



Monogatari Corporation

TSE 1st Section 3097 Industry: Food service, retail

OP guidance mostly in-line with our forecast

FY6/21 NP mostly in-line with company guidance

Monogatari Corporation (3097) posted sales of 64.0bn yen (+10.4% YoY), OP of 2.6bn yen (-15.7% YoY), and NP of 2.7bn yen (+497.1% YoY) for FY6/21. The company recorded subsidy income of 1.6bn yen as non-operating income. OP fell short of the company's guidance of 4.021bn yen by 1.5bn yen, but NP was mostly in-line with the guidance of 2.86bn yen. Also, OP was 0.8bn yen below our forecast of 3.4bn yen, but NP was only 0.2bn yen below our forecast of 3.0bn yen. There were no surprises considering the already disclosed slightly weak same-store sales for June and the extension of emergency measures and etc.

In 4Q (Apr-Jun), sales were 13.9bn yen (+60.6% YoY, -11.1% QoQ), and OP was -0.9bn yen (-0.7bn yen for 4Q FY6/20, 0.3bn yen for 3Q FY6/21). As mentioned above, sales were weak and, in addition, costs for renovating existing stores may have been high. The company is aggressively opening new stores and remodeling stores for the future growth even under the COVID-19. This could be interpreted as a loss due to the company's aggressive stance.

The total number of stores at the end of June 2021 was 584 (+44 stores YoY). Of these, 340 were directly-owned stores in Japan (+32 stores YoY), 229 were FC stores in Japan (+8 YoY), and 15 were overseas stores (+4 stores YoY).

FY6/22 OP guidance mostly in-line with our forecast

FY6/22 guidance is for sales of 78.037bn yen (+21.8% YoY), OP of 4.798bn yen (+87.7% YoY), and NP of 3.376bn yen (+23.7% YoY). The OP guidance is mostly in-line with our OP forecast of 5.0bn yen. The difference between the NP guidance of 3.376bn yen and our NP forecast of 3.9bn yen is likely due to the company's conservative assumptions regarding subsidy income. As such, this does not come with negative impression.

Please refer to the report dated June 22, 2021 for the rationale of the rating and target price.

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Chief Analyst, Head of Research

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Update

Rating
Buy

Target price (JPY)	9,100
Stock price (JPY) (Aug 10)	6,690
Market cap (JPYbn)	80.8

Key changes

Rating	No
Target price	No
Earnings forecast	No

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

		6/19	6/20	6/21E	6/22E	6/23E
Sales	JPYbn	58.9	58.0	65.0	74.9	83.8
OP	JPYbn	3.9	3.0	3.4	5.0	6.2
RP	JPYbn	4.7	3.0	4.9	6.0	6.2
NP	JPYbn	2.9	0.5	3.0	3.8	4.0
EPS	JPY	244.1	37.9	246.4	319.0	333.4
BPS	JPY	1,461	1,444	1,641	1,900	2,154
DPS	JPY	45.0	47.5	60.0	80.0	90.0
PER	x	17.6	110.7	27.2	21.0	20.1
PBR	x	2.9	2.9	4.1	3.5	3.1
Div. yield	%	1.0	1.1	0.9	1.2	1.3
ROA	%	9.4	1.3	7.0	7.9	7.5
ROE	%	17.9	2.6	16.0	18.0	16.4

Source: Company data, Mita Securities

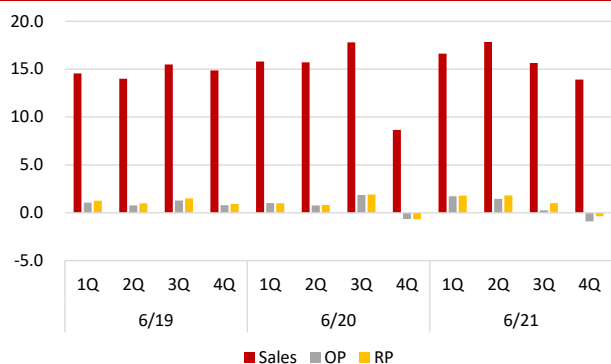
Company profile

Monogatari Corporation is a restaurant company based in Aichi Prefecture that operates "Yakiniku King" nationwide. As of June 30, 2021, the company had 584 stores in Japan (340 directly-owned stores and 229 FC stores) and 15 overseas stores (directly-owned). Sales in FY6/21 were 64.0bn yen.

