



Ohsho Food Service

TSE 1st Section 9936 Industry: Food service, retail

From alcohol-free to subsidy-free

1H OP above guidance. Upward revision of full-year profit guidance

Ohsho Food Service's (9936, the company) 1H FY3/22 results were for sales of 40.5bn yen (+3.4% YoY), OP 3.2bn yen (+33.5% YoY), and RP 6.0bn yen (+121.3% YoY). The company posted subsidy income of 2.7bn yen as non-operating income (vs. 147m yen in 1H FY3/21). Same-store sales growth for directly-owned stores was +1.3% YoY (guest count -1.0% YoY, average spend per customer +2.3% YoY).

Compared to the 1H guidance (OP 2.888bn yen, RP 4.022bn yen), 1H OP was 111%, and RP 149%. Store productivity improved due to strong take-out and delivery sales, and subsidies exceeded the company's expectations. The company raised its full-year profit guidance from 6.685bn yen to 6.989bn yen for OP and from 7.915bn yen to 11.465bn yen for RP. The OP guidance is based on the upswing in 1H, and the RP guidance is based on the expected additional subsidy income. The company left its sales guidance unchanged, which we believe is somewhat conservative.

Achieved 2Q OPM of 7.3% despite extremely difficult business environment

2Q (Jul-Sep) results were for sales of 20.3bn yen (-3.6% YoY, +0.2% QoQ), OP 1.5bn yen (-24.8% YoY, -12.9% QoQ), and RP 2.8bn yen (+34.2% YoY, -10.2% QoQ). OPM was 7.3% (vs. 9.4% in 2Q FY3/21, 8.4% in 1Q), which we view as solid in this difficult environment. The company posted subsidy income of 1.3bn yen as non-operating income (vs. 0.1bn yen for 2Q FY3/21, 1.4bn yen for 1Q). Same-store sales growth for directly-owned stores was -4.7% YoY (guest count -8.2% YoY, average spend per customer +3.8% YoY). The store count at end-2Q was as follows: directly-owned stores 531 (+3 from end-FY3/21); FC 204 (-2 ditto).

Combination of gyoza (dumplings) and beer is back

The company's 2Q results were solid on an OP basis (excluding subsidies), despite the extremely difficult business environment for restaurants in general, with emergency measures and measures to prevent the spread of the disease being taken in many areas. We believe that this is due to factors such as the apparently extremely strong consumer support for the Gyoza no Ohsho format among the many Chinese restaurant chains and the company's ability to respond well to take-out demand. Since the beginning of 3Q, local governments have lifted or eased their requirements regarding business hours and alcohol service. The combination of gyoza and beer appears to be very popular among consumers, and in-store dining should see a recovery going forward. As for take-out, some demand may be replaced by in-store dining, but we do not anticipate a major decline, as many of the menu items are compatible with meals at home. Overall, changes in the operating environment from October onwards should be a tailwind for the company, in our view.

Advantage of small dependence on subsidies

Going forward, restaurant operators will lose subsidy income in exchange for the removal of the shorter hours requirement. For those companies that do not anticipate a sufficient recovery in demand, this may not necessarily be a tailwind. On the other hand, the company's solid OP gives confidence in the company's earnings going forward, in our view.

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

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Update

Rating
Buy

Target price (JPY)	7,250
Stock price (JPY) (Oct 29)	5,970
Market cap (JPYbn)	139.0

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
Sales	JPYbn	85.6	80.6	88.4	94.2	96.9
OP	JPYbn	7.7	6.1	7.5	8.8	9.1
RP	JPYbn	8.1	6.9	8.8	9.2	9.4
NP	JPYbn	5.3	4.3	5.5	5.9	6.1
EPS	JPY	283.0	228.4	295.1	315.9	323.9
BPS	JPY	2,681	2,821	3,016	3,212	3,396
DPS	JPY	120.0	100.0	120.0	140.0	150.0
PER	x	20.4	25.5	20.1	18.8	18.3
PBR	x	2.2	2.1	2.0	1.8	1.7
Div. yield	%	2.1	1.7	2.0	2.4	2.5
ROA	%	8.1	5.4	6.0	6.2	6.4
ROE	%	10.9	8.3	10.1	10.1	9.8

