



Zenkoku Hoshou

TSE 1st Section 7164 Industry: Other financials

1H results look positive. Significantly low credit costs, recovery continues for new guarantees

1H OP far above the guidance. Significantly smaller credit costs

1H FY3/22 OP was 15.6bn yen (+11.7% YoY), 109% vs. 1H guidance of 14.4bn yen (+2.8% YoY). The top line was largely in-line with the company's target, while credit costs were significantly smaller.

Guarantee exposure at end-1H was 15.0138trn yen (+7.5% YoY), operating revenue was 19.7bn yen (+4.1% YoY), 101% vs. 1H guidance of 19.5bn yen (+3.0% YoY).

Credit costs were 645m yen (vs. 1.7bn yen in 1H FY3/21), 43% vs. 1H guidance of 1.5bn yen. The amount of subrogation payments (default amount) was 4.6bn yen (vs. 6.4bn yen in 1H FY3/21), 37% progress toward the full-year guidance of 12.45bn yen. The delinquency rate, a leading indicator for default amount and credit costs, was slightly down from the end of FY3/21.

Number of new guarantees executed recovering. Positive impression

The number of new guarantees executed in 1H was 31,709 (+19.0% YoY), 53% progress toward the full-year guidance of 60,000 (+5.1% YoY). The number of new guarantees executed in 2Q (Jul-Sep) was 16,249 (+16.1% YoY, +5.1% QoQ). We believe that the recovery of new guarantees has been progressing well.

Expectations for approach to the existing housing loan market in 2H

In general, when regional financial institutions restructure their businesses, they are likely to consider spinning off their mortgage guarantee subsidiaries as one option. We believe that Zenkoku Hoshou may well be chosen as the successor for such deals. The company has been focusing on taking over the guarantee obligations by way of stock acquisitions or absorption-type splits. As the fiscal year ends in March for the counterparties (regional financial institutions), we understand that such deals are likely to yield results in 3Q or 4Q.

Entry into fintech also attracts attention

In April, the company began offering the AI-based "Mortgage Guarantee Review Powered by Zenkoku Hoshou" on "Sugo-Soku", which is operated by Recruit. This is a simple screening service that allows prospective homebuyers to find out the estimated amount of their guarantee in about five minutes before purchasing a home. Until now, real estate agents and banks have often taken the lead in selecting mortgage guarantee providers, but "Sugo-Soku" has the potential to overturn this structure, and we are paying close attention to its trends. In June, the company also launched AI screening for at home, a real estate information provider. By September, AI screening was used 288,000 times for both Recruit and at home, indicating the high level of need for this service.

Please refer to the report dated April 8, 2021 for the rationale of the rating and target price.

MITA SECURITIES Co., Ltd.
Junichi Shimizu
Chief Analyst, Head of Research

jshimizu@mitasec.com

Update

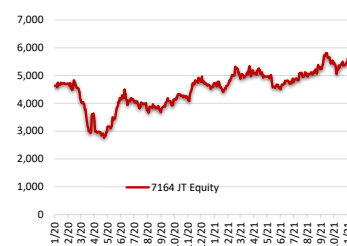
Rating
Buy

Target price (JPY)	6,400
Stock price (JPY) (Nov 5)	5,280
Market cap (JPYbn)	363.6

