



AB Hotel

TSE (JASDAQ) Standard

6565

Industry: Leisure and amusement

MITA SECURITIES Co., Ltd.

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Raising TP; Profit recovery ahead of industry; New store development to restart

Reiterate Buy with our new target price of 1,600 yen

We updated our earnings forecast for AB Hotel (6565, the company) and raised our target price to 1,600 yen from 1,400 yen. We reiterate our Buy rating.

3Q results: Recovery in room rates

On January 31, the company announced 1-3Q (Apr-Dec) FY3/22 OP of 667m yen (+757.0% YoY; OPM 14.1%), 74% progress toward the company's full-year guidance of 900m yen. 3Q (Oct-Dec) results were sales of 1.821bn yen (+25.7% YoY; +21.1% QoQ), OP of 467m yen (+110.1% YoY; +184.2% QoQ), and OPM of 25.6% (vs. 15.3% for 3Q FY3/21 and 10.9% for 2Q). In addition to a significant increase in revenue due to a recovery in room rates, the company strengthened its low-cost operations.

Mita Securities' earnings forecast update

We raised our OP forecasts from 681m yen to 929m yen (+1,995.4% YoY; OPM 14.7%) for FY3/22, 1.355bn yen to 1.495bn yen (OPM 21.2%) for FY3/23, and 1.840bn yen to 1.989bn yen (OPM 25.8%) for FY3/24. Revision of our OP forecast reflects the evolution of the company's low-cost operations, which has been progressing at a faster pace than we had previously expected.

Our new sales forecasts are 6.337bn yen (+33.7% YoY) for FY3/22, 7.066bn yen (+11.5% YoY) for FY3/23, and 7.705bn yen (+9.0% YoY) for FY3/24. We assume an increase in revenues at existing stores based on a significant recovery in occupancy rates in FY3/22 and a steady recovery in room rates in FY3/23 and beyond. AB Hotel's main target customers are business travelers to the local manufacturing facilities, and we believe that accommodation demand for the company's hotels should be more stable than that for business hotels in general.

We assume the number of hotels to be 32 at the end of FY3/22, 33 at the end of FY3/23, and 34 at the end of FY3/24. The company plans to open one new store in FY3/23, AB Hotel Anjo (Aichi Prefecture), which is scheduled to begin operations in April 2022. The company also announced that it plans to open AB Hotel Seki (Gifu Prefecture) in July 2023 (FY3/24). We believe that the company is preparing to open many new hotels aggressively over the medium to long term.

Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 7.5% (unchanged) and a terminal growth rate of 1.5% (unchanged), based on our earnings forecasts for FY3/22-FY3/27 (updated due to progress of the term). Our target price is equivalent to 18.9x our FY3/24 EPS forecast of 84.50 yen.

Risk factors to our view include: 1) a significant decline in hotel room occupancy rates and/or room rates due to a rapid increase in the number of cases of the new coronavirus; and 2) significant conflicts among major shareholders and management of Tosho and AB Hotel.

Update

Rating

Buy

Target price (JPY)	1,600 ← 1,400
Stock price (JPY) (Mar 18)	1,203
Market cap (JPYbn)	17.1

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
Sales	JPYbn	6.3	4.7	6.3	7.1	7.7
OP	JPYbn	1.3	0.0	0.9	1.5	2.0
RP	JPYbn	1.3	0.0	0.9	1.4	1.9
NP	JPYbn	0.9	0.0	0.5	0.9	1.2
EPS	JPY	62.9	0.7	35.9	63.0	84.5
BPS	JPY	427.7	422.4	455.2	512.2	588.7
DPS	JPY	6.0	1.0	3.0	6.0	8.0
PER	x	14.4	1,620.1	33.6	19.1	14.2
PBR	x	2.1	2.7	2.6	2.3	2.0
Div. yield	%	0.7	0.1	0.2	0.5	0.7
ROA	%	4.9	0.1	2.5	4.3	5.4
ROE	%	15.7	0.2	8.2	13.0	15.4

Source: Company data, Mita Securities

Company profile

AB Hotel is based in Aichi Prefecture and operates 32 business hotels specializing in lodging under the AB Hotel brand (at the end of December 2021). The company is actively involved in the store design stage to reduce initial investment, and achieves low-cost front desk operations through the outsourcing method. AB Hotel is a consolidated subsidiary of Tosho (8920).

