

EDION (2730, Corporate)

Strength to persist

20th August 2024

Share price: ¥1,815

Market cap: ¥203.3bn

Strong 1Q earnings are set to persist in FY 3/25, driven by replacement demand for domestic appliances coupled with robust inbound sales.

Company sector

Specialty Retail (GICS Industry)

Stock data

Price (¥)	1,815
Mkt cap (¥bn)/(\$m)	203.3 / 1,387.8
52-week range (¥)	1,445 - 1,816
Shares O/S (m)	112.0
Average daily value (\$m)	4.6
Free float (%)	69.7
Foreign shareholding (%)	7.1
Ticker	2730
Exchange	Tokyo Prime
Net Debt/Equity (x)	36.9%



Source: Bloomberg

- **1Q 3/25 sales & OP finished above forecast due to strong aircon, ELS (Eco Living & Solar), & TV sales. The GPM was marginally weaker YoY due to slight sales mix deterioration, but OP increased YoY & was above the company forecast (undisclosed for the quarter) due to strict cost control.**
- **EDION believes weak consumer spending on durable consumer goods due to inflation is gradually recovering as a result of replacement demand for home appliances. It also anticipates inbound demand strength persisting.**
- **In the 2-4Q, it expects sales growth to remain robust, driven by Olympics-related demand for TVs, replacement demand for home electronics, subsidies for energy saving home appliances, & ELS segment strength.**
- **EDION plans to continue to develop & launch original PBs, aiming for them to account for 35% of sales in the medium term. Its aircon cleaning business is growing as expected & its ELS remodelling & e-commerce divisions are also posting strong growth.**
- **Having raised its FY 3/24 dividend +¥1 to achieve a payout ratio of 50%, the company's focus remains on improving its capital policy & cash allocation, as well as raising profitability. On 2nd Aug, EDION announced plans to continue share buybacks, aiming to buy 5.5m (5.23% of outstanding) shares by 31st July 2025, as it believes its shares are undervalued.**
- **On 17x FY 3/25 company estimates, with strong demand likely to continue to drive FY 3/25 earnings, we are encouraged by progress & recommend investors book time with senior management to build a deeper understanding of EDION's long-term growth potential: [here](#).**

BUSINESS OVERVIEW

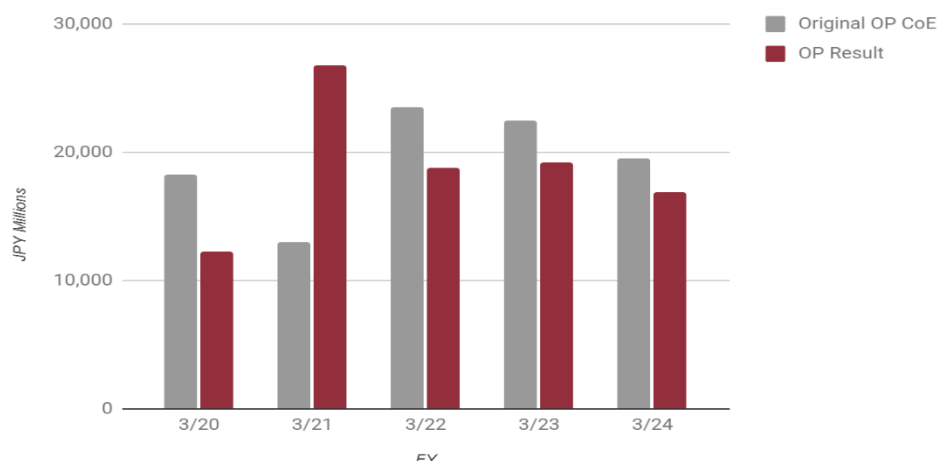
EDION is a leading consumer electronics retailer with a remodelling business.

