



Zenkoku Hoshu

TSE 1st Section 7164 Industry: Other financials

1Q results look positive. Low credit costs, recovery in new guarantees executed

Strong progress toward 1H OP guidance of 52%

1Q FY3/22 OP came in at 7.5bn yen (+9.0% YoY), 52% progress toward the 1H guidance of 14.4bn yen (+2.8% YoY). The top line was in-line with the company's target, while credit costs progressed below the target.

Guarantee exposure at end-1Q was 14.8363trn yen (+7.2% YoY), operating revenue was 9.8bn yen (+4.3% YoY), 50% progress toward the 1H guidance of 19.5bn yen (+3.0% YoY).

Credit costs were 0.6bn yen (vs. 0.9bn yen in 1Q FY3/21), 40% progress toward the 1H guidance of 1.5bn yen and 17% progress toward the full-year guidance of 3.65bn yen. The amount of subrogation payments (default amount) was 2.2bn yen (vs. 3.5bn yen in 1Q FY3/21), 18% progress toward the full-year guidance of 12.45bn yen. The delinquency rate, a leading indicator for default amount and credit costs, has remained very low, almost unchanged from the end of FY3/21.

Number of new guarantees executed recovering. Positive impression

The number of new guarantees executed was 15,460 (+22.2% YoY, +2.5% QoQ), 26% progress toward the full-year guidance of 60,000 (+5.1% YoY). We believe that the recovery of new guarantees is progressing well. The number of new applications, a leading indicator, is also recovering.

Please refer to the report dated April 8, 2021 for the rationale of the rating and target price.

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Update

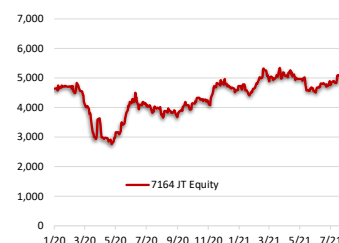
Rating Buy

Target price (JPY)	6,400
Stock price (JPY) (Aug 6)	5,120
Market cap (JPYbn)	352.6

Key changes

Rating	No
Target price	No
Earnings forecast	No

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

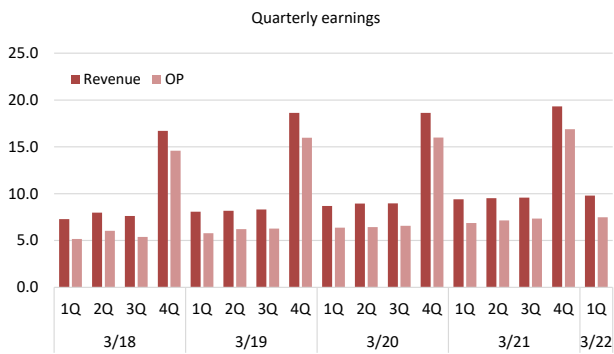
		3/20	3/21	3/22E	3/23E	3/24E
Revenue	JPYbn	45.2	47.8	50.3	53.9	57.0
OP	JPYbn	35.4	38.2	39.7	42.4	43.7
RP	JPYbn	35.8	39.0	40.6	43.4	44.8
NP	JPYbn	24.4	27.0	28.1	30.1	31.0
EPS	JPY	355.2	392.5	408.9	437.1	451.3
BPS	JPY	2,109	2,408	2,686	2,970	3,250
DPS	JPY	95.0	117.0	135.0	153.0	171.0
PER	x	9.6	12.9	12.5	11.7	11.3
PBR	x	1.6	2.1	1.9	1.7	1.6
Div. yield	%	2.8	2.3	2.6	3.0	3.3
ROA	%	7.0	7.0	6.8	6.7	6.5
ROE	%	18.0	17.4	16.1	15.5	14.5

Source: Company data, Mita Securities

Company profile

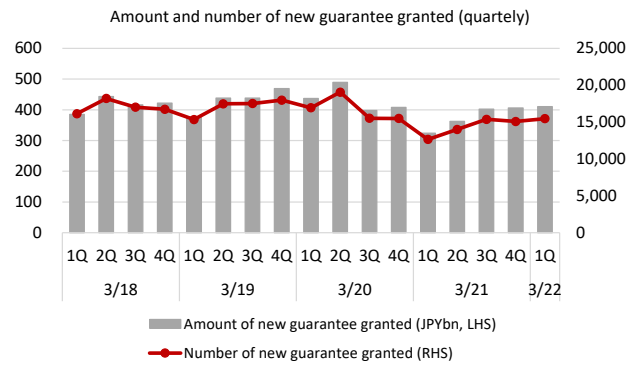
Zenkoku Hoshu is an independent mortgage guarantee company with guarantee exposure of 14.6trn yen (end-FY3/21). It has partnerships with 744 financial institutions nationwide. Stock revenue has been growing due to the increase in the guarantee exposure, whereas credit costs have remained at a low level. The company has made it clear that it aims to grow through M&A.

