

1Q FY3/2022 Results Follow-up Structural Reforms During Pandemic to Establish Post-COVID-19 Springboard

SUMMARY

▷ For FY3/21 and 1Q FY3/22, JALUX Inc., whose core business is its aviation and airport fields, recorded tough results. Even so, the number of passengers passing through airports are clearly expected to recover when the COVID-19 pandemic is brought under control, and the Company's stock price has regained 50% of its decline. During the pandemic, JALUX is moving forward with various business initiatives and working to create a more muscular business structure.

JALUX Consolidated Earnings Trend

¥ mn	Net Sales	Oper. Profit	Ord. Profit	Profit ATOP	EPS (¥)	DPS (¥)
FY3/17	143,217	4,056	4,222	2,572	203.5	50
FY3/18	153,404	4,709	5,166	2,693	213	55
FY3/19	185,726	4,628	5,094	2,962	234.3	65
FY3/20	144,688	3,969	4,738	3,081	243.7	50
FY3/21	80,346	-2,915	-2,426	-2,366	-187.2	-
Q1 FY3/22	22,383*	-456	-263	-203	-	-

* Gross sales are given as Accounting Standard for Revenue Recognition was adopted.

Source: compiled by SESSA Partners from company IR material

FY3/2021 earnings trends

Nets sales fell 44.5%, and JALUX recorded an operating loss and loss attributable to owners of parent of ¥2,915 mn and ¥2,366 mn, respectively. The Company made strong efforts to reduce SG&A expenses, cutting them ¥6,436 mn to ¥15,433 mn, which included a ¥2,486 mn reduction (-54.8% YoY) in rent and ¥1,861 mn decrease (-23.4% YoY) in labor costs (for the current fiscal year, the Company has recorded fixed expenses for airport stores forced to suspend operation as an extraordinary loss). Despite this being in line with the guidance released in October of last year, JALUX posted a loss attributable to owners of parent of ¥2,366 mn, which was ¥266 mn greater than forecast as a result of writing down aircraft engine parts held overseas and posting an impairment loss on engines.

FY3/2022 guidance

Although it is hard to expect how the pandemic will develop, JALUX announced that it expects to record net sales of ¥110,000 mn, an increase of 36.7%, and profit attributable to owners of parent of ¥100 mn assuming the number of domestic passengers starts to recover in 2Q. There is, however, a lot of uncertainty regarding the number of international passengers. As the Company newly adopted Accounting Standard for Revenue Recognition this year, figures based on JGAAP are provided for reference to avoid confusion in comparisons with the previous years.

1Q trends

JALUX announced 1Q results on July 30. Gross sales* totaled ¥22,383 mn, around 20% of the reference figure for the full fiscal year, but this is not surprising considering the spread of Covid-19 in Japan. For JALUX, which expects a recovery in the number of passengers starting in 2Q, an extension of the state of emergency and increase in the number of regions covered by the declaration would be major setbacks.

* Term used in Accounting Standard for Revenue Recognition and equivalent to traditional net sales.

Quick Look



Key Indicators

Share price (8/11)	1,669
YH (6/10)	1,990
YL (1/4)	1,302
10YH (18/3/14)	3,365
10YL (12/1/4)	725
Shrs. out. (mn, shrs.)	12.775
Mkt. cap (¥bn)	21.3
EV (¥bn)	27.318
Shr. eqty ratio (6/30)	45.7%
22/3 PER (CE)	-
21/3 PBR (act)	0.89X
20/6 ROE (act)	-
21/6 DY (CE)	0.0%

Share Price Chart 52 Weeks



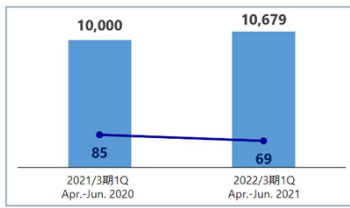
Source: SPEEDA

SESSA Research Team

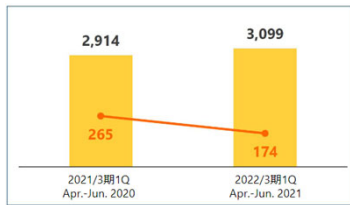
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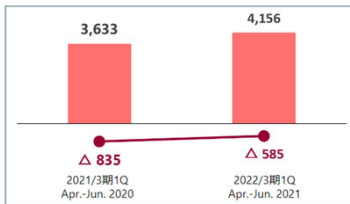
This report was written to explain the current state of the Company, and there are no plans for continued follow-ups.



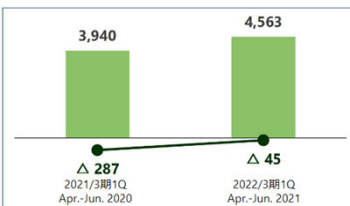
Source: from company IR materials (¥ mn)



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Aviation & Airport

The aviation and airport segment includes not only the sales of aircraft, aircraft parts, special vehicles used at airports, maintenance products but also the operation of airports in Laos and Myanmar. In the U.S. and Europe, flights on domestic routes are trending upward as the number of people who have been vaccinated has risen, and JALUX recorded gross sales of ¥10,679 mn (+6.8% YoY) and ordinary profit of ¥69 mn. However, demand for large aircraft parts, such as engines, will remain weak until the number of flights on international routes increases.

