

Nippon Air Conditioning Services (4658)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2014		39,868	1,869	1,926	1,100	63.8	18.5	665.4
FY03/2015		41,275	2,144	2,215	1,187	68.9	25.0	737.9
FY03/2016CoE		41,500	2,200	2,300	1,200	69.6	30.0	-
FY03/2015	YoY	3.5%	14.7%	15.0%	7.9%	-	-	-
FY03/2016CoE	YoY	0.5%	2.6%	3.8%	1.0%	-	-	-
Consolidated Q1 to Q3 (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY03/2015		28,253	1,415	1,483	783	-	-	-
Q1 to Q3 FY03/2016		29,404	1,514	1,567	772	-	-	-
Q1 to Q3 FY03/2016	YoY	4.1%	7.0%	5.7%	(1.5%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Results Update (2 February 2016)

Earnings in Line

On 29 January 2016, Nippon Air Conditioning Services, being involved with maintenance services for diverse buildings & facilities comprehensively on air conditioning and with renewal construction at the same time, released its Q1 to Q3 FY03/2016 results. It has been revealed that earnings are in line with initial Company forecasts.

At the operating level, the Company saw expenses, initially not assumed, associated with purchases of shares for a company based in Singapore, locally running maintenance services of air conditioning, etc. However, it appears that this has been well compensated for by sales better-than-expected for operations to install photovoltaic power generation panels on the Renewal Construction side. On top of this, by the end of Q3, the Company has booked almost everything for cost of goods sold of some ¥100m on the Maintenance Services side that used to be delayed in Q1 to Q2.

Meanwhile, given that the domestic consolidated subsidiary in charge of the above-mentioned operations to install photovoltaic power generation panels was not wholly owned, net profit belonging to non-controlling shareholders was larger than expected, having resulted in net profit of the Company a touch worse. Nevertheless, (although not assumed in Company forecasts) the Company had completed procuring all the rest of the shares of all those consolidated subsidiaries not wholly owned, collectively 5 in the number, including the one, by the end of Q3. As a result, net profit belonging to non-controlling shareholders should come down, starting in Q4. Thus, Initial Company forecasts are to be met, in regards to net profit, as well. Going forward, in regards to FY03/2017, the Company is to see net decreases to a meaningful extent for net profit belonging to non-controlling shares holders, in Q1 to Q3, over the previous year. Meanwhile, it is taken for granted that net profit should see net increases as much as this at the same time.

The Company, trying to get at steady earnings growth in a long-term view, is now going for management target to payout 50% of earnings to be accomplished as early as possible, so that the Company should share earnings with shareholders even more aggressively than before. For information: [Nippon Air Conditioning Services \(4658\) Streamlining of Group Management \(5 January 2016\)](#)

Q1 to Q3 FY03/2016 Results

In Q1 to Q3 FY03/2016, sales came in at ¥29,404m (up 4.1% YoY), operating profit ¥1,514m (up 7.0%), recurring profit ¥1,567m (up 5.7%) and net profit ¥772m (down 1.5%), while operating profit margin 5.2% (up 0.2% points).

Out of initial full-year Company forecasts, sales have been achieved by 70.9%, operating profit by 68.8%, recurring profit by 68.1% and net profit by 64.3%. When all those figures are compared with those of the equivalents of the previous year's results, i.e., 68.5%, 66.0%, 67.0% and 66.0%, respectively, it is implied that sales, operating profit and recurring profit are marginally firmer, while net profit marginally weaker.

While sales of Maintenance Services came in at ¥21,471m (up 2.0%), sales of Renewal Construction ¥7,933m (up 10.3%). The former failed to increase favorably over the previous year, given new contracts associated with large-sized hospitals rather limited, presumably due mainly to strict measures to keep away from low-profit-margin projects. Meanwhile, the latter benefited from sales of operations to install photovoltaic power generation panels firmer than expected. Company forecasts have been assuming that strong demand in the previous year was one-off, but it has not been the case.

