

EDION (2730, Corporate)

Multi-faceted growth

29th November 2024

Share price: ¥1,808

Market cap: ¥202.5bn

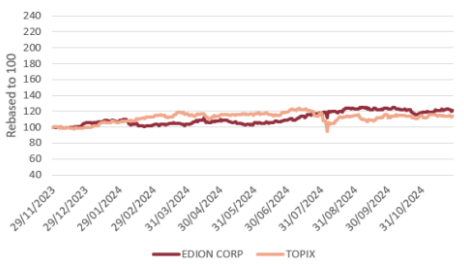
ELS, EC & e-angle progress mark EDION's long-term growth prospects as multi-faceted.

Company sector

Specialty Retail (GICS Industry)

Stock data

Price (¥)	1,808
Mkt cap (¥bn)/(\$m)	202.5 / 1,348.6
52-week range (¥)	1,464 - 1,881
Shares O/S (m)	112.0
Average daily value (\$m)	3.7
Free float (%)	70.9
Foreign shareholding (%)	7.1
Ticker	2730
Exchange	Tokyo Prime
Net Debt/Equity (x)	36.9%



Source: Bloomberg

- **Above plan 1H 3/25 sales & OP led EDION to raise its FY forecasts. The company's 2H sales outlook remains unchanged having assumed some extra costs in the 2H versus its original forecast.**
- **Strong sales of aircon units & robust ELS (Eco Living & Solar) business (renovation) drove 1H sales growth. The 1H GPM was marginally weaker YoY due to slight sales mix deterioration following strong sales of lower margin e-commerce & games / toy related products, but OP increased YoY as the SG&A to sales ratio was better than expected due to strict advertising & personnel cost control.**
- **ELS strength was boosted by government subsidies. In addition, in March, EDION acquired remodelling business Azabu to accelerate ELS growth. It continues to look proactively for further M&A opportunities in this field with a view to raising ELS sales beyond the current 10% of total.**
- **Following a 50% dividend payout ratio in FY 3/24, the company remains focused on improving its capital policy, cash allocation, inventory turnover, & profitability. EDION's ongoing share buyback programme is designed to offset dilution from the outstanding ¥4.3bn zero coupon CB due to expire in June 2025.**
- **Strong sales, underpinned by buoyant demand & successful cost control, continue to propel EDION's earnings. Allied to the company's improving capital policy, expanding ELS network & original unique product development efforts, we anticipate earnings growth persisting in the medium term.**
- **On 15x FY 3/25 company estimates, with the stock trading -36% below its 2006 peak, we advise investors to book time with senior management to probe deeper into EDION's long-term prospects & the burgeoning investment thesis: [here](#).**

BUSINESS OVERVIEW

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

Next event

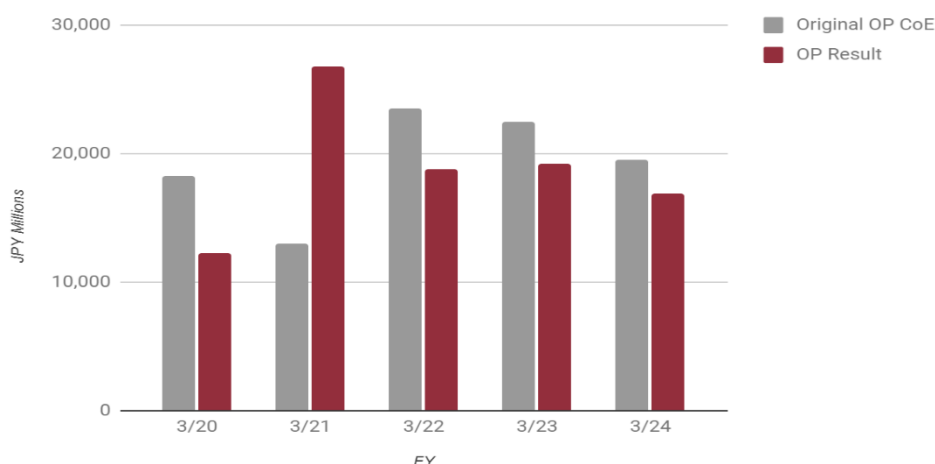
1-3Q 3/2025 results in February 2024
 Storm Corporate: +44 (0) 121 288 3402
info@stormresearch.co.uk
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Year end	3/2023	3/2024	1H 3/2025	3/2025E
Sales (¥bn)	720.6	721.1	380.5	761.5
OP (¥bn)	19.2	16.9	14.5	22.2
NP (¥bn)	11.4	9.0	10.0	13.5
EPS (¥)	112.4	90.1	95.4	127.7
DPS (¥)	44.0	45.0	23.0	46.0
Sales growth YoY (%)	1.0	0.1	7.9	5.6
OP growth YoY (%)	2.1	-11.8	34.5	31.1
NP growth YoY (%)	-13.1	-20.8	39.0	49.7
EPS growth YoY (%)	-10.4	-19.8	30.1	41.8
PER (x)	11.4	17.2	n/a	14.5
EV/EBITDA (x)	5.3	8.7	8.0	8.2
PBR (x)	0.6	0.8	0.9	0.9
ROE (%)	5.7	4.3	5.5	n/a
ROIC (%)	5.6	4.0	4.9	n/a
FCF yield (%)	5.2	n/a	n/a	n/a
Dividend yield (%)	3.4	2.9	n/a	2.5

