



Zenkoku Hoshu

TSE Prime

7164

Industry: Other financials

FY3/22 OP achieved guidance, but not strong enough; Credit costs remain low

FY3/22 OP of 39.5bn yen above guidance but below our forecast

On May 9, Zenkoku Hoshu (7164, the company) announced FY3/22 results. OP was 39.470bn yen (+3.2% YoY), above the company's guidance of 38.780bn yen, but below the QUICK consensus OP forecast of 41.169bn yen and our OP forecast of 40.535bn yen. That said, this would not be a surprise given the lack of guidance revisions announced prior to the earnings announcement and the recent weak stock price.

Compared to our forecast, operating revenue and the number of new guarantees executed were lower. On the other hand, credit-related expenses were lower than our assumption.

The company raised its annual dividend forecast from 130 yen to 133 yen based on its target payout ratio of 33% (our forecast 135 yen).

The guarantee exposure at the end of FY3/22 was 15.3564trn yen (+5.0% YoY). FY3/22 full-year operating revenue was 48.842bn yen (+2.1% YoY; our forecast 50.162bn yen), credit-related expenses were 2.171bn yen (vs. 2.848bn yen in FY3/21; our forecast 2.526bn yen), and OP was 39.470bn yen (+3.2% YoY; our forecast of 40.535bn yen).

The number of new guarantees executed was 61,188 for the full year (+7.1% YoY; our forecast 65,394), and 13,883 for 4Q (-8.0% YoY). The number of new applications in 4Q was up QoQ but down YoY.

The amount of subrogation payments (default amount) was 9.3bn yen, which was significantly lower YoY and in line with our forecast (vs. 10.484bn yen in FY3/21; our forecast 9.121bn yen). The delinquency rate is also low. We believe that there are no signs of a deterioration in credit-related expenses.

FY3/23 OP guidance of 41.0bn yen seems conservative

The company's OP guidance for FY3/23 is 40.970bn yen (+3.8% YoY), more conservative than our forecast of 43.137bn yen and the QUICK consensus forecast of 43.653bn yen. Compared to our forecast, the guidance assumes operating revenue and credit-related expenses more conservatively. While we believe the company tends to be conservative in its guidance, we would like to closely examine the company's comments at the earnings presentation.

The company's guidance is for end-FY3/23 guarantee exposure at 16.2trn yen (+5.5% YoY), operating revenue of 52.000bn yen (+6.5% YoY), credit-related expenses of 3.030bn yen (vs. 2.171bn yen in FY3/22), and OP of 40.970bn yen (+3.8% YoY). The company assumes the number of new guarantees executed at 62,500 (+2.1% YoY), and the amount of subrogation payment at 11.0bn yen (vs. 9.3bn yen in FY3/22). Dividend guidance is 148 yen, based on its target payout ratio of 35%.

Purchased two RMBS, as part of its efforts for inorganic growth

The company disclosed that it purchased two RMBS, etc. in FY3/22. The total amount of the underlying assets was 60bn yen.

Please refer to the report dated November 30, 2021 for the rationale of the rating and target price.

MITA SECURITIES Co., Ltd.

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Update

Rating

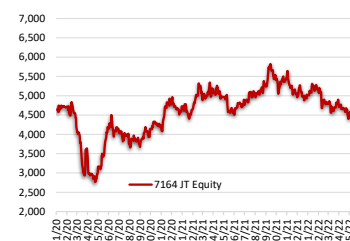
Buy

Target price (JPY)	6,500
Stock price (JPY) (May 9)	4,540
Market cap (JPYbn)	312.7

