



S Foods

TSE Prime

2292

Industry: Food, wholesale, retail, food service

MITA SECURITIES Co., Ltd.

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Record profits in FY2/22; FY2/23 guidance calls for NP of 10bn yen and dividend hike

FY2/22 OP at record high 17.4bn yen, exceeding revised guidance

On April 14, S Foods (2292, the company) announced FY2/22 sales of 358.8bn yen (+9.6% YoY) and OP of 17.4bn yen (+38.2% YoY, OPM 4.9%). OP exceeded the company's guidance of 17.0bn yen, which was revised upward on January 13, QUICK consensus forecast of 17.2bn yen, and our forecast of 17.3bn yen. The impression is positive. OP of 17.4bn yen and NP of 11.9bn yen are record highs. Also, OPM of 4.9% is the highest profit margin in the past 18 years.

Sales by region were 314.0bn yen (+9.1% YoY) for Japan, 42.9bn yen (+23.6% YoY) for the U.S., and etc. The U.S. business grew remarkably, and we believe that the U.S. meatpacker business likely drove the strong earnings, given the high beef prices in the U.S., as shown in the reference material on page 3. The yen's depreciation throughout the period also appears to have had a positive impact.

S Foods parent reported an 11.9% growth in sales and a 0.3% decline in OP. The sales breakdown was +5% in volume and +7% in unit price.

FY2/23 guidance calls for NP of 10bn yen and dividend hike

The company's full-year guidance for FY2/23 is sales of 375.0bn yen (+4.5% YoY), OP of 14.8bn yen (-15.1% YoY; OPM 3.9%), and NP of 10.0bn yen (-16.3% YoY). OP guidance corresponds to a 17% increase over FY2/21. We have the impression that OP guidance is somewhat conservative compared to our forecast of 17.5bn yen and QUICK consensus forecast of 16.9bn yen. Dividend guidance is 78 yen, an increase of 8 yen.

Our view on the impact of yen depreciation and inflation

Regarding the further depreciation of the yen compared to FY2/22, we consider it to be: 1) positive for the U.S. meatpacker business because the value of profits in yen should increase; 2) negative for the processed foods business, such as ham and sausage business, due to higher raw material prices; and 3) slightly negative for the imported beef wholesale business due to lower demand.

The company's strong performance in the U.S. should make it a relatively strong performer among major meatpackers.

In the processed foods business, the company's ham and sausage subsidiary Foodlier already raised prices by 5-12% in March. The effect of the price hike may be offset by the subsequent sharp depreciation of the yen, but in our opinion, S Foods would not be exposed to as severe an environment as other major meatpackers because of the small size of its ham and sausage business within the group.

In the mid- to long-term, the company expects to see positive outcomes from its production capacity expansion in Japan as well as overseas. For example, a new facility at its U.S. meatpacker subsidiary will be completed in the second half of FY2/24, nearly doubling its production capacity.

Please refer to the report dated March 16, 2022 for the rationale of the rating and target price.

Update

Rating

Buy

Target price (JPY) **5,300**

Stock price (JPY) (Apr 14) 3,190

Market cap (JPYbn) 102.9

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	356.8	381.5	401.7
OP	JPYbn	10.7	12.6	17.3	17.5	16.3
RP	JPYbn	11.1	13.0	17.8	18.0	16.9
NP	JPYbn	6.5	10.0	11.8	11.5	10.7
EPS	JPY	205.6	315.3	373.8	362.8	337.1
BPS	JPY	2,528	2,783	3,086	3,371	3,624
DPS	JPY	60.0	64.0	70.0	78.0	84.0
PER	x	10.9	10.4	8.6	8.8	9.5
PBR	x	0.9	1.2	1.0	0.9	0.9
Div. yield	%	2.7	2.0	2.2	2.4	2.6
ROA	%	3.9	5.8	6.5	5.7	4.9
ROE	%	8.1	11.9	12.7	11.2	9.6

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.

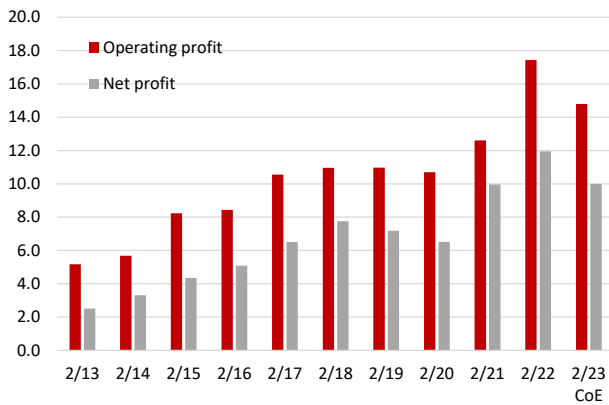
Figure: Comparison of valuations for meat companies

