



# Zenkoku Hoshu

TSE 1st Section 7164 Industry: Other financials

## Raising our profit forecast by easing credit cost assumption; Reiterate Buy

### Updating earnings forecast; Reiterate Buy

We have raised our profit forecast for Zenkoku Hoshu (7164, the company) by easing our assumption on credit costs. Our new OP forecast is 40.5bn yen for FY3/22 (vs. previous forecast 39.7bn yen, company guidance 38.78bn yen) and 43.1bn yen for FY3/23 (vs. previous forecast 42.4bn yen). We have raised our target price to 6,500 yen from 6,400 yen. We maintain our Buy rating. We note that as regional financial institutions continue to reorganize, there should be more inorganic growth opportunities for the company in the mortgage guarantee business.

### The highlight of 1H results was the low credit costs

On November 5, the company announced a strong 1H FY3/22 OP of 15.6bn yen (+11.7% YoY), which was 109% vs. the 1H plan of 14.4bn yen (+2.8% YoY). The top line was roughly in-line with the company's plan, but credit costs were significantly lower than the company's plan of 1.5bn yen at 645m yen (vs. 1.7bn yen in 1H FY3/21). Subrogated repayments (defaults) were only 4.6bn yen (vs. 5.6bn yen in the company's plan and 6.4bn yen in 1H FY3/21). The delinquency rate, which is a leading indicator of default amounts and credit costs, declined slightly from the end of FY3/21. Deferrals of payments also decreased significantly from their peak. The number of new guarantees granted in 1H was 31,709 (+19.0% YoY), 108% of the company's plan.

### Reorganization of regional financial institutions is a growth driver for Zenkoku Hoshu

We believe that one of the medium- to long-term themes in Japan's financial industry is the growing momentum of reorganization among regional financial institutions. When regional financial institutions consider divesting their non-core mortgage guarantee business, we expect that Zenkoku Hoshu could be chosen as the buyer in many cases. The company has been focusing on pursuing such inorganic growth opportunities.

### AI screening could change the rules of the game

The company has tied up with Recruit and at home to begin working on AI-based mortgage guarantee screening for potential homebuyers. Traditionally, real estate agents and banks have taken the lead in selecting mortgage guarantee providers, but this new initiative has the potential to overturn that structure. We are paying close attention to future developments.

### Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 6.5% and a terminal growth rate of 0.2%, based on our earnings forecasts for FY3/22-FY3/26. Our target price is equivalent to 14.6x our FY3/23 EPS forecast of 445.66 yen.

Risk factors to our view include financial market turmoil due to a rapid spread of the COVID infection, a sharp rise in the default rate due to a significant deterioration in the employment situation, a significant decline in the recovery rate due to a significant drop in housing prices, and the occurrence of large-scale fraudulent mortgage applications.

MITA SECURITIES Co., Ltd.  
Junichi Shimizu  
Chief Analyst, Head of Research  
jshimizu@mitasec.com

## Forecast change

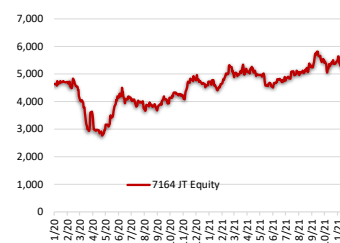
### Rating Buy

Target price (JPY)	6,500 ← 6,400
Stock price (JPY) (Nov 30)	4,960
Market cap (JPYbn)	341.6

### 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
Revenue	JPYbn	45.2	47.8	50.2	53.7	56.9
OP	JPYbn	35.4	38.2	40.5	43.1	44.6
RP	JPYbn	35.8	39.0	41.4	44.2	45.8
NP	JPYbn	24.4	27.0	28.6	30.6	31.7
EPS	JPY	355.2	392.5	415.8	445.7	461.7
BPS	JPY	2,109	2,411	2,692	2,982	3,268
DPS	JPY	95.0	117.0	135.0	156.0	175.0
PER	x	9.6	12.9	12.1	11.3	10.9
PBR	x	1.6	2.1	1.9	1.7	1.5
Div. yield	%	2.8	2.3	2.7	3.1	3.5
ROA	%	7.0	7.0	6.9	6.9	6.6
ROE	%	18.0	17.4	16.3	15.7	14.8

Source: Company data, Mita Securities

### Company profile

Zenkoku Hoshu 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.

