



Skylark Holdings

TSE Prime 3197 Industry: Food service, retail

1Q OP in line with target; Considers possible price hikes to cope with inflation

Highly dependent on subsidies, but the situation is slightly improving

On May 13, Skylark HD (3197, the company) announced 1Q FY12/22 sales of 67.1bn yen (+3.6% YoY; -10.5% QoQ), OP of -0.2bn yen (vs. -1.3bn yen loss in 1Q FY12/21; 10.8bn yen in 4Q), and net profit attributable to owners of the parent (NP) of -0.5bn yen (vs. -1.9bn yen loss in 1Q FY12/21; 6.4bn yen in 4Q) (IFRS). The company maintained its full-year guidance (sales 336.0bn yen; OP 10.0bn yen).

1Q OP of -0.2bn yen was roughly in line with the company's target. Although subsidies of 7.5bn yen (vs. 4.0bn yen in 1Q FY12/21; 19.4bn yen in 4Q) exceeded the company's assumption, the company posted a one-time loss of 1.5bn yen related to changes in payroll calculation. 1Q OP excluding subsidies was -7.7bn yen (-5.2bn yen in 1Q FY12/21; -8.6bn yen in 4Q), and the real loss excluding the above one-time loss was -6.2bn yen.

Although the OP is still highly dependent on subsidies, the situation is slightly improving, in our view. The challenges going forward include 1) slow sales recovery relative to peers, and 2) measures to address inflation.

Mentioning the possibility of price hikes as a response to inflation

At the earnings presentation, the company stated that: 1) the impact of future inflation would be higher than its guidance; 2) actual subsidies already exceeded its full-year guidance (11bn yen in 1Q and April > 5bn yen in guidance); and 3) it would consider the possibility of price hikes going forward. However, regarding price hikes, the company stated that it needs to closely examine the impact on customer traffic, given that it operates multiple formats in a large number of stores across the country. The company said that recovery from the pandemic has been mixed by region.

Breakdown of 1Q results

1Q same-store sales increased 2.5% from FY12/21 and down 29.2% (our estimate) from FY12/19. The SSS was lower than the company's 1Q SSS guidance (down 26% from FY12/19). In 1Q, most of its stores were subject to operating restrictions due to the expansion of the infection, which lasted longer than the company had expected.

Inflation led to 1.6bn yen YoY increase in operating expenses (COGS+SG&A), which was in line with the company's expectations for 1Q. Going forward, however, the company is concerned about the impact of inflation beyond its full-year guidance assumption.

The 1.5bn yen "extraordinary loss on payroll" included in other operating expenses (not included in SG&A expenses) is a one-time item which had not been factored into the guidance.

Store count

The number of stores at the end of 1Q was 3,098 stores (flat QoQ). The company opened 6 stores and closed 6 stores.

Please refer to the report dated February 24, 2022 for the rationale of the rating and target price.

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Update

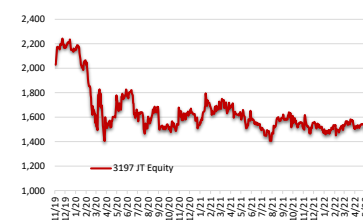
Rating
Hold

Target price (JPY)	1,600
Stock price (JPY) (May 13)	1,501
Market cap (JPYbn)	350.1

Key changes

Rating	No
Target price	No
Earnings forecast	No

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

IFRS		12/20	12/21	12/22E	12/23E	12/24E
Sales	JPYbn	288.4	264.6	311.9	343.1	359.2
OP	JPYbn	-23.0	18.2	8.8	10.0	17.6
Pre-tax Profit	JPYbn	-26.4	14.3	6.2	7.4	15.1
NP	JPYbn	-17.2	8.7	3.8	4.6	10.0
EPS	JPY	-87.2	38.4	16.7	20.4	44.2
BPS	JPY	576	730	735	749	784
DPS	JPY	0.0	12.0	6.0	10.0	20.0
PER	x	NA	39.1	89.8	73.7	34.0
PBR	x	2.8	2.1	2.0	2.0	1.9
Div. yield	%	0.0	0.8	0.4	0.7	1.3
ROA	%	-3.8	1.9	0.8	1.0	2.1
ROE	%	-14.0	6.2	2.3	2.7	5.8