Key changes

Rating	No
Target price	No
Earnings forecast	No

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

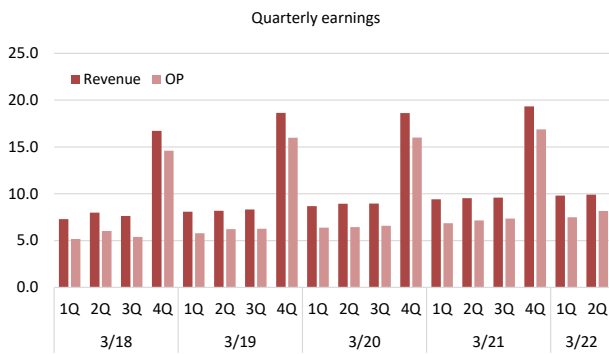
		3/20	3/21	3/22E	3/23E	3/24E
Revenue	JPYbn	45.2	47.8	50.3	53.9	57.0
OP	JPYbn	35.4	38.2	39.7	42.4	43.7
RP	JPYbn	35.8	39.0	40.6	43.4	44.8
NP	JPYbn	24.4	27.0	28.1	30.1	31.0
EPS	JPY	355.2	392.5	408.9	437.1	451.3
BPS	JPY	2,109	2,408	2,686	2,970	3,250
DPS	JPY	95.0	117.0	135.0	153.0	171.0
PER	x	9.6	12.9	13.2	12.4	12.0
PBR	x	1.6	2.1	2.0	1.8	1.7
Div. yield	%	2.8	2.3	2.5	2.8	3.2
ROA	%	7.0	7.0	6.8	6.7	6.5
ROE	%	18.0	17.4	16.1	15.5	14.5

Source: Company data, Mita Securities

Company profile

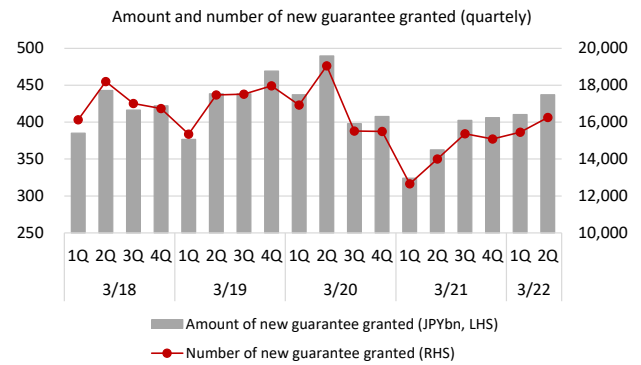
Zenkoku Hoshou is an independent mortgage guarantee company with guarantee exposure of 14.6trn yen (end-FY3/21). It has partnerships with 744 financial institutions nationwide. Stock revenue has been growing due to the increase in the guarantee exposure, whereas credit costs have remained at a low level. The company has made it clear that it aims to grow through M&A.

Figure: Quarterly earnings (JPYbn)



Source: Company data, Mita Securities

Figure: Amount and number of new guarantees executed (Q)



