



# S Foods

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

## Remarkable positive surprises. Significant upward revision of guidance

### Record 1-3Q OP +41% YoY; Significant upward revision of full-year guidance

S Foods (2292) announced 3Q FY2/22 results and upward revision of its full-year guidance. 1-3Q OP was record high. The new OP guidance is 17.0bn yen (+34.8% YoY; previous guidance 12.7bn yen). This is a remarkable positive surprise. The dividend guidance is unchanged as the company determines dividends based on DOE.

Consolidated results for 1-3Q were as follows: sales of 262.238bn yen (+8.1% YoY), OP of 13.376bn yen (+41.2% YoY), and NP of 9.220bn yen (+8.7% YoY). The progress rate toward the previous full-year OP guidance of 12.7bn yen was 105%. The relatively small growth in NP was due to the booking of a 4.1bn yen gain on the sale of land in 2Q FY2/21 (extraordinary gains).

3Q (Sep-Nov) OP was 5.310bn yen (+54.0% YoY, +21.3% QoQ).

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

1-3Q segment OP was 13.188bn yen for the manufacturing and wholesale business (+43.7% YoY), 1.148bn yen for the retail business (-15.1%), and -289m yen loss for the food service business (vs. -286m yen loss in 1-3Q FY2/21). Of the manufacturing and wholesale business, we believe that the strong earnings were driven by S Foods (parent basis) and its US subsidiaries.

### Issues for 4Q and beyond

Demand for restaurants during the year-end and New Year holidays appears to have been strong, and we assume that meat wholesaling to restaurants was generally robust. In addition, the ongoing high beef prices in the U.S. market should continue to have a positive impact on the U.S. meatpacker business, in our view. However, the recent sharp increase in the number of infections with the new coronavirus in Japan and overseas could be a cause for concern. In particular, the key factor would be maintaining a normal production setup for U.S. operations. At present, there appears to be no particular issues with the production setup.

In the ham and sausage business, the company has been affected by the rising cost of raw materials. However, with the recent announcement of price hikes by a number of major competitors, it is becoming easier for the company to expect an easing of the competitive environment and an improvement in profitability. The company's subsidiary, Foodlier, already announced price hike of 5-12% starting in March.

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

MITA SECURITIES Co., Ltd.

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## Update

Rating

**Buy**

Target price (JPY)	4,900
Stock price (JPY) (Jan 13)	3,430
Market cap (JPYbn)	110.7

### 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	13.7	12.5	11.7
PBR	x	0.9	1.2	1.2	1.1	1.0
Div. yield	%	2.7	2.0	2.0	2.2	2.4
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.

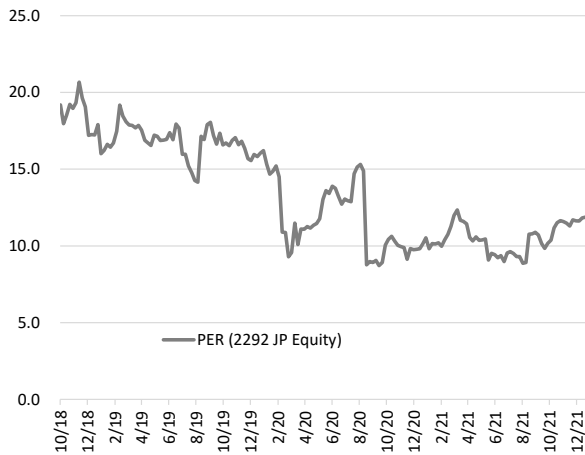
Figure: Comparison of valuations for meat companies

Company	Ticker	Share price 12-Jan	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	2,519	127.3	8.9	10.1	11.9	11.4	1.2	5.2	0.3	12.4	1.7	6.7	2.6	2.5	-8.1	-24.1	
NH FOODS LTD	2282	4,245	437.1	13.4	13.2	13.9	13.2	1.0	6.7	0.5	7.6	1.6	6.0	2.4	5.7	5.9	-7.5	
HAYASHIKANE SANGYO CO LTD	2286	517	4.6	3.6	6.5	NA	NA	0.5	NA	NA	7.5	-6.6	2.7	NA	-2.1	-12.4	-13.0	
MARUDAI FOOD CO LTD	2288	1,561	41.4	95.7	151.0	NA	NA	0.5	NA	NA	0.3	-4.8	3.7	NA	5.0	-9.9	-9.0	
FUKUTOME MEAT PACKERS LTD	2291	1,855	6.3	NA	NA	NA	NA	1.5	NA	NA	-4.2	-1.6	1.2	NA	-1.7	-2.5	-2.6	
<b>S FOODS INC</b>	<b>2292</b>	<b>3,515</b>	<b>113.4</b>	<b>11.2</b>	<b>11.9</b>	<b>11.7</b>	<b>11.1</b>	<b>1.2</b>	<b>5.7</b>	<b>0.3</b>	<b>10.4</b>	<b>0.4</b>	<b>5.2</b>	<b>2.0</b>	<b>2.2</b>	<b>21.2</b>	<b>-0.1</b>	
TAKIZAWA HAM CO LTD	2293	NA	6.4	NA	NA	NA	NA	1.7	NA	NA	2.5	1.3	2.7	NA	2.3	-0.7	0.3	
ITOHAM YONEKYU HOLDINGS INC	2296	672	199.8	9.8	9.4	11.4	11.5	0.8	5.8	0.2	8.6	1.3	4.6	3.3	3.1	-5.9	-0.7	
STARZEN CO LTD	8043	2,038	39.8	5.7	5.7	NA	NA	0.7	NA	NA	12.0	3.6	2.9	NA	4.4	-4.3	-5.0	
Average					21.2	29.7	12.2	11.8	1.0	5.8	0.3	6.4	-0.3	4.0	2.6	2.4	-1.9	-6.8

