



# Torikizoku Holdings

TSE Prime

3193

Industry: Food service, retail

MITA SECURITIES Co., Ltd.

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## Earnings forecast update. Raising target price

### New TP at 2,500 yen. Reiterate Hold

We update our earnings forecast for Torikizoku Holdings (3193, the company) and raise our target price to 2,500 yen. We reiterate our Hold rating.

With the receding concern over the COVID-19 pandemic, the recovery of guest counts has been underway in the izakaya (Japanese-style pub) category, which had lagged behind the rest of the restaurant industry. In addition, the company raised menu prices in late April, but appears to be maintaining its relative cost-performance advantage. Although the yen's depreciation and inflation have had some impact, the increase in costs is likely to be relatively minor for the company, which mainly uses domestically produced ingredients. We expect the company to post an OP in 4Q (May-Jul) FY7/22 for the first time since 2Q (Nov-Jan) FY7/20, and to post a full-year OP in FY7/23 for the first time since FY7/20.

Nevertheless, the pace of new store openings is likely to be moderate. We view the expansion of the store network for the Toriki Burger format as an important driver of the company's medium- to long-term growth, but the company is still in the trial-and-error stage of establishing the format. We believe it will likely take two to three years for the company to start opening new Toriki Burger stores at full scale.

### Summary of latest results. Earnings no longer tricky, but predictable

On June 10, the company announced 1-3Q FY7/22 sales of 13.260bn yen (-6.9% YoY), OP of -2.583bn yen (-2.588bn yen in 1-3Q FY7/21), and RP of 1.817bn yen (-2.027bn yen in 1-3Q FY7/21). RP includes subsidy income of 4.404bn yen. The company also announced its full-year guidance, with sales of 20.423bn yen (+31.0% YoY), OP of -2.229bn yen (-4.663bn yen in FY7/21), and RP of 2.164bn yen (-315m yen in FY7/21).

In April, same-store sales for company-owned domestic stores were 208.7% vs. 2021 and 77.2% vs. 2019. In May, 1648.4% vs. 2021, and 83.2% vs. 2019. The recovery trend is clear.

### Mita Securities' earnings update

We raise our FY7/22 OP forecast from -3.544bn yen to -2.289bn yen (-4.663bn yen in FY7/21), and RP forecast from -575m yen to 2.104bn yen (-315m yen in FY7/21). For 4Q (May-Jul), we forecast OP of 294m yen. Also, we update our OP forecast from 648m yen to 1.117bn yen for FY7/23 and from 1.347bn yen to 1.383bn yen for FY7/24.

Our new assumptions for the total store count are 618 stores at the end of FY7/22 (previously 621), 624 stores at the end of FY7/23 (previously 630), and 635 stores at the end of FY7/24 (previously 642). We have pushed back our assumption for new store openings of the Toriki Burger format from our previous forecast.

### Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 5.0% (unchanged) and a terminal growth rate of 0.6% (unchanged), based on our earnings forecasts for FY7/22-FY7/27 (updated due to progress of the term). Our target price is equivalent to 31.5x our FY7/24 EPS forecast of 79.46 yen.

Downside risk factors to our view include prolonged requests for shorter operating hours, unexpected deterioration in sales, unexpected increase in operating costs, and customer defection due to food poisoning. Upside risk factors include greater shareholder returns.

## Forecast Change

Rating  
**Hold**

Target price (JPY)	2,500 ← 2,100
Stock price (JPY) (Jun 17)	2,390
Market cap (JPYbn)	27.8

### Key changes

Rating	No
Target price	Yes
Earnings forecast	Yes

### Stock price (JPY)



Source: Bloomberg Finance LP

### Earnings

		7/20	7/21	7/22E	7/23E	7/24E
Sales	JPYbn	27.5	15.6	20.3	31.5	34.1
OP	JPYbn	1.0	-4.7	-2.3	1.1	1.4
RP	JPYbn	1.0	-0.3	2.1	1.1	1.4
NP	JPYbn	-0.8	-0.5	1.2	0.7	0.9
EPS	JPY	-65.9	-40.3	102.9	63.2	79.5
BPS	JPY	489.1	450.6	553.5	612.7	684.2
DPS	JPY	4.0	0.0	4.0	8.0	10.0
PER	x	NA	NA	23.2	37.8	30.1
PBR	x	2.5	3.8	4.3	3.9	3.5
Div. yield	%	0.3	0.0	0.2	0.3	0.4
ROA	%	-4.1	-2.5	7.0	3.9	4.6
ROE	%	-12.5	-8.6	20.5	10.8	12.3

Source: Company data, Mita Securities

### Company profile

Torikizoku HD is a restaurant company based in Osaka Prefecture that operates one of Japan's largest izakaya (Japanese style pub) chains "Yakitori-ya Torikizoku." Torikizoku had 615 stores (383 company-owned stores and 232 franchise stores) as of the end of FY7/21. Sales in FY7/21 were 15.6bn yen, and the peak of sales before the COVID-19 pandemic was 35.8bn yen in FY7/19.