Life Service

In the life service segment, gross sales totaled ¥3,099 mn (+6.3% YoY) but ordinary profit was ¥174 mn (-34.3 YoY). Of the Company’s various segments, this segment was least impacted by the pandemic, and real estate development and facility management earnings were about the same as for 1Q FY3/21. The day-care services for seniors business appears to have rebounded because facilities were temporarily closed due to the COVID-19 pandemic. Both insurance sales and related operations posted stable earnings. The decline in profit was the result of transitory factors that boosted FY3/21 earnings.

Retail

In the retail segment, gross sales totaled ¥4,156 mn (+14.4% YoY), but JALUX posted an ordinary loss of ¥585 mn. The loss was ¥250 mn less than that recorded in 1Q FY3/21. This segment, which includes the operation of retail stores at airports, was impacted the most by the COVID-19 pandemic, but net sales rose as the number of passengers on domestic routes increased. Duty-free shops rely on visitors to Japan, and although focus has been on cutting fixed expenses, it will be difficult for them to generate a profit as the number of passengers on international routes has not recovered. IATA had forecast that the number of global passengers would return to pre-pandemic levels in 2024 but revised that forecast to 2023 in May of this year. When developing an outlook for the business, it is necessary to focus on the number of passengers on both domestic and international routes.

However, the EC business, a non-airport business, benefited from demand related to people spending more time at home. The Company plans to reinforce its EC business using the strength of the JAL brand. Furthermore, the JAL Furusato Nozei (hometown tax donation program) was launched in the previous fiscal year. Even though the Company is entering the market late, this business is expected to make certain contributions to earnings due to the strong JAL brand.

Food & Beverage

In the food and beverage segment, gross sales were ¥4,563 mn (+15.8% YoY), but JALUX posted an ordinary loss of ¥45 mn, which was ¥241 mn less than the loss in 1Q FY3/21. The business primarily involves wholesaling food products, wine, and processed foods. Although the commercial wholesale business has struggled due to a lackluster restaurant demand, gross sales rose as a result of the focus on retail stores and EC.

Future focus

For many of the Company’s business, the business model is not viable unless people go places. It will be necessary for the pandemic to be brought under control throughout the world for its business to see a full recovery, but the Company is switching and introducing various services. Although each of these individual challenges are small, the combined impact within the Company’s various business models will result in an improvement in earnings. There are growing concerns about the delta variant, but in Europe and the U.S., where greater progress has been made in vaccinating people, there has been a marked increase in travel demand as people are no longer asked to voluntarily refrain from doing certain activities.

JALUX plans to make a medium-term management plan for FY3/23 and beyond. Setting the current fiscal year as a year to create the foundation for that, the Company is focusing on (1) creating a system to ensure that it captures the post-pandemic recovery in demand and (2) expanding its non-aviation & airport business fields.

Share price insights

JALUX’s share price hit a record high of ¥3,365 in 2018, with shares trading at a premium as its PBR of 1.79x surpassed that of the TOPIX’s 1.3x. Its ROE rose to an historic high of 13.56% in FY3/17 while its operating profit margin peaked at 3.6% the following year. Its market capitalization increased about 40% to approx. ¥40 bn over two years. However, in FY3/19, the year before the pandemic hit, the Company’s profit fell slightly even though net sales were at an all-time high. In its summary of financial statements at that time, the Company noted an increase in SG&A expenses and percentage rent even though there were no major changes in the environment. After that, the Company’s share price softened and then rapidly fell as the COVID-19 pandemic spread in 2020. Its share price may have peaked out due to not only the pandemic, but also complacency by management when it was enjoying record profit during the inbound boom.

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21
Mkt. cap. (JPY mn)	27,148	27,413	33,936	39,322	31,887	19,066	20,659
EBITDA margin (%)	2.6	3.0	3.2	3.6	3.0	3.4	-2.4
Oper. profit margin (%)	2.2	2.7	2.8	3.1	2.5	2.7	-3.6
Ord. profit margin (%)	2.4	2.8	2.9	3.4	2.7	3.3	-3.0
ROE (%)	7.27	11.68	13.56	12.83	12.86	12.21	-9.50
ROA (%)	3.20	4.92	5.89	5.79	5.60	5.23	-4.18
PER (X)	23.6	13.6	13.2	14.6	10.8	6.2	
PBR (X)	1.64	1.53	1.69	1.79	1.32	0.72	0.88



Source: SPEEDA

It is obvious that bringing the pandemic under control is necessary for JALUX to see a full recover in earnings, but over a mere three years, its share price reached its zenith during the inbound boom and then hit rock bottom during the pandemic. The Company has made substantial progress in reducing fixed expenses over the past year. The Company is expected to be a more muscular organization if it makes steady progress in streamlining its aviation & airport business, the business of greatest focus, and implementing measures to expand its non-aviation & airport businesses and may be able to post record profits after the pandemic.



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