



Tosho

TSE Standard

8920

Industry: Leisure and amusement

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Slow recovery in sports club business; Real estate business may grow dramatically

FY3/22 OP up 315% at 4.5bn yen. In line

On May 10, Tosho (8920, the company) announced FY3/22 results. Sales were 27.320bn yen (+55.0% YoY), OP was 4.485m yen (+315.3% YoY), and OPM was 16.4%. The results were in line with the company's guidance (sales 27.3bn yen, OP 4.4bn yen) and our earnings forecast (sales 27.142bn yen, OP 4.403bn yen, and OPM 16.2%).

4Q (Jan-Mar) sales were 12.113bn yen (+163.8% YoY; +119.9% QoQ), OP was 2.869bn yen (+7501.7% YoY; +222.3% QoQ). Segment OP was -1m yen for the sports club business, 292m yen for the hotel business, and 2.577bn yen for the real estate business. The company sold 16 rental condominiums to Tosho REIT Investment Corporation (Tosho REIT) and posted a gain on sale.

FY3/23 guidance: Sales satisfactory, OP slightly weak

The company's full-year guidance for FY3/23 is sales of 20.6bn yen (-24.6% YoY), OP of 2.0bn yen (-55.4% YoY), and OPM of 9.7%. Compared to our earnings forecast (sales 21.631bn yen, OP 2.732bn yen and OPM 12.6%), sales guidance is satisfactory, but OP guidance seems slightly weak. Given AB Hotel's OP guidance of 1.2bn yen, this should give the market the impression that the outlook for profit recovery in the sports club business is weak. We will need to examine the cost assumptions for the guidance, including responses to inflation and advertising expenses to attract members.

Resumption of new hotel openings

The company's subsidiary AB Hotel already opened AB Hotel Anjo (Aichi Prefecture) in April 2022. Also, AB Hotel already announced the opening of AB Hotel Seki (Gifu Prefecture) in July 2023.

Acquires large-scale commercial facility in Suzuka

On April 22, Tosho announced that it would acquire a fixed asset (trust beneficiary certificate) under a sponsor support agreement with Tosho REIT. The underlying assets are land and building located in Suzuka City, Mie Prefecture, with 88,000 square meters of land (approximately two times the size of the Tokyo Dome) and 43,000 square meters of building floor space. The property is used as rental real estate. The company has not disclosed the acquisition price, but it is more than 30% of the company's net assets of 32.2bn yen (9.7bn yen). The company's liquidity on hand should be sufficient to fund the acquisition, while the company may borrow some funds from banks if necessary.

The company is a sponsor of Tosho REIT, and its consolidated subsidiary Tosho Asset Management is in charge of asset management for Tosho REIT. If the company sells the property to Tosho REIT, we assume that 1) the company might post a gain on the sale and 2) Tosho Asset Management might post an acquisition fee and a management fee. The acquisition of the new property in Suzuka should give the market the impression that preparations for Tosho REIT's IPO are progressing smoothly.

Please refer to the report dated March 22, 2022 for the rationale of the rating and target price.

Update

Rating

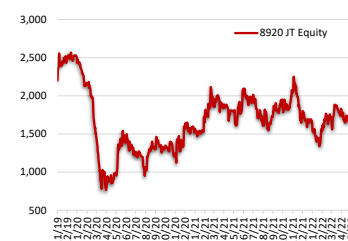
Buy

Target price (JPY)	2,300
Stock price (JPY) (May 10)	1,512
Market cap (JPYbn)	57.9

