



Fast Fitness Japan

TSE Mothers 7092 Industry: Leisure & amusement

Target price changed due to stock split

Target price changed to 5,600 yen due to stock split

Fast Fitness Japan (7092, FFJ, the company) will conduct a 1:1.2 stock split with September 30 as the record date and October 1 as the effective date. As a result, we have revised our assumptions for the number of shares outstanding used in our earnings forecasts and have changed our target price from 6,700 yen to 5,600 yen. The changes to our earnings forecast are limited to changes in per-share indicators (EPS, BPS, DPS). Our view on the company's fundamentals remains unchanged, and we reiterate the Buy rating.

Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 5.5% and a terminal growth rate of 3.5%, based on our earnings forecasts for FY3/22-FY3/26. Our target price is equivalent to 57x our FY3/23 EPS forecast of 98.44 yen.

Risk factors to our view include a request from the national or local government for small-scale gyms to close, a significant failure to meet plans for new store openings, a significant decline in the number of members per store, intensified price competition due to the proliferation of small-scale gyms, manifestations of cannibalization, and a deteriorating relationship with the U.S. franchise headquarters.

In addition, the company was just listed on the stock exchange in December 2020, and its evaluation in the market is not yet fully established. Therefore, it is important to note that the company's share price can fluctuate significantly in the short term.

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TP change

Rating Buy

Target price (JPY)	5,600 ← 6,700
Stock price (JPY) (Sep 28; adjusted for stock split)	3,721
Market cap (JPYbn)	69.6

Key changes

Rating	No
Target price	Yes
Earnings forecast	Yes

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

		3/20	3/21	3/22E	3/23E	3/24E
Sales	JPYbn	11.3	11.2	13.1	14.9	17.0
OP	JPYbn	2.8	2.3	2.8	3.4	4.0
RP	JPYbn	2.8	2.3	2.8	3.4	4.0
NP	JPYbn	1.6	0.9	1.4	1.8	2.2
EPS	JPY	112.8	49.2	74.6	98.4	118.1
BPS	JPY	230.0	434.7	502.6	591.1	698.3
DPS	JPY	1.9	7.1	10.0	10.8	11.7
PER	x	NA	59.8	49.8	37.8	31.5
PBR	x	NA	6.8	7.4	6.3	5.3
Div. yield	%	NA	0.2	0.3	0.3	0.3
ROA	%	12.3	5.0	6.1	7.1	7.7
ROE	%	64.6	16.1	15.9	18.0	18.3

Source: Company data, Mita Securities

Company profile

FFJ operates the 24-hour machine-focused fitness club Anytime Fitness mainly through a franchise system, with 924 stores and 595,000 members as of June 30, 2021.

Investment thesis

Outlook

Figure: Summary of Mita Securities' earnings forecast (consolidated)

