



# S Foods

TSE 1<sup>st</sup> Section 2292 Industry: Food, wholesale, retail, food service

## Outstanding performance continues

### 1H OP up 34% YoY, 64% progress toward full-year guidance

S Foods (2292) announced 1H FY2/22 (Mar-Aug) results. The impression is positive as the company continues to perform very well.

1H consolidated results were sales of 170.3bn yen (+6.9% YoY), OP of 8.1bn yen (+33.8%), and NP of 5.6bn yen (-10.5%). Progress toward the full-year OP guidance of 12.7bn yen was 64%, which we consider to be very strong. The decline in NP was due to a 4.1bn yen gain on sale of land recorded in 1H FY2/21.

2Q (Jun-Aug) OP was 4.4bn yen (+5.9% YoY, +18.6% QoQ). The fact that the company exceeded the extremely high hurdle of 2Q OP in the previous fiscal year gives a positive impression.

### Segment earnings: Substantial profit increase in manufacturing and wholesale business

Segment OP in 1H was 8.0bn yen for the manufacturing and wholesale business (+37.8% YoY), 0.8bn yen for the retail business (-20.7%), and -0.2bn yen for the food service business (vs. -0.2bn yen loss in 1H FY2/21).

In 1H FY2/21, segment OP for the manufacturing and wholesale business showed a large swing of 1.6bn yen in 1Q and 4.2bn yen in 2Q. In 1H FY2/22, however, the segment OP was stable at 3.6bn yen in 1Q and 4.3bn yen in 2Q. In our view, the increase in sales at the parent, as well as the high market prices in the U.S. beef market, may have benefited the company.

### Rising expectations for higher demand for meat from food service companies

Among meat-related companies, the company is particularly strong in beef sales to restaurants. Although wholesale sales of meat to restaurants were probably quite weak in 2Q, the possibility of a rapid recovery in demand for meat from restaurant companies going forward should be a positive factor for the company. The high demand period for the company is the 4Q (Dec-Feb), and we should closely monitor the recovery in restaurant demand during the year-end and New Year holidays.

Please refer to the report dated May 25, 2021 for the rationale of the rating and target price.

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## Update

Rating

**Buy**

Target price (JPY)	4,900
Stock price (JPY) (Oct 14)	2,953
Market cap (JPYbn)	95.3

### Key changes

Rating	No
Target price	No
Earnings forecast	No

### Stock price (JPY)



Source: Bloomberg Finance LP

### Earnings

		2/20	2/21	2/22E	2/23E	2/24E
Sales	JPYbn	352.0	327.5	340.6	357.5	379.7
OP	JPYbn	10.7	12.6	12.9	13.6	14.6
RP	JPYbn	11.1	13.0	13.3	14.1	15.1
NP	JPYbn	6.5	10.0	8.1	8.9	9.5
EPS	JPY	205.6	315.3	257.3	280.4	301.6
BPS	JPY	2,528	2,783	2,970	3,173	3,390
DPS	JPY	60.0	64.0	70.0	78.0	84.0
PER	x	10.9	10.4	11.3	10.3	9.6
PBR	x	0.9	1.2	1.0	0.9	0.9
Div. yield	%	2.7	2.0	2.4	2.7	2.9
ROA	%	3.9	5.8	4.6	4.6	4.7
ROE	%	8.1	11.9	8.9	9.1	9.2

Source: Company data, Mita Securities

### Company profile

S Foods is an integrated meat company based in Hyogo Prefecture. Its strength lies in the wholesale of premium Wagyu beef such as Kobe beef, Matsusaka beef, and Omi beef. As for processed products, the company is famous for its "Kotetchan" beef offal products. The company has also expanded into retail and food service through its subsidiaries. In recent years, the company has been focusing on the pig farming business in Hokkaido, the meat packing business in the U.S., and the chicken business.