# Investment thesis

## Outlook

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

JPYm	7/19 Par A	7/20 Par A	7/21 Cons A	7/22 Cons Mita E	7/23 Cons Mita E	7/24 Cons Mita E	7/25 Cons Mita E	7/26 Cons Mita E	7/27 Cons Mita E	7/22 CoE	7/22 Bloomberg Consensus	7/23 Bloomberg Consensus	7/24 Bloomberg Consensus
<b>Earnings</b>													
Sales	35,848	27,540	15,591	20,272	31,506	34,071	37,065	40,673	45,359	20,423	19,050	27,600	31,750
(YoY, %)	5.5	-23.2	-43.4	30.0	55.4	8.1	8.8	9.7	11.5				
Operating profit	1,191	983	-4,663	-2,289	1,117	1,383	1,691	1,987	2,337	-2,229	-2,860	1,100	1,700
(YoY, %)	-29.2	-17.4	NA	NA	NA	23.9	22.2	17.5	17.6				
OPM (%)	3.3	3.6	-29.9	-11.3	3.5	4.1	4.6	4.9	5.2				
Recurring profit	1,145	956	-315	2,104	1,097	1,365	1,675	1,972	2,322	2,164			
(YoY, %)	-29.0	-16.5	NA	NA	-47.9	24.5	22.7	17.7	17.8				
Net profit	-286	-763	-466	1,193	733	921	1,137	1,345	1,590	1,198	350	785	1,250
(YoY, %)	NA	NA	NA	NA	-38.6	25.7	23.5	18.3	18.2				
Depreciation & amortization	1,527	1,297	1,041	895	877	868	867	881	910				
Capital expenditure	1,209	237	-46	280	360	640	880	1,320	1,760				
Free CF	841	-439	-2,799	2,150	2,677	1,499	1,217	1,318	1,068				
<b>KPI</b>													
Same-store sales growth (%)	-5.2	-21.0	-41.7	31.3	53.8	6.0	5.8	5.8	6.4				
Store count (end-FY)	659	629	615	618	624	635	650	671	698				
Company-owned stores	413	393	383	387	393	403	416	434	457				
Franchised stores (TCC sores)	246	236	232	231	231	232	234	237	241				
<b>Per share indicators</b>													
EPS (JPY)	-24.69	-65.88	-40.25	102.94	63.24	79.46	98.15	116.08	137.23	103.46	28.50	66.35	108.05
BPS (JPY)	562.98	489.08	450.58	553.49	612.73	684.19	772.34	876.42	999.65				
DPS (JPY)	8.00	4.00	0.00	4.00	8.00	10.00	12.00	14.00	18.00	NA			
<b>Valuation, profitability, etc.</b>													
PER (x)	NA	NA	NA	23.2	37.8	30.1	24.4	20.6	17.4				
PBR (x)	3.8	2.5	3.8	4.3	3.9	3.5	3.1	2.7	2.4				
Dividend payout ratio (%)	-32.2	-6.0	0.0	3.9	12.7	12.6	12.2	12.1	13.1				
Dividend yield (%)	0.4	0.3	0.0	0.2	0.3	0.4	0.5	0.6	0.8				
ROA (%)	-1.6	-4.1	-2.5	7.0	3.9	4.6	5.3	5.9	6.3				
ROE (%)	-4.3	-12.5	-8.6	20.5	10.8	12.3	13.5	14.1	14.6				
<b>Financial soundness indicators</b>													
Shareholders' equity ratio (%)	38.1	28.4	31.0	36.7	35.9	38.3	41.0	42.6	44.0				
Debt/Equity (x)	0.6	1.6	1.5	1.0	0.8	0.7	0.6	0.5	0.4				

Source: Company data, Bloomberg Finance LP data, Mita Securities

Figure: Mita Securities' earnings forecast change (consolidated)