Figure: Quarterly earnings (JPYbn)



Source: Company data, Mita Securities

Figure: Amount and number of new guarantees executed (Q)



Source: Company data, Mita Securities

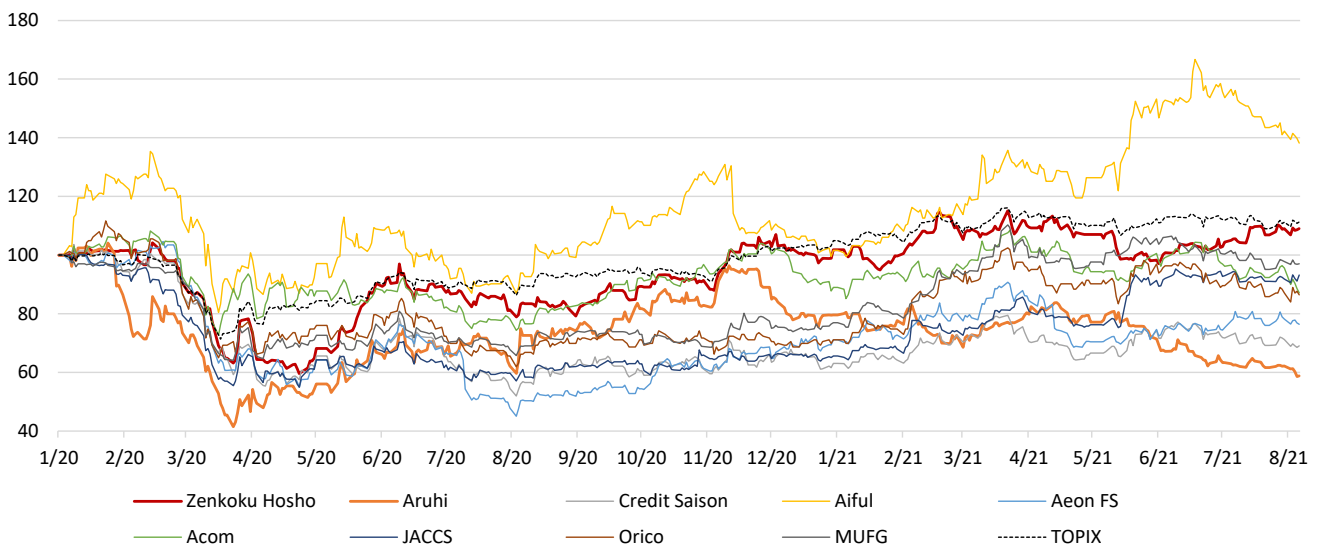
Figure: Comparison of valuations

Company	Ticker	Currency	Share price 5-Aug	Mkt cap JPYbn	PER Last	PER LTM	PER Current E	PER Next E	PBR Last	EV/EBITDA Next E	EV/Sales Next E	ROE LTM	Sales growth LTM	EBITDA Mgn LTM	Dividend yield Current E	1M Change	3M Change	1YR Change
ZENKOKU HOSHO CO LTD	7164	JPY	5,060	348.5	12.9	12.9	NA	NA	2.1	NA	NA	17.4	6.1	81.1	NA	3.3	1.7	30.7
MORTGAGE SERVICE JAPAN LTD	7192	JPY	1,016	14.9	15.4	15.4	NA	NA	2.5	NA	NA	17.7	0.2	21.4	NA	1.2	-2.5	-2.7
ARUHI CORP	7198	JPY	1,330	48.0	9.1	9.3	8.5	7.7	1.6	9.1	2.9	18.2	1.5	46.7	4.4	-6.0	-26.1	-19.0
PREMIUM GROUP CO LTD	7199	JPY	3,405	45.4	18.2	18.2	17.7	14.0	6.0	NA	2.3	38.3	26.3	24.6	1.5	-2.0	38.8	95.5
CREDIT SAISON CO LTD	8253	JPY	1,301	241.3	5.6	5.6	5.7	5.4	0.4	37.5	7.8	7.1	-9.2	38.5	3.5	-5.9	3.0	22.2
AIFUL CORP	8515	JPY	340	164.8	8.9	8.9	8.4	7.5	1.1	NA	4.1	13.6	0.8	22.7	0.2	-11.5	6.3	49.1
AEDON FINANCIAL SERVICE CO LT	8570	JPY	1,344	290.3	16.4	9.5	11.4	9.3	0.7	NA	NA	7.7	NA	NA	3.4	-5.4	7.6	51.7
ACOM CO LTD	8572	JPY	435	681.5	8.6	8.8	10.3	10.5	1.4	13.0	4.6	16.6	-4.8	41.1	1.6	-8.0	-7.8	13.9
JACCS CO LTD	8584	JPY	2,614	91.7	7.7	6.5	NA	NA	0.5	NA	NA	7.2	1.4	26.9	NA	-1.1	21.5	59.5