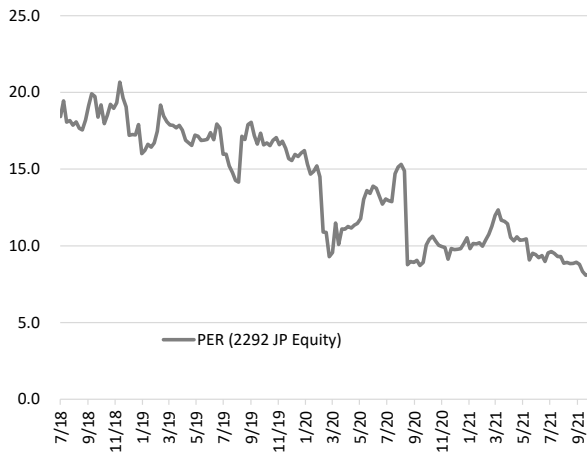
Figure: Comparison of valuations for meat companies

Company	Ticker	Share price 13-Oct	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	Div Yield Current E	1M Change	3M Change	1YR Change
PRIMA MEAT PACKERS LTD	2281	2,740	138.4	9.7	10.1	11.6	11.4	1.3	5.2	0.4	14.0	3.3	7.0	2.6	-12.2	-11.0	-11.8
NH FOODS LTD	2282	4,010	412.9	12.6	12.4	13.0	12.3	0.9	6.2	0.5	7.9	-1.0	6.3	2.5	-10.9	-9.2	-10.3
HAYASHIKANE SANGYO CO LTD	2286	590	5.3	4.1	4.1	NA	NA	0.6	NA	NA	15.1	-4.2	4.6	NA	-4.7	1.0	2.4
MARUDAI FOOD CO LTD	2288	1,733	45.9	106.3	52.9	NA	NA	0.6	NA	NA	1.1	-4.3	3.8	NA	-5.3	0.6	-0.5
FUKUTOME MEAT PACKERS LTD	2291	1,903	6.5	NA	NA	NA	NA	1.5	NA	NA	-3.5	-1.9	1.4	NA	-0.4	-0.5	0.7
<b>S FOODS INC</b>	<b>2292</b>	<b>2,901</b>	<b>93.6</b>	<b>9.2</b>	<b>8.1</b>	<b>10.8</b>	<b>10.1</b>	<b>1.0</b>	<b>5.0</b>	<b>0.3</b>	<b>13.3</b>	<b>-3.3</b>	<b>6.4</b>	<b>2.4</b>	<b>-9.8</b>	<b>-15.8</b>	<b>-1.0</b>
TAKIZAWA HAM CO LTD	2293	3,060	6.4	114.1	188.2	NA	NA	1.7	NA	NA	0.9	2.6	2.5	NA	0.8	1.3	4.1
ITOHAM YONEKYU HOLDINGS INC	2296	714	212.3	10.4	9.4	12.8	12.6	0.8	5.9	0.2	9.5	-0.7	5.0	3.1	-7.6	-4.4	-1.5
STARZEN CO LTD	8043	2,129	41.6	6.0	5.5	NA	NA	0.7	NA	NA	13.5	1.9	3.0	NA	-9.0	-4.7	7.5
Average				34.0	36.3	12.0	11.6	1.0	5.6	0.3	8.0	-0.9	4.4	2.6	-6.6	-4.8	-1.2

Source: Bloomberg Finance LP data, Mita Securities

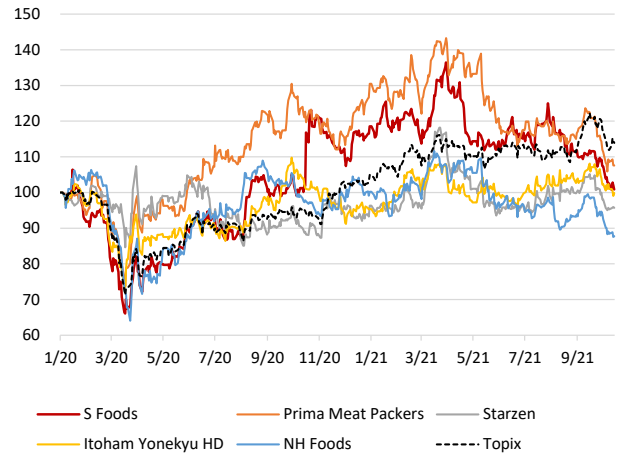
Note: Forecasts are based on Bloomberg consensus

Figure: S Foods' PER (reference)