JPYm	7/22 CoE	7/22 Old Mita E	7/22 New Mita E	7/23 Old Mita E	7/23 New Mita E	7/24 Old Mita E	7/24 New Mita E
Sales	20,423	17,682	<b>20,272</b>	28,399	<b>31,506</b>	33,839	<b>34,071</b>
Operating profit	-2,229	-3,544	<b>-2,289</b>	648	<b>1,117</b>	1,347	<b>1,383</b>
Recurring profit	2,164	-575	<b>2,104</b>	618	<b>1,097</b>	1,317	<b>1,365</b>
Net profit	1,198	-540	<b>1,193</b>	568	<b>733</b>	1,203	<b>921</b>
EPS (JPY)	103.46	-46.62	<b>102.94</b>	49.01	<b>63.24</b>	103.85	<b>79.46</b>

Source: Company data, Mita Securities

## Valuations

### Stock valuation based on residual income model (RIM)

In calculating our target price of 2,500 yen, we used a residual income model (RIM) with a cost of equity of 5.0% (unchanged) and a terminal growth rate of 0.6% (unchanged), based on our earnings forecasts for FY7/22-FY7/27 (updated due to progress of the term). Our target price is equivalent to 31.5x our FY7/24 EPS forecast of 79.46 yen.

*TP of 2,500 yen based on RIM*

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE
JPYbn	7/22	7/23	7/24	7/25	7/26	7/27	7/28
Shareholders' equity (EOP)	6.4	7.1	7.9	9.0	10.2	11.6	
Net profit		0.7	0.9	1.1	1.3	1.6	
Cost of equity		0.3	0.4	0.4	0.4	0.5	
Residual income		0.4	0.6	0.7	0.9	1.1	
PV of residual income		0.4	0.5	0.6	0.7	0.8	
PV of terminal value							19.4
Beta	0.90						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	5.00						
Terminal growth rate (%)	0.60						
					Total equity value		28.9
					Number of shares O/S (m)		11.6
					Target share price		2,500

Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate	0.20	0.30	0.40	0.50	0.60	0.70	0.80	0.90	1.00	1.10
Target price	2,350	2,400	2,400	2,450	2,500	2,550	2,600	2,600	2,650	2,700