# Investment thesis

## Outlook

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

JPYm	3/19	3/20	3/21	Mita E 3/22	Mita E 3/23	Mita E 3/24	CoE 3/22	Consensus 3/22	Consensus 3/23	Consensus 3/24
<b>Earnings</b>										
Revenue	43,204	45,203	47,834	50,162	53,670	56,876	50,310	50,645	53,679	57,275
YoY, %	9.1	4.6	5.8	4.9	7.0	6.0	5.2	5.9	6.0	6.7
Operating expense	8,975	9,823	9,600	9,626	10,533	12,276	11,530			
YoY, %	6.6	9.4	-2.3	0.3	9.4	16.6	20.1			
General expense	6,248	7,091	6,752	7,100	7,661	8,088	7,880			
Credit cost	2,727	2,732	2,848	2,526	2,872	4,188	3,650			
vs. guarantee exposure (bp)	2	2	2	2	2	2				
Pre-provision OP	36,956	38,111	41,081	43,062	46,009	48,788	42,430			
YoY, %	10.1	3.1	7.8	4.8	6.8	6.0	3.3			
Operating profit	34,229	35,379	38,233	40,535	43,137	44,600	38,780	41,019	43,470	46,897
YoY, %	9.8	3.4	8.1	6.0	6.4	3.4	1.4	7.3	6.0	7.9
Recurring profit	35,169	35,760	38,991	41,440	44,220	45,811	39,400	41,744	44,089	47,568
YoY, %	10.0	1.7	9.0	6.3	6.7	3.6	1.0	7.1	5.6	7.9
Net profit	24,134	24,430	27,002	28,573	30,623	31,725	27,220	28,884	30,493	32,911
YoY, %	9.4	1.2	10.5	5.8	7.2	3.6	0.8	7.0	5.6	7.9
<b>Guarantee exposure</b>										
Guarantee exposure (parent+subsidiaries)	12,717,625	13,706,420	14,629,758	15,568,065	16,596,593	17,600,349	15,400,000			
YoY, %	7.9	7.8	6.7	6.4	6.6	6.0	5.3			
Guarantee exposure (parent)	12,717,625	13,616,023	14,258,758	15,215,615	16,261,766	17,282,263				
YoY, %	7.9	7.1	4.7	6.7	6.9	6.3				
Amount of new guarantee granted	1,722,629	1,732,416	1,495,085	1,778,727	1,953,069	2,006,671				
YoY, %	3.4	0.6	-13.7	19.0	9.8	2.7				
Number of new guarantee granted	68,311	67,003	57,113	65,394	71,280	72,705	60,000			
YoY, %	0.3	-1.9	-14.8	14.5	9.0	2.0	5.1			
Amount of subrogation (default)	11,709	12,036	10,484	9,121	9,197	10,468	12,450			
vs. guarantee exposure (bp)	10	9	8	6	6	6				
<b>Per share indicators</b>										
EPS (JPY)	350.88	355.15	392.50	415.83	445.66	461.69	395.67	420.35	443.76	478.95
BPS (JPY)	1,846.41	2,108.65	2,410.94	2,691.85	2,981.52	3,267.77				
DPS (JPY)	87.00	95.00	117.00	135.00	156.00	175.00	130.00	133.40	147.40	165.00
<b>Valuation, profitability, etc.</b>										
PER (x)	11.0	9.6	12.9	12.1	11.3	10.9				
PBR (x)	2.1	1.6	2.1	1.9	1.7	1.5				
Dividend payout ratio (%)	24.8	26.8	29.8	32.5	35.0	38.0				
Dividend yield (%)	2.2	2.8	2.3	2.7	3.1	3.5				
ROA (%)	7.8	7.0	7.0	6.9	6.9	6.6				
ROE (%)	20.5	18.0	17.4	16.3	15.7	14.8				
<b>Financial soundness indicators</b>										
Capital ratio (%)	39.5	38.9	41.8	43.3	44.4	45.2				
Capital ratio (adjusted for subordinated loans, %)	39.5	44.9	47.5	48.6	49.2	49.7				
shareholders' equity/total assets+guarantee exposure (%)	1.0	1.0	1.1	1.2	1.2	1.3				
shareholders' equity/total assets+guarantee exposure (adjusted for subordinated loans, %)	1.0	1.2	1.3	1.3	1.4	1.4				

Source: Company data, QUICK data, Mita Securities

Note: Consensus forecasts are by QUICK

Figure: Mita Securities' earnings forecast change (non-consolidated, JPYm)

JPYm	3/22 CoE	3/22 Old Mita E	3/22 New Mita E	3/23 Old Mita E	3/23 New Mita E	3/24 Old Mita E	3/24 New Mita E
Revenue	50,310	50,290	<b>50,162</b>	53,881	<b>53,670</b>	56,994	<b>56,876</b>
Operating profit	38,780	39,713	<b>40,535</b>	42,407	<b>43,137</b>	43,698	<b>44,600</b>
Recurring profit	39,400	40,587	<b>41,440</b>	43,392	<b>44,220</b>	44,798	<b>45,811</b>
Net profit	27,220	28,127	<b>28,573</b>	30,071	<b>30,623</b>	31,045	<b>31,725</b>
EPS (JPY)	395.67	408.86	<b>415.83</b>	437.12	<b>445.66</b>	451.28	<b>461.69</b>