Next event

1H 3/2025 results in November 2024
 Storm Corporate: +44 (0) 121 288 3402
info@stormresearch.co.uk
[Storm corporate profile page](#)

EDION CORP is a research client of Storm Research

Year end	3/2023	3/2024	1Q 3/2025	3/2025E
Sales (¥bn)	720.6	721.1	174.5	750.0
OP (¥bn)	19.2	16.9	3.3	19.0
NP (¥bn)	11.4	9.0	2.3	11.0
EPS (¥)	112.4	90.1	21.7	104.7
DPS (¥)	44.0	45.0	n/a	45.0
Sales growth YoY (%)	1.0	0.1	8.4	4.0
OP growth YoY (%)	2.1	-11.8	88.7	12.2
NP growth YoY (%)	-13.1	-20.8	108.6	21.9
EPS growth YoY (%)	-10.4	-19.8	95.3	16.2
PER (x)	11.4	17.2	n/a	17.3
EV/EBITDA (x)	5.3	8.7	8.6	9.7
PBR (x)	0.6	0.8	0.8	0.9
ROE (%)	5.7	4.3	4.9	n/a
ROIC (%)	5.6	4.0	4.2	n/a
FCF yield (%)	5.2	n/a	n/a	n/a
Dividend yield (%)	3.4	2.9	n/a	2.5

RESULTS VS
FORECAST HISTORY

EARNINGS

Strong 1Q 3/25 sales of key main products led to QoQ sales growth for the first time in 4 quarters. Taking into account revenue recognition, **sales reached the highest level in 10 years, driven by air conditioners & ELS strength.**

- *Comps*: 1Q comps increased +5.3%, with July also strong at +7% versus the company 1H forecast of +0.5% & 2H forecast of +1.5%, totalling +1% for FY 3/25.

- *GP & GPM*: The 1Q GPM declined -0.2ppt YoY to 30.0%, despite strong high margin seasonal product sales, as higher sales of E-Commerce & games/toys negatively impacted the sales mix. The GPM was slightly weak versus the company's flat YoY forecast, but 1Q GP increased +7.8%YoY.

- *OP*: 1Q OP increased +88.7%YoY due to strict SG&A control, with SG&A to sales declining -1ppt YoY to 28%. The main cost increases were advertising & promotional expenses, +10.8%YoY to ¥11.6bn, & facilities expenses, +4.2%YoY to ¥14.5bn, mainly due to a new store opening in May.

Personnel costs only increased +1.1%YoY to ¥20.1bn **as EDION has been focused on keeping these expenses low, reducing store operating hours at standalone stores to minimise overtime.** It is also overhauling its contracts with logistics companies, as well as becoming more flexible with delivery times.

- *E-Commerce*: 1Q E-Commerce sales accounted for approx. 5.8% of total sales & increased +0.2ppt YoY in line with expectation. The company does not have a medium term target but expects E-Commerce sales to grow in tandem with store sales.

- *Stores*: In the 1Q, net directly operated store numbers increased +3 to 457 with 4 openings & 1 closure. Including 748 FC (franchise) stores, the total store number was 1,205.

In July, there were 2 FC closures, bringing the total to 746 FCs & 1,203 overall stores. In FY 3/25, the company forecasts +7 openings & 1 renovation.

- *Product breakdown:*

	3/24 YoY	1Q 3/25	July	FYTD
TV / video / audio	-6.8%	4.6%	4.8%	4.7%
Fridges	-2.0%	-0.6%	-11.0%	-4.5%
Washing Machines	0.8%	1.5%	-5.0%	-0.5%
Aircon	3.2%	13.0%	10.0%	11.7%
PCs	-14.6%	-6.4%	-16.2%	-8.8%
ELS	-2.1%	13.5%	5.8%	11.4%

- *ELS (house renovation):* 1Q ELS sales were strong, in line with forecast, boosted by subsidies for energy efficient appliances.

- *TVs:* 1Q 3/25 sales began to pick up from early Spring, likely due to Paris Olympics demand.

- *Washing machines & fridges:* 1Q washing machine sales increased +1.5%YoY & fridges declined -0.6%YoY. **EDION anticipates a gradual growth pick up due to replacement demand through FY 3/25.**

- *Aircon:* 1Q sales increased +13%YoY, with strength maintained in July (+10%YoY), driven by hot summer weather. Given ongoing high temperatures, we expect August sales to remain strong, with moderate growth for the remainder of FY 3/25.

