552	+285
Sales	**17,657**	**35,193**	**50,853**	**67,666**	**18,143**	**36,807**	**54,912**	**74,956**	**+7,290**
FA Cables	(3.4%)	(2.0%)	(3.2%)	(3.0%)	+2.7%	+5.2%	+7.7%	+10.5%	-
Power Cables	(15.7%)	(17.0%)	(21.2%)	(21.3%)	(4.9%)	+0.7%	+7.3%	+12.2%	-
General-purpose Covered Cables	(16.5%)	(13.6%)	(16.1%)	(16.1%)	+5.2%	+6.0%	+9.2%	+12.6%	-
Other Cables	(32.2%)	(30.3%)	(30.3%)	(28.9%)	+6.9%	+6.4%	+6.2%	+10.8%	-
Non-Cables	(12.3%)	(14.3%)	(10.6%)	(6.5%)	+12.7%	+10.4%	+10.3%	+8.9%	-
Sales (on a Parent)	**(12.3%)**	**(12.0%)**	**(13.6%)**	**(12.8%)**	**+2.0%**	**+4.6%**	**+8.0%**	**+11.0%**	**-**
Consolidated Add-ons	+47.4%	+39.8%	+35.1%	+25.6%	+15.7%	+4.9%	+7.3%	+6.7%	-
Sales (YoY)	**(10.3%)**	**(10.0%)**	**(11.6%)**	**(11.1%)**	**+2.8%**	**+4.6%**	**+8.0%**	**+10.8%**	**-**
FA Cables	37.2%	37.6%	38.4%	38.5%	37.5%	37.9%	38.3%	38.3%	(0.2%)
Power Cables	33.2%	32.6%	31.2%	30.8%	30.9%	31.4%	31.0%	31.1%	+0.3%
General-purpose Covered Cables	11.0%	10.9%	10.8%	10.8%	11.3%	11.0%	11.0%	11.0%	+0.2%
Other Cables	5.2%	5.1%	5.2%	5.1%	5.4%	5.2%	5.1%	5.1%	(0.0%)
Non-Cables	13.4%	13.8%	14.3%	14.8%	14.9%	14.5%	14.6%	14.5%	(0.3%)
Sales (on a Parent)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**+0.0%**
Sales (on a Parent)	94.6%	94.0%	93.9%	93.7%	93.9%	94.0%	93.9%	93.9%	+0.2%
Consolidated Add-ons	5.4%	6.0%	6.1%	6.3%	6.1%	6.0%	6.1%	6.1%	(0.2%)
Sales (Composition ratio)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**+0.0%**