Source: Company data, Mita Securities

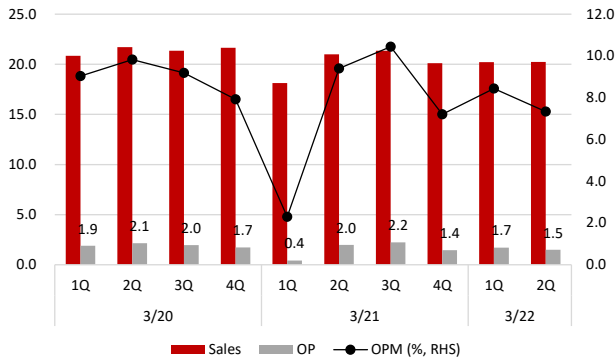
Company profile

Ohsho Food Service is a Kyoto-based restaurant company that operates the largest Chinese restaurant chain "Gyoza no Ohsho" nationwide. 734 restaurants (528 directly owned, 206 franchised) at the end of FY3/21. Sales of 80.6bn yen in FY3/21. Take-out and delivery sales are strong.

Quarterly and monthly data

Quarterly data

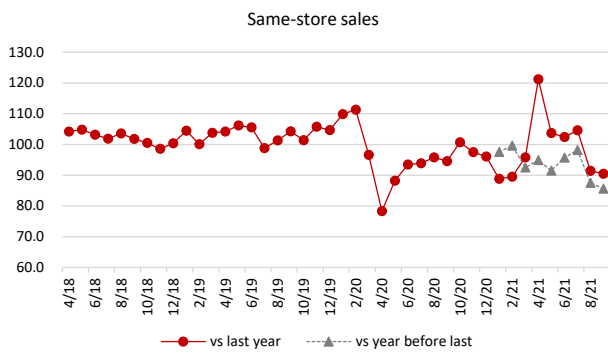
Figure: Sales, OP, OPM



Source: Company data, Mita Securities

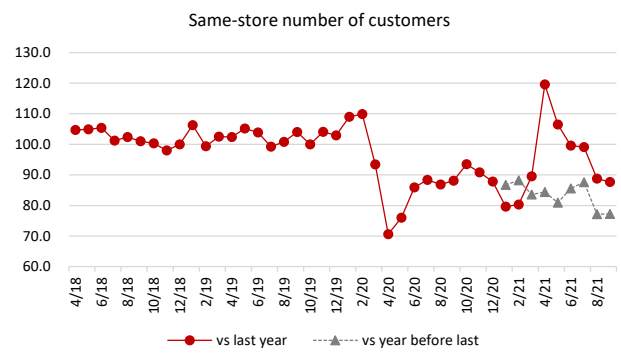
Monthly data

Figure: Directly-owned, same-store sales



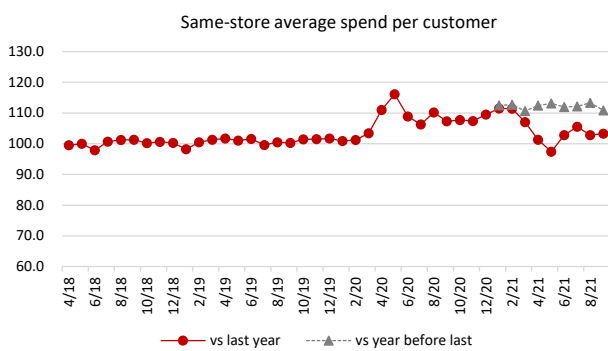
Source: Company data, Mita Securities Note: Same month last year or year before last = 100

Figure: Directly-owned, same-store number of customers



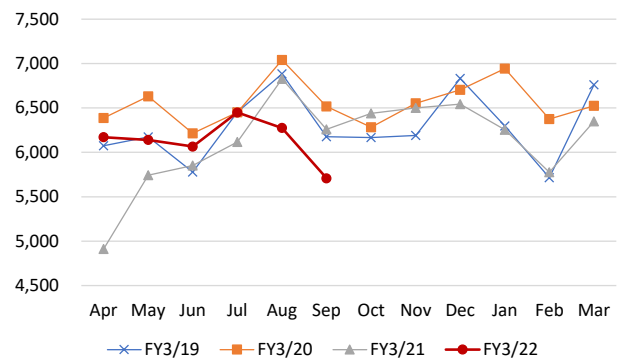
Source: Company data, Mita Securities Note: Same month last year or year before last = 100

Figure: Directly-owned, same-store ave spend per customer



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

Figure: Directly-owned, all-store sales (JPYm)