JPYm	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/22	3/22	3/23	3/24
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	CoE	Consensus	Consensus	Consensus
Earnings												
Sales	8,024	11,334	11,164	13,050	14,908	17,021	19,370	21,837	13,000	13,017	14,969	17,311
(YoY, %)	191.8	41.2	-1.5	16.9	14.2	14.2	13.8	12.7				
Operating profit	1,675	2,831	2,294	2,825	3,379	3,991	4,746	5,546	2,600	2,708	3,126	3,796
(YoY, %)	NA	69.0	-19.0	23.2	19.6	18.1	18.9	16.9				
OPM (%)	20.9	25.0	20.5	21.6	22.7	23.4	24.5	25.4				
Recurring profit	1,671	2,829	2,256	2,825	3,367	3,978	4,732	5,532	2,500	2,642	3,056	3,739
(YoY, %)	329.5	69.3	-20.3	25.2	19.2	18.2	19.0	16.9				
Net profit	928	1,628	921	1,395	1,840	2,207	2,647	3,109	1,100	1,245	1,503	2,104
(YoY, %)	NA	75.4	-43.4	51.5	31.9	19.9	20.0	17.5				
Depreciation	548	839	1,029	1,179	1,368	1,588	1,841	2,129				
Capital expenditure	1,565	3,146	1,893	1,500	1,890	2,200	2,530	2,880				
Free CF	796	-1,297	-218	917	890	1,164	1,432	1,734				
KPI												
Number of stores (EOP)	502	736	907	1,063	1,237	1,423	1,619	1,827	1,063			
(YoY, %)	57.9	46.6	23.2	17.2	16.4	15.0	13.8	12.8				
FC stores	414	604	756	898	1,055	1,222	1,398	1,584	898			
(YoY, %)	63.6	45.9	25.2	18.8	17.5	15.8	14.4	13.3				
Directly-owned stores	88	132	151	165	182	201	221	243	165			
(YoY, %)	35.4	50.0	14.4	9.3	10.3	10.4	10.0	10.0				
New store openings	184	234	177	160	178	190	202	214	160			
FC stores	161	192	157	145	160	170	180	190	145			
Directly-owned stores	23	42	20	15	18	20	22	24	15			
Number of members (EOP, 000)	411	582	565	697	853	1,049	1,271	1,503				
(YoY, %)	NA	41.6	-2.9	23.4	22.4	23.0	21.1	18.3				
FC stores	348	487	476	597	739	917	1,118	1,331				
(YoY, %)	NA	40.0	-2.3	25.5	23.7	24.1	22.0	19.0				
Directly-owned stores	63	94	89	100	115	133	152	173				
(YoY, %)	NA	48.6	-5.3	12.2	14.9	15.7	14.9	13.1				
Per share indicators (adjusted for stock splits)												
EPS (JPY)	64.33	112.81	49.23	74.64	98.44	118.08	141.64	166.35				
BPS (JPY)	119.10	229.99	434.72	502.64	591.09	698.33	828.30	982.15				
DPS (JPY)	1.92	1.92	7.05	10.00	10.83	11.67	12.50	13.33				
Valuation, profitability, etc.												
PER (x)	NA	NA	59.8	49.8	37.8	31.5	26.3	22.4				
PBR (x)	NA	NA	6.8	7.4	6.3	5.3	4.5	3.8				
Dividend payout ratio (%)	3.0	1.7	14.0	13.4	11.0	9.9	8.8	8.0				
Dividend yield (%)	NA	NA	0.2	0.3	0.3	0.3	0.3	0.4				
ROA (%)	13.9	12.3	5.0	6.1	7.1	7.7	8.2	8.6				
ROE (%)	78.1	64.6	16.1	15.9	18.0	18.3	18.6	18.4				
Financial soundness indicators												
Shareholders' equity ratio (%)	16.0	21.2	38.5	38.6	40.7	42.8	45.2	47.7				
Net D/E ratio (%)	0.6	0.7	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4				

Source: Company data, QUICK data, Mita Securities

Note: Consensus forecasts are by QUICK consensus

Catalysts

The catalysts we envision for an upturn in the stock price include a recovery in the number of members, steady new store openings, and a significant decrease in the number of COVID-19 cases.

Valuations

Stock valuation based on residual income model (RIM)

In calculating our target price of 5,600 yen, we used a residual income model (RIM) with a cost of equity of 5.5% and a terminal growth rate of 3.5%, based on our earnings forecasts for FY3/22-FY3/26. Our target price is equivalent to 57x our FY3/23 EPS forecast of 98.44 yen.

TP of 5,600 yen based on RIM

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE
JPYbn	3/21	3/22	3/23	3/24	3/25	3/26	3/27
Shareholders' equity (EOP)	8.1	9.4	11.0	13.1	15.5	18.4	
Net profit		1.4	1.8	2.2	2.6	3.1	
Cost of equity		0.4	0.5	0.6	0.7	0.9	
Residual income		0.9	1.3	1.6	1.9	2.3	
PV of residual income		0.9	1.2	1.4	1.6	1.7	
PV of terminal value							89.4
Beta	1.00						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	5.50						
Terminal growth rate (%)	3.50						
Total equity value						104.3	
Number of shares O/S (m)						18.7	
Target share price						5,600	

Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.10
Target price	4,450	4,600	4,750	4,950	5,150	5,350	5,600	5,850	6,100	6,450	6,800	7,200	7,650

Source: Mita Securities

Comparison of valuations with peers (reference)

Figure: Comparison of valuations for fitness club operators

Company name	Ticker	PX 9/28	Mkt cap JPYbn	Net D/E Last	Sales YoY LTM	EBITDA Mgn LTM	ROE LTM	ROE Cur E	ROE Nxt E	PER LTM	PER Cur E	PER Nxt E	PBR Last	EV/EBITDA Cur E	EV/Sales Cur E	Div yield Cur E	1M Chg	3M Chg	1YR Chg
RENAISSANCE INC	2378	1,252	26.8	1.7	-8.4	-10.7	-61.5	NA	NA	NA	NA	NA	2.6	NA	NA	NA	6.5	2.2	30.1
RIZAP GROUP INC	2928	185	102.9	1.3	-2.3	8.7	18.0	NA	NA	25.3	NA	NA	3.7	NA	NA	NA	0.0	-15.1	17.1
CENTRAL SPORTS CO LTD	4801	2,611	29.9	0.3	-11.6	7.8	0.0	NA	NA	NA	NA	NA	1.3	NA	NA	NA	8.8	5.8	5.3
CURVES HOLDINGS CO LTD	7085	912	85.6	1.2	-10.5	11.3	9.6	14.0	24.5	104.5	72.3	37.1	10.5	NA	3.9	0.4	12.3	2.4	29.7
FAST FITNESS JAPAN INC (TP 5,600 Buy)	7092	3,721	69.6	-0.2	-1.5	26.8	16.1	NA	NA	63.2	63.2	49.7	8.6	NA	5.2	0.2	4.8	-4.8	NA
TOSHIO CO LTD (TP 2,400 Buy)	8920	1,874	71.8	0.4	-35.7	20.4	2.6	5.2	10.0	80.5	39.2	24.7	2.1	13.9	3.9	0.2	15.0	-2.6	42.6
Average				0.8	-11.7	10.7	-2.5	9.6	17.3	68.3	58.2	37.2	4.8	13.9	4.3	0.3	7.9	-2.0	25.0
Median				0.8	-9.5	10.0	6.1	9.6	17.3	71.8	63.2	37.1	3.2	13.9	3.9	0.2	7.6	-0.2	29.7

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus. Shading indicates stocks covered by Mita Securities