Key changes

Rating	No
Target price	No
Earnings forecast	No

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

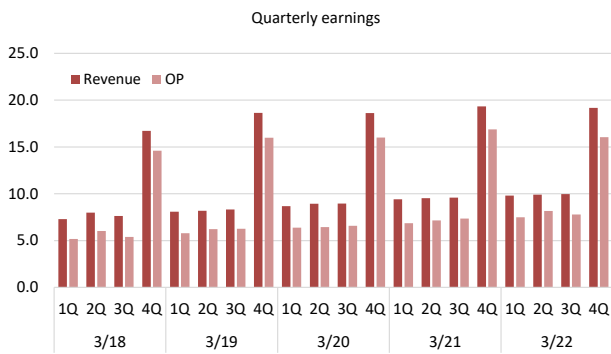
		3/20	3/21	3/22E	3/23E	3/24E
Revenue	JPYbn	45.2	47.8	50.2	53.7	56.9
OP	JPYbn	35.4	38.2	40.5	43.1	44.6
RP	JPYbn	35.8	39.0	41.4	44.2	45.8
NP	JPYbn	24.4	27.0	28.6	30.6	31.7
EPS	JPY	355.2	392.5	415.8	445.7	461.7
BPS	JPY	2,109	2,411	2,692	2,982	3,268
DPS	JPY	95.0	117.0	135.0	156.0	175.0
PER	x	9.6	12.9	11.1	10.3	10.0
PBR	x	1.6	2.1	1.7	1.5	1.4
Div. yield	%	2.8	2.3	2.9	3.4	3.8
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

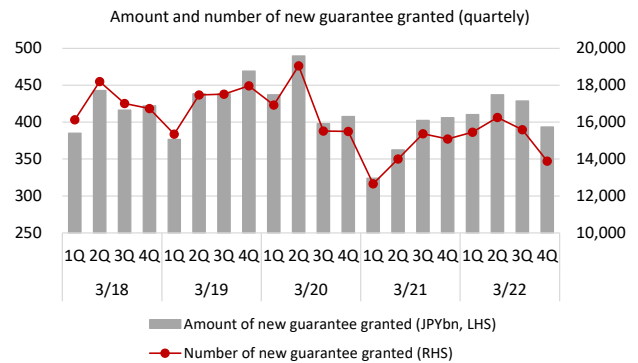
Zenkoku Hoshu is an independent mortgage guarantee company with guarantee exposure of 15.4trn yen (end-FY3/22). It has partnerships with 733 financial institutions nationwide. Stock revenue has been growing due to the increase in the guarantee exposure, whereas credit costs have remained at a low level. The company has made it clear that it aims to grow through M&A.

Figure: Quarterly earnings (JPYbn)