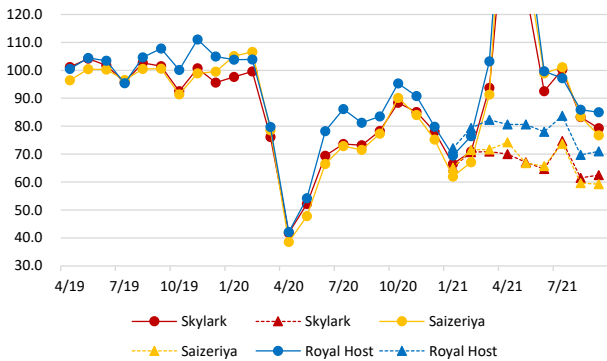


Source: Company data, Mita Securities

Food service industry data

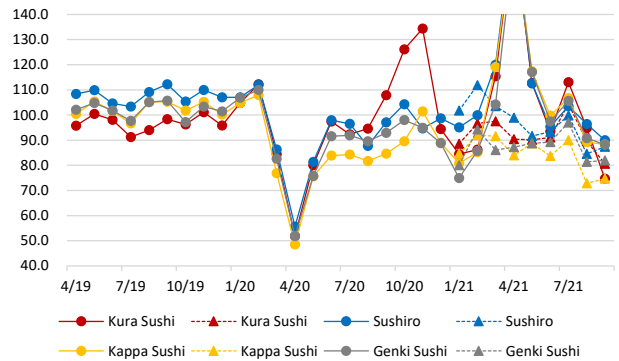
Same-store sales (compared to last year or year before last)

Figure: Family restaurants



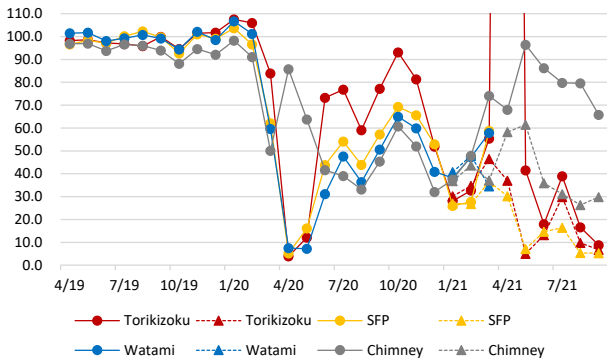
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Sushi restaurants



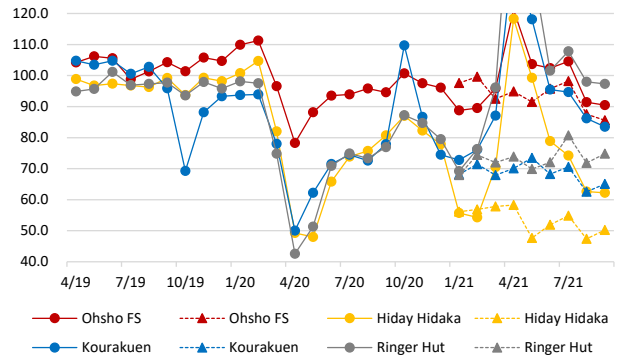
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Izakaya (Japanese style pubs)



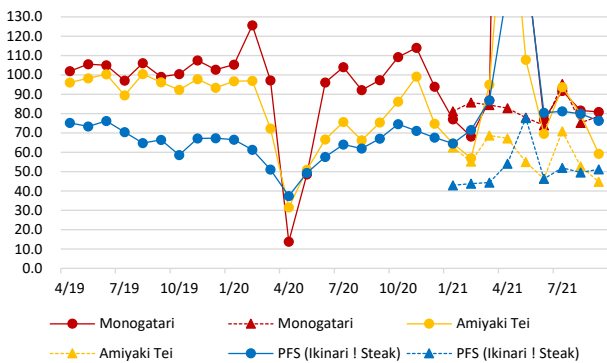
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Chinese restaurants



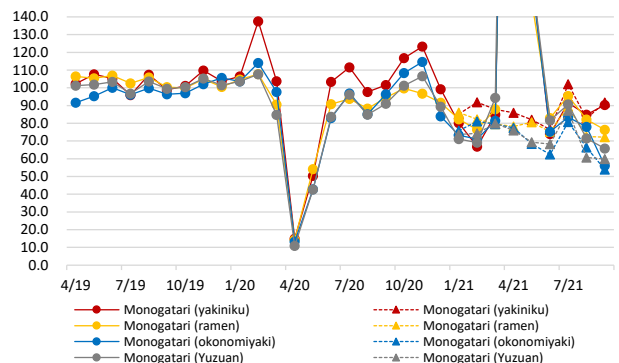
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Yakiniku (Japanese BBQ), steak