Investment thesis

Outlook

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

JPYm	3/19	3/20	3/21	Mita E 3/22	Mita E 3/23	Mita E 3/24	Mita E 3/25	Mita E 3/26	Mita E 3/27	CoE 3/22
Earnings										
Sales	5,515	6,296	4,739	6,337	7,066	7,705	8,537	9,211	9,755	6,400
YoY, %	24.8	14.2	-24.7	33.7	11.5	9.0	10.8	7.9	5.9	
Operating profit	1,410	1,333	44	929	1,495	1,989	2,572	2,976	3,250	900
YoY, %	18.2	-5.4	-96.7	1,995.4	60.9	33.1	29.3	15.7	9.2	
OPM, %	25.6	21.2	0.9	14.7	21.2	25.8	30.1	32.3	33.3	
Recurring profit	1,398	1,297	27	870	1,439	1,932	2,513	2,917	3,191	800
YoY, %	22.0	-7.2	-98.0	3,175.9	65.5	34.2	30.0	16.1	9.4	
Net profit	887	891	10	508	892	1,198	1,558	1,809	1,978	500
YoY, %	22.7	0.5	-98.9	4,946.3	75.6	34.2	30.0	16.1	9.4	
Depreciation	518	643	685	681	698	707	731	763	796	
Capital expenditure	2,335	2,393	2,072	600	930	1,130	1,560	1,560	1,560	
Free CF	-941	1,077	-2,076	1,045	659	773	734	1,044	1,254	
Per share indicators										
EPS (JPY)	62.57	62.86	0.71	35.85	62.95	84.50	109.90	127.59	139.54	35.27
BPS (JPY)	370.80	427.66	422.36	455.21	512.17	588.67	688.57	804.16	929.70	
DPS (JPY)	6.00	6.00	1.00	3.00	6.00	8.00	10.00	12.00	14.00	3.00
Valuation, profitability, etc.										
PER (x)	32.0	14.4	1,620.1	33.6	19.1	14.2	10.9	9.4	8.6	
PBR (x)	5.4	2.1	2.7	2.6	2.3	2.0	1.7	1.5	1.3	
Dividend payout ratio (%)	9.6	9.5	139.0	8.4	9.5	9.5	9.1	9.4	10.0	
Dividend yield (%)	0.3	0.7	0.1	0.2	0.5	0.7	0.8	1.0	1.2	
ROA (%)	5.6	4.9	0.1	2.5	4.3	5.4	6.5	7.1	7.2	
ROE (%)	18.3	15.7	0.2	8.2	13.0	15.4	17.2	17.1	16.1	
Financial soundness indicators										
Capital ratio (%)	30.0	31.7	29.3	31.6	34.0	36.3	39.6	43.1	46.5	
Debt/Equity (x)	0.5	0.6	0.5	0.6	0.6	0.7	0.8	0.9	1.1	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast change (parent)

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
Sales	6,400	6,090	6,337	7,021	7,066	7,702	7,705
Operating profit	900	681	929	1,355	1,495	1,840	1,989
Recurring profit	800	640	870	1,314	1,439	1,799	1,932
Net profit	500	410	508	841	892	1,151	1,198
EPS (JPY)	35.27	28.91	35.85	59.30	62.95	81.22	84.50

Source: Company data, Mita Securities

Valuations

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE
JPYbn	3/22	3/23	3/24	3/25	3/26	3/27	3/28
Shareholders' equity (EOP)	6.5	7.3	8.3	9.8	11.4	13.2	
Net profit		0.9	1.2	1.6	1.8	2.0	
Cost of equity		0.5	0.5	0.6	0.7	0.9	
Residual income		0.4	0.7	0.9	1.1	1.1	
PV of residual income		0.4	0.6	0.8	0.8	0.8	
PV of terminal value							13.2

Beta	1.40						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	7.50						
Terminal growth rate (%)	1.50						
Total equity value						23.0	
Number of shares O/S (m)						14.176	
Target share price						1,600	