Source: Company data, Mita Securities

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



Source: Company data, Mita Securities

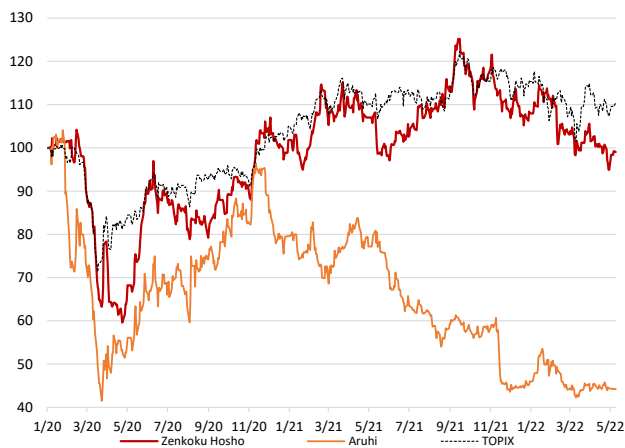
Figure: Comparison of valuations

Company	Ticker	Curncy	Share price 6-May	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	Dividend yield Current E	1M Change	3M Change	1YR Change
ZENKOKU HOSHO CO LTD	7164	JPY	4,595	316.5	11.7	11.1	NA	NA	1.8	NA	NA	17.4	4.1	83.4	NA	-1.8	-1.8	-8.5
MORTGAGE SERVICE JAPAN LTD	7192	JPY	978	14.4	14.8	12.1	NA	NA	2.2	NA	NA	19.5	4.8	24.9	NA	1.6	-5.4	-6.1
ARUHI CORP	7198	JPY	1,000	36.1	6.8	7.3	8.1	7.1	1.1	8.4	2.7	16.1	-4.2	46.6	5.8	-0.5	-8.6	-45.1
PREMIUM GROUP CO LTD	7199	JPY	3,845	51.5	16.8	16.8	14.4	14.1	5.1	NA	2.3	34.8	16.7	25.0	1.4	-3.6	1.1	55.2
CREDIT SAISON CO LTD	8253	JPY	1,552	287.8	6.7	6.3	6.8	6.3	0.4	40.7	8.8	7.2	2.9	39.7	2.9	23.2	15.1	19.7
AIFUL CORP	8515	JPY	382	185.1	10.0	9.0	12.4	7.0	1.2	NA	4.4	13.5	0.8	24.1	0.3	7.3	11.7	18.6
AEON FINANCIAL SERVICE CO LT	8570	JPY	1,218	263.1	8.7	8.7	8.8	7.6	0.6	NA	NA	7.3	0.8	NA	4.3	8.9	-4.1	-3.7
ACOM CO LTD	8572	JPY	346	542.0	6.9	9.1	11.6	8.1	1.0	NA	4.1	12.0	-3.6	33.1	1.7	9.8	7.5	-26.7
JACCS CO LTD	8584	JPY	3,305	115.9	9.7	6.4	6.4	6.7	0.6	NA	11.6	10.3	1.6	32.0	4.7	10.0	1.2	50.3
ORIENT CORP	8585	JPY	127	218.3	12.0	12.1	12.1	9.1	1.0	NA	7.6	8.0	-1.1	28.4	2.4	2.4	-0.8	-15.3
EGUARANTEE INC	8771	JPY	2,122	99.4	47.0	41.8	39.6	34.0	5.6	18.7	9.6	14.3	16.9	61.5	1.1	-1.8	5.3	0.9
Average					13.7	12.8	13.3	11.1	1.9	22.6	6.4	14.6	3.6	39.9	2.7	5.0	1.9	3.6
MGIC INVESTMENT CORP	MTG	USD	13.48	4.2	7.1	6.8	6.6	6.3	0.9	NA	3.9	14.1	-0.7	NA	2.4	3.5	-16.6	-6.4
ESSENT GROUP LTD	ESNT	USD	42.15	4.5	6.9	5.7	6.7	6.3	1.1	NA	4.3	20.2	8.0	NA	1.9	4.7	-10.1	-15.2
GENWORTH MORTGAGE INSURANCE	GMA AU	AUD	3.01	1.2	6.4	6.4	6.5	7.3	0.8	NA	2.9	13.1	-10.5	NA	10.5	0.7	19.9	20.8
Average					6.8	6.3	6.6	6.6	0.9	NA	3.7	15.8	-1.1	NA	4.9	2.9	-2.3	-0.3

