



Koshidaka Holdings

TSE 1st Section 2157 Industry: Leisure and amusement

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Back to normal business. Raising target price

Reiterate Buy with a new target price of 820 yen

We have updated our earnings forecast for Koshidaka Holdings (2157, the company) and raised our target price to 820 yen from 700 yen. We maintain our Buy rating.

The company has been operating most of its stores normally since the beginning of October in response to the decline in the number of infected cases of COVID-19 (in Tokyo and other areas, the request for shorter hours was lifted on October 25). We understand that the company has shifted to a stance where it will continue to operate normally even if it is asked to close or shorten hours in the future, as long as the situation is not too severe. We believe that the company's shift in operating policy has raised the predictability of its earnings. We expect the company's earnings to recover more quickly than previously expected and have raised our sales and operating profit forecasts.

Earnings forecast update

We have raised our sales forecast for FY8/22 from 24.3bn yen to 36.7bn yen, our OP forecast from -4.4bn yen to 1.9bn yen, and our RP forecast (including subsidy income) from -2.7bn yen to 3.5bn yen. We have also raised our OP forecast for FY8/23 and beyond from 2.5bn yen to 3.3bn yen for FY8/23 and 3.3bn yen to 4.1bn yen for FY8/24.

The impact of the COVID-19 pandemic should reduce the competitiveness of competitors, and the company should be able to enjoy residual benefits, in our view. In particular, we believe that the company can expect to see positive outcomes from store openings mainly in the downtown area, as well as from M&As. We expect the karaoke business to have 640 stores at the end of FY8/24, compared to 563 stores at the end of FY8/21. We also expect sales per store to continue to increase due to an improved store mix.

Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 6.0% and a terminal growth rate of 1.2%, based on our earnings forecasts for FY8/22-FY8/26. Our target price is equivalent to 21.7x our FY8/23 EPS forecast of 37.83 yen.

Risk factors to our view include a sharp decline in people's activities due to a rapid increase in the number of infected cases of COVID-19, and failure to recover profit margins due to increased labor costs, etc.

Forecast change

Rating Buy

Target price (JPY)	820 ← 700
Stock price (JPY) (Nov 22)	664
Market cap (JPYbn)	54.6

Key changes

Rating	No
Target price	Yes
Earnings forecast	Yes

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

		8/20	8/21	8/22E	8/23E	8/24E
Sales	JPYbn	43.3	20.8	36.7	42.7	46.0
OP	JPYbn	1.1	-7.6	1.9	3.3	4.1
RP	JPYbn	1.7	-3.1	3.5	3.6	4.4
NP	JPYbn	-0.2	-4.1	3.0	3.1	3.0
EPS	JPY	-2.8	-50.8	36.4	37.8	37.0
BPS	JPY	281.0	223.0	255.4	285.2	313.2
DPS	JPY	12.0	4.0	8.0	9.0	12.0
PER	x	NA	NA	18.9	18.2	18.6
PBR	x	1.6	3.1	2.7	2.4	2.2
Div. yield	%	2.6	0.6	1.2	1.3	1.7
ROA	%	-0.4	-9.6	6.7	6.3	5.8
ROE	%	-0.8	-20.2	15.2	14.0	12.4

Source: Company data, Mita Securities

Company profile

Koshidaka HD is a major karaoke room operator that operates "Karaoke Manekineko" stores nationwide. The total number of stores as of the end of August 2021 was 563. In March 2020, it spun off the Curves business and is concentrating its management resources on the karaoke business.