ORIENT CORP	8585	JPY	141	242.3	15.1	12.6	11.6	9.8	1.0	NA	6.0	7.0	-4.5	23.6	2.1	-7.8	-4.1	29.4
EGUARANTEE INC	8771	JPY	2,325	108.3	51.5	48.8	42.4	36.5	6.6	20.7	9.9	15.6	14.6	58.5	1.0	-0.1	8.4	2.4
Average					15.4	14.2	14.5	12.6	2.2	20.1	5.4	15.1	3.2	38.5	2.2	-3.9	4.3	30.2
MGIC INVESTMENT CORP	MTG	USD	14.06	4.8	10.7	8.1	8.3	7.6	1.0	NA	5.0	12.6	-3.0	NA	1.7	0.0	-6.1	66.2
ESSENT GROUP LTD	ESNT	USD	46.24	5.2	11.9	13.0	8.9	7.6	1.3	NA	5.2	11.4	8.0	NA	1.4	2.0	-11.1	28.4
GENWORTH MORTGAGE INSURANCE	GMA AU	AUD	2.31	1.0	NA	22.8	8.7	6.9	0.7	NA	2.3	2.9	-0.8	NA	4.4	6.0	-13.5	51.5
Average					11.3	14.6	8.6	7.4	1.0	NA	4.2	9.0	1.4	NA	2.5	2.6	-10.2	48.7

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are by Bloomberg consensus

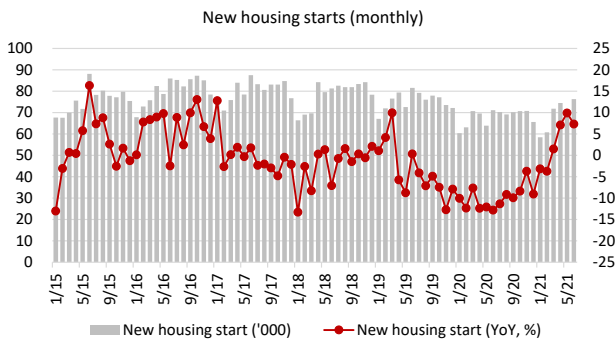
Figure: Stock price trends



Source: Bloomberg Finance LP data, Mita Securities

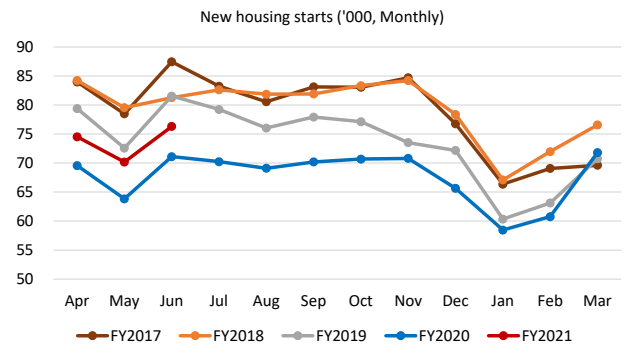
Note: Indexed 100 at the end of 2019

Figure: New housing starts



Source: MLIT data, Mita Securities

Figure: New housing starts



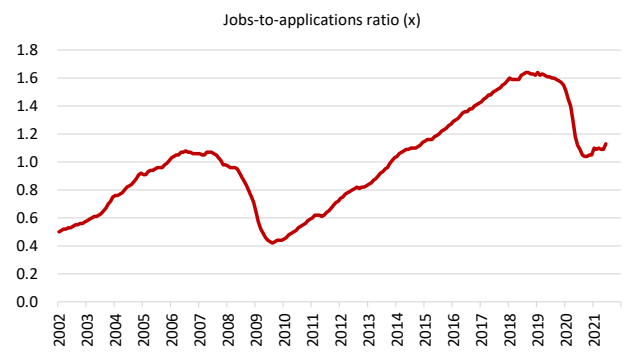
Source: MLIT data, Mita Securities

Figure: Unemployment rate



Source: MIC data, Mita Securities

Figure: Jobs-to-applicants ratio



Source: MHLW data, Mita Securities

APPENDIX

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