Quarterly data

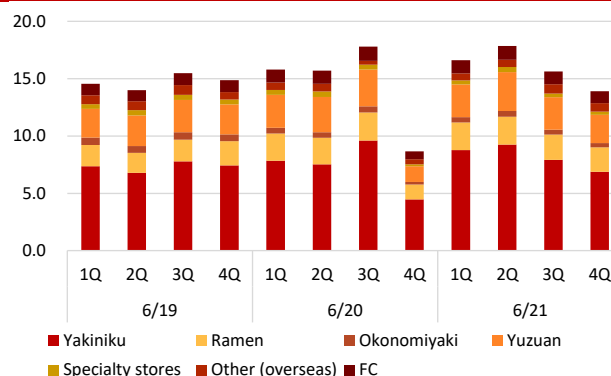
Quarterly data

Figure: Quarterly earnings (JPYbn)



Source: Company data, Mita Securities

Figure: Sales by division (JPYbn)

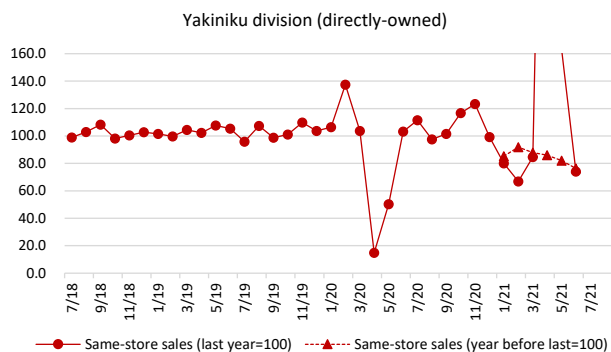


Source: Company data, Mita Securities

Monthly same-store sales data

Yakiniku (Japanese BBQ)

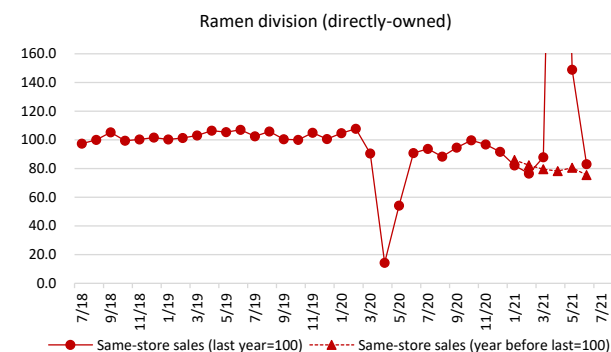
Figure: Monthly data (directly-owned)



Source: Company data, Mita Securities

Ramen

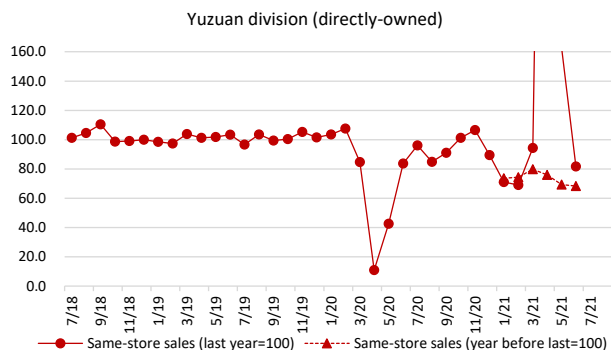
Figure: Monthly data (directly-owned)



Source: Company data, Mita Securities

Yuzuan

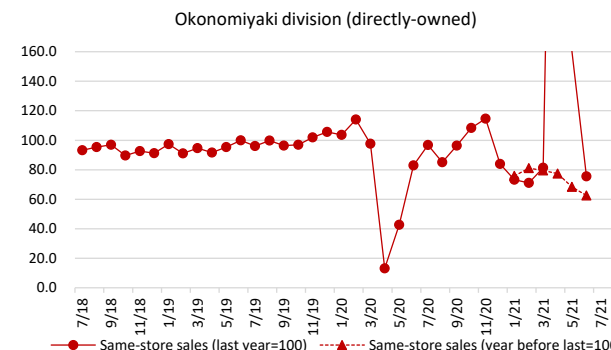
Figure: Monthly data (directly-owned)



Source: Company data, Mita Securities

Okonomiyaki

Figure: Monthly data (directly-owned)