Company	Ticker	Share price 13-Apr	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	2,163	109.3	7.7	10.6	10.5	10.0	1.0	4.9	0.3	9.9	-2.3	6.1	3.0	-3.1	-14.0	-39.0
NH FOODS LTD	2282	4,120	424.2	13.0	10.3	10.7	13.4	0.9	7.0	0.5	9.3	3.9	6.8	2.4	0.0	-4.5	-16.5
HAYASHIKANE SANGYO CO LTD	2286	489	4.4	3.4	5.7	NA	NA	0.4	NA	NA	7.9	-9.6	3.0	NA	-3.2	-4.9	-26.5
MARUDAI FOOD CO LTD	2288	1,467	38.9	89.9	828.8	NA	NA	0.5	NA	NA	0.1	-5.2	3.5	NA	-1.1	-5.6	-14.3
FUKUTOME MEAT PACKERS LTD	2291	1,822	6.2	NA	NA	NA	NA	1.5	NA	NA	-3.7	-2.5	1.5	NA	-2.3	-1.5	-6.3
S FOODS INC	2292	3,200	103.3	10.2	9.5	8.7	9.0	1.1	4.7	0.3	11.8	4.0	5.7	2.2	-0.3	-11.7	-15.0
TAKIZAWA HAM CO LTD	2293	NA	6.2	NA	NA	NA	NA	1.6	NA	NA	4.1	-1.0	3.1	NA	-2.0	-2.0	-1.0
ITOHAM YONEKYU HOLDINGS INC	2296	651	193.6	9.5	9.3	11.0	11.1	0.7	5.7	0.2	8.2	1.6	4.5	3.4	-5.8	-2.5	-8.7
STARZEN CO LTD	8043	1,919	37.5	5.4	5.7	NA	NA	0.6	NA	NA	10.8	4.8	2.7	NA	-8.4	-4.4	-19.1
Average				19.9	125.7	10.2	10.9	0.9	5.6	0.3	6.5	-0.7	4.1	2.8	-2.9	-5.7	-16.3

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus

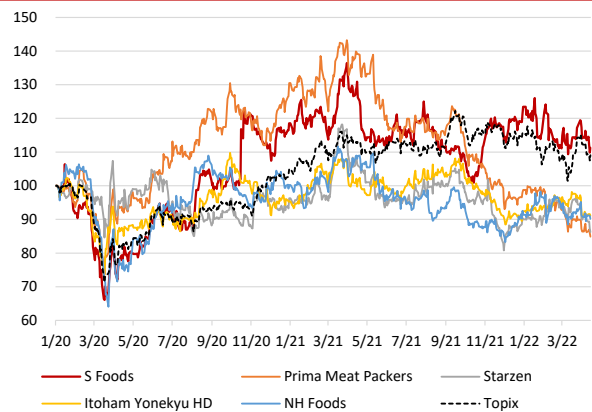
Figure: S Foods' OP and NP (JPYbn)



Source: Company data, Mita Securities

Note: Forecasts are by the company

Figure: Stock price trends for meat companies



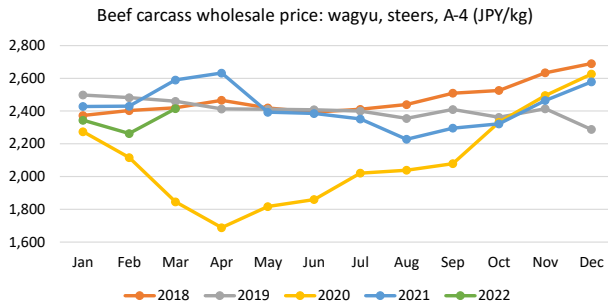
Source: Bloomberg Finance LP data, Mita Securities

