

Ohashi Technica, Inc.

7628

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Viewing changes in the market environment as an opportunity, the Company seeks growth by discovering new parts needs and by enhancing the manufacturing and development functions

1. Company overview

Ohashi Technica, Inc. <7628> (hereafter, “the Company”) is an independent automotive parts manufacturer that supplies some 20,000 precision machined parts including those for engines, peripheral transmission components and interior and exterior parts, to about 400 Japanese automotive and automotive equipment manufacturers. Its strengths include having built a global supply structure and consulting capabilities that provide optimal proposals that respond to wide-ranging customer needs in terms of quality, cost and other issues, by combining a “factory solutions” (about 20% of net sales) via its group companies and a “fabless solutions” through collaborations with about 300 partner companies. Through a business model of making proposals for added value, the Company has sustained top-rank profitability in the automotive parts industry, with an operating income margin of approximately 10%.

2. FY3/20 1Q results

In FY3/20 1Q, the Company saw a decline in both net sales and operating income, with net income declining 6.4% year on year (YoY) to ¥9,363mn and operating income falling 13.3% YoY to ¥937mn. The decline in net sales was mainly due to the drop in production caused by a decline in sales by Japanese automotive manufacturers in the Americas and Europe as well as increasingly fierce competition for orders in the Chinese market. The main factors behind the decline in profit were the spike in raw materials costs, including the steel tariffs hike by the U.S., as well as the increase in procurement costs due to the depreciation of local currencies in China and the U.K on top of the decline in net sales. Net sales declined in all regions, falling by 4.6% YoY in Japan, 5.6% YoY in the Americas, 8.4% YoY in China, 2.9% YoY in ASEAN, and 27.3% YoY in Europe.

3. FY3/20 outlook

For FY3/20, the Company is forecasting net sales to increase 1.4% YoY to ¥40,000mn, while it expects operating profit to rise 0.6% YoY to ¥4,100mn. However, we believe that there is a strong possibility of a downward slide, as sales by Japanese automotive manufacturers are continuing to decline in Europe in 2Q, in addition to the fact that yen is on an appreciating trend. The assumed exchange rates are ¥110/USD, ¥16.5/RMB, and ¥145.0/GBP, and recently the yen is strong against each of these currencies. Despite the challenging market environment, the Company is viewing the changes in the market as an opportunity, and will try to use the changes to dig up customer needs to capture new orders. In the past few years, the Company’s parts are increasingly being used in electric power steering. A good example of this is precision press parts using pressure projection welding technology*, for which sales are growing. These are increasingly being used in areas requiring high strength and lower costs, and the Company has seen an increase in proposals from customers. Net sales in this area was ¥2.3bn in FY3/19, but double-digit growth is expected to continue going forward, and the Company is also considering overseas production in the future.

* Pressure projection welding technology: It is one type of welding technology for the bonding of parts made of different materials by adding pressure to the part to be processed, and applying pressure and resistance heat by passing an electric current using an electrode. For those areas where the parts must be bonded strongly, such as automotive transmission parts and engine control system parts, a feature of this technology is that it enables mass production of parts that can maintain high strength only in the core areas where this strength is necessary through a simple manufacturing process. It is attracting attention as a manufacturing technology able to realize weight and cost reductions while still producing parts that retain the same level of strength as machining parts.

FY3/20 consolidated earnings outlook

(¥mn)

	FY3/19		FY3/20			FY3/19		FY3/20		
	1Q results	% of net sales	1Q results	% of net sales	YoY	Results	% of net sales	Forecast	% of net sales	YoY
Net sales	10,003	-	9,363	-	-6.4%	39,457	-	40,000	-	1.4%
Operating income	1,082	10.8%	937	10.0%	-13.3%	4,076	10.3%	4,100	10.3%	0.6%
Ordinary income	1,091	10.9%	1,005	10.7%	-7.9%	4,195	10.6%	4,200	10.5%	0.1%
Net income attributable to owners of parent	806	8.1%	734	7.8%	-8.9%	2,956	7.5%	3,000	7.5%	1.5%
Net income per share (¥)	54.23		49.79			199.02		203.44		
Dividend per share (¥)	-		-			48.00		52.00		

Source: Prepared by FISCO from the Company's financial results

4. Growth strategy

For its growth strategy going forward, the Company has established the following three basic strategies: “Building strengths by bolstering development and manufacturing functions,” “Strengthening and expanding the global business structure,” and “Promoting strategic procurement activities.” In “Building strengths by bolstering development and manufacturing functions,” the Company will accurately identify new parts needs created by the rapid advance in electrification and strengthen up-front development and manufacturing functions. In addition, because this is forecast to continue to be the main market accounting for 70% of powertrains in engine vehicles in 2030, the Company will strengthen its competitiveness by developing new processing technologies that realize high quality and low costs as well as by upgrading existing technologies. In addition, by “Strengthening and expanding the global business structure,” the Company will respond to the shift to global production by its customers, which are Japanese automobile and electrical equipment manufacturers, and reduce exchange rate fluctuation risk. In addition to its plans to bolster manufacturing functions in Japan, the U.S., and Thailand, the Company will look to strengthen the organizational structure at each base, develop personnel, and expand to new business bases. In “Promoting strategic procurement activities,” the Company will further enhance its factory solutions along with its fables solutions, which is the pillar of the Company's business. Specifically, the Company will work on building strong relationships, including capital alliances, with suppliers who possess advanced technological capabilities in important strategic fields, and work to enhance the manufacturing function within the group. Through these efforts, the Company plans to increase the manufacturing ratio within the group from the current level of approximately 20% to 40% in FY3/23, and plans to maintain an operating margin exceeding 10%, which is a leading level of profitability in the industry.

5. Shareholder Returns

For FY3/20, the Company plans to increase the dividend per share by ¥4.0 YoY to ¥52.0 (dividend payout ratio, 25.6%) which will be the eighth consecutive fiscal year of higher dividends. It has in sight a level of 30% for the dividend payout ratio, and its policy is to stably and sequentially increase dividends. For shareholder rewards, the Company presents rice gift certificates to shareholders holding 100 shares or more at the end of March and the end of September, according to the number of shares they hold. The gross investment yield per share unit, including the shareholder rewards, is at 4.4% (¥1,376 as of September 6). The Company will also consider acquisition of its treasury shares in a timely manner.



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