Source: Bloomberg Finance LP data, Mita Securities

Figure: Stock price trends for meat companies

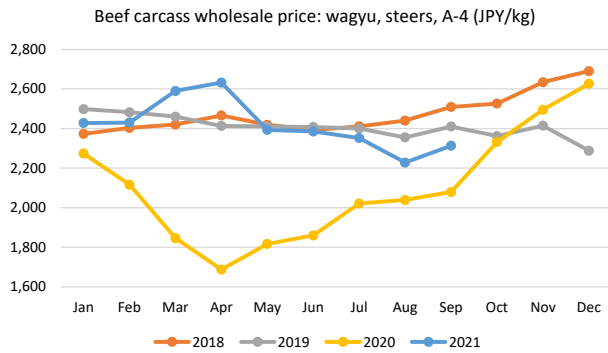


Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

# Reference materials

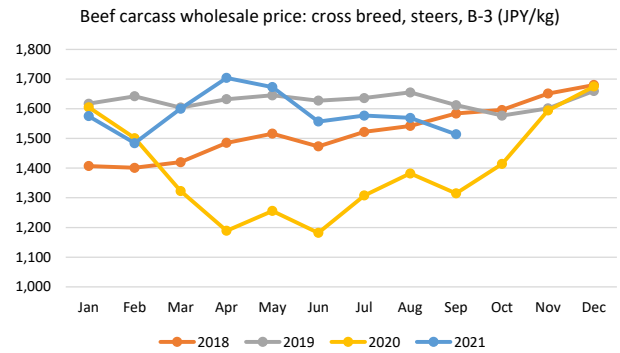
## Wholesale price for beef

Figure: Domestic beef carcass, wagyu, steers, A-4



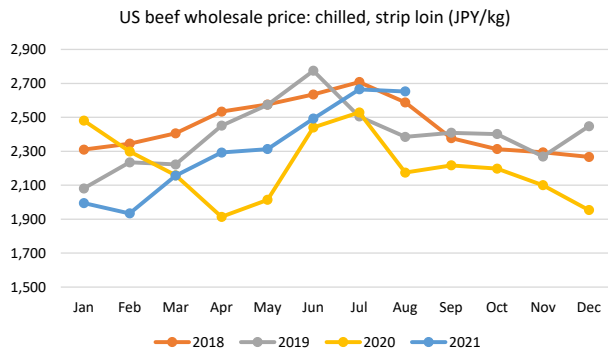
Source: ALIC data, Mita Securities

Figure: Domestic beef carcass, cross breed, steers, B-3



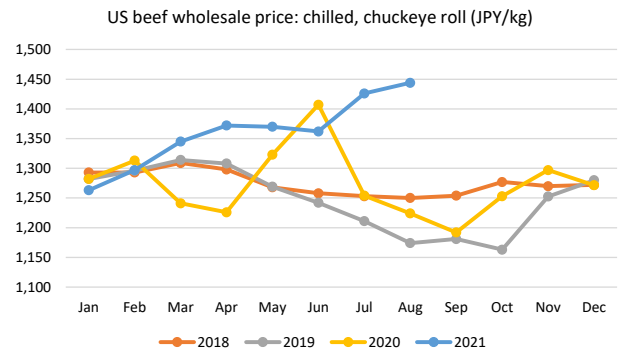
Source: ALIC data, Mita Securities

Figure: US beef, chilled, strip loin



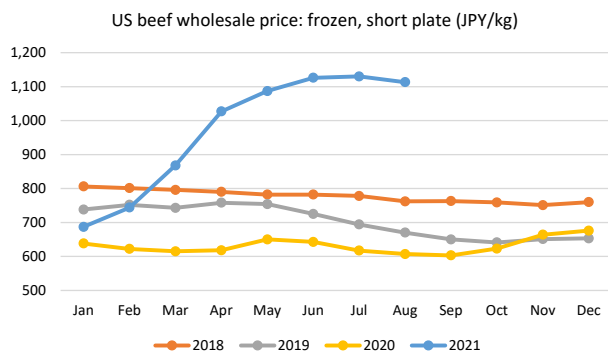
Source: ALIC data, Mita Securities

Figure: US beef, chilled, chuckeye roll



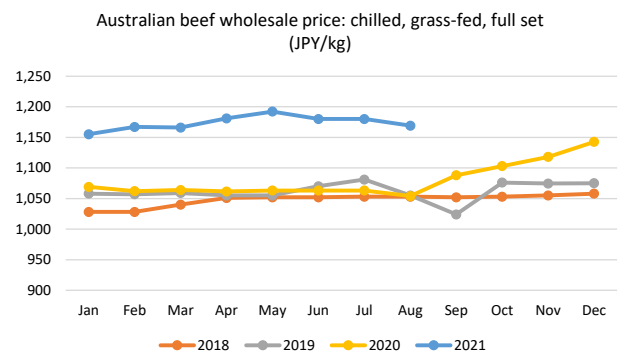
