



Skylark Holdings

TSE 1st Section 3197 Industry: Food service, retail

August sales, industry update

Monthly data for August: affected by the expansion of shortened hours areas

Skylark HD (3197, the company) disclosed monthly data for August (on a preliminary basis). Same-store sales were 83.3% of August 2020 (same month last year = 100%; 100.3% for July). The number of holidays (weekends and national holidays) was one less than in August 2020. The breakdown is as follows: number of customers 85.6% (99.2% for July); average spend per customer 97.3% (101.0% for July).

Same-store sales were 61.5% of August 2019 figure (74.7% for July). The number of holidays was the same as in August 2019.

The weakness of the August numbers compared to July appears to be a trend similar to that of restaurant operators in general. In August, the areas subject to emergency measures and priority measures to prevent the spread of the disease were expanded, and restaurants in these areas were requested to shorten their hours and stop serving alcohol. The bad weather during the Obon holiday period also had a negative impact, the company said.

The company opened no new stores during August. The number of stores at the end of the month was 3,108 (-3 stores MoM).

Same-store sales for other restaurant companies: weaker than in July in general

The following is a list of restaurant operators that have already disclosed their August same-store sales YoY.

- Food & Life Companies (3563): Sushiro 96.4% (July: 103.5%)
- Royal HD (8179): Royal Host 85.9% (July: 97.2%); Tendon Tenya 104.3% (July: 114.1%)
- Zensho HD (7550): Sukiya 100.5% (July: 108.7%)
- Saizeriya (7581): 83.4% (July: 101.1%)
- Genki Sushi (9828): 90.8% (July: 105.6%)
- Matsuya Foods HD (9887): Matsuya 95.9% (95.5%)
- Ohsho Food Service (9936): 91.4% (July: 104.6%)

Recapitalization of restaurant operators: entering the second lap

During August, the following were announced: a public offering of new shares by Colowide (7616), subordinated loan borrowing by Kourakuen HD (7554), and the issuance of warrants by Kisoji (8160). Create Restaurants HD (3387) registered a new share issue in July, but no further updates were made during August. Colowide just issued preferred stock last year, and Create Restaurants HD just took out an undated subordinated loan this year. The recapitalization of restaurant operators is entering its second lap.

Please refer to the report dated July 1, 2021 for the rationale of the rating and target price.

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Update

Rating
Hold

Target price (JPY)	1,550
Stock price (JPY) (Sep 2)	1,568
Market cap (JPYbn)	356.7

Key changes

Rating	No
Target price	No
Earnings forecast	No

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

IFRS		12/19	12/20	12/21E	12/22E	12/23E
Sales	JPYbn	375.4	288.4	282.0	332.4	362.1
OP	JPYbn	20.6	-23.0	5.3	7.5	20.7
Pre-tax Profit	JPYbn	16.7	-26.4	1.5	4.6	17.9
NP	JPYbn	9.5	-17.2	0.5	2.7	12.0
EPS	JPY	48.0	-87.2	2.2	11.8	52.6
BPS	JPY	672	576	699	711	759
DPS	JPY	19.0	0.0	0.0	4.0	16.0
PER	x	44.4	-18.3	709.1	132.3	29.8
PBR	x	3.2	2.8	2.2	2.2	2.1
Div. yield	%	0.9	0.0	0.0	0.3	1.0
ROA	%	2.4	-3.8	0.1	0.6	2.5
ROE	%	7.2	-14.0	0.4	1.7	7.2

Source: Company data, Mita Securities

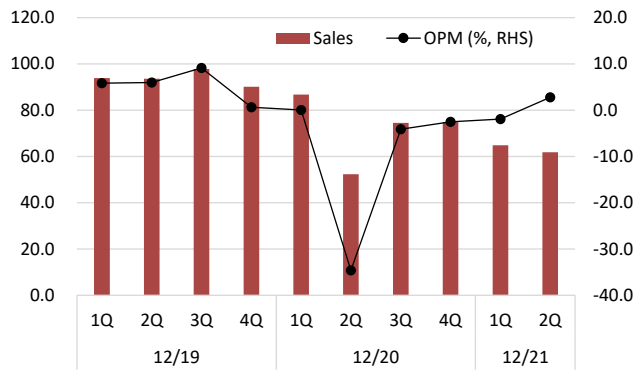
Company profile

Skylark HD is Japan's largest operator of family restaurants, including "Gusto," and "Bamiyan." The company had 3,108 stores at the end of June 2021. FY12/20 sales were 288.4bn yen.

