

JALUX | 2729

TSE First Section



Turbulence ahead

The Coronavirus is having a negative impact on many businesses around the world, particularly those in the travel and tourism sector. JALUX's business model is almost exclusively geared into aviation demand, through its core segments of Aviation, Retail. Management recognise the uncertain outlook and are aware that if this is a long-standing crisis, changes will need to be made to the Company's business model. This note takes a Quick Look at the near term impact on fundamentals and the potential for the company to respond to these challenges. With the stock trading at 0.8x book value, the market may be worried about potential write-offs and lower growth and returns going forward.

JALUX Consolidated Earnings Trend

JPY m	Sales	Operating Profit	Ordinary Profit	Net Profit	EPS (¥)	DPS (¥)
FY3/17	143,217	4,056	4,222	2,572	203.5	50.0
FY3/18	153,404	4,709	5,166	2,693	213.0	55.0
FY3/19	185,726	4,628	5,094	2,962	234.3	65.0
FY3/20	144,688	3,969	4,738	3,081	243.7	50.0
FY3/21 CE	110,000	(2,200)	(1,900)	(1,200)	(94.9)	—

Travel sickness

JALUX was a core beneficiary of Abenomics, inbound tourism and the rise of aviation demand from growing LCCs. From FY2012 through FY2019, sales rose from ¥85b to ¥145b and ordinary profit rose from ¥1.2b to ¥4.7b. Whether through sales of aircraft engine parts to heavy industries, operation of overseas airports or retailing on airports (JALUX operates 75 BLUE SKY stores in 27 airports and 9 duty free stores in Narita and Haneda), all segments were geared into the growth of inbound tourism and aviation demand. Since February this year, however, the airport retail segment in particular has been devastated by the Coronavirus. Inbound tourist numbers crashed 99.9% during from April to June and JALUX was forced to close majority of stores in Narita and Haneda airport. Retail, which had been expected to earn an operating profit of ¥3.6b this fiscal year, is currently guided to a ¥2.1b loss. The outlook remains cloudy and dependent on how quickly air travel returns to normal.

Business model change

Management has been quick to realise that the crisis will have a long-lasting impact on each segment and that the business model will need to change course. JALUX's business model is similar to that of general trading companies, featuring low margins (2.1% NPM) and high asset turns (2.4x), which had underpinned a reasonable ROE above 10% in the past. With asset turnover clearly under pressure, the future direction of the business may increasingly focus on opportunities in non-aviation/airport field, such as Life Service and F&B.

Quick Look notes are intended to introduce companies on a spot basis and there are no plans for issuing future updates.

Key Indicators	
Share price (8/25)	1,595
YH (20/1/10)	2,535
YL (20/3/19)	1,200
10YH (18/3/14)	3,365
10YL (11/3/15)	585
Shrs out. (mn shrs)	12.21
Mkt cap (¥ bn)	21.88
FY3/20 Shr Equity ratio	43.3%
FY3/20 OPM (act)	2.7%
FY3/20 ROE (act)	12.2%
FY3/20 P/B (act)	0.72x
FY3/21 P/E (CE)	—
FY3/21 DY (CE)	—

Share price chart (weekly)



Source: SPEEDA

Bull

A quick recovery in travel and tourism due to effective Coronavirus vaccine.

Bear

A longer-than-expected decline in inbound tourist numbers & new outbreaks of Coronavirus

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Diversification on earnings structure

JALUX understands that the coronavirus pandemic could be a chance to speed up the process of diversifying their business model. As for the aviation/airport domain, they aim for a V-shape recovery post corona with improved profitability through innovative measures. As for non-aviation/airport business, they plan to create new business which stems from resources they have cultivated for a long time. Eventually, they aim to develop well balanced and optimized business portfolio to improve profitability. Although the Coronavirus is negative for the company, it could be a great catalyst to accelerate diversification from aviation to non aviation business. If successful, JALUX would likely be a stronger company due to a more diversified earnings structure.



Source: company website

1Q, FY3/2021

The 1Q result was weak due to the fall in inbound travel, down -99.9% YoY, due to COVID-19 related measures. Sales came in at ¥20.4b, -56.2% YoY, while the company recorded an operating Loss of -¥0.8b vs an operating profit of ¥1.04b in 1Q FY3/19. The widespread store closures as well as state of emergency took its toll on the Retail Segment, which consists of airport and duty-free stores. Retail recorded significant sales decline of -75.6% YoY, with an operating loss of -¥0.796b. JALUX FY3/21 Sales and OP forecasts are unchanged at ¥110b sales and -¥1.9b, made on April 30 at the full year earnings announcement. As of the end of 1Q, the cash balance amounted to ¥7.4b, as the company implemented cost controls and drew down bank credit lines to take them through the crisis.

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