Source: Bloomberg Finance LP data, Mita Securities

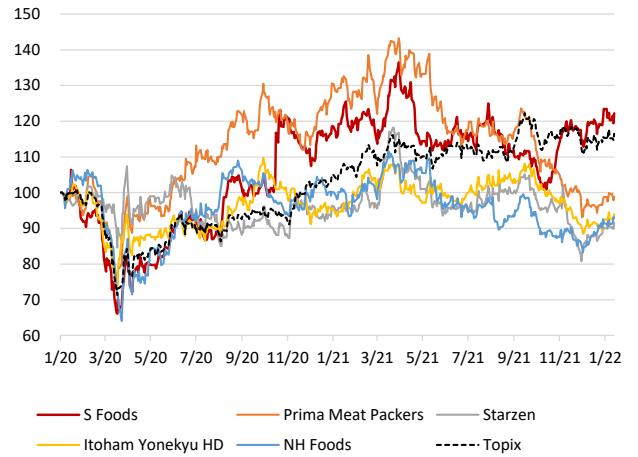
Note: Forecasts are based on Bloomberg consensus

Figure: S Foods' PER (reference)



Source: Bloomberg Finance LP data, Mita Securities

Figure: Stock price trends for meat companies

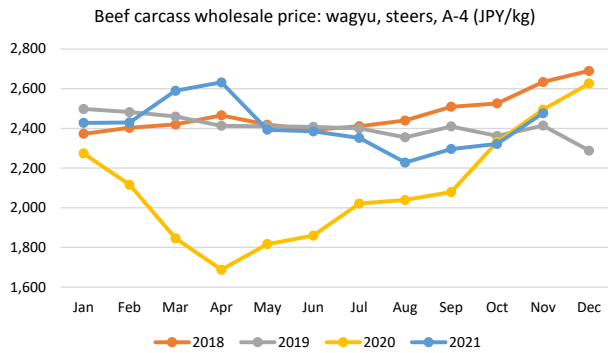


Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

# Reference materials

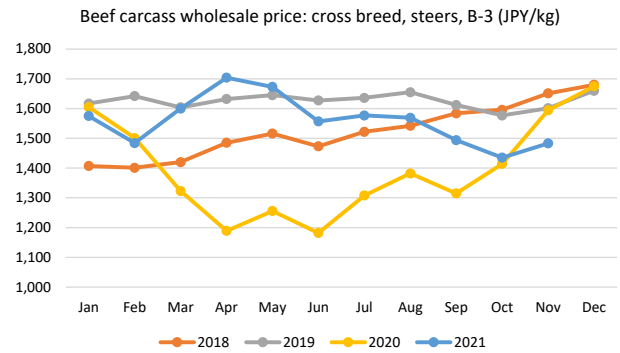
## Wholesale price for beef

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



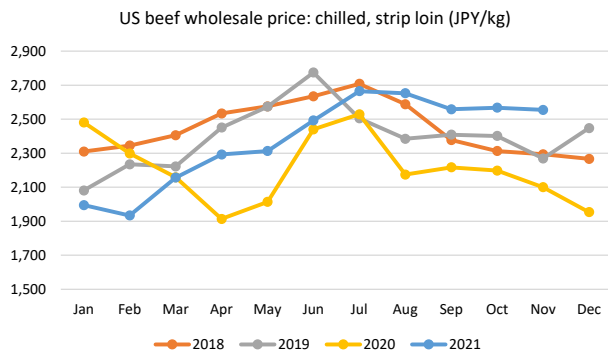
Source: ALIC data, Mita Securities

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



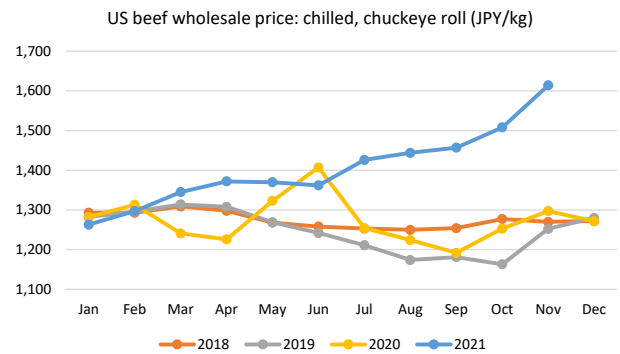
Source: ALIC data, Mita Securities

Figure: US beef, chilled, strip loin



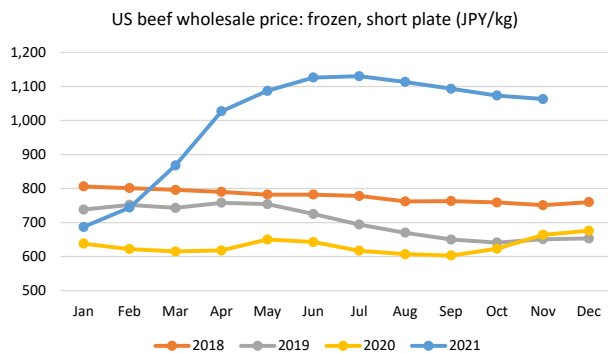