Source: Mita Securities

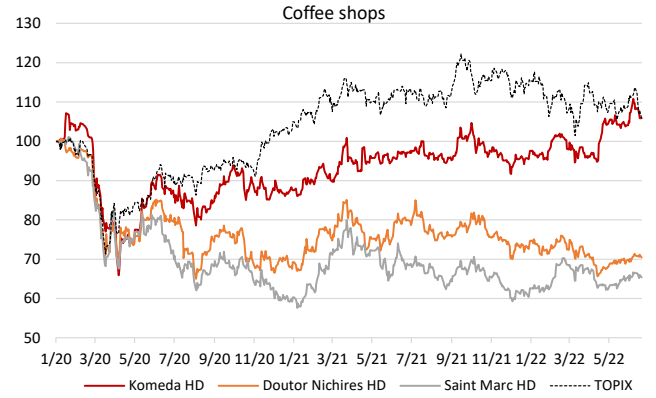
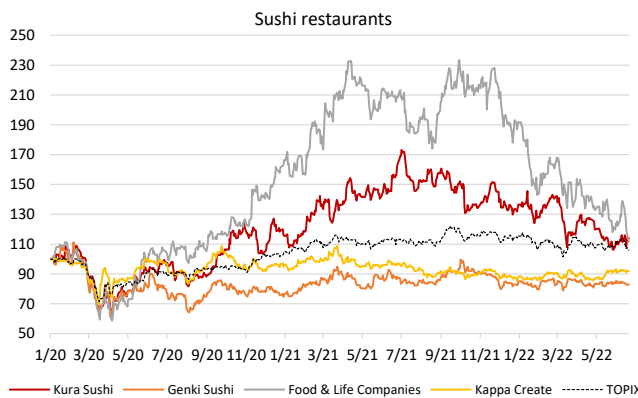
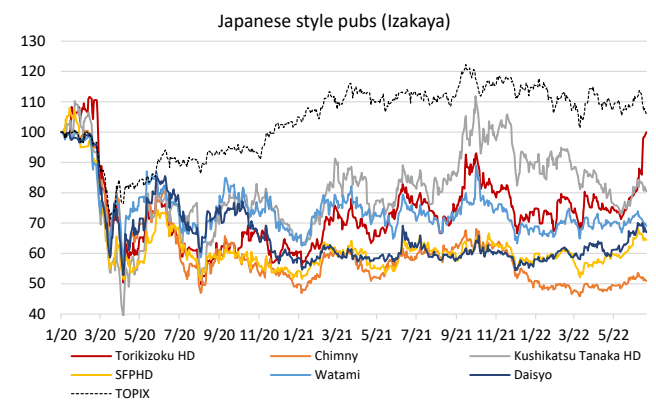
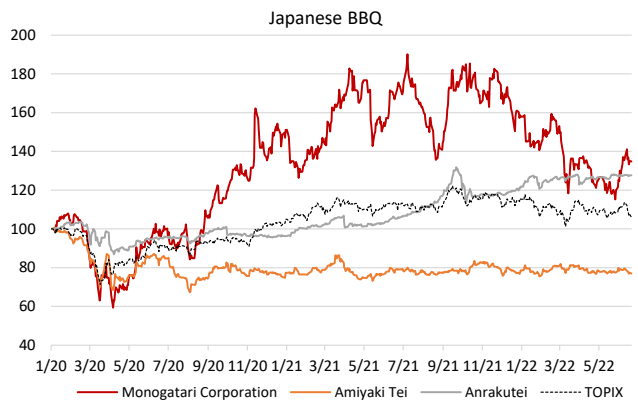
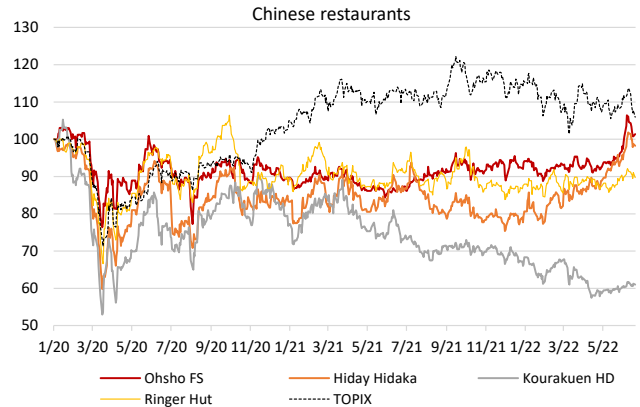
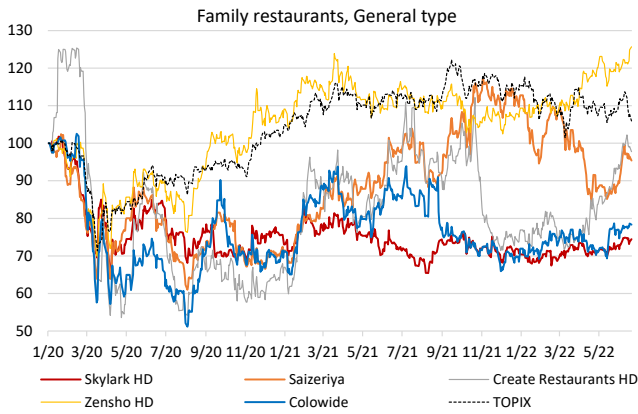
## Risk factors

Downside risk factors to our view include prolonged requests for shorter operating hours, unexpected deterioration in sales, unexpected increase in operating costs, and customer defection due to food poisoning. Upside risk factors include greater shareholder returns.



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

## Mita Securities' earnings forecast

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

Various indicators	7/19	7/20	7/21	7/22	7/23	7/24	7/25	7/26	7/27	5-yr ave growth (CAGR, %)
	Par A	Par A	Cons A	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E	
Sales growth (%)	5.5	-23.2	-43.4	30.0	55.4	8.1	8.8	9.7	11.5	
Same-store sales growth (%)	-5.2	-21.0	-41.7	31.3	53.8	6.0	5.8	5.8	6.4	
Co-owned store count growth (%)	-2.4	-4.8	-2.5	1.0	1.6	2.5	3.2	4.3	5.3	
OP growth (%)	-29.2	-17.4	NA	NA	NA	23.9	22.2	17.5	17.6	
RP growth (%)	-29.0	-16.5	NA	NA	-47.9	24.5	22.7	17.7	17.8	
NP growth (%)	NA	NA	NA	NA	-38.6	25.7	23.5	18.3	18.2	
Gross profit margin (%)	70.1	71.2	69.2	70.6	70.9	70.7	70.6	70.4	70.1	
OP margin (%)	3.3	3.6	-29.9	-11.3	3.5	4.1	4.6	4.9	5.2	
EBITDA margin (%)	7.6	8.3	-23.2	-6.9	6.3	6.6	6.9	7.1	7.2	
ROA (%)	-1.6	-4.1	-2.5	7.0	3.9	4.6	5.3	5.9	6.3	
ROE (%)	-4.3	-12.5	-8.6	20.5	10.8	12.3	13.5	14.1	14.6	