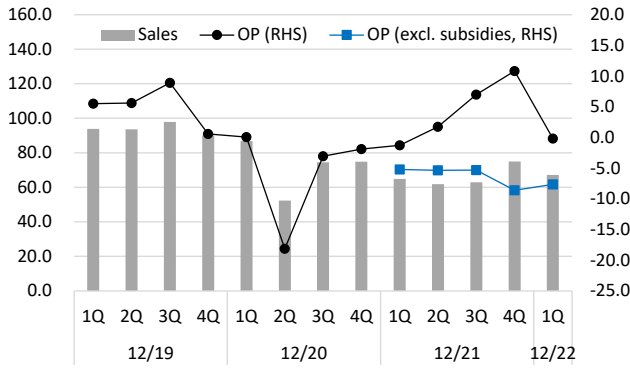
Source: Company data, Mita Securities

Company profile

Skylark HD is Japan's largest operator of family restaurants, including "Gusto," and "Bamiyan." The company had 3,098 stores at the end of December 2021. FY12/21 sales were 264.6bn yen.

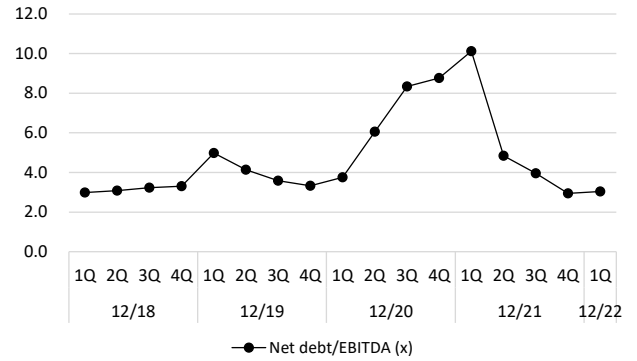
Quarterly data for Skylark Holdings

Figure: Quarterly earnings (JPYbn)



Source: Company data, Mita Securities

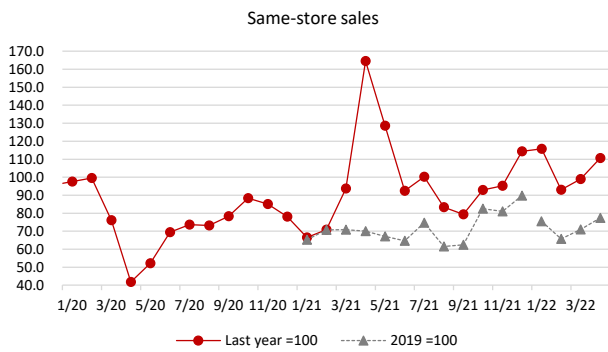
Figure: Net debt/EBITDA (x, quarterly basis)