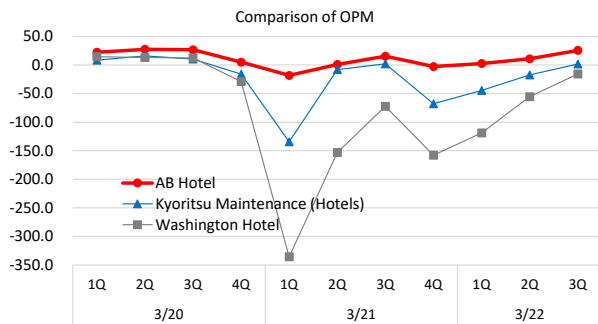
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate	0.50	0.70	0.90	1.10	1.30	1.50	1.70	1.90	2.10	2.30	2.50	2.70	2.90
Target price	1,500	1,500	1,550	1,550	1,600	1,600	1,650	1,700	1,750	1,750	1,800	1,850	1,900

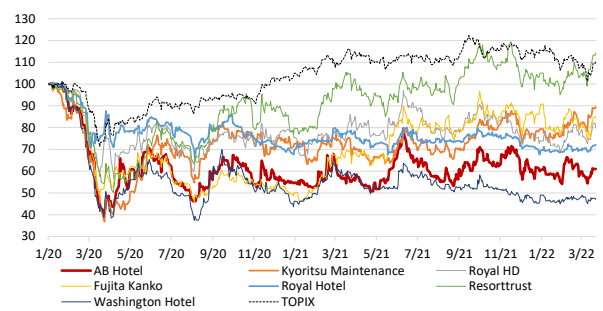
Source: Mita Securities

Figure: Quarterly OPM for hotel business



Source: Companies' data, Mita Securities

Figure: Stock price trends for hotel operators



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

Figure: Comparison of valuations for hotel operators

Company	Ticker	Share price	Mkt cap	PER	PER	PER	PER	PBR	EV/EBITDA	EV/Sales	ROE	Sales growth	EBITDA Mgn	Div Yield	1M	3M	1YR	
		18-Mar	JPYbn	Last	LTM	Current E	Next E	Last	Next E	Next E	LTM	LTM	LTM	Current E	Change	Change	Change	
RESORTTRUST INC	4681	2,121	230.2	NA	NA	32.5	28.5	2.2	11.6	1.7	-9.5	-6.0	-1.5	1.4	10.5	11.2	9.1	
WASHINGTON HOTEL CORP	4691	636	7.7	NA	NA	NA	NA	2.1	NA	NA	-79.4	-2.1	-52.9	NA	-0.2	1.8	-21.0	
AMAZE CO LTD	6076	752	11.4	29.3	29.3	NA	NA	1.0	NA	NA	3.3	4.5	19.2	NA	-8.4	-12.6	-14.1	
GREENS CO LTD	6547	561	7.2	NA	NA	NA	NA	5.0	NA	0.6	-385.9	25.2	-34.1	0.0	12.9	3.9	-12.8	
ABHOTEL CO LTD (TP 1,600 Buy)	6565	1,203	17.1	1,694.4	51.7	41.6	20.3	2.7	NA	3.7	5.3	22.8	23.4	0.3	-1.8	-1.3	10.7	
ROYAL HOLDINGS CO LTD	8179	1,981	97.1	NA	NA	68.7	35.3	3.1	13.9	1.3	-11.8	-0.6	-0.3	0.4	1.4	6.3	-7.0	
KYORITSU MAINTENANCE CO I	9616	4,665	183.0	NA	NA	491.5	40.1	2.8	22.8	1.8	-12.0	5.5	-3.0	0.4	7.9	15.2	20.1	
IMPERIAL HOTEL LTD	9708	1,806	107.3	NA	NA	NA	NA	97.6	2.6	15.5	1.6	-21.1	-2.5	-19.4	0.2	-0.9	-4.2	-13.5
ROYAL HOTEL LTD/THE	9713	1,184	12.2	NA	NA	NA	NA	NA	NA	NA	NA	-19.5	-26.1	NA	4.3	2.1	-7.7	
FUJITA KANKO INC	9722	2,417	29.5	2.3	2.3	NA	NA	2.1	15.8	1.2	170.8	6.7	81.4	0.0	5.4	-0.6	22.8	
KYOTO HOTEL LTD/THE	9723	618	7.5	NA	NA	NA	NA	19.5	NA	NA	-167.3	-14.3	5.6	NA	1.3	-0.3	-3.1	
Average				575.3	27.8	158.6	44.4	4.3	15.9	1.7	-50.7	1.8	-0.7	0.4	2.9	2.0	-1.5	

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus

Risk factors

Risk factors to our view include: 1) a significant decline in hotel room occupancy rates and/or room rates due to a rapid increase in the number of cases of the new coronavirus; and 2) significant conflicts among major shareholders and management of Tosho and AB Hotel.