Investment thesis

Outlook

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

JPYm	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25	8/26	8/21
	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	CoE
Earnings										
Sales	61,771	65,840	43,304	20,791	36,671	42,678	45,973	49,302	52,180	40,093
(YoY, %)	11.7	6.6	-34.2	-52.0	76.4	16.4	7.7	7.2	5.8	
Operating profit	7,858	9,508	1,148	-7,629	1,921	3,345	4,131	4,996	5,882	2,701
(YoY, %)	27.8	21.0	-87.9	NA	NA	74.1	23.5	20.9	17.7	
OPM (%)	12.7	14.4	2.7	-36.7	5.2	7.8	9.0	10.1	11.3	
Recurring profit	8,208	9,562	1,700	-3,093	3,468	3,627	4,413	5,278	6,164	4,459
(YoY, %)	29.2	16.5	-82.2	NA	NA	4.6	21.7	19.6	16.8	
Net profit	4,427	6,227	-232	-4,145	2,968	3,084	3,019	3,625	4,245	3,121
(YoY, %)	36.0	40.7	NA	NA	NA	3.9	-2.1	20.1	17.1	
Depreciation	3,582	4,096	4,493	3,810	3,825	3,839	3,860	3,879	3,896	
Capital expenditure	4,822	8,049	5,983	5,851	5,000	5,000	6,000	6,000	6,000	
Free CF	-15,079	3,845	-4,746	-6,417	1,627	2,948	498	2,324	1,731	
Segment earnings										
Karaoke business										
Sales	31,936	35,732	27,157	19,195	34,657	40,294	43,413	46,592	49,319	
(YoY, %)	7.8	11.9	-24.0	-29.3	80.5	16.3	7.7	7.3	5.9	
Operating profit	3,153	4,519	-839	-6,592	2,426	3,788	4,558	5,451	6,313	
OPM (%)	9.9	12.6	-3.1	-34.3	7.0	9.4	10.5	11.7	12.8	
Curves business										
Sales	27,933	28,037	14,302							
(YoY, %)	17.8	0.4	NA							
Operating profit	5,345	5,679	3,006							
OPM (%)	19.1	20.3	21.0							
Bath house business										
Sales	1,587	1,640	1,207	898	987	1,254	1,317	1,343	1,356	
(YoY, %)	-3.0	3.3	-26.4	-25.7	10.0	27.0	5.0	2.0	1.0	
Operating profit	72	109	-70	-204	10	78	96	101	104	
OPM (%)	4.5	6.6	-5.8	-22.7	1.0	6.2	7.3	7.5	7.7	
Real estate management business										
Sales	314	432	637	699	1,027	1,130	1,243	1,367	1,504	
(YoY, %)	0.5	37.6	47.7	9.7	47.0	10.0	10.0	10.0	10.0	
Operating profit	134	59	-78	-182	145	159	177	194	215	
OPM (%)	42.6	13.8	-12.2	-26.0	14.1	14.1	14.2	14.2	14.3	
Per share indicators										
EPS (JPY)	54.44	76.57	-2.84	-50.84	36.40	37.83	37.03	44.46	52.07	38.29
BPS (JPY)	315.51	391.24	281.01	222.96	255.36	285.19	313.21	345.67	383.74	
DPS (JPY)	25.00	12.00	12.00	4.00	8.00	9.00	12.00	14.00	16.00	8.00
Valuation, profitability, etc.										
PER (x)	21.5	23.1	NA	NA	18.3	17.6	18.0	15.0	12.8	
PBR (x)	3.7	4.5	1.6	3.0	2.6	2.3	2.1	1.9	1.7	
Dividend payout ratio (%)	18.6	15.9	NA	NA	22.0	23.8	32.4	31.5	30.7	
Dividend yield (%)	2.1	0.7	2.6	0.6	1.2	1.4	1.8	2.1	2.4	
ROA (%)	7.9	8.9	-0.4	-9.6	6.7	6.3	5.8	6.6	7.3	
ROE (%)	18.7	21.7	-0.8	-20.2	15.2	14.0	12.4	13.5	14.3	
Financial soundness indicators										
Capital ratio (%)	37.5	44.1	51.4	43.3	44.4	46.2	47.9	49.9	52.0	
Debt/Equity (x)	0.9	0.7	0.6	0.9	0.8	0.7	0.7	0.6	0.5	