Sales by Category of Merchandises	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY
(Million Yen)	10/2016	10/2016	10/2016	10/2016	10/2017	10/2017	10/2017	10/2017	Net Chg.
FA Cables	6,215	6,236	5,886	6,071	6,384	6,711	6,652	7,229	+1,158
Power Cables	5,543	5,247	4,118	4,597	5,269	5,592	5,131	5,903	+1,306
General-purpose Covered Cables	1,835	1,758	1,587	1,696	1,930	1,879	1,848	2,085	+389
Other Cables	864	832	795	742	924	880	842	937	+195
Non-Cables	2,245	2,307	2,289	2,534	2,531	2,494	2,519	2,663	+129
Sales (on a Parent)	**16,702**	**16,383**	**14,671**	**15,643**	**17,038**	**17,558**	**16,993**	**18,815**	**+3,172**
Consolidated Add-ons	955	1,153	989	1,170	1,105	1,106	1,112	1,229	+59
Sales	**17,657**	**17,536**	**15,660**	**16,813**	**18,143**	**18,664**	**18,105**	**20,044**	**+3,231**
FA Cables	(3.4%)	(0.6%)	(5.5%)	(2.7%)	+2.7%	+7.6%	+13.0%	+19.1%	-
Power Cables	(15.7%)	(18.3%)	(30.6%)	(21.7%)	(4.9%)	+6.6%	+24.6%	+28.4%	-
General-purpose Covered Cables	(16.5%)	(10.3%)	(21.4%)	(15.9%)	+5.2%	+6.9%	+16.4%	+22.9%	-
Other Cables	(32.2%)	(28.2%)	(30.3%)	(23.7%)	+6.9%	+5.8%	+5.9%	+26.3%	-
Non-Cables	(12.3%)	(16.2%)	(2.1%)	+6.8%	+12.7%	+8.1%	+10.0%	+5.1%	-
Sales (on a Parent)	**(12.3%)**	**(11.8%)**	**(16.9%)**	**(10.4%)**	**+2.0%**	**+7.2%**	**+15.8%**	**+20.3%**	**-**
Consolidated Add-ons	+47.4%	+34.1%	+26.1%	+5.9%	+15.7%	(4.1%)	+12.4%	+5.0%	-
Sales (YoY)	**(10.3%)**	**(9.7%)**	**(15.1%)**	**(9.5%)**	**+2.8%**	**+6.4%**	**+15.6%**	**+19.2%**	**-**
FA Cables	37.2%	38.1%	40.1%	38.8%	37.5%	38.2%	39.1%	38.4%	(0.4%)
Power Cables	33.2%	32.0%	28.1%	29.4%	30.9%	31.8%	30.2%	31.4%	+2.0%
General-purpose Covered Cables	11.0%	10.7%	10.8%	10.8%	11.3%	10.7%	10.9%	11.1%	+0.2%
Other Cables	5.2%	5.1%	5.4%	4.7%	5.4%	5.0%	5.0%	5.0%	+0.2%
Non-Cables	13.4%	14.1%	15.6%	16.2%	14.9%	14.2%	14.8%	14.2%	(2.0%)
Sales (on a Parent)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**+0.0%**
Sales (on a Parent)	94.6%	93.4%	93.7%	93.0%	93.9%	94.1%	93.9%	93.9%	+0.8%
Consolidated Add-ons	5.4%	6.6%	6.3%	7.0%	6.1%	5.9%	6.1%	6.1%	(0.8%)
Sales (Composition ratio)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**+0.0%**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act Q1 10/2016	Cons.Act Q2 10/2016	Cons.Act Q3 10/2016	Cons.Act Q4 10/2016	Cons.Act Q1 10/2017	Cons.Act Q2 10/2017	Cons.Act Q3 10/2017	Cons.Act Q4 10/2017	YoY Net Chg.
Cash and Deposit	13,059	14,625	13,607	15,922	15,111	16,936	14,815	15,495	(427)
Accounts Receivables	21,608	20,413	19,113	18,812	20,268	20,971	20,853	22,670	+3,858
Inventory	4,548	4,143	4,034	3,556	3,841	3,937	4,091	3,845	+289
Other	567	718	624	773	607	466	355	517	(256)
Current Assets	**39,782**	**39,899**	**37,378**	**39,063**	**39,827**	**42,310**	**40,114**	**42,527**	**+3,464**
Tangible Assets	12,971	12,923	12,893	12,897	13,248	13,513	14,934	15,802	+2,905
Intangible Assets	494	512	501	294	267	253	289	263	(31)
Investments and Other Assets	4,753	4,608	4,520	4,582	4,769	5,027	5,168	5,158	+576
Fixed Assets	**18,220**	**18,044**	**17,915**	**17,774**	**18,286**	**18,794**	**20,392**	**21,223**	**+3,449**
Total Assets	**58,002**	**57,944**	**55,293**	**56,837**	**58,114**	**61,105**	**60,506**	**63,750**	**+6,913**
Accounts Payables	19,996	18,898	16,889	17,326	18,884	20,414	20,039	21,577	+4,251
Short-Term Debt	144	144	120	120	120	120	120	120	-
Other	1,327	2,039	1,499	2,116	1,271	2,001	1,376	2,306	+190
Current Liabilities	**21,467**	**21,081**	**18,508**	**19,562**	**20,275**	**22,535**	**21,535**	**24,003**	**+4,441**
Long-Term Debt	47	41	-	-	-	-	-	-	-
Other	2,213	2,252	2,216	2,547	2,598	2,634	2,626	2,661	+114
Fixed Liabilities	**2,260**	**2,293**	**2,216**	**2,547**	**2,598**	**2,634**	**2,626**	**2,661**	**+114**
Total Liabilities	**23,728**	**23,375**	**20,725**	**22,110**	**22,873**	**25,170**	**24,161**	**26,664**	**+4,554**
Shareholders' Equity	**33,869**	**34,242**	**34,299**	**34,581**	**34,940**	**35,542**	**35,851**	**36,466**	**+1,885**
Other	404	326	269	146	301	392	493	620	+474
Net Assets	**34,273**	**34,568**	**34,568**	**34,727**	**35,241**	**35,934**	**36,344**	**37,086**	**+2,359**
Total Liabilities and Net Assets	**58,002**	**57,944**	**55,293**	**56,837**	**58,114**	**61,105**	**60,506**	**63,750**	**+6,913**
Equity Capital	34,186	34,481	34,489	34,653	35,166	35,854	36,264	37,001	+2,348
Interest Bearing Debt	191	185	120	120	120	120	120	120	-
Net Debt	(12,868)	(14,440)	(13,487)	(15,802)	(14,991)	(16,816)	(14,695)	(15,375)	+427
Capital Ratio	58.9%	59.5%	62.4%	61.0%	60.5%	58.7%	59.9%	58.0%	(2.9%)
Net Debt Equity Ratio	(37.6%)	(41.9%)	(39.1%)	(45.6%)	(42.6%)	(46.9%)	(40.5%)	(41.6%)	+4.0%
ROE (12 months)	4.6%	4.8%	5.2%	4.6%	5.1%	5.2%	5.5%	6.4%	+1.8%
ROA (12 months)	4.7%	4.7%	5.1%	5.1%	5.4%	5.4%	5.7%	5.7%	+0.6%
Months for Inventory Turnover	0.77	0.71	0.77	0.63	0.64	0.63	0.68	0.58	-
Quick Ratio	161%	166%	177%	178%	174%	168%	166%	159%	-
Current Ratio	185%	189%	202%	200%	196%	188%	186%	177%	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