Source: Company data, Mita Securities

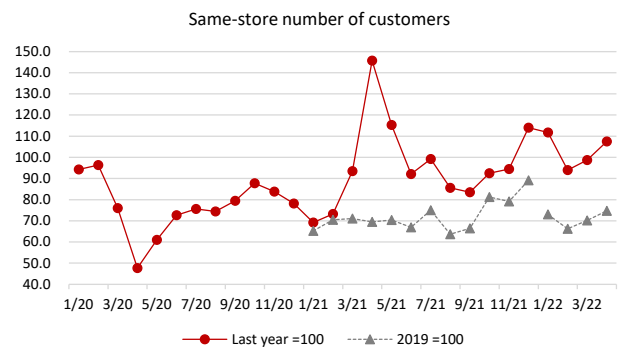
Monthly data for Skylark Holdings

Figure: Same-store sales



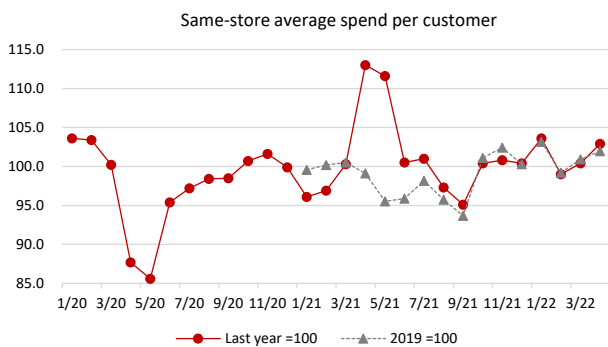
Source: Company data, Mita Securities

Figure: Same-store guest count



Source: Company data, Mita Securities