Source: Company data, Mita Securities

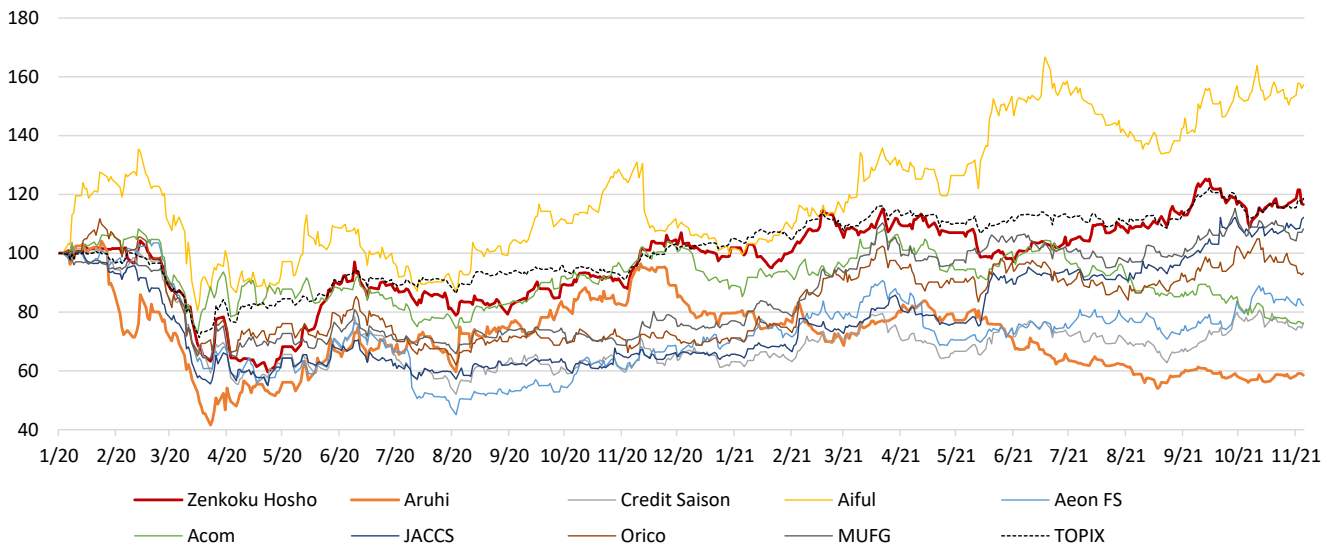
Figure: Comparison of valuations

Company	Ticker	Currency	Share price 4-Nov	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	Dividend yield Current E	1M Change	3M Change	1YR Change
ZENKOKU HOSHO CO LTD	7164	JPY	5,410	372.6	13.8	13.6	NA	NA	2.3	NA	NA	17.9	5.2	81.7	NA	5.7	6.9	24.4
MORTGAGE SERVICE JAPAN LTD	7192	JPY	1,080	15.9	16.4	16.0	NA	NA	2.7	NA	NA	18.4	-0.8	22.1	NA	6.1	6.3	0.5
ARUHI CORP	7198	JPY	1,322	47.7	9.0	9.2	8.7	7.8	1.5	8.5	2.8	17.6	2.5	45.9	4.5	4.4	-0.6	-35.9
PREMIUM GROUP CO LTD	7199	JPY	3,245	43.3	17.4	18.8	17.3	15.1	5.5	NA	2.2	33.1	24.4	24.7	1.5	2.4	-4.7	58.2
CREDIT SAISON CO LTD	8253	JPY	1,435	266.1	6.2	6.2	6.1	5.8	0.4	42.7	8.2	7.0	-4.9	38.9	3.2	-0.8	10.3	25.3
AIFUL CORP	8515	JPY	387	187.5	10.2	11.5	10.8	7.8	1.3	NA	4.3	11.7	-0.7	21.9	0.3	3.5	13.8	24.0
AEON FINANCIAL SERVICE CO LT	8570	JPY	1,446	312.4	17.6	9.1	11.5	9.3	0.7	NA	NA	8.5	NA	NA	3.3	2.3	7.8	34.5
ACOM CO LTD	8572	JPY	380	595.3	7.5	7.7	9.4	8.8	1.2	11.9	4.3	16.6	-4.8	41.1	1.6	-3.6	-12.6	-20.3
JACCS CO LTD	8584	JPY	3,145	110.3	9.2	7.8	6.8	6.6	0.6	NA	11.5	8.4	0.9	28.6	4.5	4.3	20.3	71.6
ORIENT CORP	8585	JPY	152	261.2	16.2	13.7	12.5	10.6	1.2	NA	5.8	8.9	-3.0	25.1	2.0	-7.3	7.8	38.2
EGUARANTEE INC	8771	JPY	2,734	127.4	60.6	56.7	51.4	43.7	7.6	24.8	12.3	14.0	15.0	59.5	0.9	17.6	17.6	39.4
Average					16.7	15.5	14.9	12.8	2.3	22.0	6.4	14.7	3.4	38.9	2.4	3.1	6.6	23.6