EDION's comprehensive nationwide network has allowed it to expand its air conditioner cleaning business. In FY 3/24, it cleaned 250,000 units. In 1Q FY 3/25, **sales increased approx. +10%YoY in line with its MTP target of 300,000 units.**

- *Inbound:* As of the 1Q, **inbound sales were approx. 2% of total sales, a historic high** (pre COVID it reached 0.7%), with further growth expected. 1Q inbound sales increased +203%YoY with April +308%, May +180% & June +151%.

Purchases have been concentrated in city centre stores, focusing on high value items such as watches, cameras & games / toys, aided by the weaker yen.

- *PBs:* PBs accounted for approx. 29.1% of total 1Q appliance sales versus its medium term FY 3/26 target of 35%.

EDION is continuing to launch new e angle products, which feature high functionality at affordable prices. 1Q product releases include an air circulator, released on 26th April 2024, & an electric fan, released on 1st May 2024. In August, it launched 2 products including a wireless speaker, with more releases planned for the rest of the 2Q.

The company did not release any products developed with Nitori in the 1Q, but these are under development with plans for a 2H launch.

- *Inventory:* 1Q inventory declined -¥3.6bn to ¥132.8bn, aided by strong sales.

- *Acquisition:* On 1st Aug 2024, EDION acquired 100% of Muroyama Express & made it a consolidated subsidiary. Muroyama Express is a logistics operator, mainly in the Kinki, Chugoku & Shikoku regions. Historically, EDION & Murayama Express have had a strong

relationship & EDION believes its addition to the group is set to improve its logistics capability & facilitate further growth.

FUND

On 22nd May 2024, EDION announced the Brand New Retail Initiative Fund, a CVC (Corporate Venture Capital) fund. It has been established to invest in marketing, retail, renovation, environmental energy, & battery recycling businesses, as well as information management system & AI/blockchain type startups that contribute to the use of various technologies. The aim is to develop marketing methods & accelerate the speed of new business development, thus supporting their growth.

The fund is set to total up to approx. ¥10bn. EDION confirms it has made a small investment but has not disclosed the amount.

CAPITAL EFFICIENCY

EDION is aware of its 0.9x P/B ratio & continues to focus on improving capital efficiency. As of 1Q FY 3/25, it had net debt of ¥72.1bn with a net debt/equity ratio of 36.9%. The shareholders' equity ratio was 48.4%, with RoE at 4.3% & ROIC at 3.9%.

To raise its RoE to >8%, as per its medium term plan, **EDION is aiming to improve profitability, its capital policy & its cash allocation**. It is also assessing its medium term growth vision, aiming to increase investor engagement, improve governance & promote sustainability.

MANAGEMENT

Following approval at EDION's June 2024 AGM, Masataka Kubo (74) became Chairman after serving as President for 21 years. **Kozo Takahashi (62) became President having previously been Director & Senior Managing Executive Officer**. Norio Yamazaki (67) became Vice Chairman from Vice President previously.

SHAREHOLDER RETURNS

EDION has a dividend payout ratio policy of >30% but in reality is paying well in excess of this. It originally planned to pay a FY 3/24 dividend of ¥44 (flat YoY). **This was revised at FY results to ¥45, with a payout of 50%**. In FY 3/25, the company assumes ¥45 & a payout ratio of 43%.

The company completed share buybacks in FY 3/22 & FY 3/23 to set aside shares for potential conversion of its zero coupon CB. On 2nd August, it announced a **further buyback of 5.23% of outstanding shares**.

The outstanding CB is convertible at ¥1,450 until June 2025. Approx. 50% has been converted with remaining potential total dilution of approx. 5%.

- *Individual shareholder benefit scheme*: EDION has expanded its successful benefit scheme promoting long term shareholding, now offering benefits that accumulate after holding shares for >1, >2 years & >3 years.