Figure: Comparison of valuations for franchise business operators

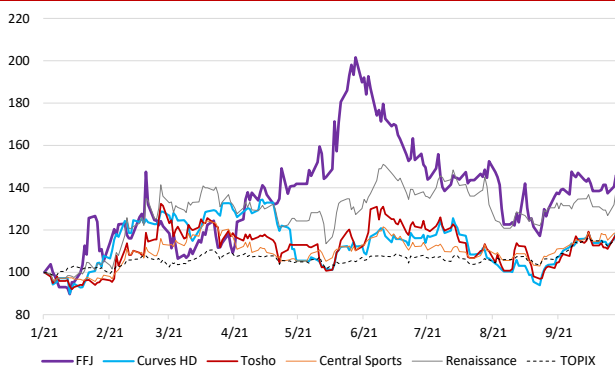
Company name	Ticker	PX 9/28	Mkt cap JPYbn	Net D/E Last	Sales YoY LTM	EBITDA Mgn LTM	ROE LTM	ROE Cur E	ROE Nxt E	PER LTM	PER Cur E	PER Nxt E	PBR Last	EV/EBITDA Cur E	EV/Sales Cur E	Div yield Cur E	1M Chg	3M Chg	1YR Chg
KOBE BUSSAN CO LTD	3038	3,715	1,016.4	-0.3	3.0	8.6	28.5	31.0	27.4	43.9	39.9	35.9	11.1	30.0	2.8	0.5	-10.6	5.2	26.5
KOMEDA HOLDINGS CO LTD (TP 3,000 Buy)	3543	2,167	100.0	1.5	4.7	23.0	12.7	13.8	14.1	23.2	19.9	18.4	2.8	16.5	4.4	2.4	6.5	5.4	9.4
IBJ INC (TP 1,450 Buy)	6071	1,123	47.2	-0.2	-1.8	17.5	16.5	19.0	21.9	53.5	40.9	30.0	8.3	NA	3.1	0.7	18.3	2.4	0.1
CURVES HOLDINGS CO LTD	7085	912	85.6	1.2	-10.5	11.3	9.6	14.0	24.5	104.5	72.3	37.1	10.5	NA	3.9	0.4	12.3	2.4	29.7
FAST FITNESS JAPAN INC (TP 5,600 Buy)	7092	3,721	69.6	-0.2	-1.5	26.8	16.1	NA	NA	63.2	63.2	49.7	8.6	NA	5.2	0.2	4.8	-4.8	NA
WORKMAN CO LTD	7564	6,710	549.2	-0.4	12.6	24.1	21.0	NA	NA	31.3	29.1	26.5	6.1	NA	NA	1.0	-5.9	-17.1	-29.1
Average				0.3	1.1	18.5	17.4	19.4	22.0	53.3	44.2	32.9	7.9	23.2	3.9	0.9	4.3	-1.1	7.3
Median				-0.2	0.8	20.2	16.3	16.5	23.2	48.7	40.4	32.9	8.4	23.2	3.9	0.6	5.7	2.4	9.4

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus. Shading indicates stocks covered by Mita Securities

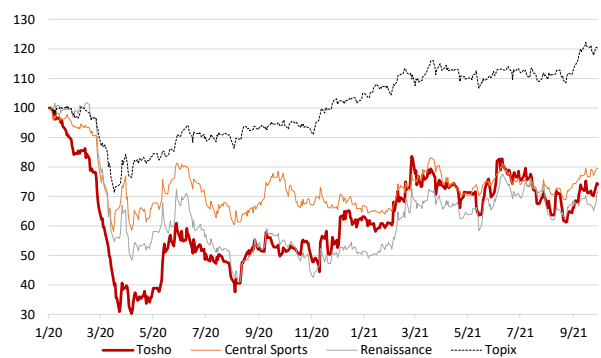
Comparison of stock price trends (reference)

Figure: Stock price trends for fitness club companies



Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2020

Figure: Stock price trends for fitness club companies



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

Risk factors

Risk factors to our view include a request from the national or local government for small-scale gyms to close, a significant failure to meet plans for new store openings, a significant decline in the number of members per store, intensified price competition due to the proliferation of small-scale gyms, manifestations of cannibalization, and a deteriorating relationship with the U.S. franchise headquarters.

In addition, the company was just listed on the stock exchange in December 2020, and its evaluation in the market is not yet fully established. Therefore, it is important to note that the company's share price can fluctuate significantly in the short term.

Mita Securities' earnings forecast

Figure: Mita Securities' earnings forecast (consolidated, various indicators)

Various indicators	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth (CAGR, %)
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales growth (%)	191.8	41.2	-1.5	16.9	14.2	14.2	13.8	12.7	
OP growth (%)	NA	69.0	-19.0	23.2	19.6	18.1	18.9	16.9	
RP growth (%)	329.5	69.3	-20.3	25.2	19.2	18.2	19.0	16.9	
NP growth (%)	NA	75.4	-43.4	51.5	31.9	19.9	20.0	17.5	
Gross profit margin (%)	47.4	46.4	40.6	43.2	43.5	43.7	44.0	44.2	
OP margin (%)	20.9	25.0	20.5	21.6	22.7	23.4	24.5	25.4	
EBITDA margin (%)	27.8	32.5	30.0	30.8	32.0	32.9	34.1	35.2	
ROA (%)	13.9	12.3	5.0	6.1	7.1	7.7	8.2	8.6	
ROE (%)	78.1	64.6	16.1	15.9	18.0	18.3	18.6	18.4	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, PL, JPYm)