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are by Bloomberg consensus

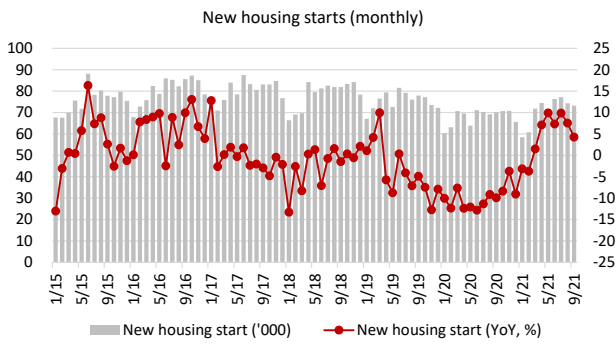
Figure: Stock price trends



Source: Bloomberg Finance LP data, Mita Securities

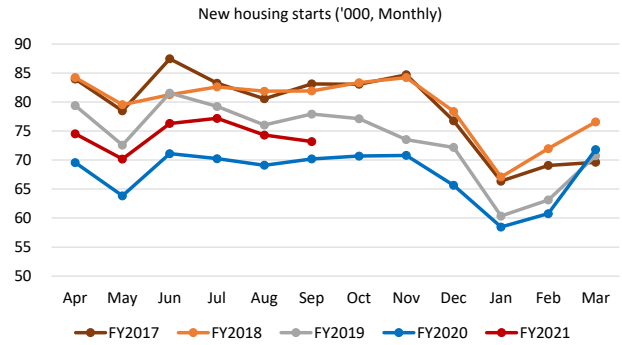
Note: Indexed 100 at the end of 2019

Figure: New housing starts



Source: MLIT data, Mita Securities

Figure: New housing starts



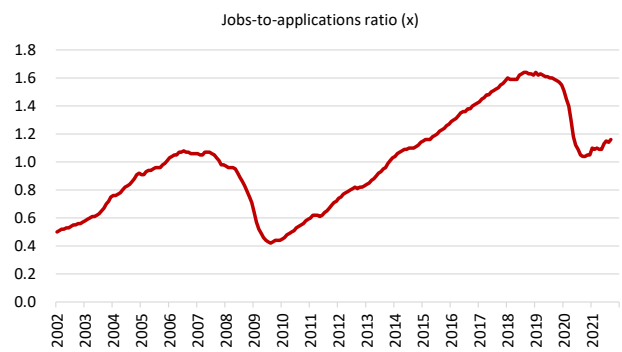
Source: MLIT data, Mita Securities

Figure: Unemployment rate



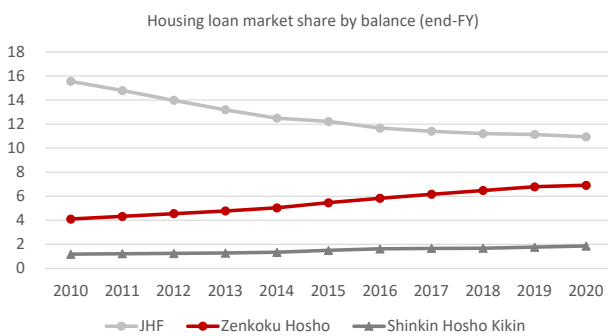
Source: MIC data, Mita Securities

Figure: Jobs-to-applicants ratio



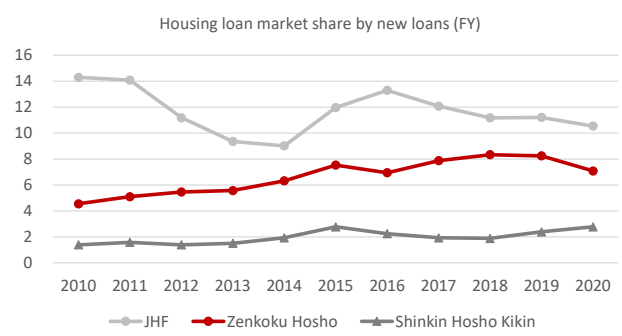
Source: MHLW data, Mita Securities

Figure: Housing loan market share by balance



Source: JHF data, Shinkin Hosho Kikin data, company data, Mita Securities

Figure: Housing loan market share by new loans



Source: JHF data, Shinkin Hosho Kikin data, 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.

NR: No Rating - Stocks for which no target price or rating is assigned.