PREVIOUS REPORTS

- 13th June 2024: ['FY 3/25 recovery'](#)
- 8th March 2024: ['Capital efficiency focus'](#)
- 25th Jan: Initiating Coverage: ['Capitalising on USPs'](#)

COMPANY INFORMATION

March 2002	DEODEO (Chugoku/Shikoku/Kyushu regions) and EIDEN (Chubu region) established the holding company EDION by way of a stock transfer. EDION listed on the TSE 1 st Section, the Osaka Stock Exchange (now the Osaka Exchange), and the Nagoya Stock Exchange
March 2004	Delisted from the Osaka Stock Exchange (now the Osaka Exchange)
April 2005	Made Midori Denka a 100%-owned subsidiary by way of a stock transfer
June 2007	Acquired 40% of 3Q, making it a consolidated subsidiary
Oct 2009	DEODEO merged with Midori Denka, changing its name to EDION WEST. EIDEN changed its name to EDION EAST
Oct 2010	Merged EDION EAST and EDION WEST
Oct 2011	Acquired 100% of consolidated subsidiary 3Q shares. Acquired 100% of 3Q House System shares (now EDION House System, a consolidated subsidiary)
April 2012	Invested in E.R. Japan (currently a consolidated subsidiary), acquiring 55% of shares
Aug 2016	Acquired an additional 30% of E.R. Japan shares
March 2017	Acquired 100% of E.R. Japan shares
Aug 2017	Acquired 100% of Forest shares (currently a consolidated subsidiary)
March 2018	Invested in E-Logi (currently a consolidated subsidiary), acquiring 80% of shares
June 2018	Acquired 100% of Fukutoku shares (now Forest Shuhan, a consolidated subsidiary)
Sep 2019	Acquired 100% of E-Logi shares
Nov 2019	Acquired 100% of Jtop shares (currently a consolidated subsidiary)
Dec 2019	Acquired 100% of Youmemiru shares (currently a consolidated subsidiary)
Feb 2021	Acquired 100% of PTN shares, and made PTN and its subsidiaries Prime Station, Hampstead, and EdBank into consolidated subsidiaries
Nov 2021	Delisted from the Nagoya Stock Exchange
April 2022	Moved from the TSE 1 st Section to the Prime Market
Oct 2022	NWORK Corporation merged with Hampstead Co., Ltd. and changed its name to EDION X Ventures Corporation (currently a consolidated subsidiary)
Sep 2023	Acquired Sanfrecce Hiroshima
Oct 2023	Jtop absorbed E-Logi
March 2024	Acquired Azabu Corp
Aug 2024	Acquired Murayama Express

Company contact details

Osaka Mitsui Bussan Building
2-333 Nakanoshima, Kita-ku, Osaka-shi
Osaka, 530-0005
Japan

Website: <https://www.EDION.co.jp/>

TEL: 81-6-6202-6048

Major shareholders	Stake %
Nitori Hdgs	9.73
EDION Corp Employee Stockholdings	7.49
The Master Trust Bank of Japan, Ltd.	7.20
Daiichi	3.28
Masataka Kubo	2.13
Custody Bank of Japan, Ltd.	1.88
NOMURA AYA	1.82
Dai-ichi Life Holdings	1.72
Mitsubishi UFJ Financial Group	1.61
EDION Corp Customer Stockholdings	1.61

Source: Company.

J GAAP Financial statements

Income statement (¥bn)	FY 3/22	FY 3/23	FY 3/24
Sales	713.77	720.58	721.09
COGS	504.1	509.7	511.5
Gross profit	209.7	210.9	209.6
Gross profit margin (%)	29.4	29.3	29.1
Operating expense	190.9	191.7	192.7
Total OP	18.80	19.19	16.93
OP margin (%)	2.6	2.7	2.3
Non-Op Income (Loss)	-1.0	2.3	2.6
Pretax Income	19.8	16.9	14.3
Tax	6.7	5.5	5.3
Effective tax rate (%)	33.7	32.6	37.4
Net income	13.11	11.39	9.02