Source: Company data, Mita Securities

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

PL	7/19	7/20	7/21	7/22	7/23	7/24	7/25	7/26	7/27	5-yr ave growth (CAGR, %)
	Par A	Par A	Cons A	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E	
Sales	35,848	27,540	15,591	20,272	31,506	34,071	37,065	40,673	45,359	17.5
COGS	10,719	7,936	4,806	5,967	9,154	9,972	10,887	12,026	13,547	
Gross profit	25,129	19,603	10,785	14,305	22,352	24,099	26,178	28,646	31,812	
SGA	23,938	18,620	15,447	16,594	21,236	22,716	24,488	26,660	29,475	
Operating profit	1,191	983	-4,663	-2,289	1,117	1,383	1,691	1,987	2,337	NA
Non-operating income	29	31	4,411	4,423	20	20	20	20	20	
Non-operating expense	74	58	64	30	40	38	36	35	35	
Recurring profit	1,145	956	-315	2,104	1,097	1,365	1,675	1,972	2,322	2.0
Extraordinary gains	44	832	53	0	0	0	0	0	0	
Extraordinary losses	1,431	2,741	334	200	50	50	50	50	50	
Pre-tax profit	-242	-953	-595	1,904	1,047	1,315	1,625	1,922	2,272	3.6
Corporate taxes	44	-189	-129	711	314	395	487	577	682	
Minority interests	0	0	0	0	0	0	0	0	0	
Net profit	-286	-763	-466	1,193	733	921	1,137	1,345	1,590	5.9
EBITDA	2,717	2,280	-3,622	-1,394	1,994	2,252	2,558	2,868	3,247	NA
Shares O/S	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	
EPS	-24.69	-65.88	-40.25	102.94	63.24	79.46	98.15	116.08	137.23	
BPS	562.98	489.08	450.58	553.49	612.73	684.19	772.34	876.42	999.65	
DPS	8.0	4.0	0.0	4.0	8.0	10.0	12.0	14.0	18.0	
Payout ratio (%)	-32.2	-6.0	0.0	3.9	12.7	12.6	12.2	12.1	13.1	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (store count, JPYm)

Store count (End-FY)	7/19 A	7/20 A	7/21 A	7/22 Mita E	7/23 Mita E	7/24 Mita E	7/25 Mita E	7/26 Mita E	7/27 Mita E	5-yr ave growth (CAGR, %)
Total store count	659	629	615	618	624	635	650	671	698	2.5
(Net increase/decrease)	-6	-30	-14	3	6	11	15	21	27	
Company-owned stores	413	393	383	387	393	403	416	434	457	3.4
(Net increase/decrease)	-10	-20	-10	4	6	10	13	18	23	
Torikizoku	413	393	383	385	389	395	402	410	419	
Toriki Burger				2	4	8	14	24	38	
Franchised stores (TCC stores)	246	236	232	231	231	232	234	237	241	0.9
(Net increase/decrease)	4	-10	-4	-1	0	1	2	3	4	
Torikizoku	246	236	232	231	231	232	234	237	241	
Toriki Burger				0	0	0	0	0	0	
Sales per company-owned store (JPYm)	85	68	40	52	80	85	90	95	101	14.2