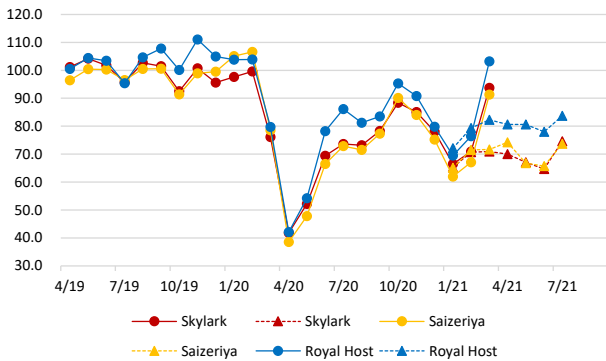


Source: Company data, Mita Securities

Food service industry data

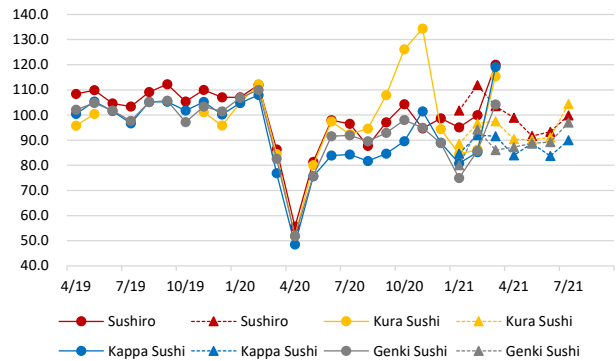
Same-store sales (compared to last year or year before last)

Figure: Family restaurants



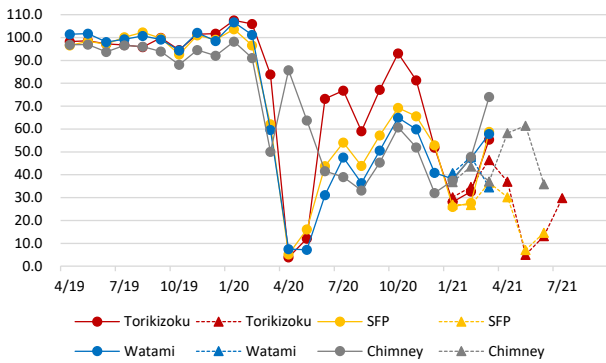
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Sushi restaurants



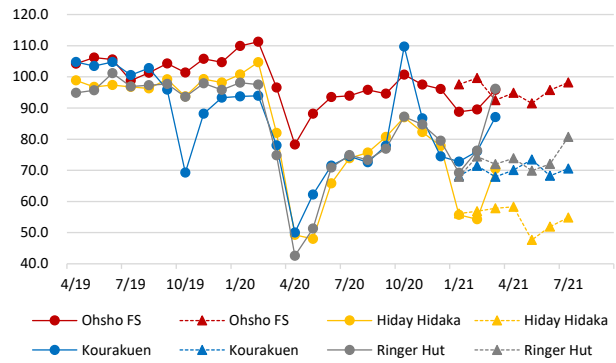
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Izakaya (Japanese style pubs)



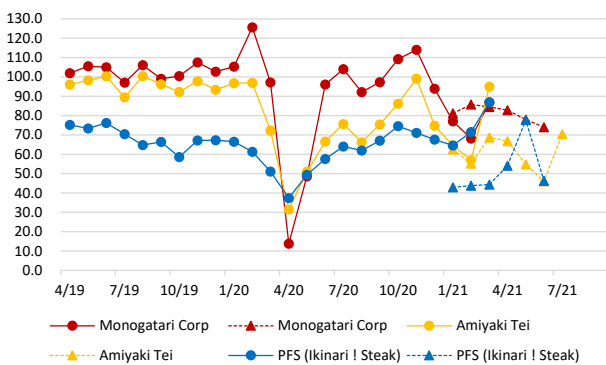
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Chinese restaurants



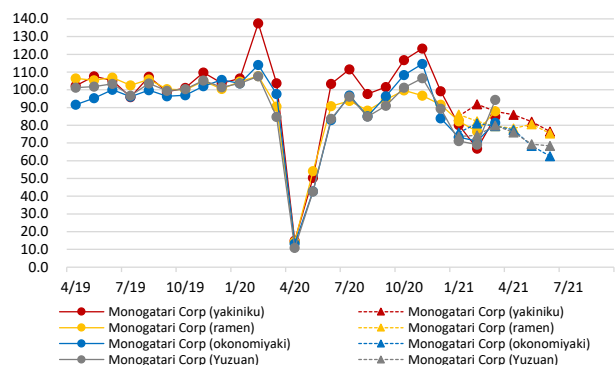
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Yakiniku (Japanese BBQ), steak