Source: ALIC data, Mita Securities

Figure: US beef, chilled, chuckeye roll



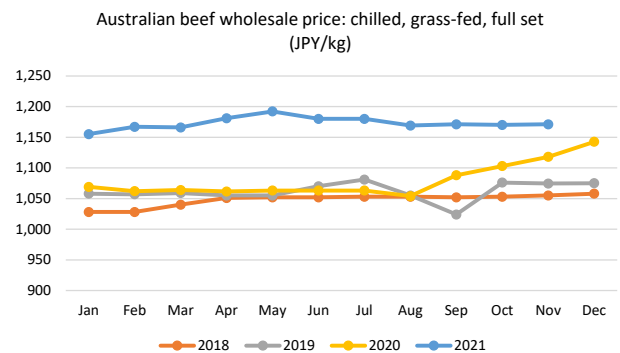
Source: ALIC data, Mita Securities

Figure: US beef, frozen, short plate



Source: ALIC data, Mita Securities

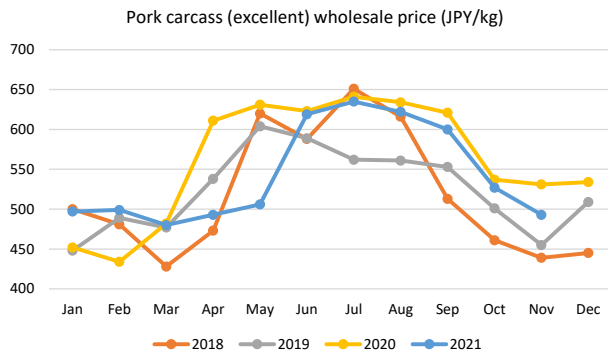
Figure: Australian beef, chilled, grass-fed, full set



Source: ALIC data, Mita Securities

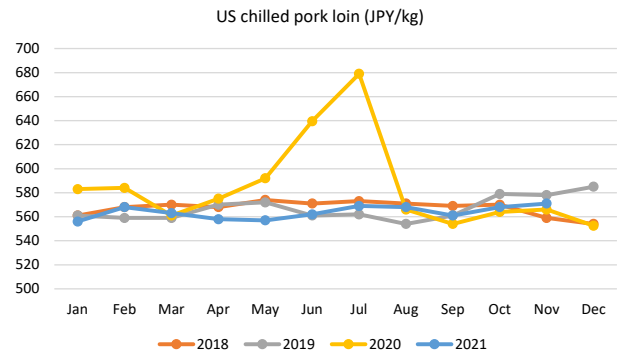
**Wholesale price for pork**

**Figure: Domestic pork carcass, excellent**



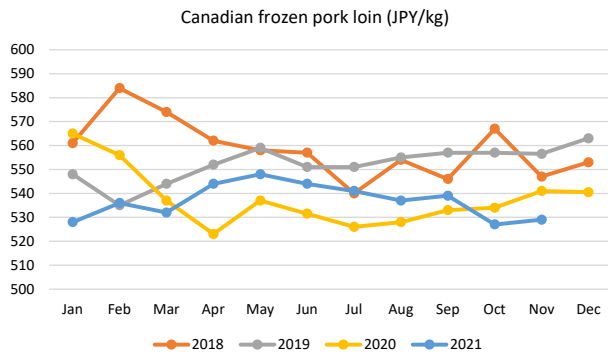
Source: ALIC data, Mita Securities

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



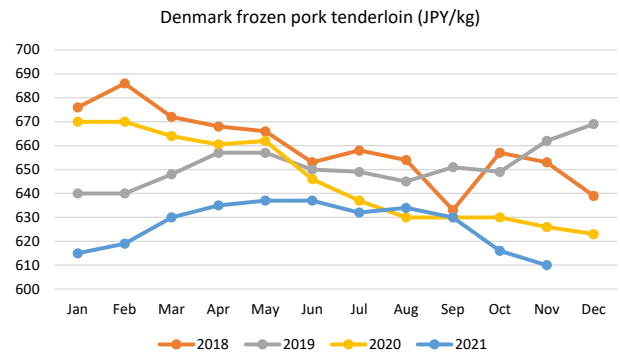
Source: ALIC data, Mita Securities

**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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