Source: Company data, Mita Securities

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

BS	7/19 Par A	7/20 Par A	7/21 Cons A	7/22 Cons Mita E	7/23 Cons Mita E	7/24 Cons Mita E	7/25 Cons Mita E	7/26 Cons Mita E	7/27 Cons Mita E	5-yr ave growth (CAGR, %)
JPYm										
Assets										
Total current assets	5,736	10,175	8,011	9,461	12,290	12,913	14,064	15,630	17,266	
Cash and deposits	4,106	8,675	4,714	5,671	7,801	8,708	9,309	10,488	11,394	
Accounts receivable	343	343	161	283	408	339	473	418	576	
Inventories	144	125	84	170	201	178	213	194	260	
Other	1,143	1,032	3,053	3,338	3,880	3,689	4,069	4,529	5,037	
Total fixed assets	11,391	9,778	8,823	8,015	7,498	7,770	7,782	8,221	9,071	
Tangible assets	8,631	6,818	5,599	4,985	4,468	4,240	4,252	4,691	5,541	
Intangible assets	77	59	41	30	30	30	30	30	30	
Investment and other	2,683	2,901	3,183	3,000	3,000	3,500	3,500	3,500	3,500	
Total assets	17,128	19,953	16,835	17,476	19,788	20,683	21,846	23,850	26,337	8.5
Liabilities										
Total current liabilities	6,932	5,362	4,221	4,339	6,123	6,581	7,092	7,730	8,581	
Accounts payable	1,173	986	348	432	663	723	789	872	982	
Short-term debt	1,345	1,159	1,532	1,000	1,000	1,000	1,000	1,000	1,000	
Other	4,413	3,217	2,341	2,907	4,459	4,858	5,303	5,859	6,599	
Total long-term liabilities	3,672	8,924	7,392	6,722	6,564	6,173	5,804	5,964	6,171	
Long-term debt	2,477	7,754	6,254	5,500	5,000	4,500	4,000	4,000	4,000	
Other	1,196	1,170	1,138	1,222	1,564	1,673	1,804	1,964	2,171	
Total liabilities	10,604	14,286	11,614	11,062	12,687	12,754	12,896	13,694	14,752	5.9
Net assets										
Shareholders' equity	6,524	5,667	5,221	6,414	7,100	7,929	8,950	10,156	11,584	12.6
Warrants	0	0	0	0	0	0	0	0	0	
Minorities	0	0	0	0	0	0	0	0	0	
Total net assets	6,524	5,667	5,221	6,414	7,100	7,929	8,950	10,156	11,584	12.6
Debt	3,822	8,913	7,786	6,500	6,000	5,500	5,000	5,000	5,000	-5.1
Net debt	-369	175	2,979	829	-1,801	-3,208	-4,309	-5,488	-6,394	
Debt/EBITDA (x)	1.4	3.9	-2.1	-4.7	3.0	2.4	2.0	1.7	1.5	
D/E (x)	0.6	1.6	1.5	1.0	0.8	0.7	0.6	0.5	0.4	
Shareholders' equity ratio (%)	38.1	28.4	31.0	36.7	35.9	38.3	41.0	42.6	44.0	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, CF, JPym)

CF	7/19	7/20	7/21	7/22	7/23	7/24	7/25	7/26	7/27	5-yr ave growth
JPYm	Par A	Par A	Cons A	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E	Cons Mita E (CAGR, %)
Cashflow from operations	2,172	-191	-2,688	2,530	3,237	2,339	2,347	2,938	3,128	
Net profit	-286	-763	-466	1,193	733	921	1,137	1,345	1,590	
Depreciation and amortization	1,527	1,297	1,041	895	877	868	867	881	910	
Other	931	-724	-3,263	442	1,627	550	343	711	628	
Cashflow from investing	-1,331	-248	-111	-380	-560	-840	-1,130	-1,620	-2,060	
Capital expenditure	-1,209	-237	46	-280	-360	-640	-880	-1,320	-1,760	
Disposal of fixed assets	0	19	189	0	0	0	0	0	0	
Other	-122	-30	-346	-100	-200	-200	-250	-300	-300	
Cashflow from financing	-1,144	4,986	-1,132	-1,286	-546	-593	-616	-139	-162	
Debt issuance/repayment	-1,050	5,087	-1,127	-1,286	-500	-500	-500	0	0	
Share issuance/buyback (net)	0	0	0	0	0	0	0	0	0	
Dividend paid	-92	-95	-1	0	-46	-93	-116	-139	-162	
Other	-1	-6	-5	0	0	0	0	0	0	
Cash and cash equivalents	4,191	8,738	4,807	5,671	7,801	8,708	9,309	10,488	11,394	
Free cashflow	841	-439	-2,799	2,150	2,677	1,499	1,217	1,318	1,068	

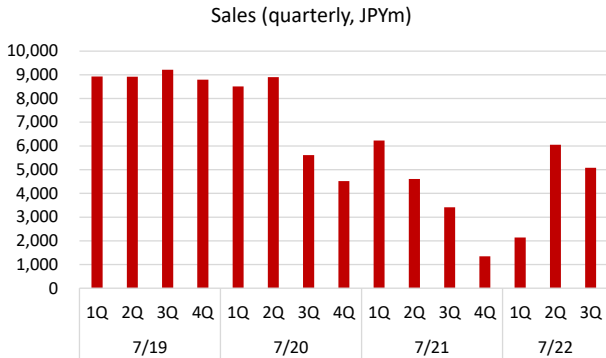
Source: Company data, Mita Securities



# Monthly and quarterly earnings

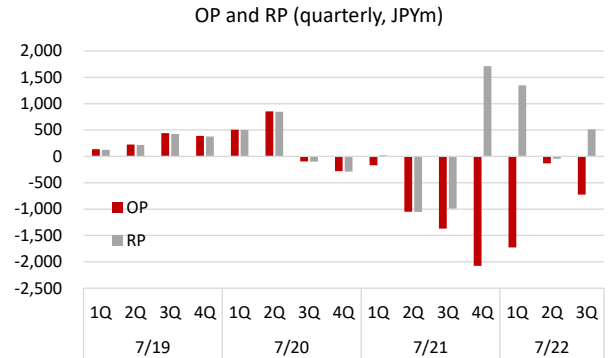
## Quarterly results for Torikizoku Holdings