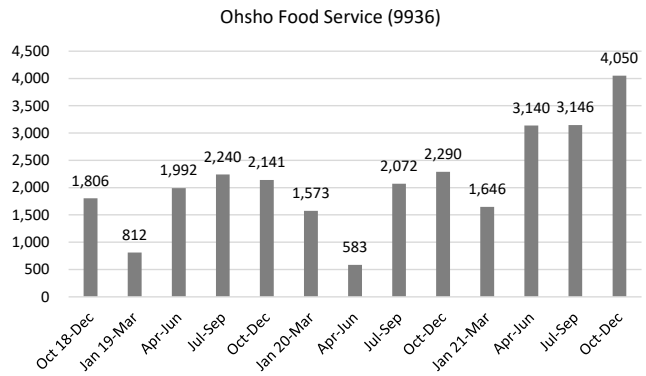
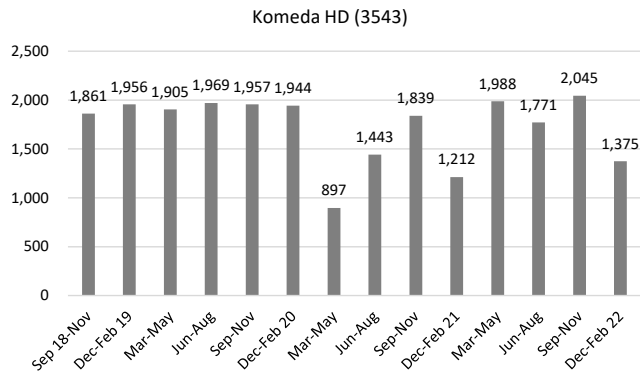
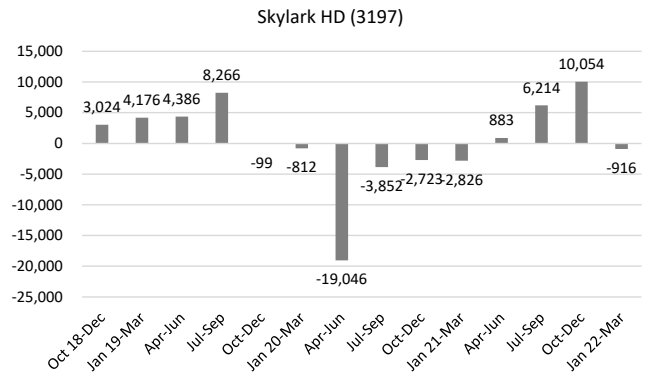
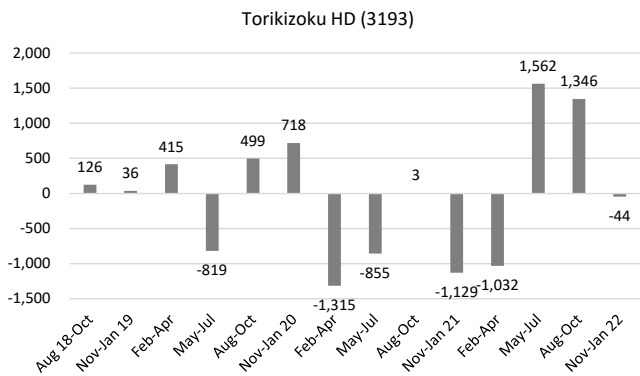
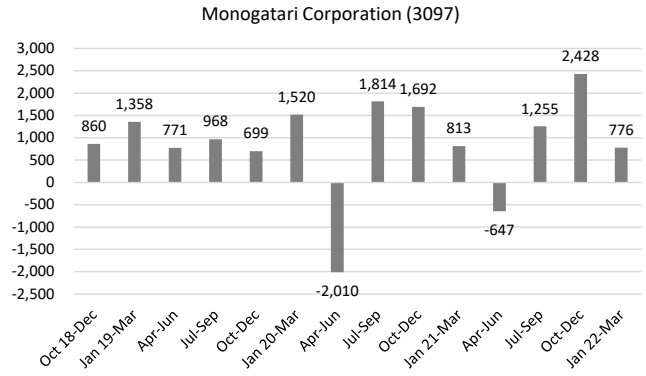
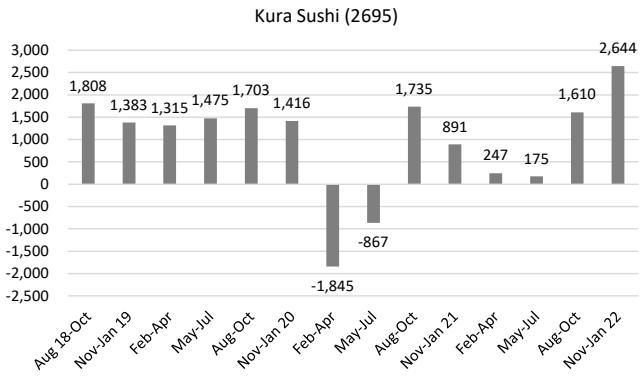
Figure: Same-store average check