Source: Company data, Mita Securities

Valuations

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)	165.7	185.0	204.9	224.5	243.4	261.5	
Net profit		28.6	30.6	31.7	32.5	33.6	
Cost of equity		10.8	12.0	13.3	14.6	15.8	
Residual income		17.8	18.6	18.4	17.9	17.7	
PV of residual income		16.7	16.4	15.2	13.9	13.0	
PV of terminal value							206.0

Beta	1.20						
Risk free rate (%)	0.50						Total equity value 446.9
Risk premium (%)	5.00						Number of shares O/S (m) 68.715
Cost of equity (%)	6.50						Target share price <b>6,500</b>
Terminal growth rate (%)	0.20						

Source: Company data, Mita Securities

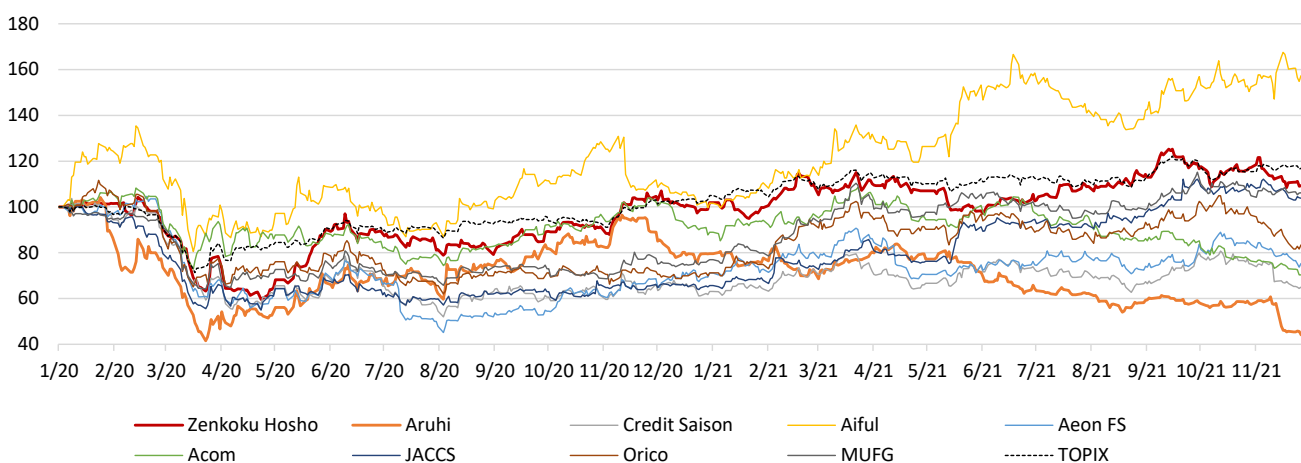
Figure: Comparison of valuations

Company	Ticker	Currency	Share price	Mkt cap	PER	PER	PER	PER	PBR	EV/EBITDA	EV/Sales	ROE	Sales growth	EBITDA Mgn	Dividend yield	1M	3M	1YR
			29-Nov	JPYbn	Last	LTM	Current E	Next E	Last	Next E	Next E	LTM	LTM	LTM	Current E	Change	Change	Change
ZENKOKU HOSHŌ CO LTD	7164	JPY	5,020	345.7	12.8	12.3	NA	NA	2.0	NA	NA	17.7	4.5	83.2	NA	-8.7	-4.2	5.1
MORTGAGE SERVICE JAPAN LTD	7192	JPY	1,073	15.8	16.3	14.1	NA	NA	2.5	NA	NA	19.0	2.0	23.7	NA	1.2	1.2	-5.8
ARUHI CORP	7198	JPY	985	35.5	6.7	7.3	6.5	5.8	1.1	7.4	2.4	16.1	-1.5	45.5	6.1	-25.4	-26.5	-48.7
PREMIUM GROUP CO LTD	7199	JPY	3,560	47.5	19.1	18.8	17.9	15.7	5.5	NA	2.3	33.3	24.4	24.6	1.4	14.7	3.5	58.6
CREDIT SAISON CO LTD	8253	JPY	1,151	213.4	5.0	4.8	4.9	4.6	0.3	38.4	8.0	7.1	-0.3	39.5	4.0	-17.3	-8.1	-3.7
AIFUL CORP	8515	JPY	366	177.4	9.6	9.5	9.9	7.3	1.2	NA	4.2	13.0	-0.1	22.5	0.3	-3.2	4.3	37.1
AEON FINANCIAL SERVICE CO LT	8570	JPY	1,243	268.5	15.2	7.8	9.9	8.0	0.6	NA	NA	8.5	NA	NA	3.9	-13.8	-4.0	9.4
ACOM CO LTD	8572	JPY	337	527.9	6.7	7.1	8.9	7.9	1.0	11.0	4.0	15.3	-4.6	39.2	1.8	-11.1	-20.7	-32.7
JACCS CO LTD	8584	JPY	2,780	97.5	8.2	5.7	6.0	5.9	0.5	NA	11.2	9.9	1.1	31.5	5.0	-8.3	1.1	53.1
ORIENT CORP	8585	JPY	127	218.3	13.6	11.5	10.4	8.8	1.0	NA	5.6	8.9	-3.1	25.5	2.4	-18.6	-15.3	10.4
EGUARANTEE INC	8771	JPY	2,459	114.7	54.5	51.0	46.2	39.3	6.8	22.0	10.9	14.0	15.0	60.4	1.0	-2.9	0.6	19.0
<b>Average</b>					<b>15.2</b>	<b>13.6</b>	<b>13.4</b>	<b>11.5</b>	<b>2.1</b>	<b>19.7</b>	<b>6.1</b>	<b>14.8</b>	<b>3.7</b>	<b>39.5</b>	<b>2.9</b>	<b>-8.5</b>	<b>-6.2</b>	<b>9.2</b>
MGIC INVESTMENT CORP	MTG	USD	14.44	4.7	11.0	8.0	8.2	7.8	1.0	NA	4.8	13.0	-1.2	NA	2.8	-10.6	-6.5	19.3
ESSENT GROUP LTD	ESNT	USD	42.16	4.7	10.8	7.5	7.3	6.9	1.1	NA	4.8	15.8	8.4	NA	1.7	-12.2	-11.5	-7.0
GENWORTH MORTGAGE INSURANCE	GMA AU	AUD	2.23	0.9	NA	22.0	5.0	6.2	0.6	NA	2.4	2.9	-0.8	NA	6.5	-3.0	0.5	-15.8
<b>Average</b>					<b>10.9</b>	<b>12.5</b>	<b>6.8</b>	<b>7.0</b>	<b>0.9</b>	<b>NA</b>	<b>4.0</b>	<b>10.6</b>	<b>2.1</b>	<b>NA</b>	<b>3.6</b>	<b>-8.6</b>	<b>-5.9</b>	<b>-1.2</b>

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