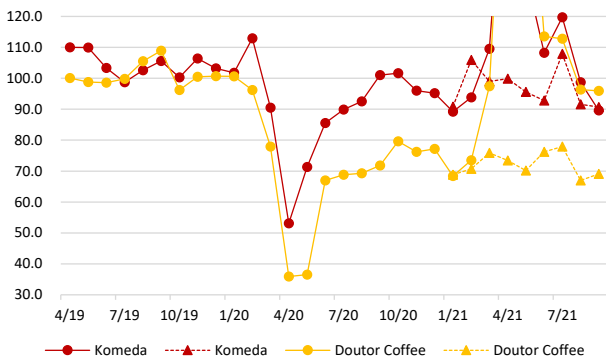
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Monogatari Corporation by division



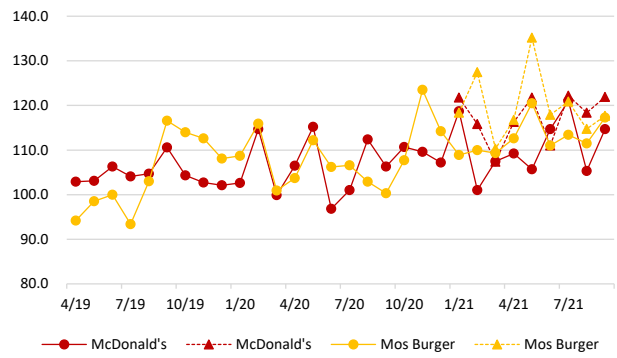
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Coffee shops



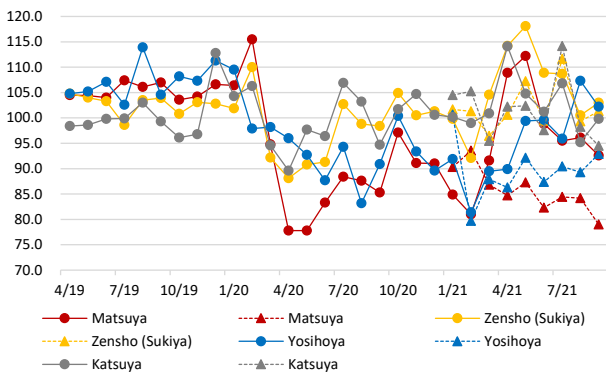
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Hamburger shops



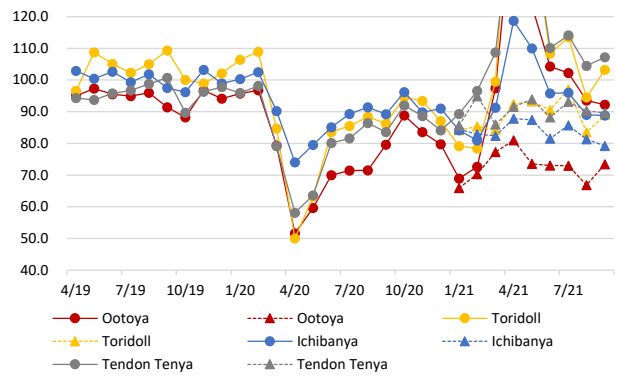
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Beef bowl, Tonkatsu



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

Comparison of valuations with similar companies (reference)