Quarterly data

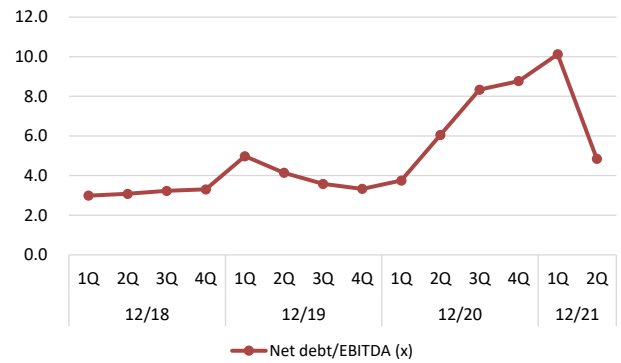
Quarterly data

Figure: Quarterly earnings (JPYbn)



Source: Company data, Mita Securities

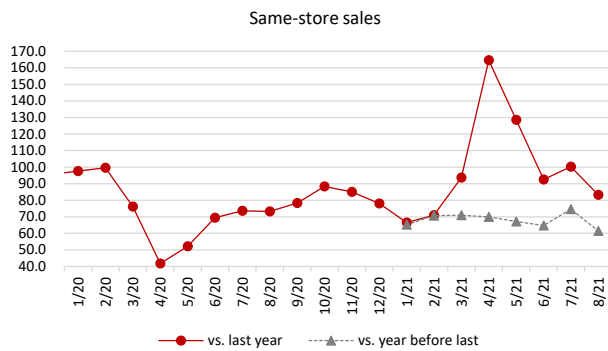
Figure: Net debt/EBITDA (x, quarterly basis)



Source: Company data, Mita Securities

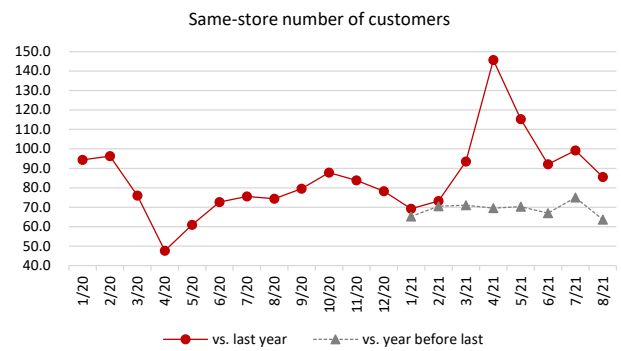
Monthly same-store sales data

Figure: Same-store sales



Source: Company data, Mita Securities Note: Same month last year or year before last = 100

Figure: Same-store number of customers



Source: Company data, Mita Securities Note: Same month last year or year before last = 100

Figure: Same-store average spend per customer

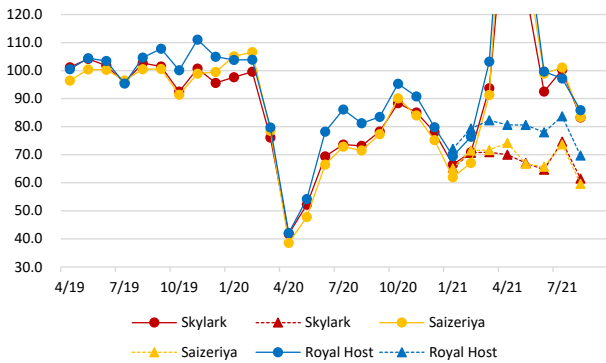


Source: Company data, Mita Securities Note: Same month last year or year before last = 100

Food service industry data

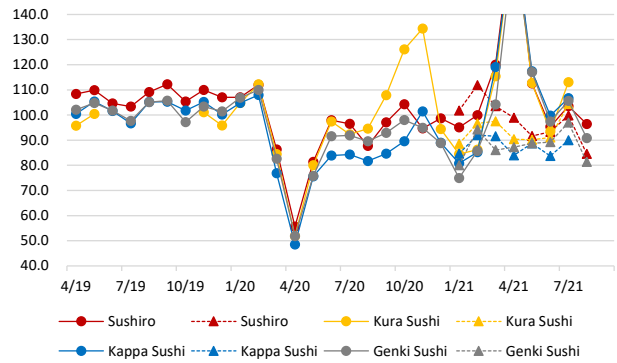
Same-store sales (compared to last year or year before last)