**Risk factors**

Risk factors to our view include financial market turmoil due to a rapid spread of the COVID infection, a sharp rise in the default rate due to a significant deterioration in the employment situation, a significant decline in the recovery rate due to a significant drop in housing prices, and the occurrence of large-scale fraudulent mortgage applications.

## Mita Securities' earnings forecast

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

JPYm	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y growth (CAGR)
	A	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	
Revenue	39,599	43,204	45,203	47,834	50,162	53,670	56,876	59,935	62,839	5.6
Guarantee fee income	39,461	43,038	45,056	47,668	49,982	53,488	56,692	59,749	62,651	5.6
Other income	138	166	147	166	180	182	184	186	188	
Operating expense	8,419	8,975	9,823	9,600	9,626	10,533	12,276	14,272	16,489	
SG&A	6,045	6,248	7,091	6,752	7,100	7,661	8,088	8,498	8,840	
Credit costs	2,374	2,727	2,732	2,848	2,526	2,872	4,188	5,774	7,649	
Provision for guarantee loss reserves	3,090	3,034	2,547	2,560	2,811	3,013	3,409	4,105	5,790	
Provision for loan loss reserves	-716	-307	185	288	-285	-141	779	1,669	1,859	
Pre-provision operating profit	33,553	36,956	38,111	41,081	43,062	46,009	48,788	51,436	53,998	5.6
Operating profit	31,179	34,229	35,379	38,233	40,535	43,137	44,600	45,662	46,349	3.9
Non-operating income	795	947	1,249	1,538	1,704	1,882	2,011	2,068	2,117	
Interest income	96	115	126	143	96	99	106	108	110	
Interest on securities	539	667	910	1,285	1,481	1,640	1,748	1,790	1,825	
Dividend income	75	86	157	55	66	73	78	80	81	
Non-operating expenses	1	7	868	780	799	799	800	800	32	
Recurring profit	31,974	35,169	35,760	38,991	41,440	44,220	45,811	46,930	48,434	4.4
Extraordinary gains	79	0	0	0	180	0	0	0	0	
Extraordinary losses	83	324	518	0	360	0	0	0	0	
Pre-tax profit	31,971	34,844	35,241	38,991	41,260	44,220	45,811	46,930	48,434	
Corporate taxes	9,919	10,710	10,811	11,989	12,687	13,597	14,086	14,408	14,869	
Net profit	22,052	24,134	24,430	27,002	28,573	30,623	31,725	32,523	33,565	4.4
Shares O/S (m)	68,762	68,781	68,788	68,795	68,715	68,715	68,715	68,715	68,715	
EPS	320.70	350.88	355.15	392.20	415.83	445.66	461.69	473.30	488.47	4.5
BPS	1,572.47	1,846.41	2,108.65	2,410.94	2,691.85	2,981.52	3,267.77	3,542.29	3,806.06	9.6
Dividend	5,508	5,991	6,542	8,057	9,286	10,718	12,055	13,660	15,440	13.9
DPS	80.00	87.00	95.00	117.00	135.00	156.00	175.00	199.00	225.00	14.0
Payout ratio (%)	25.0	24.8	26.8	29.8	32.5	35.0	38.0	42.0	46.0	
Tax rate (%)	31.0	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	
ROA (%)	7.9	7.8	7.0	7.0	6.9	6.9	6.6	6.5	6.5	
ROE (%)	22.3	20.5	18.0	17.4	16.3	15.7	14.8	13.9	13.3	