Source: Company data, Mita Securities

Figure: Comparison of valuations for karaoke companies (reference)

Company name	Ticker	PX 11/19	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
KOSHIDAKA HOLDINGS CO LTD (TP 820 Buy)	2157	665	54.3	0.6	-52.0	-25.4	-20.2	16.2	11.8	NA	17.3	21.2	3.0	NA	1.6	1.2	-5.6	26.9	64.6
TETSUJIN INC	2404	574	7.4	11.2	-5.3	-6.0	-83.4	NA	NA	NA	NA	NA	37.7	NA	NA	NA	24.8	71.6	112.5
ROUND ONE CORP	4680	1,460	132.5	1.1	5.6	5.9	-18.9	9.2	14.6	NA	32.3	17.9	2.8	8.7	1.6	1.4	3.7	29.5	60.3
DAIICHIKOSHO CO LTD	7458	4,080	218.9	-0.2	-23.7	6.7	-14.4	5.9	9.6	NA	73.2	27.0	2.2	10.6	2.2	2.8	-2.1	10.7	13.2
Average				3.2	-18.8	-4.7	-34.2	10.4	12.0	NA	40.9	22.1	11.4	9.6	1.8	1.8	5.2	34.7	62.6
Median				0.9	-14.5	-0.1	-19.6	9.2	11.8	NA	32.3	21.2	2.9	9.6	1.6	1.4	0.8	28.2	62.4

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus

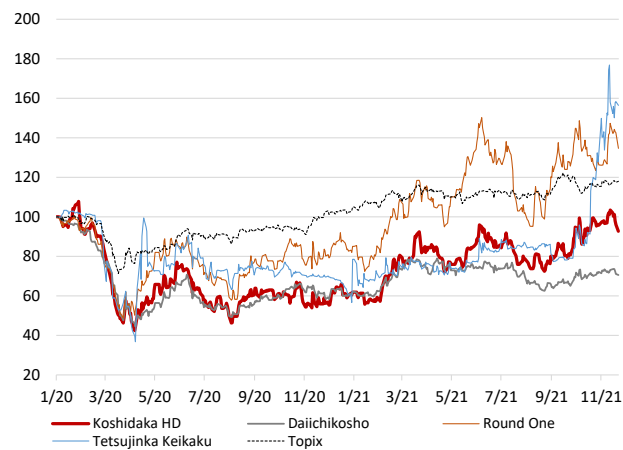
Figure: Comparison of valuations for amusement companies (reference)

Company name	Ticker	PX 11/19	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
ORIENTAL LAND CO LTD	4661	19,230	7,048.3	0.0	-24.0	6.4	-5.0	0.8	12.0	NA	NA	71.8	8.5	147.8	25.9	0.1	7.7	23.9	12.1
BANDAI NAMCO HOLDINGS INC	7832	9,269	2,067.7	-0.3	12.0	15.0	11.0	12.7	13.9	35.9	28.3	24.5	3.6	15.1	2.3	1.8	7.4	29.7	2.4
SANRIO CO LTD	6071	2,799	250.8	0.2	6.9	7.7	2.0	8.0	8.5	272.8	80.9	76.1	5.5	64.5	4.5	0.6	7.5	33.1	72.2
FUJI KYUKO CO LTD	9010	4,965	268.4	1.9	-1.1	20.9	-0.9	3.7	NA	NA	290.9	111.7	10.9	NA	8.4	0.2	6.2	10.0	-3.0
KONAMI HOLDINGS CORP	9766	6,280	901.2	-0.3	14.8	17.3	15.3	15.6	14.6	18.2	17.5	16.0	2.6	8.4	2.6	1.7	-4.0	-2.2	21.0
Average				0.3	1.7	13.5	4.5	8.2	12.3	109.0	104.4	60.0	6.3	58.9	8.7	0.9	5.0	18.9	21.0
Median				0.0	6.9	15.0	2.0	8.0	13.0	35.9	54.6	71.8	5.5	39.8	4.5	0.6	7.4	23.9	12.1