Figure: Family restaurants



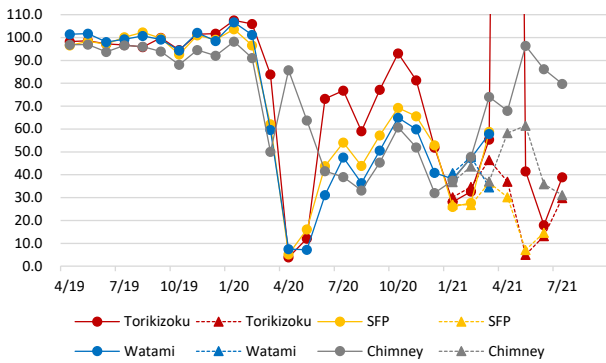
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Sushi restaurants



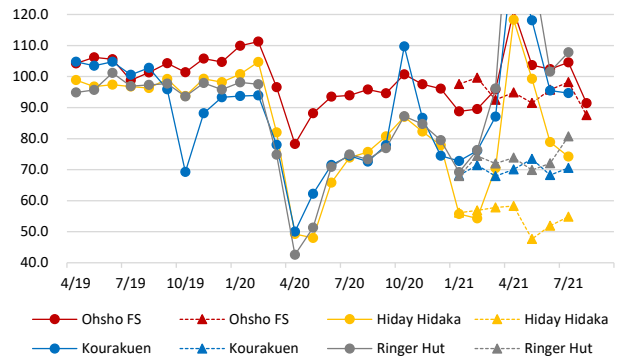
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Izakaya (Japanese style pubs)



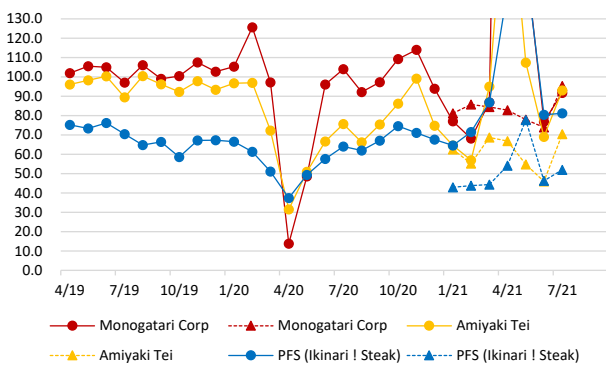
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Chinese restaurants



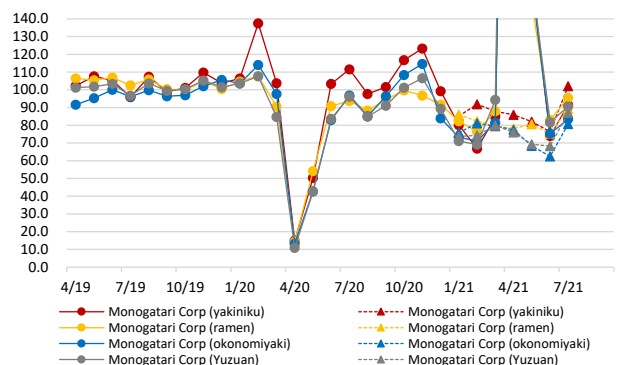
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Yakiniku (Japanese BBQ), steak



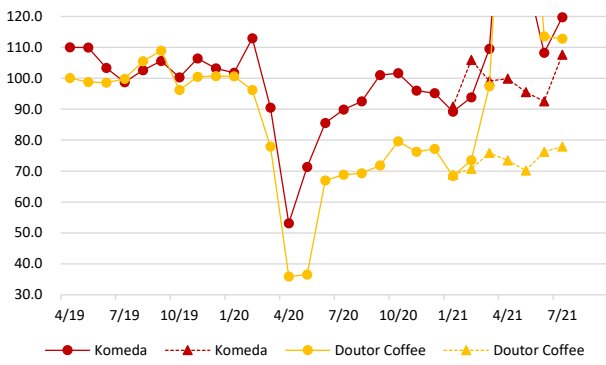
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Monogatari Corporation by division