Source: Company data, Mita Securities

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

	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y growth (CAGR)
	A	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	
Revenue growth (%)	10.2	9.1	4.6	5.8	4.9	7.0	6.0	5.4	4.8	
Operating expense growth (%)	8.2	6.6	9.4	-2.3	0.3	9.4	16.6	16.3	15.5	
SG&A growth (%)	5.2	3.4	13.5	-4.8	5.2	7.9	5.6	5.1	4.0	
Credit cost growth (%)	16.9	14.9	0.2	4.2	-11.3	13.7	45.8	37.9	32.5	
Pre-provision OP growth (%)	11.2	10.1	3.1	7.8	4.8	6.8	6.0	5.4	5.0	
Operating profit growth (%)	10.8	9.8	3.4	8.1	6.0	6.4	3.4	2.4	1.5	
Recurring profit growth (%)	10.3	10.0	1.7	9.0	6.3	6.7	3.6	2.4	3.2	
Net profit growth (%)	12.9	9.4	1.2	10.5	5.8	7.2	3.6	2.5	3.2	
SG&A/Revenue (%)	15.3	14.5	15.7	14.1	14.2	14.3	14.2	14.2	14.1	
Credit costs / Revenue (%)	6.0	6.3	6.0	6.0	5.0	5.4	7.4	9.6	12.2	
Pre-provision OP / Revenue (%)	84.7	85.5	84.3	85.9	85.8	85.7	85.8	85.8	85.9	
Operating profit / Revenue (%)	78.7	79.2	78.3	79.9	80.8	80.4	78.4	76.2	73.8	
Recurring profit / Revenue (%)	80.7	81.4	79.1	81.5	82.6	82.4	80.5	78.3	77.1	
Guarantee fee income / Guarantee exposure (bp)	34.8	35.1	34.2	34.2	33.9	34.0	33.8	33.6	33.4	
SG&A / Guarantee exposure (bp)	5.3	5.1	5.4	4.8	4.8	4.9	4.8	4.8	4.7	
Credit costs / Guarantee exposure (bp)	2.1	2.2	2.1	2.0	1.7	1.8	2.5	3.2	4.1	
Pre-provision OP / Guarantee exposure (bp)	29.6	30.2	28.9	29.5	29.2	29.2	29.1	28.9	28.8	
Operating profit / Guarantee exposure (bp)	27.5	27.9	26.9	27.4	27.5	27.4	26.6	25.7	24.7	
Interest income / Cash and deposits (%)	0.05	0.06	0.06	0.07	0.05	0.05	0.05	0.05	0.05	
Securities yield (%)	0.90	0.79	0.83	0.83	0.80	0.80	0.80	0.80	0.80	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (non-consolidated, guarantee exposure, JPYm)

JPYm	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y growth (CAGR)
	A	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	
Number of new guarantees granted	68,073	68,311	67,003	57,113	65,394	71,280	72,705	73,433	73,800	5.3
Change (YoY, %)	-5.2	0.3	-1.9	-14.8	14.5	9.0	2.0	1.0	0.5	
Amount of new guarantees granted	1,666,315	1,722,629	1,732,416	1,495,085	1,778,727	1,953,069	2,006,671	2,034,081	2,051,632	6.5
Change (YoY, %)	-1.4	3.4	0.6	-13.7	19.0	9.8	2.7	1.4	0.9	
New guarantee amount per transaction	24.48	25.22	25.86	26.18	27.20	27.40	27.60	27.70	27.80	1.2
Change (YoY, %)	4.0	3.0	2.5	1.2	3.9	0.7	0.7	0.4	0.4	
Guarantee exposure	11,789,304	12,717,625	13,616,023	14,258,758	15,215,615	16,261,766	17,282,263	18,266,122	19,205,437	6.1
Change (YoY, %)	8.3	7.9	7.1	4.7	6.7	6.9	6.3	5.7	5.1	
Guarantee exposure (parent+subsidiaries)	11,789,304	12,717,625	13,706,420	14,629,758	15,568,065	16,596,593	17,600,349	18,568,304	19,492,510	5.9
Change (YoY, %)	8.3	7.9	7.8	6.7	6.4	6.6	6.0	5.5	5.0	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (non-consolidated, asset quality, credit costs, JPYm)