Figure: Comparison of valuations for food service companies

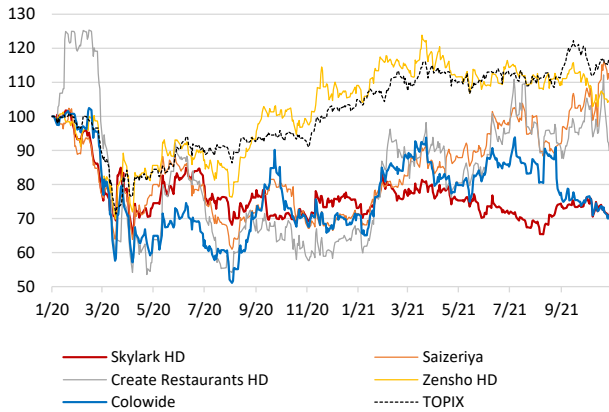
Company name	Ticker	PX	Mkt cap	Net D/E	Sales YoY	EBITDA Mgn	ROE	ROE	ROE	PER	PER	PER	EV/EBITDA	EV/Sales	Div yield	1M	3M	1YR	
		10/28	JPYbn	Last	LTM	LTM	LTM	Cur E	Nxt E	LTM	Cur E	Nxt E	Cur E	Cur E	Cur E	Chg	Chg	Chg	
KURA SUSHI INC (TP 5,000 Buy)	2695	3,620	149.9	-0.1	13.7	4.6	4.9	3.5	12.2	67.3	96.4	26.9	3.2	43.5	1.0	0.6	-11.4	-11.8	11.6
MCDONALD'S HOLDINGS CO JAPAN	2702	5,090	676.8	-0.2	5.6	14.8	12.7	12.0	11.9	30.9	29.9	26.8	3.7	12.7	1.9	0.7	-2.9	2.6	1.6
OOTOYA HOLDINGS CO LTD	2705	2,734	19.8	0.2	-21.3	-13.4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-3.8	-0.3	29.1
FUJIO FOOD GROUP INC	2752	1,365	60.9	3.6	-19.5	-2.0	-48.9	15.7	NA	NA	75.0	35.6	13.0	NA	2.7	0.0	-2.8	1.8	-3.2
AMIYAKI TEI CO LTD	2753	3,090	21.2	-0.1	-16.2	-8.2	0.2	2.0	NA	571.3	40.7	11.2	1.1	NA	0.6	0.0	6.1	5.2	9.8
HIRAMATSU INC	2764	212	15.8	4.1	-6.1	-26.6	-86.1	NA	NA	NA	NA	NA	3.9	NA	NA	NA	-10.2	11.0	8.7
PEPPER FOOD SERVICE CO LTD	3053	382	15.1	2.4	NA	NA	NA	NA	NA	NA	NA	NA	5.6	NA	NA	NA	-2.8	-7.1	29.5
CHOSHIMARU CO LTD	3075	1,161	16.9	-0.8	-0.6	2.8	7.2	NA	NA	33.0	NA	NA	2.3	NA	NA	NA	-4.7	1.2	1.2
ARCLAND SERVICE HOLDINGS CO	3085	2,250	74.5	-0.6	26.3	12.8	16.9	18.9	13.0	19.4	16.2	22.3	3.1	10.7	1.4	1.3	-4.6	-0.7	11.5
DOUTOR NICHIRETS HOLDINGS CO	3087	1,638	74.7	-0.3	-2.7	3.3	-3.2	4.2	1.6	NA	18.0	25.5	0.8	10.8	0.4	1.5	-5.9	-2.3	9.6
BRONCO BILLY CO LTD	3091	2,407	36.3	-0.3	-12.6	6.8	4.4	NA	NA	46.9	NA	NA	2.0	NA	NA	0.7	-6.8	-3.0	3.8
MONOGATARI CORP (TP 9,100 Buy)	3097	7,030	84.9	0.1	10.5	10.2	14.6	15.3	16.0	31.1	25.8	21.8	4.3	11.0	1.1	0.9	-9.5	1.2	29.5
CHIMNEY CO LTD	3178	1,465	28.3	0.8	-60.7	-37.1	-65.7	NA	NA	NA	NA	NA	4.6	NA	NA	NA	-0.7	3.6	15.4
TORIKIZOKU HOLDINGS CO LTD	3193	1,918	22.3	0.6	-40.8	-10.9	-39.3	14.3	NA	NA	25.5	19.0	4.3	NA	1.1	0.0	-13.3	10.6	20.6
HOTLAND CO LTD	3196	1,366	29.4	0.6	1.7	5.2	9.2	16.1	NA	44.4	25.2	28.6	3.8	NA	1.1	0.4	-0.3	4.9	11.1
SKYLARK HOLDINGS CO LTD (TP 1,550 Hold)	3197	1,548	352.2	2.1	-15.6	17.8	0.9	1.3	7.2	263.7	278.9	48.6	2.2	8.3	1.6	0.2	-4.4	4.1	1.7