Meanwhile, gross profit came in at ¥5,162m (up 5.8%), gross profit margin 17.6% (up 0.3% points) and SG&A expenses ¥3,647m (up 5.2%). In regards to Maintenance Services, gross profit margin has remained effectively unchanged over the previous year. In fact, the measures to keep away from low-profit-margin projects are still making progress, but the Company, trying to get at long-term future growth, is currently at the stage of intentionally beefing up compensations, etc. for own able human resources to be fixed for the Company and/or for new hiring at the same time. In regards to Renewal Construction, gross profit margin improved over the previous year, driven by sales better than expected.

Intentionally beefing up compensations, etc. for own able human resources to be fixed for the Company and/or for new hiring, has been applied also at the SG&A level. On top of this, the Company saw additional expenses unexpected, stemming from aforementioned share purchases, etc. Thus, SG&A expense increased faster than sales, up 5.2% and up 4.1%, respectively. Meanwhile, net profit belonging to non-controlling shareholders came in at ¥190m (up 2.0 times YoY). When compared with Company forecasts, full-year assumptions have been already exceeded by the Q1 to Q3 results.


FY03/2016 Company Forecasts

FY03/2016 initial Company forecasts have remained unchanged, going for prospective sales of ¥41,500m (up 0.5% YoY), operating profit of ¥2,200m (up 2.6%), recurring profit of ¥2,300m (up 3.8%) and net profit of ¥1,200m (up 1.0%), while operating profit margin of 5.3% (up 0.1% point). Prospective dividend per share has also remained unchanged at ¥ 30.0, implying payout ratio of 43.1%. This is up ¥5.0 from ¥25.0, implying payout ratio of 36.3%, in FY03/2015. Thus, both dividend and payout ratio will be raised.

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2.0 Company Profile

Maintenance Services for Diverse Buildings & Facilities, Comprehensively on Air Conditioning, etc.

Company Name	Nippon Air Conditioning Services Co., Ltd. Company Website IR Information  Nippon Air Conditioning Services Co., Ltd. Share Price
Established	28 April 1964
Listing	12 October 2007: Tokyo Stock Exchange 1st Section and Nagoya Stock Exchange 1st Section (Ticker: 4658) 27 November 1996: OTC listing
Capital	¥1,139m (As of the end of December 2015)
No. of Shares	19,892,000 shares, including 2,409,682 treasury shares (As of the end of Dec. 2015)
Main Features	<ul style="list-style-type: none"> ● Focus on hospitals & research institutions, requiring distinguished knowhow and technical strengths ● Market share 12% for large-sized hospitals (more than 1,000 beds) ● Operations overseas in Bangladesh to start up on top of those in China
Businesses	<ul style="list-style-type: none"> . Maintenance Services . Renewal Construction
Top Management	President & Representative Director: Tomio Hashimoto
Shareholders	Treasury Shares 13.2%, ESOP 7.8% (As of the end of September 2015)
Headquarters	Nagoya-city, Aichi-prefecture, JAPAN
No. of Employees	Consolidated: 1,735, Parent: 975 (As of the end of December 2015)