Mita Securities' earnings forecast

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

Key indicators	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/27	5y ave growth (CAGR, %)
	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	
Sales growth (%)	24.8	14.2	-24.7	33.7	11.5	9.0	10.8	7.9	5.9	
Operating profit growth (%)	18.2	-5.4	-96.7	1,995.4	60.9	33.1	29.3	15.7	9.2	
Recurring profit growth (%)	22.0	-7.2	-98.0	3,175.9	65.5	34.2	30.0	16.1	9.4	
Net profit growth (%)	22.7	0.5	-98.9	4,946.3	75.6	34.2	30.0	16.1	9.4	
Gross profit margin (%)	35.1	30.1	8.8	21.0	27.1	31.5	36.1	38.1	39.0	
SG&A/Sales (%)	9.6	8.9	7.8	6.3	5.9	5.7	5.9	5.8	5.7	
Operating profit margin (%)	25.6	21.2	0.9	14.7	21.2	25.8	30.1	32.3	33.3	
Recurring profit margin (%)	25.4	20.6	0.6	13.7	20.4	25.1	29.4	31.7	32.7	
EBITDA margin (%)	35.0	31.4	15.4	25.4	31.0	35.0	38.7	40.6	41.5	
Number of stores (EOP)	23	27	31	32	33	34	36	38	40	4.6
Number of rooms (EOP)	3,029	3,586	4,101	4,229	4,333	4,433	4,633	4,833	5,033	3.5
Sales/Ave number of rooms (JPY/day)	5,564	5,176	3,376	4,111	4,472	4,816	5,160	5,332	5,418	
(YoY, %)	0.1	-7.0	-34.8	21.7	8.8	7.7	7.1	3.3	1.6	

Source: Company data, Mita Securities

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

PL	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/27	5y ave growth (CAGR, %)
Parent (JPYm)	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	
Sales	5,515	6,296	4,739	6,337	7,066	7,705	8,537	9,211	9,755	9.0
COGS	3,577	4,402	4,324	5,008	5,151	5,274	5,459	5,703	5,947	
Gross profit	1,938	1,894	415	1,329	1,915	2,430	3,079	3,509	3,809	
SG&A	528	560	371	400	420	441	507	533	559	
Operating profit	1,410	1,333	44	929	1,495	1,989	2,572	2,976	3,250	28.5
Non-operating income	78	55	71	40	45	50	55	60	65	
Non-operating expense	90	91	89	99	101	107	114	119	124	
Recurring profit	1,398	1,297	27	870	1,439	1,932	2,513	2,917	3,191	29.7
Extraordinary gains	76	312	17	0	0	0	0	0	0	
Extraordinary losses	77	188	0	50	0	0	0	0	0	
Pre-tax profit	1,398	1,421	43	820	1,439	1,932	2,513	2,917	3,191	31.2
Corporate taxes	511	530	33	311	547	734	955	1,109	1,212	
Net profit	887	891	10	508	892	1,198	1,558	1,809	1,978	31.2
EBITDA	1,927	1,976	729	1,610	2,193	2,696	3,303	3,739	4,045	20.2
Shares O/S (m)	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	
EPS	62.57	62.86	0.71	35.85	62.95	84.50	109.90	127.59	139.54	
DPS	6.00	6.00	1.00	3.00	6.00	8.00	10.00	12.00	14.00	
BPS	370.80	427.66	422.36	455.21	512.17	588.67	688.57	804.16	929.70	
Payout ratio (%)	9.6	9.5	139.0	8.4	9.5	9.5	9.1	9.4	10.0	
ROA (%)	5.6	4.9	0.1	2.5	4.3	5.4	6.5	7.1	7.2	
ROE (%)	18.3	15.7	0.2	8.2	13.0	15.4	17.2	17.1	16.1	