SFP HOLDINGS CO LTD	3198	1,488	38.4	-0.1	-53.8	-1.0	-19.2	14.4	NA	NA	21.3	25.6	3.3	NA	2.6	0.0	-2.2	2.2	10.6
CREATE RESTAURANTS HOLDINGS	3387	860	162.9	3.5	-28.7	21.7	0.8	27.2	NA	1,387.1	25.5	39.1	7.5	NA	2.7	0.5	-12.5	-7.5	54.1
SAINT MARC HOLDINGS CO LTD	3395	1,537	35.0	-0.2	-13.7	-6.3	-11.6	0.7	3.0	NA	136.6	33.8	0.9	11.8	0.5	2.9	-5.4	-3.3	1.3
TORIDOLL HOLDINGS CORP	3397	2,758	241.4	3.0	0.2	10.7	-0.8	9.9	10.4	NA	66.8	44.7	7.6	12.2	2.4	0.2	2.6	36.5	102.9
KOMEDA HOLDINGS CO LTD (TP 3,000 Buy)	3543	2,071	95.6	1.5	8.1	23.7	13.0	13.6	13.7	21.0	19.3	17.9	2.6	15.8	4.2	2.5	-5.2	1.1	9.5
KUSHIKATSU TANAKA HOLDINGS C	3547	2,213	20.7	0.3	-38.7	-22.6	-36.9	2.2	31.4	NA	283.7	43.0	15.3	NA	4.3	0.2	-11.8	16.0	23.2
CHIKARANOMOTO HOLDINGS CO LT	3561	640	17.3	3.7	-31.1	-0.2	-55.1	NA	NA	NA	NA	NA	5.9	NA	NA	NA	0.6	5.6	6.0
FOOD & LIFE COMPANIES LTD	3563	4,985	578.6	2.4	14.3	16.0	23.6	23.6	23.8	44.6	44.8	36.8	9.5	19.5	2.9	0.5	-5.0	11.3	71.1
ATOM CORP	7412	768	148.7	0.2	-23.8	-3.4	-19.8	NA	NA	NA	NA	NA	20.7	NA	NA	NA	-1.5	-0.8	-10.0
KAPPA CREATE CO LTD	7421	1,385	68.4	0.4	-2.5	2.9	3.2	NA	NA	200.7	NA	NA	6.4	NA	NA	NA	0.6	-3.0	-5.1
WATAMI CO LTD	7522	975	41.6	3.5	-23.1	-11.4	-73.5	NA	NA	NA	NA	NA	2.8	NA	NA	NA	-12.0	3.9	-0.6
ZENSHO HOLDINGS CO LTD	7550	2,640	408.8	2.2	2.3	7.3	12.2	14.6	13.6	40.7	31.1	34.2	4.7	11.6	0.8	0.8	-3.0	-5.4	6.7
KOURAKUEN HOLDINGS CORP	7554	1,471	24.7	1.1	-19.5	0.6	-4.9	NA	NA	NA	NA	NA	7.1	NA	NA	NA	-2.8	0.1	-11.7
ANRAKUTEI CO LTD	7562	6,000	12.8	1.6	58.7	-1.3	2.9	NA	NA	98.8	NA	NA	2.9	NA	NA	NA	-2.1	5.4	22.1
SAIZERIYA CO LTD	7581	3,040	158.9	-0.2	-0.3	6.3	2.2	9.8	6.8	83.7	19.7	23.3	1.8	8.1	0.9	0.6	5.2	13.1	64.4
HIDAY HIDAKA CORP	7611	1,623	61.9	-0.3	-23.8	-10.2	-7.0	NA	NA	NA	NA	NA	3.0	NA	NA	1.5	-7.0	-6.8	-6.2
COLOWIDE CO LTD	7616	1,656	143.9	3.6	-14.4	8.7	-35.2	NA	NA	NA	NA	NA	7.6	NA	NA	NA	-4.9	-17.3	2.2
UKAI CO LTD	7621	3,010	15.8	1.5	-7.7	-9.1	-43.3	NA	NA	NA	NA	NA	6.6	NA	NA	NA	-2.3	-2.9	-2.7
GLOBAL-DINING INC	7625	545	5.6	0.9	7.5	-1.1	0.7	NA	NA	406.7	NA	NA	2.1	NA	NA	NA	11.2	11.9	206.2