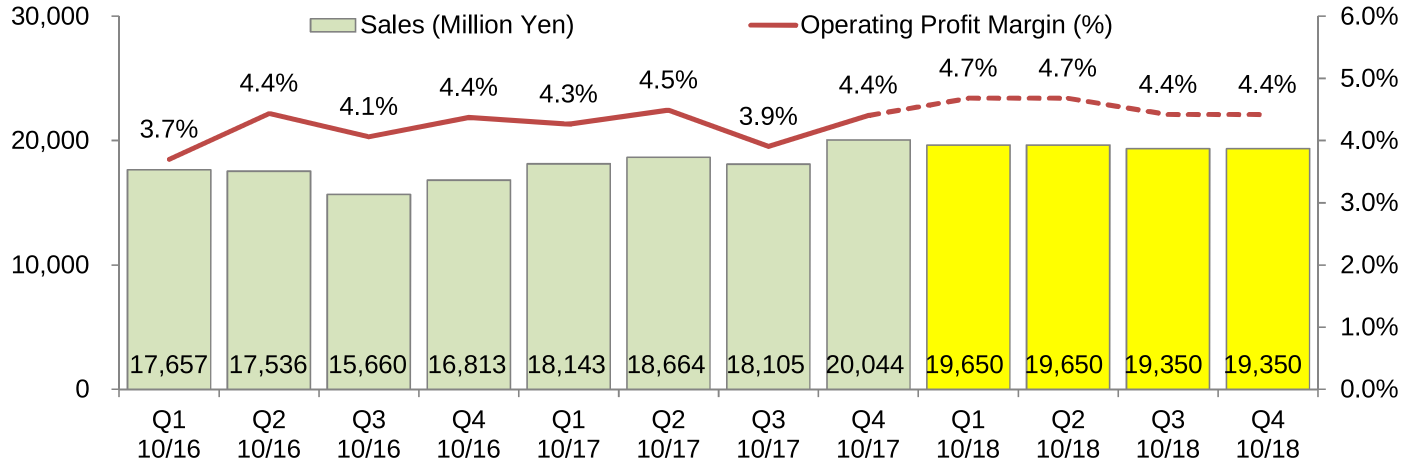
Cash Flow Statement (Million Yen)	Cons.Act Q1 10/2016	Cons.Act Q1 to Q2 10/2016	Cons.Act Q1 to Q3 10/2016	Cons.Act Q1 to Q4 10/2016	Cons.Act Q1 10/2017	Cons.Act Q1 to Q2 10/2017	Cons.Act Q1 to Q3 10/2017	Cons.Act Q1 to Q4 10/2017	YoY Net Chg.
Operating Cash Flow	-	1,433	-	3,232	-	1,791	-	3,035	(197)
Investing Cash Flow	-	138	-	9	-	(738)	-	(3,248)	(3,257)
Operating CF and Investing CF	**-**	**1,571**	**-**	**3,241**	**-**	**1,053**	**-**	**(213)**	**(3,454)**
Financing Cash Flow	-	(550)	-	(983)	-	(179)	-	(407)	+576