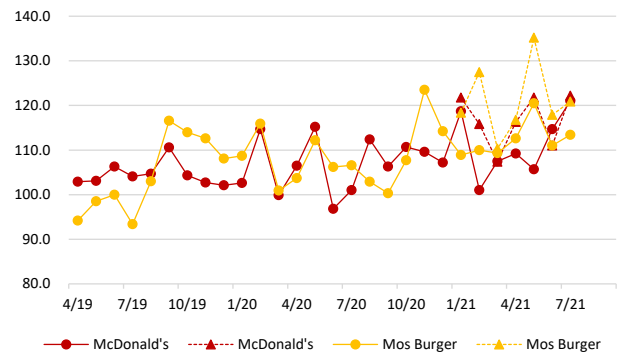
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Coffee shops



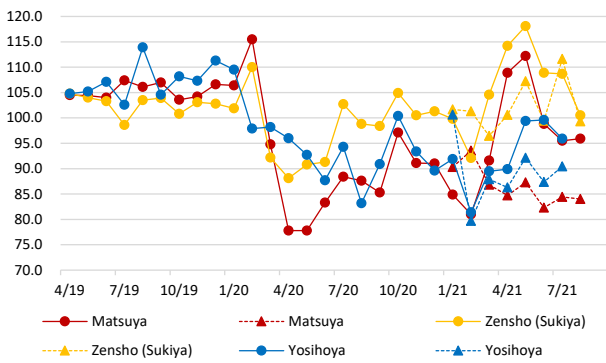
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Hamburger shops



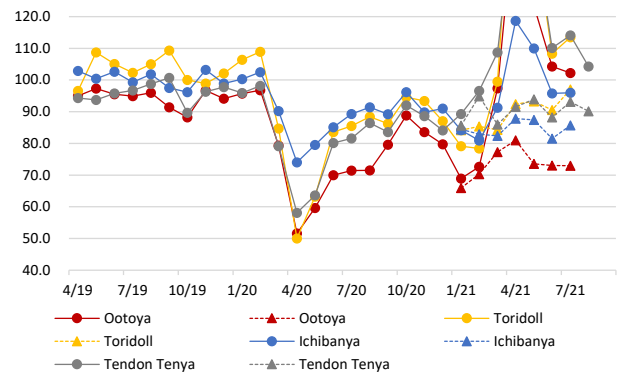
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Beef bowl



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

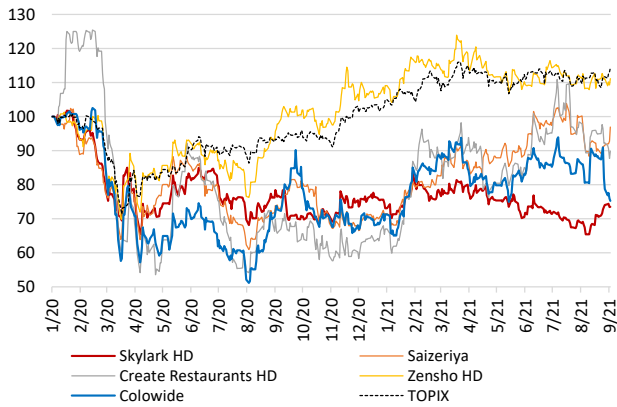
Figure: Set meal, Udon noodle, Curry, Tempura



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

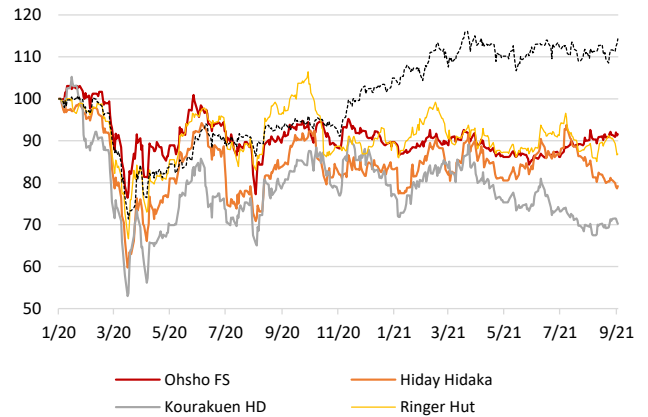
Stock price trends for food service companies