JPYm	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y growth (CAGR)
	A	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	
<u>Delinquencies, defaults</u>										
Guarantee exposure	11,789,304	12,717,625	13,616,023	14,258,758	15,215,615	16,261,766	17,282,263	18,266,122	19,205,437	6.1
Delinquent loan amount	24,010	24,095	26,990	21,211	21,388	24,345	30,897	38,021	45,665	16.6
Delinquency ratio (vs. EOP guarantee exposure, %)	0.20	0.19	0.20	0.15	0.14	0.15	0.18	0.21	0.24	
Change (YoY, %)	7.4	0.4	12.0	-21.4	0.8	13.8	26.9	23.1	20.1	
Subrogation repayments (default amount)	11,237	11,709	12,036	10,484	9,121	9,197	10,468	13,286	16,349	9.3
Subrogation repayments / Delinquent loan amount (%)	50.3	48.8	50.0	38.8	43.0	43.0	43.0	43.0	43.0	
Subrogation repayments / Guarantee exposure (%)	0.10	0.10	0.09	0.08	0.06	0.06	0.06	0.07	0.09	
Change (YoY, %)	-1.6	4.2	2.8	-12.9	-13.0	0.8	13.8	26.9	23.1	
<u>Reserves</u>										
Guarantee loss reserves (EOP)	6,691	6,453	5,905	5,639	5,934	6,667	7,777	8,950	10,755	
Guarantee loss reserves / Guarantee exposure (%)	0.06	0.05	0.04	0.04	0.04	0.04	0.05	0.05	0.06	
Guarantee loss reserves / Delinquent loan amount (%)	27.9	26.8	21.9	26.6	27.7	27.4	25.2	23.5	23.6	
Loan loss reserves (EOP)	5,737	6,302	7,533	7,308	7,023	7,082	8,061	10,230	12,589	
Loan loss reserves / Reimbursement claim rights (%)	49.7	51.4	55.2	56.2	55.0	55.0	55.0	55.0	55.0	
<u>Credit costs</u>										
Total credit costs	2,374	2,727	2,732	2,848	2,526	2,872	4,188	5,774	7,649	
Provision for guarantee loss reserves	3,090	3,034	2,547	2,560	2,811	3,013	3,409	4,105	5,790	
Provision for loan loss reserves	-716	-307	185	288	-285	-141	779	1,669	1,859	
vs. guarantee exposure (bp)	2.1	2.2	2.1	2.0	1.7	1.8	2.5	3.2	4.1	

Source: Company data, Mita Securities

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

JPYm	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y growth (CAGR)
	A	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	
<b>(Assets)</b>										
Total current assets	206,161	188,741	204,500	193,936	194,762	213,482	232,819	237,892	256,937	5.8
Cash and deposits	184,518	175,742	191,595	177,649	176,128	188,237	200,050	197,625	207,787	
Reimbursement claim rights	11,536	12,266	13,652	12,995	12,769	12,876	14,656	18,600	22,889	
Securities	6,921	6,334	5,731	9,527	6,222	6,650	7,067	6,981	7,340	
Money held in trust	5,023	0	0	0	0	0	0	0	0	
Other	3,900	701	1,055	1,073	6,666	12,801	19,107	24,916	31,509	
Loan loss reserves	-5,737	-6,302	-7,533	-7,308	-7,023	-7,082	-8,061	-10,230	-12,589	
Total fixed assets	87,976	132,490	168,468	202,324	232,348	248,293	263,867	262,439	276,480	6.4
Tangible fixed assets	194	235	275	234	245	263	278	293	307	
Intangible fixed assets	395	583	657	584	612	655	694	732	767	
Investments and other assets	87,385	131,671	167,535	201,505	231,490	247,375	262,895	261,414	275,405	
Total assets	294,137	321,232	372,968	396,261	427,110	461,774	496,686	500,331	533,417	6.1
<b>(Liabilities)</b>										
Total current liabilities	29,351	30,406	29,910	31,558	33,177	35,798	38,515	41,150	44,456	7.1
Unearned revenue	15,578	16,264	16,687	16,869	17,666	18,867	20,105	21,307	22,459	
Guarantee loss reserves	6,691	6,453	5,905	5,639	5,934	6,667	7,777	8,950	10,755	
Other	7,082	7,689	7,318	9,050	9,577	10,264	10,633	10,893	11,242	
Total long-term liabilities	156,658	163,826	198,008	198,841	208,964	221,103	233,627	215,774	227,429	2.7
Long-term borrowings	0	0	30,000	30,000	30,000	30,000	30,000	0	0	
Long-term unearned revenue	156,597	163,767	167,944	168,768	178,624	190,763	203,287	215,434	227,089	
Other	61	59	64	73	340	340	340	340	340	
Total liabilities	186,010	194,233	227,919	230,400	242,141	256,900	272,142	256,924	271,885	3.4
<b>(Net assets)</b>										
Total net assets	108,127	126,998	145,049	165,860	184,969	204,874	224,544	243,407	261,532	9.5
Shareholders' equity	108,002	126,880	144,901	165,682	184,969	204,874	224,544	243,407	261,532	9.6
Warrants	124	117	148	178	0	0	0	0	0	
Total liabilities and net assets	294,137	321,232	372,968	396,261	427,110	461,774	496,686	500,331	533,417	6.1