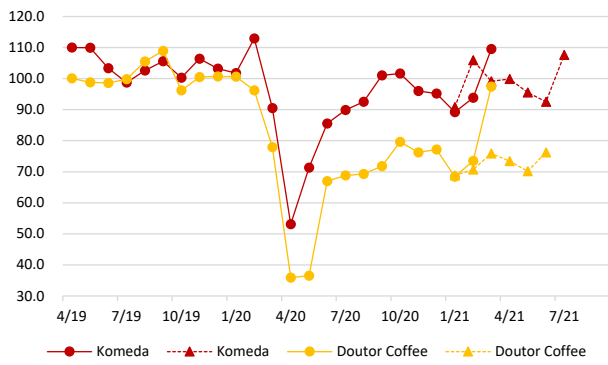
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Monogatari Corporation by division



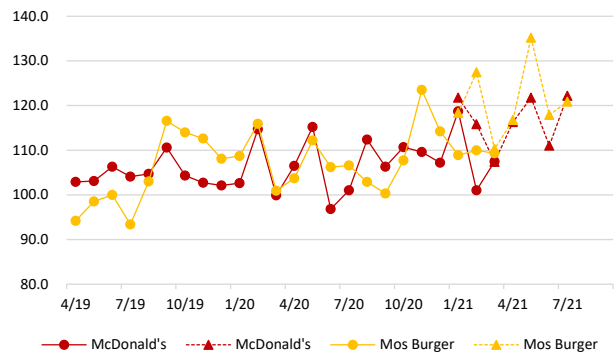
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Coffee shops



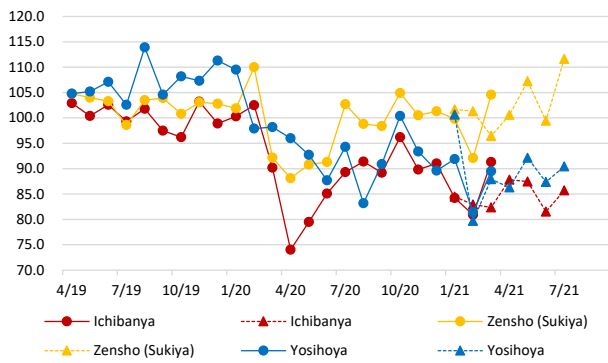
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Hamburger shops



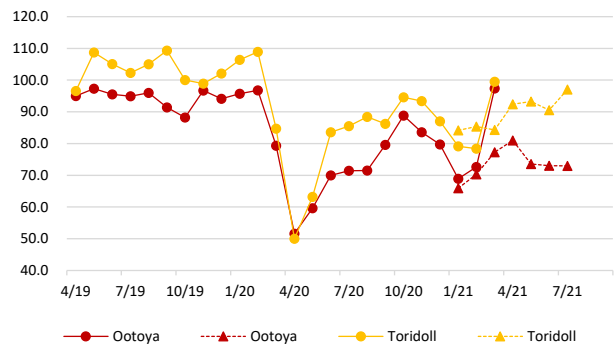
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Curry, Beef bowl



Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

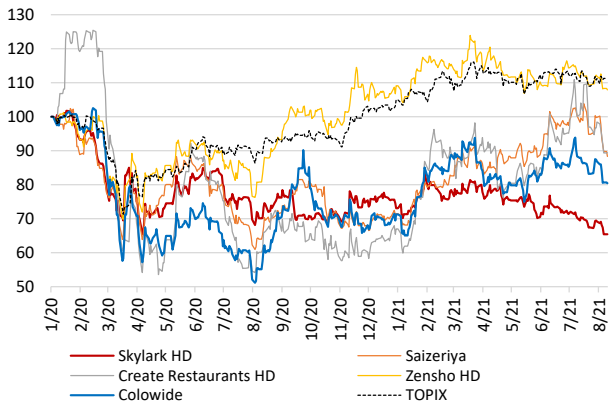
Figure: Set meal, Udon noodle



Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

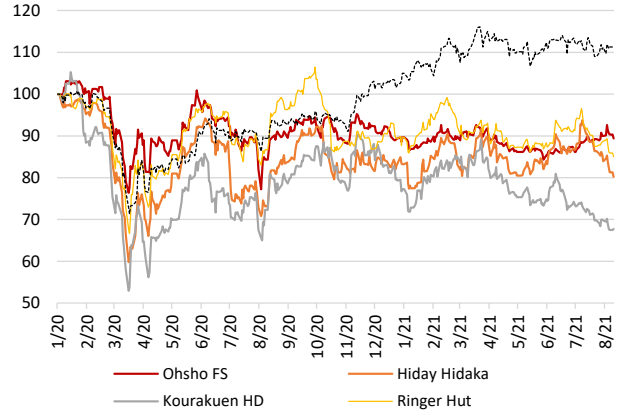
Stock price trends for food service companies