Balance sheet (¥bn)	FY 3/22	FY 3/23	FY 3/24
Cash & equivalents	29.9	13.2	12.0
Accounts & notes receivable	39.6	37.9	40.7
Inventories	106.0	116.1	117.9
Other short-term assets	15.1	18.6	19.2
Current assets	190.6	185.7	189.8
Property, plant & equipment (net of depreciation)	125.5	122.1	177.8
Long term investments & receivables	3.3	3.9	4.9
Other long-term assets	58.6	57.6	59.2
Total non-current assets	187.4	183.6	241.9
Total assets	378.0	369.4	431.7
Payables & accruals	49.9	49.4	48.2
Short-term debt	11.0	11.7	49.6
Other short-term liabilities	48.1	46.8	51.6
Total current liabilities	109.0	107.8	149.5
Long term debt	44.5	34.4	41.6
Other long-term liabilities	25.0	25.5	25.7
Total non-current liabilities	69.5	59.9	67.3
Total liabilities	178.5	167.7	216.8
Share capital & APIC	96.9	96.9	97.0
Treasury stock	10.1	15.0	7.7
Retained earnings	118.2	125.1	129.4
Other equity	-5.5	-5.3	-4.1
Equity before minority interest	199.5	201.7	214.6
Total equity	199.5	201.7	214.9
Total liabilities & equity	378.0	369.4	431.7

Cash flow statement (¥bn)	FY 3/22	FY 3/23	FY 3/24
Net income/pre-tax profit	13.1	11.4	9.0
Depreciation/amortization	11.7	11.0	10.9
Other non-cash items	-9.4	4.6	2.6
Changes in working capital	-4.8	-14.8	-2.6
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Operating Activities	10.6	12.1	20.0
Change in fixed & intangible assets	-8.6	-6.7	-68.6
Net change in long-term investments	-0.9	-0.6	0.0
Net cash from acquisitions & divestitures	0.0	0.0	0.8
Other investing activities	-1.0	-1.1	-0.9
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Investing Activities	-10.5	-8.3	-68.7
Dividends paid	-4.7	-4.1	-4.0
Cash from (repayment) debt	-2.7	-10.5	52.6
Cash from (repurchase) of equity	-5.4	-5.0	0.0
Other financing activities	-5.4	-5.0	0.0
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Financing Activities	-13.2	-20.5	47.5
FX impact	0.0	0.0	0.0
Net cash flow	-13.2	-16.6	-1.2
Free cash flow	3.1	6.7	-46.5
EBITDA	30.5	30.2	27.8

Key metrics	FY 3/22	FY 3/23	FY 3/24
Profitability			
Gross margin (%)	29.4	29.3	29.1
Operating margin (%)	2.6	2.7	2.3
Net margin (%)	1.8	1.6	1.3
ROIC (%)	5.3	5.6	4.0
Liquidity			
Current ratio (x)	1.7	1.7	1.3
Quick ratio (x)	0.6	0.5	0.4
Leverage			
Debt/Equity ratio	27.9	22.8	42.5
Net Debt/Equity ratio	12.9	16.3	36.9

DISCLAIMER

This report has been commissioned by EDION & prepared & issued by Storm Corporate in consideration of a fee payable by EDION. All information and data used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. To the fullest extent allowed by law Storm Corporate shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained in this report. The information that we provide should not be construed in any manner whatsoever as personalised advice or investment opinions. This report is for informational purposes only and under no circumstances should it be considered or intended as Storm Corporate's solicitation to effect, or attempt to effect, any transaction in a security. Storm Corporate and its employees may have engaged in, or may have the possibility of engaging in transaction of securities issued by the concerned companies. The copyright of this report belongs to Storm Corporate & any distribution, transmission, modification or manipulation of this report is strictly prohibited.

This report is freely available on Bloomberg, Factset, Refinitiv & S&P Capital. If you would like to subscribe directly to Storm Corporate reports, please click [here](#).