Source: Company Data, WRJ Calculation

FY10/2018 Company Forecasts

FY10/2018 Company forecasts are going for prospective sales of ¥78,000m (up 4.1% YoY), operating profit of ¥3,550m (up 10.9%), recurring profit of ¥3,720m (up 7.7%) and profit attributable to owners of parent of ¥2,530m (up 10.5%), while operating profit margin of 4.6% (up 0.3% points). Prospective annual dividend is ¥50.0 per share, implying payout ratio of 20.0%, up ¥5.0 per share from ¥45.0 per share, implying payout ratio of 19.9%, in FY10/2017. Thus, the Company being keen on sharing earnings with shareholders is to renew record high annual dividend.

Sales and Operating Profit Margin



Source: Company Data, WRJ Calculation (quarterly forecasts in FY10/2018: half Company forecasts, pro rata)

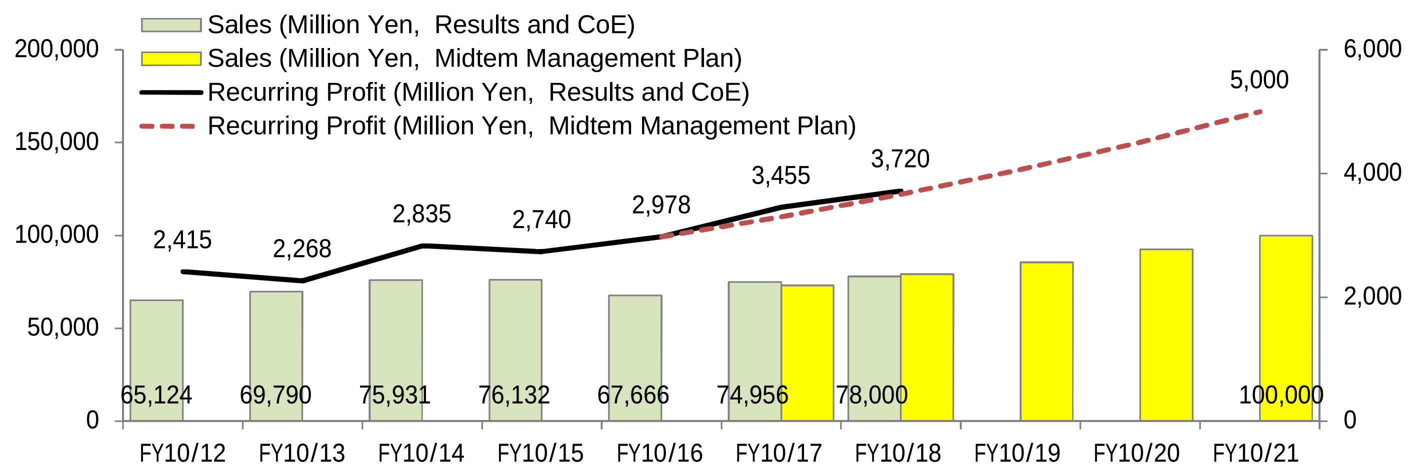
On a parent basis, sales are expected to be buoyant for the earnings sources, i.e., FA Cables and Non-Cables, which is the key driving force for earnings, although being based on conservative assumptions on both as far as we could see. Meanwhile, Company forecasts assume improving consolidated add-ons, giving increasingly positive impacts to earnings as a whole for the Company. Simply computing with parent and consolidated figures, it should be the case that consolidated add-ons are ¥5,300m (up 16.4%) in sales and ¥290m (4.5 times), suggesting operating profit margin of 5.5% (up 4.0% points).