Figure: Stock price trends (family restaurants, general type)



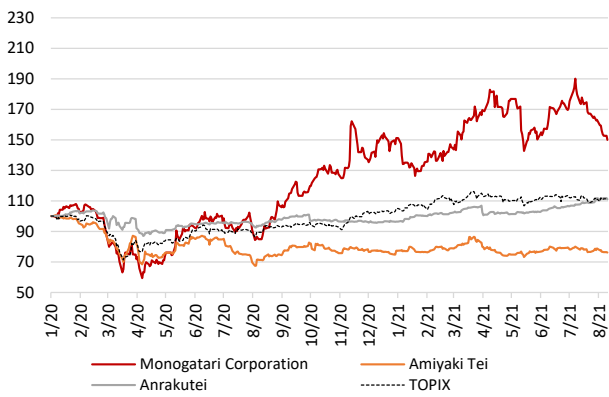
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Chinese restaurants)



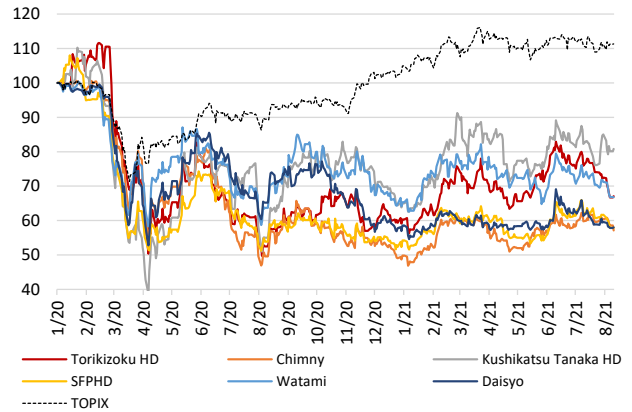
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Japanese BBQ)



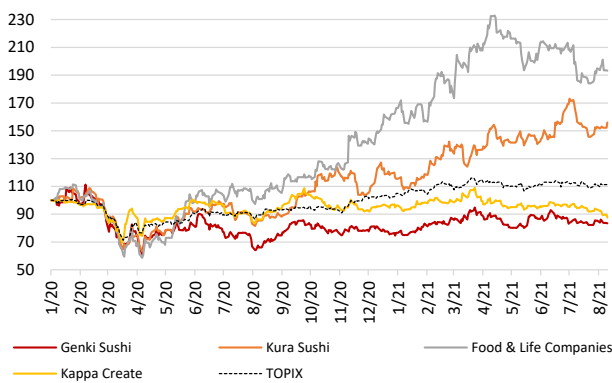
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Japanese style pubs)



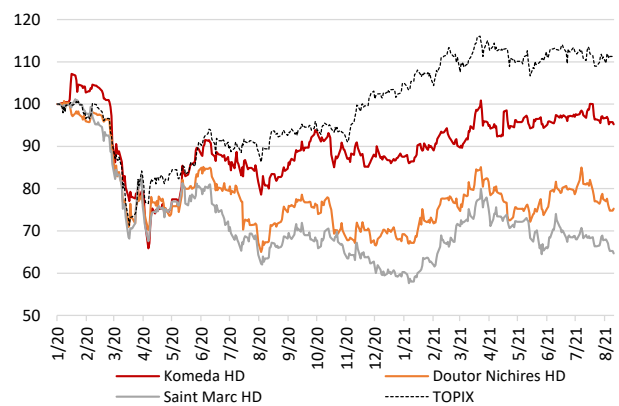
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (sushi restaurants)



Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (coffee shops)



Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Examples of recapitalization