ICHIBANYA CO LTD	7630	4,615	147.3	-0.5	-5.4	9.4	8.5	8.9	NA	57.1	54.6	38.7	4.9	NA	2.9	1.7	1.1	-5.2	-14.2
ASAKUMA CO LTD	7678	1,536	8.3	-0.4	-21.0	-21.8	-43.6	NA	NA	NA	NA	NA	3.6	NA	NA	NA	-0.1	-0.4	1.2
MOS FOOD SERVICES INC	8153	3,140	100.5	-0.2	8.3	9.0	5.0	4.4	NA	43.6	47.7	40.4	2.1	NA	1.2	0.8	-3.5	-1.1	7.3
KISOJI CO LTD	8160	2,136	55.6	0.0	-12.3	NA	-16.5	NA	NA	NA	NA	NA	2.4	NA	NA	NA	-10.9	-9.1	-14.9
SRS HOLDINGS CO LTD	8163	785	29.9	0.5	5.7	2.6	-9.6	NA	NA	NA	NA	NA	2.6	NA	NA	NA	-3.8	-3.4	-13.9
ROYAL HOLDINGS CO LTD	8179	2,059	93.4	2.3	-27.7	-14.3	-55.3	-13.8	10.9	NA	NA	51.7	3.2	NA	1.5	0.0	-8.0	3.8	11.7
RINGER HUT CO LTD	8200	2,206	57.5	1.0	-14.1	-2.2	-13.0	6.3	NA	NA	87.5	216.3	5.1	NA	1.9	0.5	-11.3	-2.3	-2.2
GIFT INC	9279	2,770	27.6	0.2	23.2	6.0	22.4	23.0	NA	34.7	26.8	21.9	7.1	NA	2.1	0.5	-8.7	15.7	35.9
GENKI SUSHI CO LTD	9828	2,747	24.4	0.6	1.9	5.9	3.2	NA	NA	93.2	NA	NA	3.0	NA	NA	NA	-2.2	7.5	19.3
GOURMET KINEYA CO LTD	9850	989	22.7	1.5	-28.3	0.9	-28.0	NA	NA	NA	NA	NA	2.7	NA	NA	NA	-1.4	2.6	4.8
GINZA RENAISSANCE CO LTD	9853	828	5.2	0.1	-33.6	-41.0	-39.1	NA	NA	NA	NA	NA	1.5	NA	NA	NA	0.5	0.1	1.2
YOSHINOYA HOLDINGS CO LTD	9861	2,210	143.9	0.8	-14.9	8.1	3.2	11.6	2.5	107.2	28.6	129.8	3.3	16.6	1.1	0.0	-1.9	6.7	14.4
KFC HOLDINGS JAPAN LTD	9873	2,898	65.0	-0.8	12.6	8.4	17.8	NA	NA	16.0	23.4	23.9	2.7	NA	0.5	1.7	-1.9	1.3	14.9
MATSUYA FOODS HOLDINGS CO LTD	9887	3,620	69.0	0.3	-6.2	1.5	1.3	NA	NA	132.3	NA	NA	1.7	NA	NA	NA	-1.9	0.4	3.1
SAGAMI HOLDINGS CORP	9900	1,022	31.0	-0.2	-9.2	-4.0	-7.8	NA	NA	NA	NA	NA	2.3	NA	NA	NA	-3.6	-1.4	-20.2
OHSHO FOOD SERVICE CORP (TP 7,250 Buy)	9936	5,940	138.3	-0.2	-0.2	11.6	11.8	11.7	NA	18.3	17.2	19.5	2.1	NA	1.4	1.9	-2.3	1.5	3.3
JOYFULL CO LTD	9942	809	25.8	4.9	-23.6	-3.8	102.0	NA	NA	13.7	NA	NA	7.8	NA	NA	NA	1.0	-7.3	11.7
DAISYO CORP	9979	1,024	21.7	0.9	-21.0	2.7	-35.7	NA	NA	NA	NA	NA	1.9	NA	NA	NA	-5.0	2.2	-8.2
Average				1.0	-9.5	-0.2	-9.7	10.4	11.9	150.3	60.2	41.0	4.5	14.8	1.7	0.8	-3.8	1.8	14.9
Median				0.5	-10.8	2.6	0.2	11.6	11.9	45.8	29.3	28.6	3.3	11.8	1.4	0.6	-3.0	1.2	7.3