PL	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth (CAGR, %)
Consolidated, JPY	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales	8,024	11,334	11,164	13,050	14,908	17,021	19,370	21,837	14.4
FC sales	3,027	4,235	4,545	5,034	5,823	6,611	7,439	8,307	12.8
Store sales	4,396	6,200	5,915	7,364	8,365	9,645	11,121	12,676	16.5
Other revenues	600	899	703	653	720	765	810	855	4.0
COGS	4,218	6,078	6,630	7,413	8,423	9,583	10,847	12,185	
Gross profit	3,807	5,256	4,534	5,638	6,485	7,438	8,523	9,652	16.3
SGA	2,131	2,424	2,240	2,812	3,106	3,447	3,777	4,106	
Operating profit	1,675	2,831	2,294	2,825	3,379	3,991	4,746	5,546	19.3
Non-operating income	43	56	46	66	59	62	66	70	
Non-operating expenses	47	58	84	66	72	76	80	84	
Recurring profit	1,671	2,829	2,256	2,825	3,367	3,978	4,732	5,532	19.7
Extraordinary gains	1	0	108	0	0	0	0	0	
Extraordinary losses	133	123	775	500	300	300	320	350	
Pre-tax profit	1,539	2,705	1,590	2,325	3,067	3,678	4,412	5,182	26.7
Corporate taxes	611	1,077	669	930	1,227	1,471	1,765	2,073	
Net profit attributable to minorities	0	0	0	0	0	0	0	0	
Net profit	928	1,628	921	1,395	1,840	2,207	2,647	3,109	27.6
EBITDA	2,234	3,684	3,345	4,026	4,769	5,601	6,608	7,696	18.1
Shares outstanding (m)	0.0	9.3	12.0	18.7	18.7	18.7	18.7	18.7	
EPS	50,179.46	175.98	76.80	74.64	98.44	118.08	141.64	166.35	
BPS	92,899.08	358.78	678.16	502.64	591.09	698.33	828.30	982.15	
DPS	1,500.00	3.00	11.00	10.00	10.83	11.67	12.50	13.33	
Payout ratio (%)	3.0	1.7	14.0	13.4	11.0	9.9	8.8	8.0	

Source: Company data, Mita Securities

Note: Per share indicators in the past are not adjusted for stock splits, and therefore do not match the figures on pages 1 and 2

Figure: Mita Securities' earnings forecast (number of stores and membership)

Number of stores and membership	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Number of stores (end-FY)	502	736	907	1,063	1,237	1,423	1,619	1,827	15.0
(YoY, %)	57.9	46.6	23.2	17.2	16.4	15.0	13.8	12.8	
FC stores	414	604	756	898	1,055	1,222	1,398	1,584	15.9
(YoY, %)	63.6	45.9	25.2	18.8	17.5	15.8	14.4	13.3	
Directly-owned stores	88	132	151	165	182	201	221	243	10.0
(YoY, %)	35.4	50.0	14.4	9.3	10.3	10.4	10.0	10.0	
New store openings	184	234	177	160	178	190	202	214	
FC stores	161	192	157	145	160	170	180	190	
Directly-owned stores	23	42	20	15	18	20	22	24	
Number of members (end-FY, '000)	411	582	565	697	853	1,049	1,271	1,503	21.6
(YoY, %)	NA	41.6	-2.9	23.4	22.4	23.0	21.1	18.3	
FC stores	348	487	476	597	739	917	1,118	1,331	22.8
(YoY, %)	NA	40.0	-2.3	25.5	23.7	24.1	22.0	19.0	
Directly-owned stores	63	94	89	100	115	133	152	173	14.2
(YoY, %)	NA	48.6	-5.3	12.2	14.9	15.7	14.9	13.1	
Number of members per store (end-FY)	819	791	623	656	690	737	785	823	
FC stores	840	806	630	665	700	750	800	840	
Directly-owned stores	719	712	589	605	630	660	690	710	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, BS, JPYm)

