

【Update Short Report】

| Company |

TAMAGAWA HOLDINGS CO., LTD.

| Code |

6838 : JASDAQ

| Analyst |

C&A Senior Analyst

Kazuma Kanou

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## 【Update Short Report】

### Significant increase in both revenues and earnings

(2Q FY03/2020)

**(Full-term forecast: Operating income would increase to 520 million yen,  
namely 3.4 times larger than the previous term)**

"Strong Buy" rating continues with share price targeted at 3,500 yen

#### 【Target Share Price】

3,500 yen

(as of Nov/15/2019)

(as of Dec./20/2018: 2,750 yen)

(as of Jul./02/2018: 2,500 yen)

#### 【Rating】

Strong Buy (Continued)

(as of Nov/15/2019)

#### 【Performance Forecasts】

FY03/2020 (official forecasts)

Net sales: 5,699 million yen; Operating income: 524 million yen;

Ordinary income: 372 million yen; Net income: 319 million yen

(as of Nov/15/2019)

#### 【Themes】

EDGs/ESG; defensive; national strategies; renewable energy; photovoltaic station; wind power station;  
growth; 5G; IoT; analog high-frequency radio; global niche; still-remaining company

(as of Nov/15/2019)

## **【Overall results in 2Q FY03/2020】**

### **Significant increase in both revenues and earnings**

On November 14, 2019, the Company announced its financial results of the 2Q, FY03/2020 as follows: Net sales: 2,469 million yen (increased by 49.1% YoY); Operating income: 331 million yen (increased by 1,938.1% YoY); Ordinary income: 244 million yen (as opposed to Ordinary loss of (94) million yen in the same period of the previous year); Net income attributable to owners of parent: 127 million yen (as opposed to Net loss attributable to owners of parent of (94) million yen in the same period of the previous year); thus achieving significant increase in both revenues and earnings.

(For reference: 2Q [1st half] FY03/2019: Net sales: 1,655 million yen; Operating income: 16 million yen; Ordinary loss: (94) million yen; Net loss: (94) million yen)

#### **Factor 1: Selling off Shimonoseki power station (ca. 1.8 Mw, FIT: 40 yen)**

On September 30, 2019, the Company sold off Shimonoseki-Toyouracho photovoltaic station owned by its subsidiary. This station was owned by the subsidiary, GP ENERGY CO., LTD., and is a good facility with power output of both high-voltage (1,700 Kw) and low-voltage (48.7 Kw), two plots, and FIT of 40 yen/kwh. The Company has not made public about the sale value and other details, but considering the currently booming market of buying and selling second-hand photovoltaic stations, it can be thought that the station could be sold off on quite favorable terms. Proceeds from this sale have been reflected in the financial results of the current 1st half, which is a key factor for the significant increase in earnings.

#### **Factor 2: Departure from an extreme reliance on achievements during the second half**

In TAMAGAWA ELECTRONICS, a fully-owned subsidiary engaging in electronic & communication devices business, due to its sales mainly coming from public offices and public-related fields, its earnings had previously tended to rely on achievements during the second half and consequently get into the red during the first half every year. But since the current term, it has increased its earnings during the first half by attracting private demands and other means, and puts its efforts to departure from such an extreme reliance on achievements during the second half. As for the financial results of the current second quarter, sales ratio during the first half is 44.0% (36.3% during the previous first half), meaning increase by about 8 points. Moreover, segment income in the current first half was 84 million yen (as opposed to loss of 31 million yen in the previous first half), that is, remarkably increased by 115 million yen.

In this way, it can be said that departure from reliance on achievements during the second half in the business segment of electronic & communication devices contributes to substantial increase in company-wide earnings in the first half.

#### **Factor 3: Strong order-taking in the electronic & communication devices business**

In the business segment of electronic & communication devices, amount of order-taking in the fields of mobile communication and public offices / public-related increased by 49.3% YoY in the 1Q and by 30.0% YoY in the 2Q, meaning continuously strong order-taking that leads to expanded profitability.

**【Full-term performance forecasts for FY03/2020】****Significant increase in both revenues and earnings****(Operating income increased to 520 million yen, namely 3.4 times larger)**

On May 21, 2019, the Company announced its performance forecasts for FY03/2020 as follows: Net sales: 5,699 million yen (increase by 48.4%, 1,850 million yen YoY); Operating income: 524 million yen (increase by 242.2%, 387 million yen YoY); Ordinary income: 372 million yen (increase by 451 million yen from (79) million yen in FY03/2019); Net income attributable to owners of parent: 319 million yen (increase by 148.7%, 191 million yen YoY), which means significant increase in both revenues and earnings, and no amendment followed (as of November 15, 2019). It should be noted that significant increase in net sales is projected in every business segment (electronic & communication devices; renewable energy system sales; and renewable energy power station).