[Potential Conflicts of Interest]

Mita Securities Co., Ltd. and its affiliates have or may in the future have transactions with the companies mentioned in this report, such as providing investment banking services to them. Therefore, investors viewing this report should be aware that Mita Securities Co., Ltd. and its affiliates may have conflicts of interest that could affect the objectivity of this report. Mita Securities Co., Ltd. may in the future hold or trade shares of the stocks listed in this report. Mita Securities Co., Ltd. may also take positions to sell or buy in a manner that conflicts or is inconsistent with the investment decisions and views expressed in this report. Please refer to this report only as one factor for reference in making investment decisions.

[Important Disclosures]

1. Mita Securities Co., Ltd. has a parent company, subsidiary, affiliated company or related company relationship with the company covered by this report: N/A
2. An officer of Mita Securities Co., Ltd. is concurrently an officer of the company covered by this report: N/A
3. Mita Securities Co., Ltd. owns 5% or more of the total number of issued common shares, etc. of the company covered by this report (as of the end of the previous month): N/A
4. Mita Securities Co., Ltd. has acted as lead manager or joint lead manager for the public offering of securities of the company covered by this report in the past 12 months: N/A
5. The analyst(s) listed on the cover of this report is a director or advisor of the company covered by this report: N/A
6. Any family member of the analyst(s) listed on the cover of this report is a director or an advisor of the company covered by this report: N/A
7. The analyst(s) listed on the cover of this report or their family members hold securities (common stock, corporate bonds, convertible bonds, etc.) of the company covered by this report: N/A

[General Disclaimer]

The contents and descriptions in this report are based on publicly available information, and have been prepared by analysts with necessary supplements through interviews. The authors of this report are prohibited from using insider information as well as from obtaining such information. The information contained in this report is believed to be accurate and reliable, but its accuracy has not been objectively verified. This report is not intended to contain all the information required by investors. The information contained in this report may be out of date due to changes in the financial market or economic environment. Stocks mentioned directly or indirectly in this report are subject to the risk of losing the principal amount invested due to factors such as changes in stock prices, changes in the management and financial conditions of the issuer, and fluctuations in interest rates and exchange rates. Past performance does not imply or guarantee future performance. The views expressed in this report are subject to change without notice, and Mita Securities Co., Ltd. assumes no obligation to update the information or views contained in this report. Mita Securities Co., Ltd. assumes no responsibility whatsoever for any direct or indirect loss or damage, including lost profits, resulting from the use of or reliance on this report by investors. The information provided by the Company is intended to serve as a reference for investment decisions and is not intended to promise future results. Final investment decisions should be made by investors themselves. The copyright of this report belongs to Mita Securities Co., Ltd. and may not be reproduced, transcribed, or quoted without permission. This report does not constitute a prospectus or other offering document and is not intended as an offer to sell or a solicitation of an offer to buy any securities in any country or region where the solicitation of securities is not permitted. No person to whom this report has been delivered may deliver, circulate or distribute this report, or reproduce, grant or make available for inspection, this report to any other person.

[Disclaimer for the English version of the report]

The Japanese version of this report is the official version, and the English version is a translation of the Japanese version. In the event of any discrepancy between the Japanese and English versions, the Japanese version shall always take precedence. Mita Securities Co., Ltd. makes no guarantee as to the accuracy and completeness of the content of the English version of this report.

[Important notes concerning the Financial Instruments and Exchange Act]

When conducting transactions in accordance with the contents of this report, the customer may be required to bear the prescribed fees and expenses for each service or product. In addition, there is a possibility that each service or product may incur losses due to price fluctuations, etc. Since each service or product has different fees, etc. and risks, please read carefully the documents for listed securities, etc., pre-contract documents for the relevant service or product, etc., or materials for customers.

Company Name

Mita Securities Co., Ltd. / Financial Instruments Business Operator, Director-General of the Kanto Local Finance Bureau (Kinsho) No. 175

Memberships

Japan Securities Dealers Association