Source: Bloomberg Finance LP data, Mita Securities

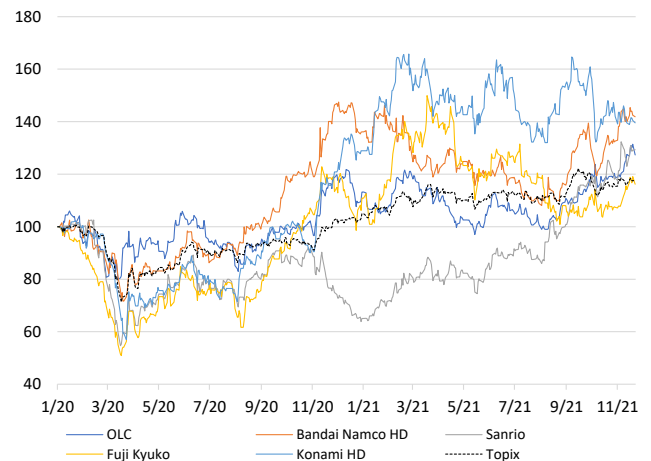
Note: Forecasts are based on Bloomberg consensus

Figure: Stock price trends for karaoke companies



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

Figure: Stock price trends for amusement 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 sharp decline in people’s activities due to a rapid increase in the number of infected cases of COVID-19, and failure to recover profit margins due to increased labor costs, etc.

Mita Securities' earnings forecast

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

	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25	8/26	5-yr ave growth (CAGR, %)
	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales growth (%)	11.7	6.6	-34.2	-52.0	76.4	16.4	7.7	7.2	5.8	
OP growth (%)	27.8	21.0	-87.9	NA	NA	74.1	23.5	20.9	17.7	
RP growth (%)	29.2	16.5	-82.2	NA	NA	4.6	21.7	19.6	16.8	
NP growth (%)	36.0	40.7	NA	NA	NA	3.9	-2.1	20.1	17.1	
Gross profit margin (%)	27.0	30.0	19.1	-21.7	16.6	18.7	19.6	20.6	21.5	
OP margin (%)	12.7	14.4	2.7	-36.7	5.2	7.8	9.0	10.1	11.3	
EBITDA margin (%)	19.7	22.7	14.6	-18.3	15.8	17.0	17.5	18.1	18.8	
ROA (%)	7.9	8.9	-0.4	-9.6	6.7	6.3	5.8	6.6	7.3	
ROE (%)	18.7	21.7	-0.8	-20.2	15.2	14.0	12.4	13.5	14.3	

Source: Company data, Mita Securities

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

PL	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25	8/26	5-yr ave growth (CAGR, %)
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales	61,771	65,840	43,304	20,791	36,671	42,678	45,973	49,302	52,180	20.2
COGS	45,065	46,078	35,049	25,310	30,566	34,716	36,946	39,151	40,940	
Gross profit	16,706	19,762	8,255	-4,519	6,105	7,962	9,026	10,151	11,240	
SGA	8,848	10,254	7,107	3,110	4,185	4,617	4,895	5,155	5,358	
Operating profit	7,858	9,508	1,148	-7,629	1,921	3,345	4,131	4,996	5,882	NA
Non-operating income	600	621	904	4,765	1,781	516	516	516	516	
Non-operating expense	250	566	352	229	234	234	234	234	234	
Recurring profit	8,208	9,562	1,700	-3,093	3,468	3,627	4,413	5,278	6,164	NA
Extraordinary gains	381	3	21	131	0	0	0	0	0	
Extraordinary losses	520	737	1,533	1,602	500	200	100	100	100	
Pre-tax profit	7,688	8,829	188	-4,563	2,968	3,427	4,313	5,178	6,064	NA
Corporate taxes	2,897	2,432	419	64	0	343	1,294	1,553	1,819	
Minority interests	365	170	0	0	0	0	0	0	0	
Net profit	4,427	6,227	-232	-4,145	2,968	3,084	3,019	3,625	4,245	NA
EBITDA	12,155	14,925	6,330	-3,812	5,796	7,234	8,041	8,925	9,829	
Shares O/S	81.318	81.318	81.533	81.533	81.533	81.533	81.533	81.533	81.533	
EPS	54.44	76.57	-2.84	-50.84	36.40	37.83	37.03	44.46	52.07	
DPS	25.00	12.00	12.00	4.00	8.00	9.00	12.00	14.00	16.00	
Payout ratio (%)	18.6	15.9	NA	NA	22.0	23.8	32.4	31.5	30.7	
BPS	315.51	391.24	281.01	222.96	255.36	285.19	313.21	345.67	383.74	