Source: Company data, Mita Securities

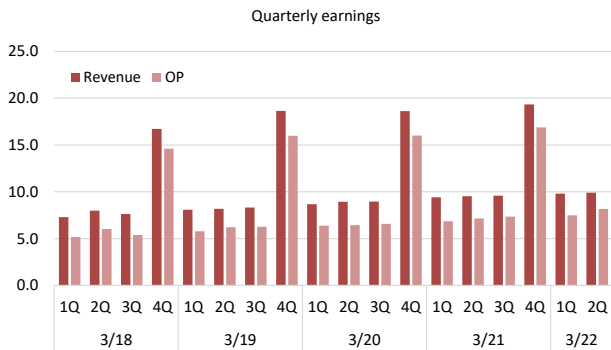
Figure: Mita Securities' earnings forecast (non-consolidated, CF, JPYm)

JPYm	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y growth (CAGR)
	A	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	
<b>Cashflow from operations</b>										
Net profit	22,052	24,134	24,430	27,002	28,573	30,623	31,725	32,523	33,565	
Depreciation	212	230	280	288	302	323	342	361	378	
Increase / (decrease) in unearned revenue (ST+LT)	12,078	7,856	4,600	686	10,653	13,339	13,763	13,348	12,808	
Other	569	592	468	2,235	-4,830	-4,762	-5,628	-6,151	-6,370	
Cashflow from investing	-29,176	-34,182	2,714	-14,323	-25,644	-25,536	-24,958	2,924	-22,196	
Sale / (purchase) of tangible and intangible fixed assets	-244	-423	-408	-212	-342	-383	-397	-413	-427	
Inflows / (outflows) from term deposits	-14,200	-2,100	39,900	26,300	1,795	-9,893	-9,650	1,981	-8,302	
Sale and redemption / (purchase) of investment securities	-19,572	-40,559	-34,925	-38,273	-30,593	-13,832	-13,493	2,770	-11,608	
Other	4,840	8,900	-1,853	-2,138	3,495	-1,428	-1,417	-1,414	-1,859	
Cashflow from financing	-4,269	-5,505	23,260	-6,534	-8,057	-9,286	-10,718	-42,055	-13,660	
Dividends paid	-4,268	-5,508	-5,992	-6,542	-8,057	-9,286	-10,718	-12,055	-13,660	
Share capital issuance / (buy-back)	0	3	0	0	0	0	0	0	0	
Debt issuance / (redemption)	0	0	29,250	0	0	0	0	-30,000	0	
Other	-1	0	2	8	0	0	0	0	0	
Cash and cash equivalents at end of period	77,868	70,992	126,745	136,099	137,096	141,797	146,324	147,273	151,798	

Source: Company data, Mita Securities

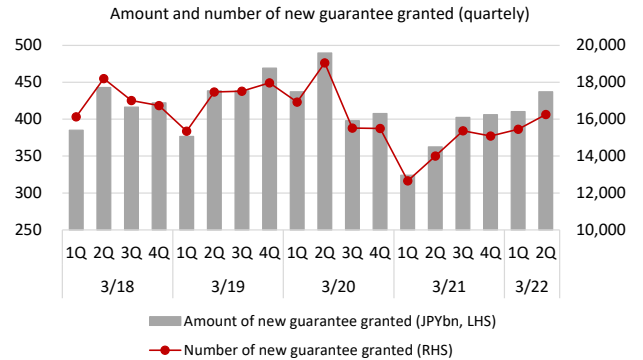
# Reference materials

Figure: Quarterly earnings (JPYbn)