Figure: Sales (JPYm)



Source: Company data, Mita Securities

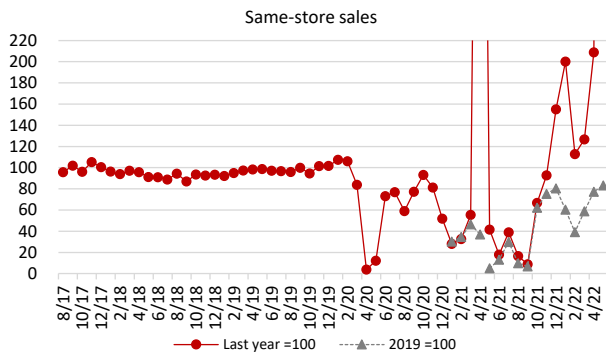
Figure: Operating profit and recurring profit (JPYm)



Source: Company data, Mita Securities

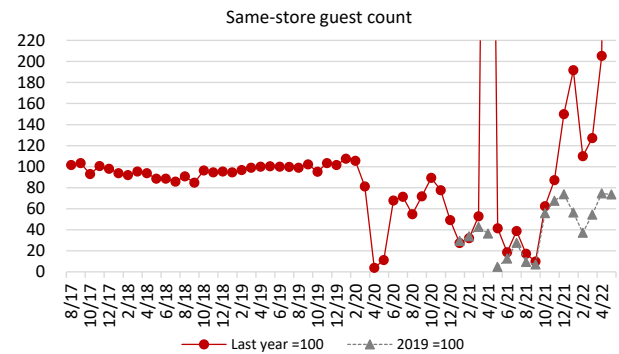
## Monthly data for Torikizoku Holdings

Figure: Same-store sales (%)



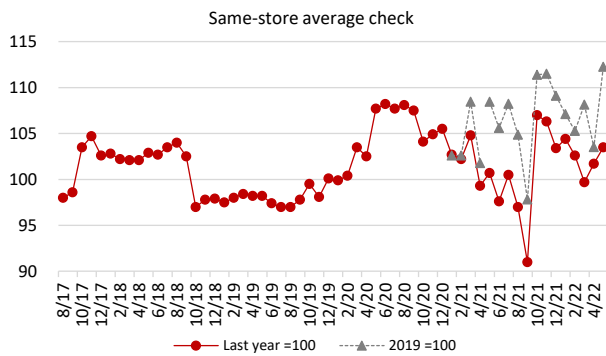
Source: Company data, Mita Securities

Figure: Same-store guest count (%)



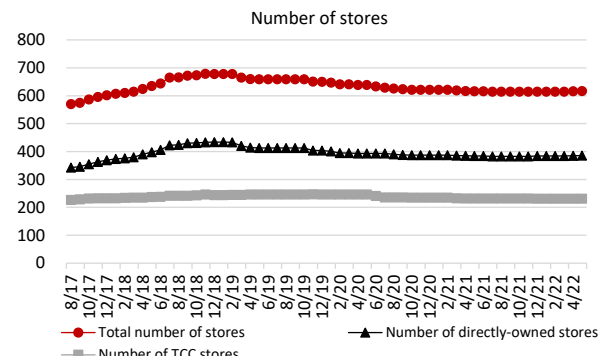
Source: Company data, Mita Securities

Figure: Same-store average check (%)