Key changes

Rating	No
Target price	No
Earnings forecast	No

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

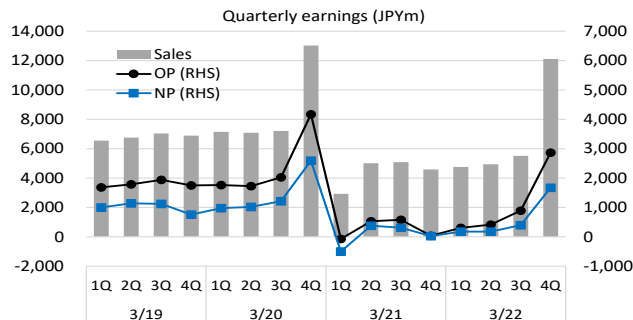
		3/20	3/21	3/22E	3/23E	3/24E
Sales	JPYbn	34.5	17.6	27.1	21.6	24.6
OP	JPYbn	9.7	1.1	4.4	2.7	4.5
RP	JPYbn	9.6	1.1	4.4	2.8	4.4
NP	JPYbn	5.8	0.2	2.5	1.3	2.2
EPS	JPY	151.5	5.7	65.4	33.9	57.1
BPS	JPY	904.9	903.8	963.1	991.0	1,038.1
DPS	JPY	15.0	2.0	6.0	6.0	10.0
PER	x	6.6	328.7	26.5	51.0	30.3
PBR	x	1.1	2.1	1.8	1.7	1.7
Div. yield	%	1.5	0.1	0.3	0.3	0.6
ROA	%	8.1	0.3	3.3	1.7	2.7
ROE	%	18.1	0.6	7.0	3.5	5.6

Source: Company data, Mita Securities

Company profile

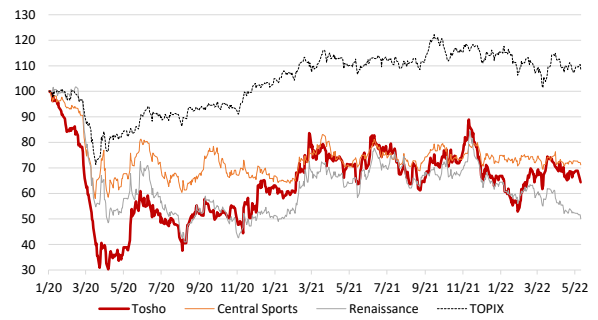
Tosho is based in Aichi Prefecture and operates Holiday Sports Club, AB Hotel, and real estate leasing business. The company had 101 sports clubs and 32 hotels at the end of December 2021. The company is actively involved in the store design stage to reduce initial investment, and also achieves low-cost operations through its own store management.

Figure: Quarterly earnings



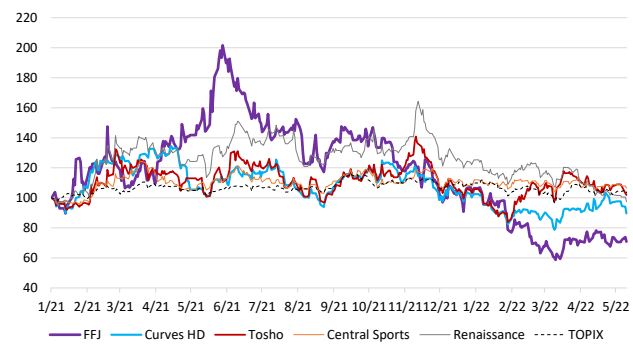
Source: Company data, Mita Securities

Figure: Stock price trends for fitness club operators



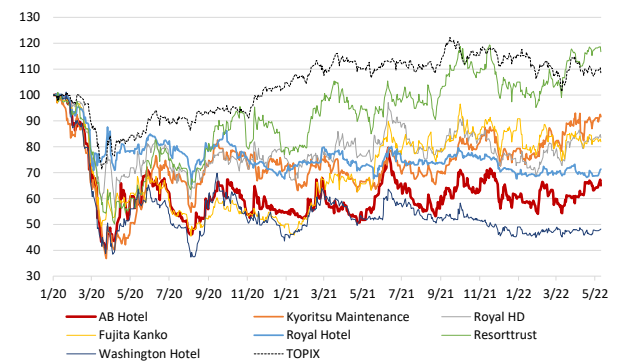
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends for fitness club operators



Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2020

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 fitness club operators

Company name	Ticker	PX 9-May	Mkt cap JPYbn	Net D/E Last	Sales YoY LTM	EBITDA Mgn LTM	ROE LTM	ROE Cur E	ROE Nxt E	PER LTM	PER Cur E	PER Nxt E	PBR Last	EV/EBITDA Last	EV/Sales Cur E	Div yield Cur E	1M Chg	3M Chg	1YR Chg	
RENAISSANCE INC	2378	878	18.1	1.7	13.5	-4.1	-37.0	4.8	NA	NA	NA	33.1	18.4	1.5	NA	0.9	0.7	-13.1	-23.4	-27.1
RIZAP GROUP INC	2928	147	81.8	1.4	-1.5	8.6	13.2	NA	NA	NA	29.1	NA	NA	2.9	NA	NA	NA	-2.0	-14.0	-31.3
CENTRAL SPORTS CO LTD	4801	2,339	26.4	0.3	4.4	10.1	6.6	NA	NA	17.7	NA	NA	1.1	NA	NA	NA	-2.8	-6.0	-5.1	
CURVES HOLDINGS CO LTD	7085	701	63.9	0.8	16.4	NA	23.8	21.8	31.8	33.0	31.6	18.7	6.8	NA	2.7	1.2	-4.5	-5.3	-17.1	
FAST FITNESS JAPAN INC (TP 2,650 Buy)	7092	1,851	33.3	-0.2	NA	29.0	21.5	16.4	16.4	19.3	24.0	20.8	3.5	7.6	2.4	0.6	-7.2	-17.9	-57.3	
TOSHO CO LTD (TP 2,300 Buy)	8920	1,628	58.3	0.4	-24.0	21.6	2.2	4.4	6.8	80.6	27.0	28.4	1.7	10.7	2.6	0.4	-12.2	-10.3	-9.4	
Average				0.7	1.8	13.1	5.1	11.8	18.3	35.9	28.9	21.6	2.9	9.2	2.1	0.7	-7.0	-12.8	-24.5	
Median				0.6	4.4	10.1	9.9	10.6	16.4	29.1	29.3	19.7	2.3	9.2	2.5	0.7	-5.9	-12.1	-22.1	

Source: Bloomberg Finance LP data, Mita Securities Note: Forecasts are based on Bloomberg consensus

Figure: Comparison of valuations for hotel operators

Company	Ticker	Share price 9-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	Div Yield Current E	1M Change	3M Change	1YR Change
RESORTTRUST INC	4681	2,167	227.1	NA	NA	33.0	28.8	2.1	11.2	1.7	-9.5	-6.0	-1.5	1.4	1.4	7.0	23.3
WASHINGTON HOTEL CORP	4691	653	7.9	NA	NA	NA	NA	2.1	NA	NA	-79.4	-2.1	-52.9	NA	0.5	-0.6	-9.7
AMAZE CO LTD	6076	833	12.3	32.5	17.6	NA	NA	1.0	NA	NA	6.3	16.5	22.1	NA	5.5	-3.1	-6.6
GREENS CO LTD	6547	622	8.0	NA	NA	NA	NA	5.5	NA	0.6	-385.9	25.2	-34.1	0.0	3.3	25.8	4.7
ABHOTEL CO LTD (TP 1,600 Buy)	6565	1,283	17.8	1,807.0	55.1	44.4	21.6	2.8	NA	3.8	5.3	22.8	23.4	0.3	3.4	-2.6	13.9
ROYAL HOLDINGS CO LTD	8179	2,075	99.2	NA	NA	107.8	37.0	3.1	14.1	1.3	-11.8	-0.6	-0.3	0.4	2.2	3.4	3.7
KYORITSU MAINTENANCE CO	9616	4,775	176.5	NA	NA	70,220.6	45.9	2.7	23.5	1.8	-12.0	5.5	-3.0	0.4	1.5	2.6	27.3
IMPERIAL HOTEL LTD	9708	1,819	107.5	NA	NA	NA	98.3	2.6	15.5	1.6	-21.1	-2.5	-19.4	0.2	0.9	-0.3	-4.7
ROYAL HOTEL LTD/THE	9713	1,173	11.8	NA	NA	NA	NA	NA	NA	NA	-19.5	-26.1	NA	0.2	-1.8	-3.8	
FUJITA KANKO INC	9722	2,325	27.2	2.2	2.2	NA	NA	2.0	15.3	1.2	168.7	6.7	77.6	0.0	-3.2	-9.3	14.9
KYOTO HOTEL LTD/THE	9723	620	7.3	NA	NA	NA	NA	140.2	NA	NA	-177.6	10.9	7.4	NA	2.7	-0.5	-1.1
Average				613.9	25.0	17,601.4	46.3	16.4	15.9	1.7	-51.7	5.2	-0.6	0.4	1.7	1.9	5.6

Source: Bloomberg Finance LP data, Mita Securities Note: Forecasts are based on Bloomberg consensus

APPENDIX

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