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are by Bloomberg consensus

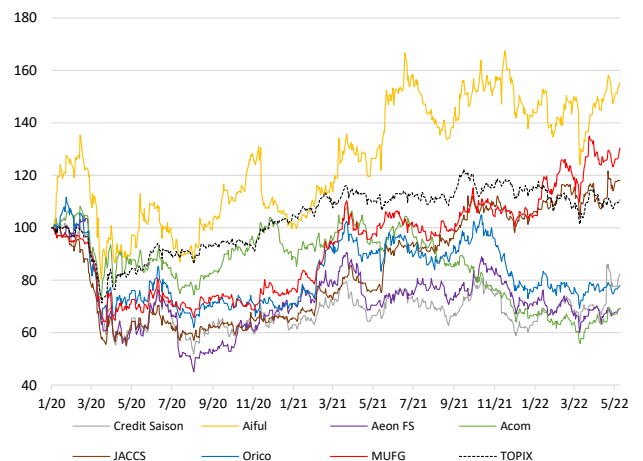
Figure: Stock price trends



Source: Bloomberg Finance LP data, Mita Securities

Note: Indexed 100 at the end of 2019

Figure: Stock price trends

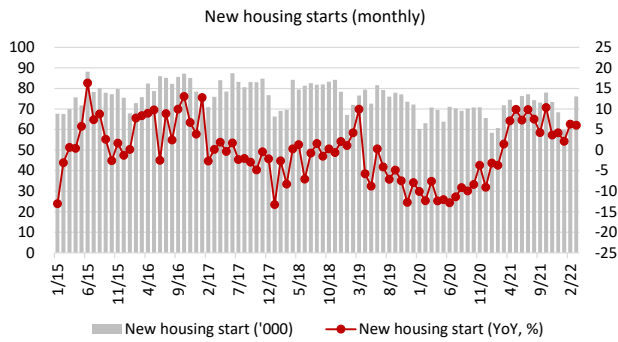


Source: Bloomberg Finance LP data, Mita Securities

Note: Indexed 100 at the end of 2019

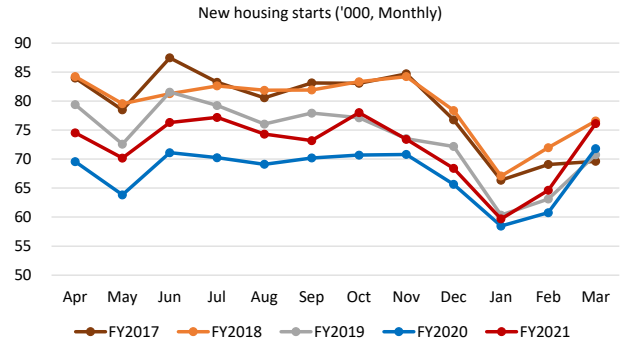
Reference materials

Figure: New housing starts



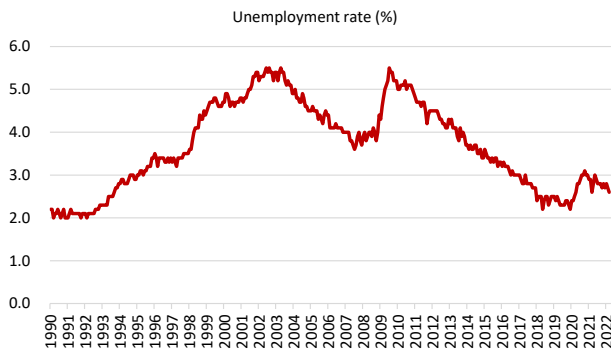
Source: MLIT data, Mita Securities

Figure: New housing starts



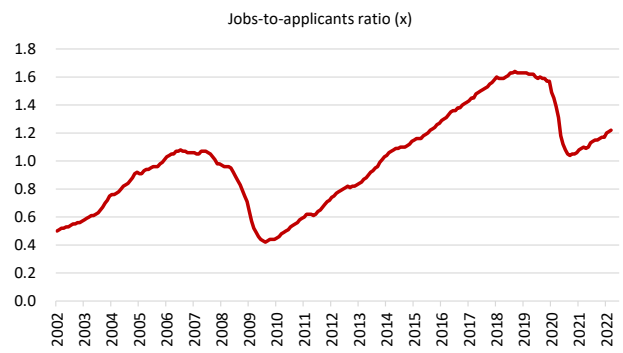
Source: MLIT data, Mita Securities

Figure: Unemployment rate



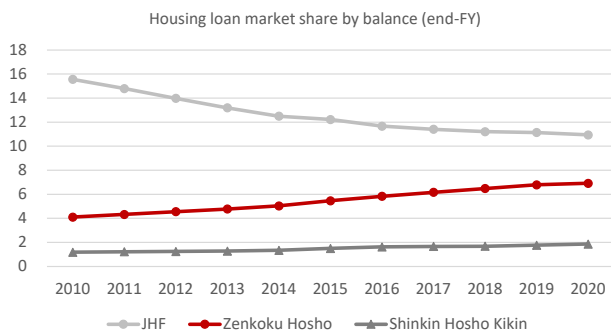
Source: MIC data, Mita Securities

Figure: Jobs-to-applicants ratio



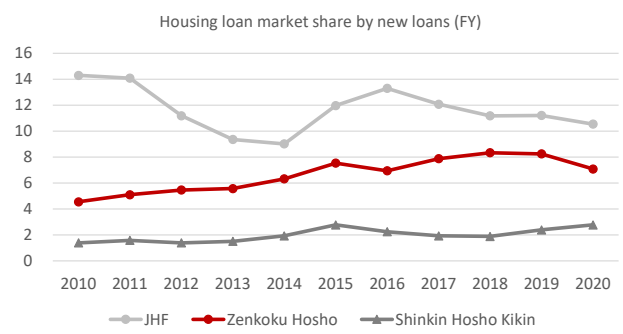
Source: MHLW data, Mita Securities

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

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