Figure: Examples of recapitalization for food service companies

Announcement	Company name	Ticker	Funding method	Funding amount (JPYm)	Note
07/28/20	Colowide	7616	Preferred shares	9,000	Dividend 3.5% per annum. No conversion right to common shares
07/31/20	Pepper Food Service	3053	Warrants	6,740	Exercise price 415 yen (initial), with downward adjustment clause (last closing price x 90%, minimum exercise price 208 yen)
			Warrants	2,883	Exercise price 415 yen (initial), with downward adjustment clause (minimum exercise price 312 yen) Maximum dilution of the above total 99.96%
11/11/20	Joyfull	9942	Treasury share sale	1,000	
11/11/20	SRS HD	8163	Warrants	6,186	Exercise price 922 yen (initial), with downward adjustment clause (last closing price x 92%, minimum exercise price 646 yen). Maximum dilution 19.27%
11/19/20	Sagami HD	9900	Warrants	4,910	Exercise price 1,291 yen (initial), with downward adjustment clause (last closing price x 92%, minimum exercise price 904 yen). Maximum dilution 14.34%
12/24/20	Ootoya HD	2705	Preferred shares	3,000	With conversion right to common shares
01/26/21	Ringer Hut	8200	Subordinated loans	5,000	
			Warrants	2,359	Exercise price 2,363 yen (initial), with downward adjustment clause (last closing price x 92%, minimum exercise price 1,655 yen). Maximum dilution 3.84%
02/02/21	Create Restaurants HD	3387	Undated subordinated loans	15,000	Recorded as equity under IFRS
02/05/21	Zensho HD	7550	Subordinated loans	10,000	JCR recognizes 50% as equity
02/08/21	Monogatari Corporation	3097	CB	6,120	Conversion price of 12,500 yen (initial, before 1:2 stock split), with downward adjustment clause (minimum conversion price of 11,250 yen). Maximum dilution 8.69%
02/15/21	Royal HD	8179	Common shares	10,000	Issue price 1,718 yen
			Warrants	7,847	Exercise price 1,908 yen (initial), with upward and downward adjustment clauses (minimum exercise price 1,431 yen)
			Preferred shares	3,000	Dividend 8.5% per annum. No conversion right to common shares
			Preferred shares	3,000	Dividend 8.5% per annum, with conversion right to common shares Maximum dilution of the above total 29.69%
05/14/21	Chikaranomoto HD	3561	Common shares	1,646	Issue price 558 yen
			Warrants	1,182	Exercise price 587 yen (fixed)
			Warrants	765	Exercise price 764 yen (fixed) Maximum dilution of the above total 24.71%
05/20/21	Fujio Food Group	2752	Subordinated loans	3,700	
			Treasury share sale	851	Sale price 1,216 yen
			Warrants	1,919	Exercise price 1,399 yen (fixed). Maximum dilution 3.21%
05/20/21	Saint Marc HD	3395	Warrants	967	Exercise price 1,662 yen (initial), with downward adjustment clause (minimum exercise price 1,280 yen)
			CB	6,057	Conversion price 1,662 yen (initial), with downward adjustment clause (minimum conversion price 1,280 yen) Maximum dilution of the above total 23.09%
05/21/21	Skylark HD	3197	Common shares	42,610	Public offering of new shares. Issue price 1,495 yen. Dilution 15.19%
05/24/21	Watami	7522	Preferred shares	12,000	Dividend 4% per annum. No conversion right to common shares
06/25/21	Zensho HD	7550	Subordinated loans	20,000	
06/28/21	Chimny	3178	Subordinated loans	1,000	
07/16/21	Hiramatsu		Common shares	4,600	Issue price 176 yen
			Warrants	3,152	Exercise price 176 yen Maximum dilution of the above total 90.37% (shares O/S), 100.00% (voting rights)
07/19/21	Create Restaurants HD	3387	Common shares	20,000	Registration of new share issuance. Maximum issuance 20 bn yen

Source: Companies data, Mita Securities

APPENDIX

[Analyst Certification]

We hereby certify that the views on securities and issuers expressed in this report accurately reflect the personal views of the analyst(s) listed on the cover page of this report. The analyst(s) also certifies that the analyst(s) has not been compensated, directly or indirectly, or promised to be compensated, for expressing any particular view in this report.

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Ratings are based on the following definitions.

The target price and ratings are based on our views for the next 12 months or so.

Buy: Stocks whose total return (percentage change in share price from current price to projected target price plus projected dividend yield), as of the time the target price is set or changed, is expected to be 15% or more.

Hold: Stocks whose total return (percentage change in share price from current price to projected target price plus projected dividend yield), as of the time the target price is set or changed, is expected to be between -15% and +15%.

Sell: Stocks whose total return (percentage change in share price from current price to projected target price plus projected dividend yield), as of the time the target price is set or changed, is expected to be -15% or less.

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NR: No Rating - Stocks for which no target price or rating is assigned.

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6. Any family member of the analyst(s) listed on the cover of this report is a director or an advisor of the company covered by this report: N/A
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