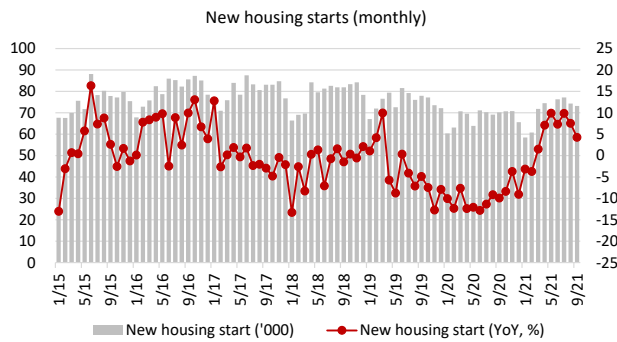
Source: Company data, Mita Securities

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



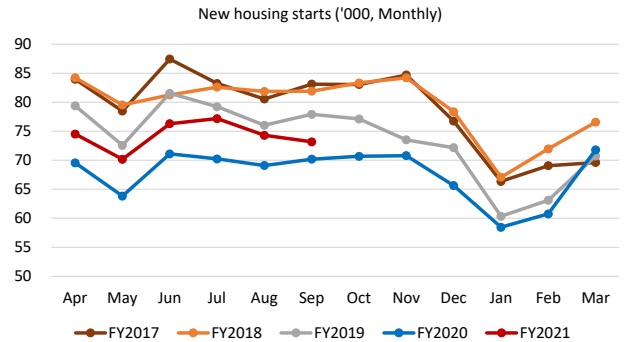
Source: Company data, Mita Securities

Figure: New housing starts



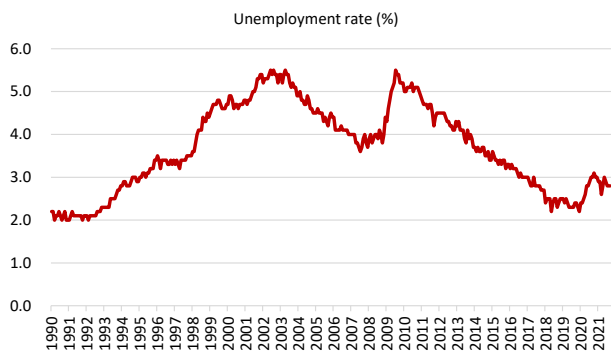
Source: MLIT data, Mita Securities

Figure: New housing starts



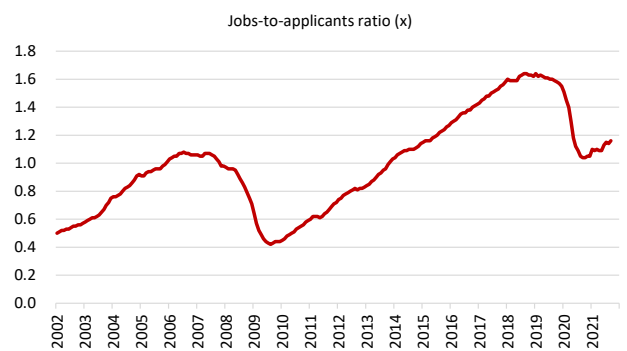
Source: MLIT data, Mita Securities

Figure: Unemployment rate



Source: MIC data, Mita Securities

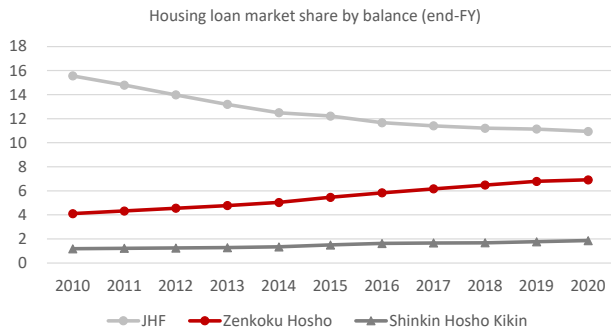
Figure: Jobs-to-applicants ratio



Source: MHLW data, Mita Securities

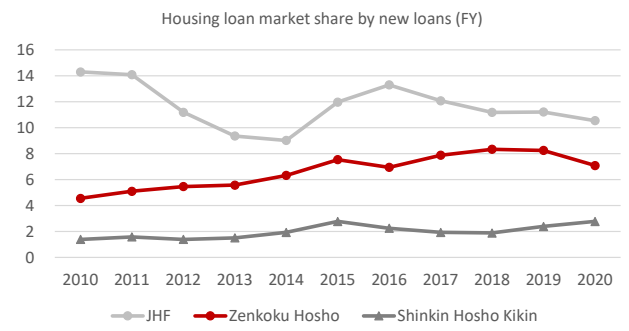


Figure: Housing loan market share by balance



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

Figure: Housing loan market share by new loans



Source: JHF data, Shinkin Hoshō 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