Source: ALIC data, Mita Securities

Figure: US beef, frozen, short plate



Source: ALIC data, Mita Securities

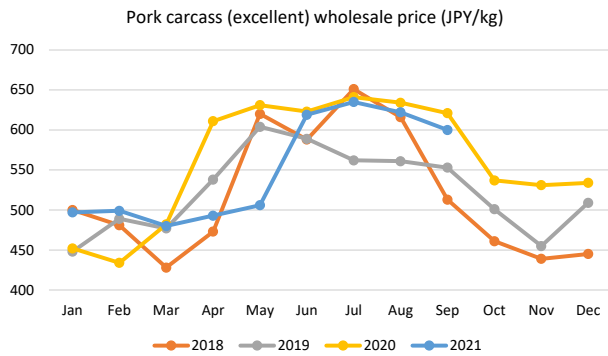
Figure: Australian beef, chilled, grass-fed, full set



Source: ALIC data, Mita Securities

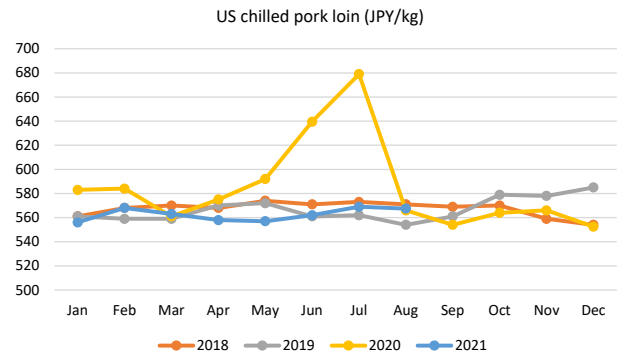
**Wholesale price for pork**

**Figure: Domestic pork carcass, excellent**



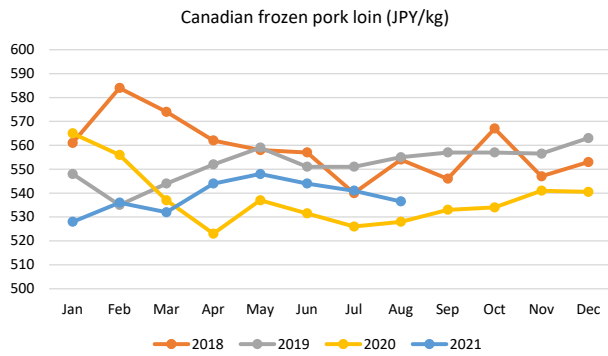
Source: ALIC data, Mita Securities

**Figure: US pork, chilled, loin**



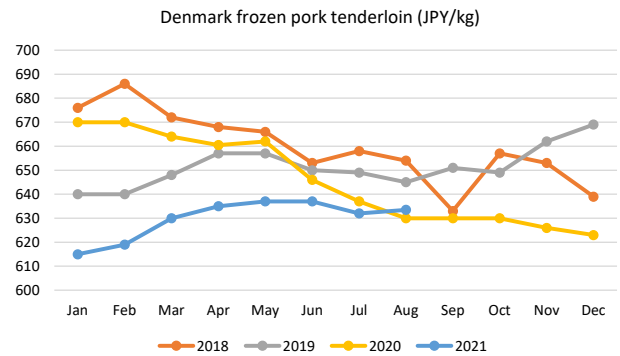
Source: ALIC data, Mita Securities

**Figure: Canadian pork, frozen, loin**



Source: ALIC data, Mita Securities

**Figure: Denmark pork, frozen, tenderloin**



Source: ALIC data, Mita Securities

## APPENDIX

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