Source: Bloomberg Finance LP data, Mita Securities

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

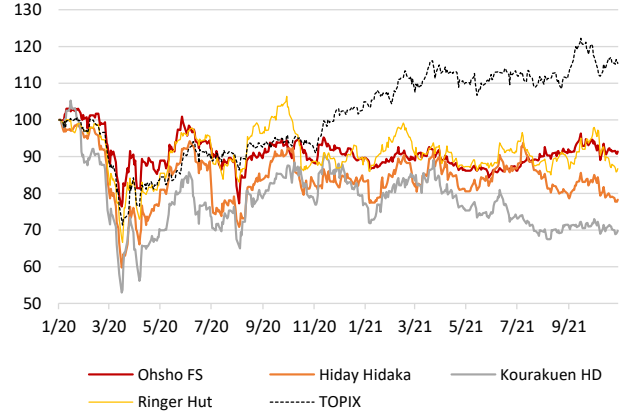
Stock price trends for food service companies

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



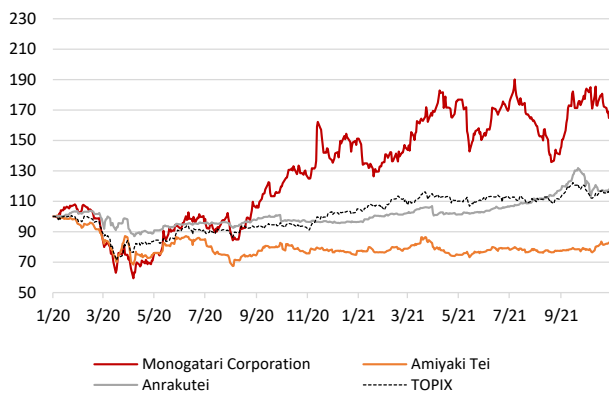
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Chinese restaurants)



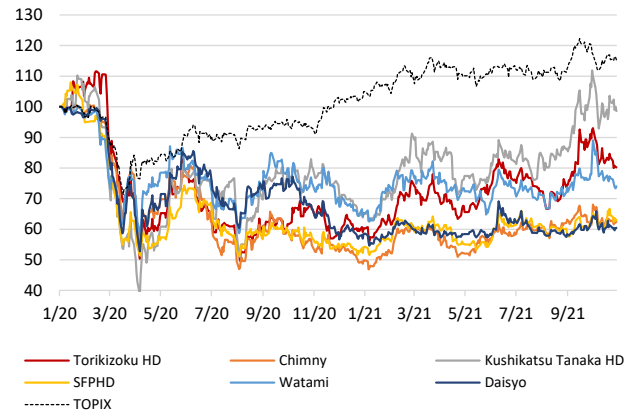
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Japanese BBQ)



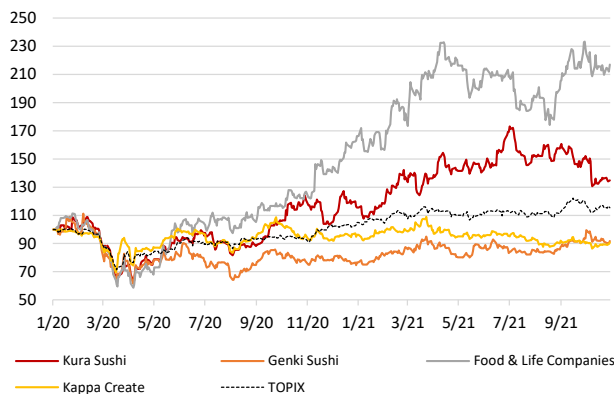
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Japanese style pubs)



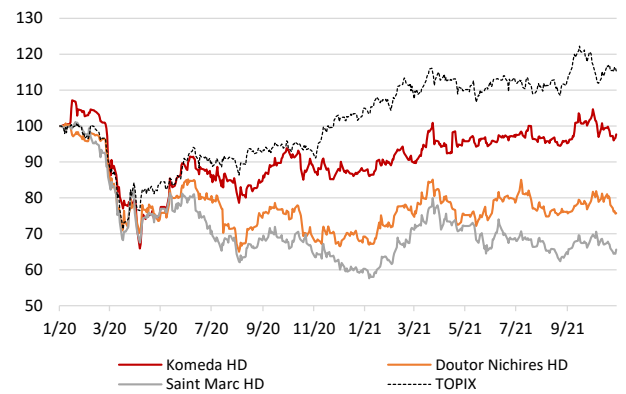
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

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

APPENDIX

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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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