Note: Indexed 100 at the end of 2019

Reference materials

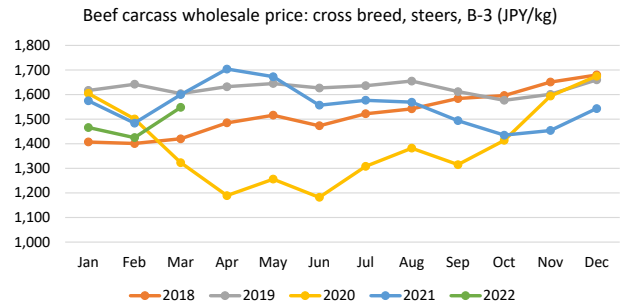
Wholesale price for beef

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



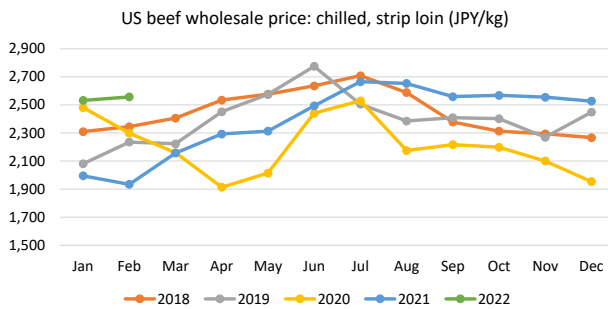
Source: ALIC data, Mita Securities

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



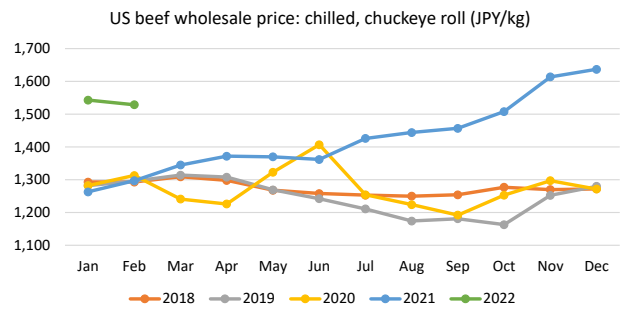
Source: ALIC data, Mita Securities

Figure: US beef, chilled, strip loin



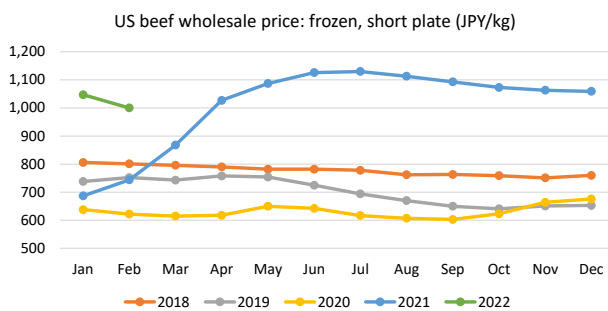
Source: ALIC data, Mita Securities

Figure: US beef, chilled, chuckeye roll



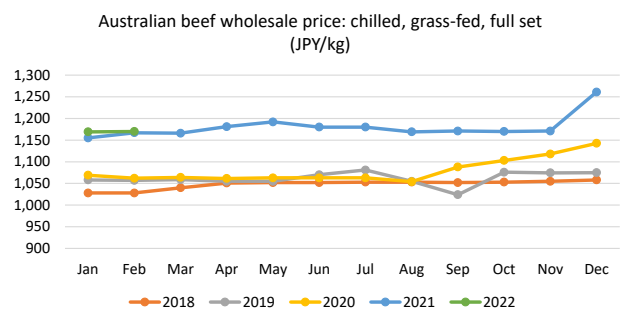
Source: ALIC data, Mita Securities

Figure: US beef, frozen, short plate



Source: ALIC data, Mita Securities

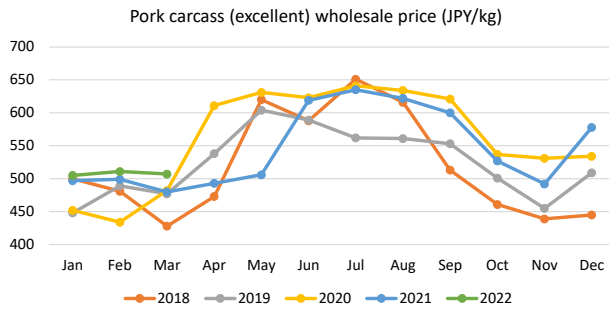
Figure: Australian beef, chilled, grass-fed, full set



Source: ALIC data, Mita Securities

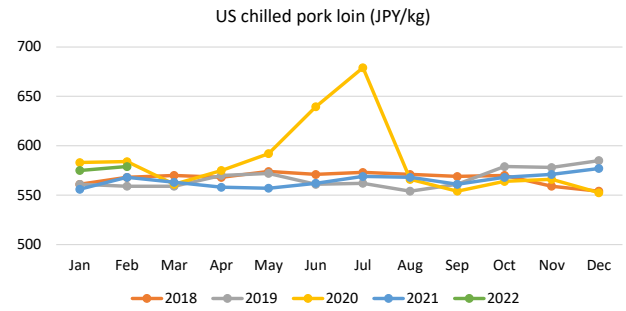
Wholesale price for pork

Figure: Domestic pork carcass, excellent



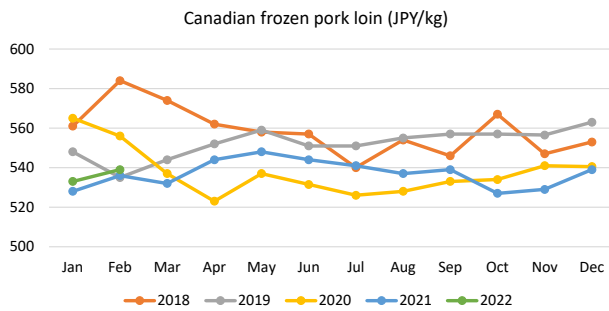
Source: ALIC data, Mita Securities

Figure: US pork, chilled, loin



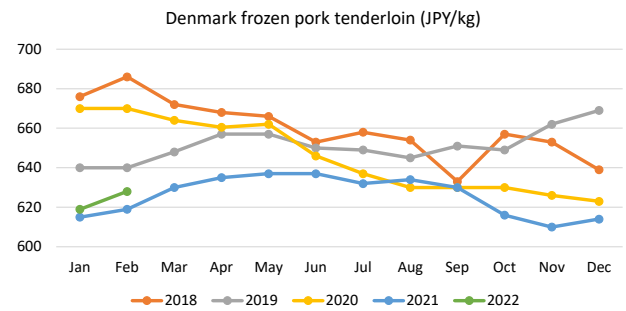
Source: ALIC data, Mita Securities

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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