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



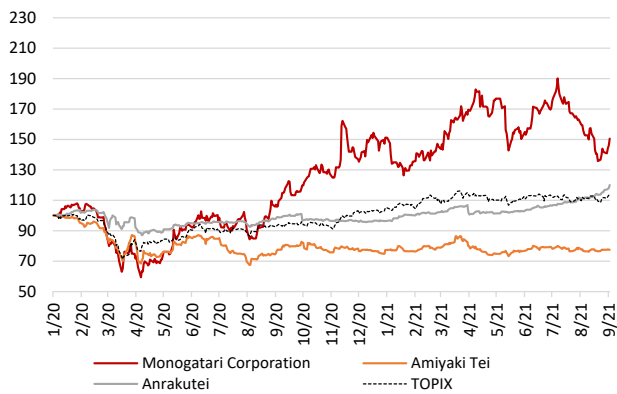
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Chinese restaurants)



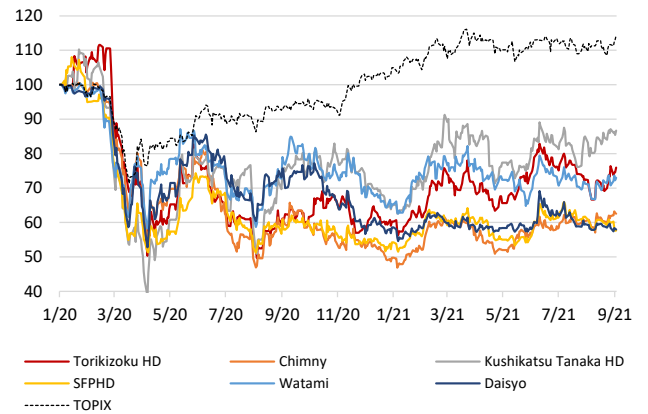
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Japanese BBQ)



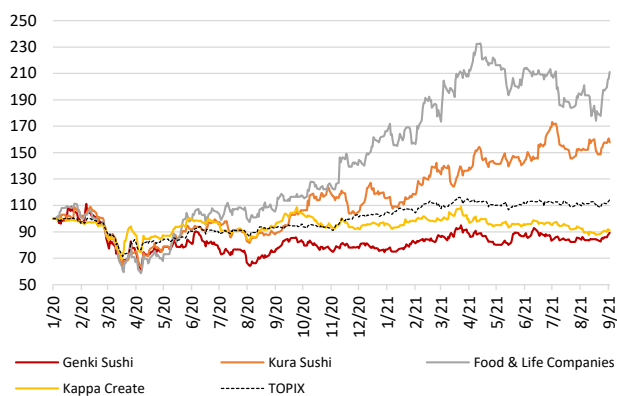
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Japanese style pubs)



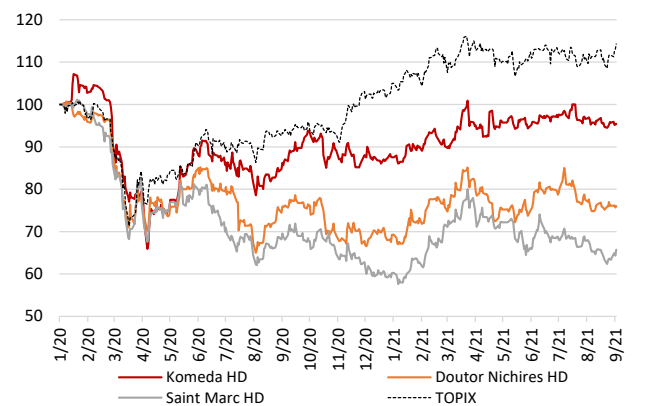
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

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	2764	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
08/24/21	Colowide	7616	Common shares	21,849	Public offering of new shares. Dilution 15.39%
08/26/21	Kourakuen HD	7554	Subordinated loans	1,000	
08/31/21	Kisoji	8160	Warrants	8,751	Exercise price 2,355 yen (initial), with downward adjustment clause (minimum exercise price 1,649 yen). Maximum dilution 14.28%

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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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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