Source: Company Data

3.0 Financial Statements

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	03/2015	03/2015	03/2015	03/2015	03/2016	03/2016	03/2016	03/2016	03/2016	
Sales	8,018	17,950	28,253	41,275	8,328	18,735	29,404	-	-	+1,151
CoGS	6,555	14,793	23,371	34,292	6,767	15,277	24,242	-	-	+871
Gross Profit	1,463	3,157	4,881	6,983	1,561	3,458	5,162	-	-	+281
SG&A Expenses	1,230	2,279	3,466	4,839	1,269	2,378	3,647	-	-	+181
Operating Profit	232	877	1,415	2,144	291	1,080	1,514	-	-	+99
Non Operating Balance	13	45	68	71	14	45	53	-	-	(15)
Recurring Profit	245	922	1,483	2,215	305	1,125	1,567	-	-	+84
Extraordinary Balance	(0)	(59)	(61)	(60)	-	48	86	-	-	+147
Pretax Profit	245	863	1,422	2,155	305	1,173	1,653	-	-	+231
Tax Charges, etc.	114	340	543	818	131	460	690	-	-	+147
NP Belonging to Non-Controlling SHs	28	72	95	149	45	142	190	-	-	+95
Net Profit	101	450	783	1,187	128	570	772	-	-	(11)
Sales YoY	(0.8%)	+2.3%	+3.2%	+3.5%	+3.9%	+4.4%	+4.1%	-	-	-
Operating Profit YoY	+23.4%	+7.7%	+11.0%	+14.7%	+25.3%	+23.1%	+7.0%	-	-	-
Recurring Profit YoY	+20.1%	+9.0%	+11.8%	+15.0%	+24.8%	+22.0%	+5.7%	-	-	-
Net Profit YoY	+16.8%	+0.5%	+11.7%	+7.9%	+25.9%	+26.7%	(1.5%)	-	-	-
Gross Profit Margin	18.2%	17.6%	17.3%	16.9%	18.7%	18.5%	17.6%	-	-	+0.3%
SG&A / Sales	15.3%	12.7%	12.3%	11.7%	15.2%	12.7%	12.4%	-	-	+0.1%
Operating Profit Margin	2.9%	4.9%	5.0%	5.2%	3.5%	5.8%	5.2%	-	-	+0.2%
Recurring Profit Margin	3.1%	5.1%	5.2%	5.4%	3.7%	6.0%	5.3%	-	-	+0.1%
Net Profit Margin	1.3%	2.5%	2.8%	2.9%	1.5%	3.0%	2.6%	-	-	(0.1%)
Tax Charges, etc. / Pretax Profit	46.5%	39.4%	38.2%	38.0%	43.0%	39.2%	41.7%	-	-	+3.6%

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	03/2015	03/2015	03/2015	03/2015	03/2016	03/2016	03/2016	03/2016	03/2016	
Sales	8,018	9,932	10,303	13,022	8,328	10,407	10,669	-	-	+366
CoGS	6,555	8,238	8,578	10,921	6,767	8,510	8,965	-	-	+387
Gross Profit	1,463	1,694	1,724	2,102	1,561	1,897	1,704	-	-	(20)
SG&A Expenses	1,230	1,049	1,187	1,373	1,269	1,109	1,269	-	-	+82
Operating Profit	232	645	538	729	291	789	434	-	-	(104)
Non Operating Balance	13	32	23	3	14	31	8	-	-	(15)
Recurring Profit	245	677	561	732	305	820	442	-	-	(119)
Extraordinary Balance	(0)	(59)	(2)	1	-	48	38	-	-	+40
Pretax Profit	245	618	559	733	305	868	480	-	-	(79)
Tax Charges, etc.	114	226	203	275	131	329	230	-	-	+27
NP Belonging to Non-Controlling SHs	28	44	23	54	45	97	48	-	-	+25
Net Profit	101	349	333	404	128	442	202	-	-	(131)
Sales YoY	(0.8%)	+5.0%	+4.9%	+4.1%	+3.9%	+4.8%	+3.6%	-	-	-
Operating Profit YoY	+23.4%	+3.0%	+16.7%	+22.7%	+25.3%	+22.3%	(19.3%)	-	-	-
Recurring Profit YoY	+20.1%	+5.5%	+16.9%	+22.0%	+24.8%	+21.1%	(21.2%)	-	-	-
Net Profit YoY	+16.8%	(3.3%)	+31.6%	+1.3%	+25.9%	+26.6%	(39.3%)	-	-	-
Gross Profit Margin	18.2%	17.1%	16.7%	16.1%	18.7%	18.2%	16.0%	-	-	(0.8%)
SG&A / Sales	15.3%	10.6%	11.5%	10.5%	15.2%	10.7%	11.9%	-	-	+0.4%
Operating Profit Margin	2.9%	6.5%	5.2%	5.6%	3.5%	7.6%	4.1%	-	-	(1.2%)
Recurring Profit Margin	3.1%	6.8%	5.4%	5.6%	3.7%	7.9%	4.1%	-	-	(1.3%)
Net Profit Margin	1.3%	3.5%	3.2%	3.1%	1.5%	4.2%	1.9%	-	-	(1.3%)
Tax Charges, etc. / Pretax Profit	46.5%	36.6%	36.3%	37.5%	43.0%	37.9%	47.9%	-	-	+11.6%