BS	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Assets									
Total current assets	4,817	6,503	11,328	13,653	15,403	17,483	19,944	22,745	
Cash and deposits	3,535	4,709	9,333	11,117	12,321	13,783	15,496	17,497	
Accounts receivable	865	1,220	1,159	1,071	1,181	1,255	1,329	1,403	
Inventories	146	140	166	153	169	180	191	201	
Other	271	434	669	1,311	1,731	2,265	2,928	3,644	
Total fixed assets	5,929	9,121	9,766	10,671	11,771	12,999	14,293	15,716	
Fixed assets	3,818	6,319	6,614	7,228	7,972	8,804	9,681	10,644	
Intangibles	178	215	233	255	281	310	341	375	
Investment and other	1,933	2,587	2,918	3,189	3,517	3,885	4,271	4,696	
Total assets	10,746	15,624	21,094	24,324	27,173	30,483	34,237	38,461	12.8
Liabilities									
Total current liabilities	3,763	4,570	4,853	5,130	5,611	6,142	6,706	7,295	
Accounts payable	70	77	173	193	220	250	283	318	
Short-term debt	1,139	1,927	2,680	2,700	2,850	3,000	3,150	3,300	
Other	2,555	2,565	2,001	2,237	2,542	2,892	3,273	3,677	
Total long-term liabilities	5,264	7,736	8,112	9,799	10,514	11,289	12,049	12,809	
Long-term debt	3,414	5,125	5,325	6,300	6,650	7,000	7,350	7,700	
Other	1,850	2,611	2,787	3,499	3,864	4,289	4,699	5,109	
Liabilities	9,028	12,306	12,965	14,929	16,125	17,430	18,755	20,104	9.2
Net assets									
Shareholders' equity	1,719	3,319	8,129	9,395	11,048	13,052	15,482	18,357	
Warrants	0	0	0	0	0	0	0	0	
Minorities	0	0	0	0	0	0	0	0	
Total net assets	1,719	3,319	8,129	9,395	11,048	13,052	15,482	18,357	17.7
Debt									
Debt	4,552	7,052	8,005	9,000	9,500	10,000	10,500	11,000	
Net debt	1,017	2,342	-1,329	-2,117	-2,821	-3,783	-4,996	-6,497	
Net debt/EBITDA (x)	0.5	0.6	-0.4	-0.5	-0.6	-0.7	-0.8	-0.8	
Net D/E ratio (x)	0.6	0.7	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	
Shareholders' equity ratio (%)	16.0	21.2	38.5	38.6	40.7	42.8	45.2	47.7	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, CF, JPYm)

CF	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Operating CF	2,670	2,328	1,950	2,717	3,130	3,764	4,462	5,214	
Net profit	928	1,628	921	1,395	1,840	2,207	2,647	3,109	
Depreciation and amortization	559	853	1,051	1,201	1,390	1,610	1,863	2,151	
Other	1,183	-153	-21	122	-99	-52	-48	-46	
Investing CF	-1,874	-3,625	-2,168	-1,800	-2,240	-2,600	-3,030	-3,480	
Capital expenditure	-1,565	-3,146	-1,893	-1,500	-1,890	-2,200	-2,530	-2,880	
Disposal of fixed assets	-16	-13	-4	0	0	0	0	0	
Other	-293	-466	-271	-300	-350	-400	-500	-600	
Financing CF	1,089	2,472	4,842	866	313	298	282	266	
Debt issuance/repayment	1,117	2,499	953	995	500	500	500	500	
Share capital issuance/buy-back	0	0	3,917	0	0	0	0	0	
Dividends paid	-28	-28	-28	-129	-187	-202	-218	-234	
Other	0	0	0	0	0	0	0	0	
Cash and cash equivalents	3,535	4,709	9,333	11,117	12,321	13,783	15,496	17,497	
Free CF	796	-1,297	-218	917	890	1,164	1,432	1,734	

Source: Company 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.

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