Source: Company data, Mita Securities

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

Segment earnings	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25	8/26	5-yr ave growth
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Karaoke business										
Sales	31,936	35,732	27,157	19,195	34,657	40,294	43,413	46,592	49,319	20.8
(YoY, %)	7.8	11.9	-24.0	-29.3	80.5	16.3	7.7	7.3	5.9	
Operating profit	3,153	4,519	-839	-6,592	2,426	3,788	4,558	5,451	6,313	NA
(YoY, %)	53.8	43.3	NA	NA	NA	56.1	20.3	19.6	15.8	
OP margin (%)	9.9	12.6	-3.1	-34.3	7.0	9.4	10.5	11.7	12.8	
Number of stores	542	542	538	563	586	608	640	672	702	
(YoY, %)	3.6	0.0	-0.7	4.6	4.1	3.8	5.3	5.0	4.5	
Sales/Ave number of stores	60	66	50	35	60	67	70	71	72	
(YoY, %)	1.7	9.9	-23.7	-30.7	73.0	11.9	3.1	2.1	1.1	
Curves business										
Sales	27,933	28,037	14,302							
(YoY, %)	18	0	NA							
Operating profit	5,345	5,679	3,006							
(YoY, %)	14	6	NA							
OP margin (%)	19	20	21							
Bath house business										
Sales	1,587	1,640	1,207	898	987	1,254	1,317	1,343	1,356	8.6
(YoY, %)	-3.0	3.3	-26.4	-25.7	10.0	27.0	5.0	2.0	1.0	
Operating profit	72	109	-70	-204	10	78	96	101	104	NA
(YoY, %)	-41.2	51.0	NA	NA	NA	687.4	23.6	4.8	3.7	
OP margin (%)	4.5	6.6	-5.8	-22.7	1.0	6.2	7.3	7.5	7.7	
Real estate management business										
Sales	314	432	637	699	1,027	1,130	1,243	1,367	1,504	16.6
(YoY, %)	0.5	37.6	47.7	9.7	47.0	10.0	10.0	10.0	10.0	
Operating profit	134	59	-78	-182	145	159	177	194	215	NA
(YoY, %)	5.8	-55.6	NA	NA	NA	10.0	10.8	10.0	10.8	
OP margin (%)	42.6	13.8	-12.2	-26.0	14.1	14.1	14.2	14.2	14.3	