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2015	Q2 03/2015	Q3 03/2015	Q4 03/2015	Q1 03/2016	Q2 03/2016	Q3 03/2016	Q4 03/2016		
Cash & Deposit	5,295	4,211	4,817	5,316	6,430	5,280	6,289	-	+1,472	
Accounts Receivables, etc.	7,310	8,097	8,710	11,216	7,519	8,590	8,590	-	(120)	
Inventory	989	1,009	1,155	371	967	1,126	1,320	-	+165	
Other	739	761	702	825	879	945	1,087	-	+385	
Current Assets	14,333	14,078	15,384	17,728	15,795	15,941	17,286	-	+1,902	
Tangible Assets	8,209	8,092	7,949	7,905	7,922	8,169	8,874	-	+925	
Intangible Assets	117	166	158	150	153	150	372	-	+214	
Investments & Other Assets	2,563	2,607	2,851	2,985	3,230	2,737	3,181	-	+330	
Fixed Assets	10,890	10,866	10,959	11,041	11,306	11,057	12,429	-	+1,470	
Total Assets	25,223	24,945	26,344	28,769	27,102	26,998	29,715	-	+3,371	
Accounts Payables, etc.	3,703	3,735	4,115	6,194	6,103	5,860	6,511	-	+2,396	
Short Term Debt	547	573	871	498	476	1,125	1,249	-	+378	
Other	5,045	4,347	4,681	4,840	3,312	2,700	2,830	-	(1,851)	
Current Liabilities	9,295	8,655	9,667	11,532	9,891	9,685	10,590	-	+923	
Long Term Debt	1,205	1,094	997	900	815	860	3,082	-	+2,085	
Other	1,857	1,881	1,969	2,050	2,070	1,919	2,145	-	+176	
Fixed Liabilities	3,062	2,975	2,966	2,950	2,885	2,779	5,227	-	+2,261	
Total Liabilities	12,358	11,631	12,634	14,483	12,777	12,464	15,818	-	+3,184	
Shareholders' Equity	10,960	11,309	11,469	11,873	11,740	12,192	12,702	-	+1,233	
Other	1,905	2,004	2,241	2,413	2,584	2,342	1,195	-	(1,046)	
Total Assets	12,865	13,313	13,710	14,286	14,324	14,534	13,897	-	+187	
Total Liabilities & Net Assets	25,223	24,945	26,344	28,769	27,102	26,998	29,715	-	+3,371	
Equity Capital	11,463	11,858	12,216	12,720	12,746	12,864	13,671	-	+1,455	
Interest Bearing Debt	1,752	1,667	1,868	1,398	1,291	1,985	4,331	-	+2,463	
Net Debt	(3,543)	(2,544)	(2,949)	(3,918)	(5,139)	(3,295)	(1,958)	-	+991	
Equity Capital Ratio	45.4%	47.5%	46.4%	44.2%	47.0%	47.6%	46.0%	-	(0.4%)	
Net-Debt-Equity Ratio	(32.3%)	(22.5%)	(25.7%)	(33.0%)	(43.8%)	(27.0%)	(15.4%)	-	+10.3%	
ROE (12 months)	10.1%	9.6%	10.0%	9.8%	10.0%	10.6%	9.1%	-	(0.9%)	
ROA (12 months)	8.1%	8.3%	8.2%	8.0%	8.7%	9.3%	8.2%	-	+0.0%	
Quick Ratio	135.6%	142.2%	139.9%	143.4%	141.0%	143.2%	140.5%	-	-	
Current Ratio	154.2%	162.7%	159.1%	153.7%	159.7%	164.6%	163.2%	-	-	

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2015	Q1 to Q2 03/2015	Q1 to Q3 03/2015	Q1 to Q4 03/2015	Q1 03/2016	Q1 to Q2 03/2016	Q1 to Q3 03/2016	Q1 to Q4 03/2016		
Operating Cash Flow	-	360	-	1,852	-	118	-	-	-	
Investing Cash Flow	-	(207)	-	(121)	-	(509)	-	-	-	
Operating CF & Investment CF	-	153	-	1,731	-	(391)	-	-	-	
Financing Cash Flow	-	(753)	-	(1,196)	-	284	-	-	-	

Source: Company Data, WRJ Calculation

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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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