Source: Company data, Mita Securities

Figure: Number of stores

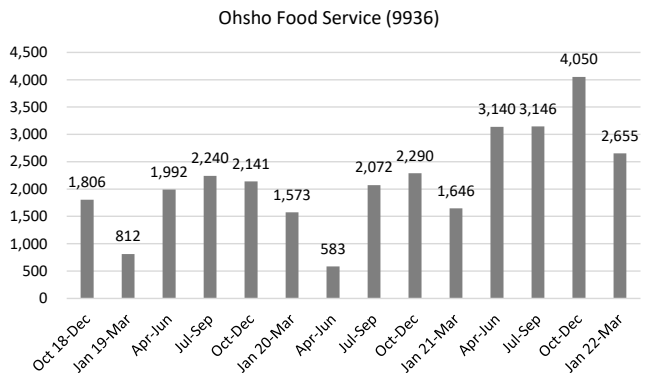
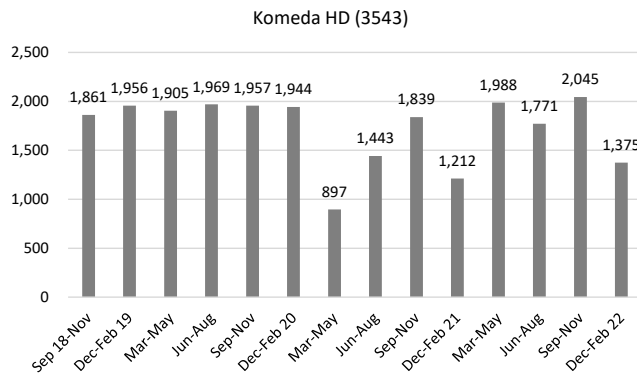
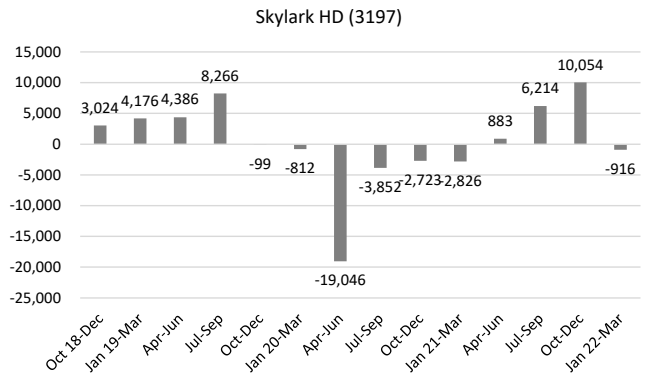
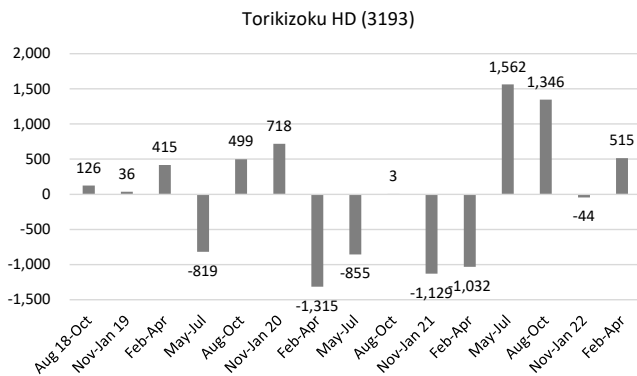
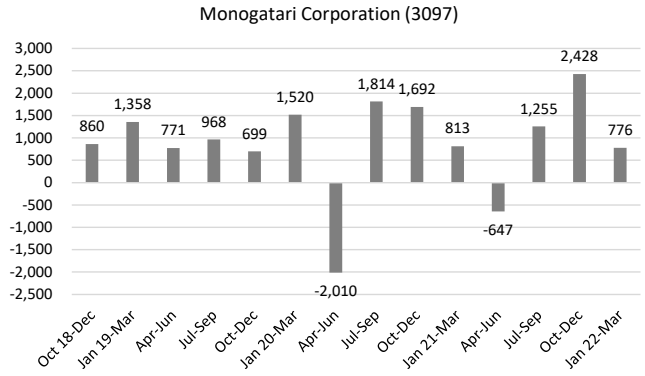
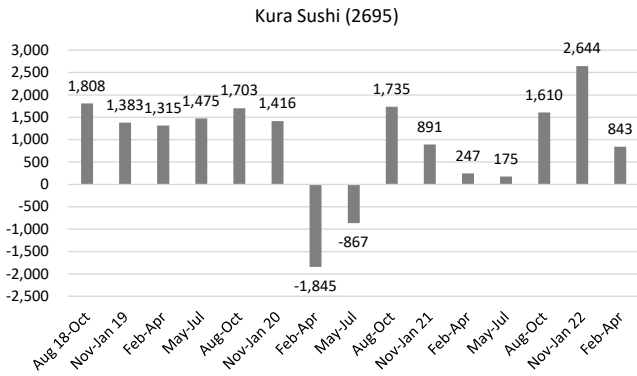


Source: Company data, Mita Securities



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

## 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.

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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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