Source: Company data, Mita Securities

Pre-tax profits for food service companies covered by Mita Securities

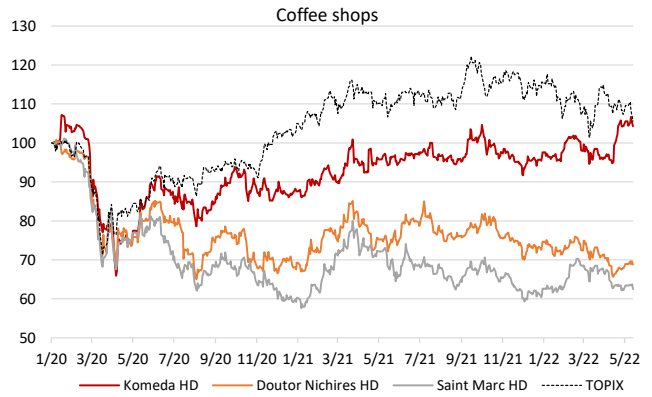
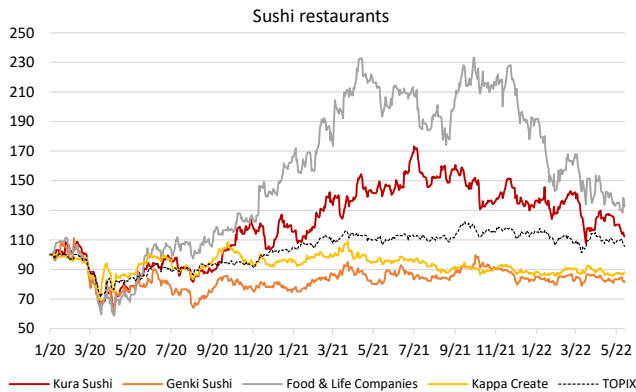
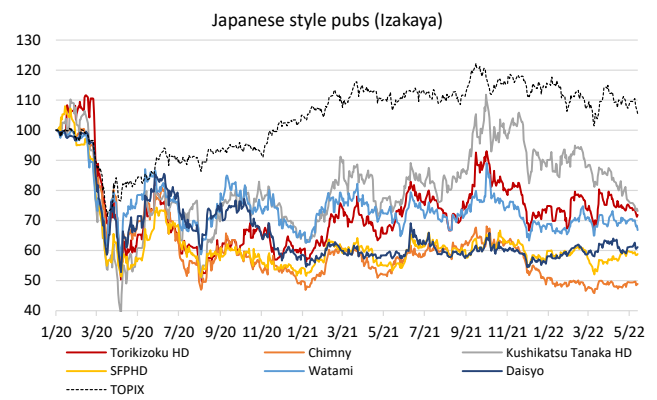
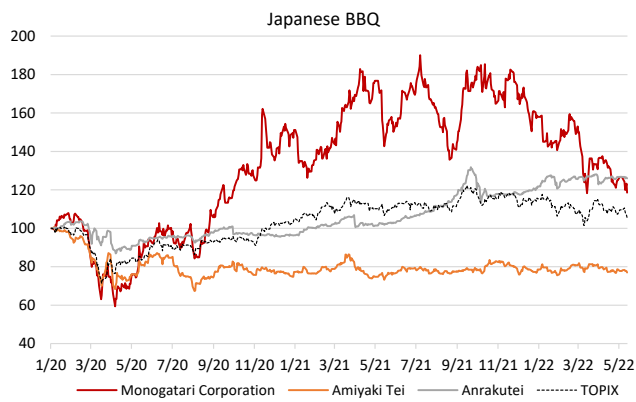
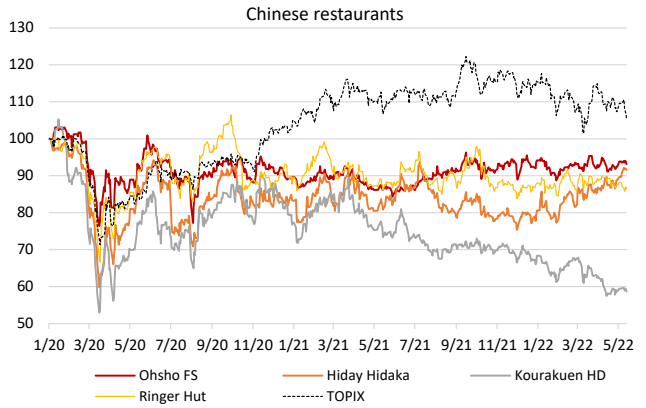
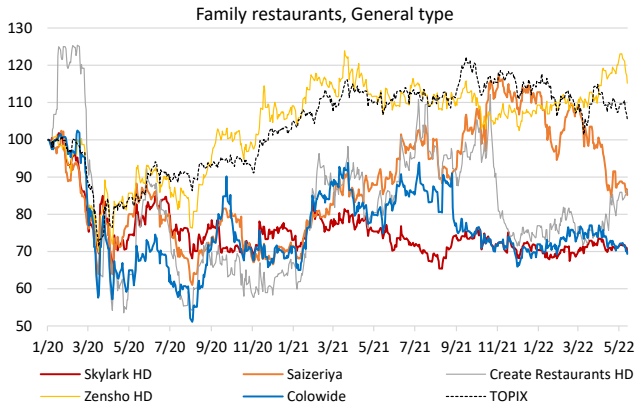
Figure: Quarterly pre-tax profit for food service companies (JPYm)



Source: Companies' data, Mita Securities

Stock price trends for food service companies

Figure: Stock price trends for food service companies



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

APPENDIX

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