Source: Company data, Mita Securities

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

BS	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25	8/26	5-yr ave growth
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Assets										
Total current assets	19,963	20,762	13,753	9,389	13,180	15,570	16,880	18,521	20,601	
Cash and deposits	11,926	12,582	9,890	5,767	6,701	8,997	8,761	10,106	10,695	
Accounts receivable	3,824	3,870	197	84	418	166	463	212	503	
Inventories	1,123	1,112	283	216	647	357	724	436	792	
Other	3,089	3,198	3,383	3,322	5,413	6,049	6,931	7,768	8,611	
Total fixed assets	48,394	51,325	30,803	32,585	33,729	34,813	36,413	38,014	39,511	
Tangible assets	17,552	22,193	22,568	23,543	24,505	25,425	26,763	28,101	29,356	
Intangible assets	24,628	22,536	351	238	198	157	120	83	45	
Investment and other	6,214	6,596	7,884	8,803	9,026	9,232	9,531	9,830	10,110	
Total assets	68,357	72,087	44,556	41,974	46,908	50,383	53,293	56,535	60,111	7.4
Liabilities										
Total current liabilities	14,828	15,023	10,468	10,098	10,690	11,123	11,356	11,586	11,773	
Accounts payable	2,431	2,477	235	190	229	260	277	294	307	
Short-term debt	4,808	4,153	7,396	7,457	7,500	7,500	7,500	7,500	7,500	
Other	7,588	8,393	2,837	2,452	2,961	3,363	3,579	3,792	3,966	
Total long-term liabilities	26,833	25,249	11,176	13,697	15,398	16,008	16,400	16,765	17,052	
Long-term debt	19,541	18,098	7,248	9,314	9,500	9,500	9,500	9,500	9,500	
Other	7,292	7,152	3,928	4,383	5,898	6,508	6,900	7,265	7,552	
Total liabilities	41,660	40,272	21,646	23,795	26,088	27,131	27,756	28,351	28,824	3.9
Net assets										
Shareholders' equity	25,657	31,815	22,912	18,178	20,820	23,252	25,537	28,184	31,287	11.5
Warrants	0	0	0	0	0	0	0	0	0	
Minorities	1,041	0	0	0	0	0	0	0	0	
Total net assets	26,697	31,815	22,912	18,178	20,820	23,252	25,537	28,184	31,287	11.5
Debt	24,349	22,251	14,644	16,770	17,000	17,000	17,000	17,000	17,000	0.3
Debt/EBITDA	2.0	1.5	2.3	-4.4	2.9	2.3	2.1	1.9	1.7	
D/E (x)	0.9	0.7	0.6	0.9	0.8	0.7	0.7	0.6	0.5	
Shareholders' equity ratio (%)	37.5	44.1	51.4	43.3	44.4	46.2	47.9	49.9	52.0	

Source: Company data, Mita Securities

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

CF	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25	8/26	5-yr ave growth
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Cashflow from operations										
Cashflow from operations	8,327	12,578	4,378	-1,943	6,627	7,948	6,498	8,324	7,731	
Net profit	4,427	6,227	-232	-4,145	2,968	3,084	3,019	3,625	4,245	
Depreciation and amortization	4,297	5,417	5,182	3,817	3,875	3,889	3,910	3,929	3,946	
Other	-397	934	-573	-1,615	-216	974	-431	770	-460	
Cashflow from investing										
Cashflow from investing	-23,406	-8,732	-9,124	-4,475	-5,000	-5,000	-6,000	-6,000	-6,000	
Capital expenditure	-4,822	-8,049	-5,983	-5,851	-5,000	-5,000	-6,000	-6,000	-6,000	
Disposal of fixed assets	0	6	43	78	0	0	0	0	0	
Other	-18,584	-689	-3,184	1,298	0	0	0	0	0	
Cashflow from financing										
Cashflow from financing	13,276	-3,193	5,785	2,285	-97	-652	-734	-978	-1,141	
Debt issuance/repayment	14,449	-2,099	6,925	2,774	230	0	0	0	0	
Share issuance/buyback	0	0	0	0	0	0	0	0	0	
Dividend paid	-773	-895	-1,140	-489	-326	-652	-734	-978	-1,141	
Other	-400	-200	0	0	0	0	0	0	0	
Cash and cash equivalents	11,889	12,530	9,297	5,171	6,701	8,997	8,761	10,106	10,695	
Free cashflow	-15,079	3,845	-4,746	-6,417	1,627	2,948	498	2,324	1,731	

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.

[Ratings]

Ratings are based on the following definitions.

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.

RS: Rating Suspended - Stocks for which the target price and rating have been temporarily suspended.

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