Source: Company data, Mita Securities

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

BS	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/27	5y ave growth
Parent (JPYm)	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	(CAGR, %)
Assets										
Total current assets	3,632	4,234	3,575	3,708	4,264	5,588	6,345	7,200	8,156	
Cash and deposits	3,223	3,903	2,982	2,920	3,537	4,726	5,346	6,249	7,333	
Accounts receivable	261	219	278	372	414	452	501	540	572	
Inventories	25	18	21	26	27	28	29	30	31	
Other	122	93	294	390	285	382	469	381	220	
Total fixed assets	13,893	14,872	16,866	16,733	17,076	17,426	18,304	19,223	20,186	
PP&E, net	13,243	14,115	16,108	15,947	16,266	16,591	17,421	18,292	19,207	
Intangibles	20	20	28	32	33	34	35	36	37	
Investments and other	631	737	730	754	777	801	848	895	942	
Deferred assets	3	1	0	0	0	0	0	0	0	
Total assets	17,528	19,107	20,441	20,441	21,341	23,014	24,649	26,423	28,342	6.8
Liabilities										
Total current liabilities	2,771	3,250	2,668	3,300	3,543	3,580	3,635	3,708	3,781	
Short-term debt	1,672	1,852	1,723	1,800	2,000	2,000	2,000	2,000	2,000	
Other	1,098	1,398	945	1,500	1,543	1,580	1,635	1,708	1,781	
Total long-term liabilities	9,501	9,795	11,786	10,688	10,538	11,090	11,253	11,316	11,381	
Long-term debt	8,900	9,014	10,870	9,700	9,500	10,000	10,000	10,000	10,000	
Other	601	781	916	988	1,038	1,090	1,253	1,316	1,381	
Total liabilities	12,272	13,044	14,453	13,988	14,080	14,669	14,888	15,024	15,162	1.6
Net assets										
Net assets	5,256	6,062	5,987	6,453	7,260	8,345	9,761	11,399	13,179	15.4
Shareholders' equity	5,256	6,062	5,987	6,453	7,260	8,345	9,761	11,399	13,179	15.4
Warrants	0	0	0	0	0	0	0	0	0	
Debt										
Debt/Equity (x)	0.5	0.6	0.5	0.6	0.6	0.7	0.8	0.9	1.1	0.9
Net Debt/Equity (x)	1.4	1.1	1.6	1.3	1.1	0.9	0.7	0.5	0.4	
Shareholders' capital ratio (%)	30.0	31.7	29.3	31.6	34.0	36.3	39.6	43.1	46.5	
Debt/EBITDA (x)	5.5	5.5	17.3	7.1	5.2	4.5	3.6	3.2	3.0	

Source: Company data, Mita Securities

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

CF	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/27	5y ave growth
Parent (JPYm)	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	(CAGR, %)
Cashflow from operations										
Cashflow from operations	1,464	1,714	-10	1,645	1,589	1,903	2,294	2,604	2,814	
Net profit	887	891	10	508	892	1,198	1,558	1,809	1,978	
Depreciation and amortization	518	643	685	681	698	707	731	763	796	
Other	59	180	-705	456	-1	-1	5	33	40	
Cashflow from investing										
Cashflow from investing	-2,405	-637	-2,066	-600	-930	-1,130	-1,560	-1,560	-1,560	
Capital expenditure	-2,335	-2,393	-2,072	-600	-930	-1,130	-1,560	-1,560	-1,560	
Disposal of fixed assets	0	1,846	0	0	0	0	0	0	0	
Other	-70	-91	6	0	0	0	0	0	0	
Cashflow from financing										
Cashflow from financing	1,577	-397	1,155	-1,107	-43	415	-113	-142	-170	
Dividends paid	-71	-85	-85	-14	-43	-85	-113	-142	-170	
Share capital issuance / (buy-back)	0	0	0	0	0	0	0	0	0	
Debt issuance / (repayment)	1,648	-312	1,240	-1,093	0	500	0	0	0	
Other	0	0	0	0	0	0	0	0	0	
Cash and cash equivalents										
Cash and cash equivalents	3,223	3,903	2,982	2,920	3,537	4,726	5,346	6,249	7,333	
Free cashflow	-941	1,077	-2,076	1,045	659	773	734	1,044	1,254	

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%.

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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.

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