The Company runs collective 11 consolidated subsidiaries, 6 in Japan and 5 overseas. The former basically comprises concerns to have been merged and acquired in order to enter new business domains associated with existing ones. At the moment, the Company is seeing favorable business performance in new business domains such as semiconductor facilities and connectors as well as in those related to NTT Group. Meanwhile, the latter is in charge of locally selling electric cables overseas, which is on the verge of turning positive from negative in terms of earnings as a whole. In China, sales and earnings are to continue increasing, while earnings improving in Philippines and Thailand. So far, they have been supplying overseas bases of customers cultivated in Japan only, but most recently starting to cultivate local customers too, albeit not so quickly.

Long-Term Prospects

At the release of FY10/2016 results (9 December 2016), the Company has come up with "SENSHU ELECTRIC Group Midterm Management Plan (FY10/2017 to FY10/2021)". While setting the 70th anniversary (November 2019) as a passing point, the Company is calling for prospective sales of ¥100,000m, recurring profit of ¥5,000m, recurring profit margin of 5.0% and ROE of more than 6.0% in FY10/2021, i.e., the last year of the plan.

"SENSHU ELECTRIC Group Midterm Management Plan".



Source: Company Data, WRJ Calculation

During said period, the Company is calling for CAGR of 8.1% for sales and 10.9% for earnings. At the same time, recurring profit margin is expected to improve by 0.6% points in FY10/2021 over FY10/2016 results and up 1.4% points in terms of ROE. Meanwhile, the Company saw ROE of 6.4% in FY10/2017, i.e., the first year of the plan, having already achieved the target in a sense. Now it appears that the Company is going for ROE even higher going forward. In fact, the Company is trying to achieve the target as a whole rather earlier than the last fiscal year of the plan. The Company suggests recent trading suggests that assumptions of the plan have been rather exceeded in terms of earnings.

Going forward, the Company will remain keen on focusing on FA Cables, including "original product", and Non-Cables, i.e., the key earnings pillars, while trying to accelerate long-term growth potentials by means of entering new business domains with merger and acquisition at the same time.

4.0 Business Model

Integrated General/Technology Trading Company with Electric Cables as the Mainstay Merchandises

The Company, having celebrated the 69th anniversary, is running business operations to sell electric cables across Japan and overseas as integrated general/technology trading company with electric cables as the mainstay merchandises, while trying to cultivate new business domains literally associated with electric cables as the mainstay merchandises. Meanwhile, the Company's operations are so consistent, comprising those of management of distribution warehouses, sales and delivery in accordance with just-in-time system where motto is "delivery of merchandises coping with necessity in terms of variety, quantity and timing".

Business Model (Image Picture)

Distribution Warehouse	FA Cables	Wire Terminal Processing
		

Source: Company Data

Procuring electric cables more than 50,000 in the number of items from suppliers more than 250, including the major 8 electric cable manufacturers, the Company sells to customers more than 3,500. Meanwhile, SWCC SHOWA CABLE SYSTEMS CO., LTD., which is ex-parent concern of the Company, is the largest supplier. Meanwhile, the Company runs 16 sales offices nation-wide in Japan, where some 200 sales representatives are allocated collectively and they have inventory floor collectively as large as 50,000 square meters, always stocking "original product" in there.

As an example of new business domains associated with electric cables as the mainstay merchandises, the Company mentions its corporate effort to enter agriculture-related business. The Company suggests that it could book sales for the first time as early as by the end of FY10/2018. Specifically, the Company is planning to provide agricultural houses with merchandises to directly warm up soil by means of using "ABIL heater" (patent pending), a new heat element made of stainless steel thin film after special impregnation treatment. A new technology to "warm up soil" is said to materialize cost efficiency superior to that of existing facilities for heating and heat retention. Under the same conditions, the Company suggests that expenses for both startup and those of maintenance would be far too lower than those of the existing schemes.

Disclaimer

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