TAMAGAWA ELECTRONICS, a subsidiary of the Company, has developed high-frequency radio technologies as its backbone since its foundation in 1968, and has engaged in development/manufacture of such as products applying optical technologies, those for millimeter-wave band, and those related to digital software, mainly deriving from its business in high-frequency circuit element. Therefore, the Company would anticipate to a great extent more order-taking due to growing demands for the field of 5G technologies and those for overseas markets.

These forecasts for the next term would be achieved, due to the fact that the Company puts its efforts into its renewable energy business such as small wind power stations and small-scale hydraulic power generation, with a view to development/sales of power generation system utilizing other kinds of renewable energy than photovoltaic generation, and that sales and operation of power stations are doing great for which orders were already received and which has become a source of stable revenues, and also that the Company considers selling off its own photovoltaic stations and has already sold off Shimonoseki power station during the first half.

**【5G-related: trillion dollars market】** Market trends and approaches

On October 1, 2018, Verizon, a major American communication company, started to provide fixed wireless access using 5G communication, and on April 3, 2019, started to provide 5G communication services for smartphones as well. Also in the USA, AT&T started to provide mobile routers for enterprises using 5G wireless communication. The USA took the lead in commercializing 5G communication services. Services for smartphones to be the main target of early-stage 5G communication have started in full swing also in Korea on April 3 this year. Two hours earlier announcement than that of Verizon made it become the "world first" 5G communication services for smartphones.

While 5G (fifth-generation mobile communication system) related services have already been started in full swing overseas, it is expected that in Japan relevant products will be available on the market gradually around February, 2020 and onwards.

During the Rugby World Cup when Japan team brought a big wave with its great performance, NTT DOCOMO, Inc. organized new-style sports spectating events using 5G at 16 venues nationwide (VR viewing, multi-angle viewing, 5G LIVE SPORTS TOUR). In the future as well, there will be much more opportunities to experience 5G at all kinds of events, thereby making it gradually apparent about how our future lives would be changed with the convenience and innovative nature provided by such technologies.

**In 2026, market size would reach about one trillion dollars (about 110 trillion yen)**

FUJITSU JOURNAL calculated the 5G market size that would reach about one trillion dollars in 2026. Present market size of the industry is 200-600 billion dollars. Video will be the mainstream of mobile broadband traffic. Videos already account for about 60% of overall traffic, and are projected to grow to about 74% in 2024. There are growing expectations towards video-related 5G applications, such as images from viewpoints of players in sports, VR graphics, and 3D holograms.

It is expected that wider usage of 5G communication in industry would make the market size, mainly in manufacturing industry, increase by 36% in 2026, creating huge, additional 619 billion dollars market. Actually in industry, especially in manufacturing and automobile, various trade organizations have already been established in order to consider and standardize new structures using 5G, and to make some institutional streamlining and any other actions.

**5G market expansion directly leads to expanded profitability of the Company**

TAMAGAWA ELECTRONICS, a fully-owned subsidiary of the Company, released "Notices regarding commencement of contracted development/manufacture of mm-wave products" on April 8, 2019. In the field of 5G, it is planned to newly utilize the frequency bands of SHF, quasi-millimeter and millimeter waves in order to achieve 100 times faster transmission than ever, and accordingly the Company started contracted development/manufacture of 5G-enabled products (modules, components and others) for high-frequency bands of quasi-millimeter and millimeter waves up to 50 GHz band.

5G market expansion directly leads to expanded profitability of the Company, and therefore attention must be paid to the market trend of 5G from now on.

(Noteworthy approaches)

In an effort to expand its business, the Company brings into view development/sales of power generation system utilizing other kinds of renewable energy than photovoltaic generation, such as small wind power stations and small-scale hydraulic power generation, and cooperates with Tohoku University to research into evaluation of batteries for mobile IoT devices making use of surplus electricity in the internally/externally expanding field of natural energy (e.g., solar energy, wind power, biomass, and hot spring), as an academic-industrial partnership, that is expected to a great extent to become an approach to further business expansion in the future.

## Rating criteria

Ratings are given based on the criteria as shown below.

### Strong Buy

Share price is expected to outperform TOPIX by 30% or more within one year.

### Buy

Share price is expected to outperform TOPIX by 10% or more within one year.

### Neutral

Share price is expected to vary in the range less than +/- 10% of TOPIX within one year.

### Sell

Share price is expected to underperform TOPIX by 10% or more within one year.

## Points of concern

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