Source: Bloomberg

RESULTS VS FORECAST HISTORY



EARNINGS

- *FY 3/25 upward revision:* EDION revised up its FY forecast due to above plan 1H sales & OP driven by strong sales of key TV & aircon products. 1H sales finished ¥11.5bn above the company forecast, hence EDION raised its FY outlook by +¥11.5bn, essentially leaving 2H sales unchanged.

1H OP was ¥3.7bn above plan, but EDION only revised up the FY forecast by +¥3.2bn, implying an approx. -¥500m downward revision to 2H OP. We believe this outlook is conservative & likely includes a buffer.

- *Comps:* 1H comps increased +4.4% versus the company 1H forecast of +0.5%. We note EDION has raised its FY earnings forecast, but its 2H comps forecast of +1.5%, averaging +2.9% for FY 3/25, remains unchanged.

- *GP & GPM:* Despite strong, high margin seasonal product sales, the 1H GPM declined -0.05ppt YoY to 30.17% as robust sales of lower margin E-Commerce & games/toys negatively impacted the sales mix. The GPM was slightly below the company's flat YoY forecast, but 1H GP increased +7.7%YoY.

- *OP:* 1H OP increased +34.5%YoY due to ongoing strict SG&A control, with the SG&A to sales ratio declining -0.8ppt YoY to 26.4%. The main cost increases were advertising & promotional expenses, which rose +5.9%YoY to ¥24.8bn, & facilities expenses, +5.2%YoY to ¥29.2bn, primarily due to a new store opening in May.

Personnel costs increased +3.0%YoY to ¥40.7bn. Whilst EDION has maintained efforts to minimise overtime, it has also raised base salaries for the past 2 years.

- *E-Commerce:* 1H E-Commerce sales comprised approx. 5.5% of total sales & increased approx. +60%YoY, in line with the company forecast. The company's medium-term target is for E-Commerce to reach 10% of total sales.

- *Product breakdown:*

	3/24 YoY	1H 3/25	Oct
TVs	-6.8%	3.3%	-1.9%
Fridges	-2.0%	-4.5%	-1.9%
Washing Machines	0.8%	1.0%	-1.5%
aircon	3.2%	12.2%	2.5%
PCs	-14.6%	-7.8%	-13.0%
ELS	-2.1%	12.5%	10.8%

- *ELS (house renovation):* Strong 1H ELS sales were in line with forecast, boosted by renovation support from the Japanese government & local government subsidies for the replacement of appliances with more energy efficient options, with particular demand for eco-friendly water heater & kitchen/bathroom related renovations. ELS is a growing area, & accounts for just under 10% of total sales.

EDION expects contributions to the ELS business from its 1st March 2024 acquisition of Azabu Co., Ltd. to be significant. It anticipates benefitting from Azabu's sales channels of 38 sales offices across Japan.

Approx. 80% of EDION's stores are in the West Japan area, & it has a limited presence in Kanto areas. **It aims to expand its nationwide ELS network by acquiring a company in the Kanto area.**

- *TVs:* June & July sales were strong as expected due to the Paris Olympics, but sales otherwise remained stable.

- *Washing machines & fridges:* 1H washing machine sales increased +1.0%YoY & fridge sales declined -4.5%YoY. **In FY 3/25, EDION anticipates a gradual growth pick up due to replacement demand.**

- *Aircon:* 1H sales increased +12.2%YoY, driven by hot summer weather, with October sales also strong at +2.5% due to ongoing warm temperatures. Cooler weather from November means EDION expects the aircon's dual functionality as a heat source to result in ongoing robust demand in the 2H 3/25.

- *Inbound:* As of the 1H, **inbound sales represented 1.9% of total sales.** 1H inbound sales increased +203%YoY, with October +80%YoY. Whilst inbound sales remain a small percentage of total sales, we note Chinese demand has increased to account for approx. 63% of total inbound.

Purchases have been concentrated in city centre stores, focusing on high value items such as watches, cameras & cooking appliances, boosted by the weaker yen.

- *PBs:* PBs accounted for 29.1% of total 1H 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. It also continues to develop & launch new products with Nitori.

Product releases include cordless cleaners, fan heaters, humidifiers, multi-shavers, wireless earphones, pet grooming sets & steam oven toasters.



e-angle Steam oven toaster. Source: Company



e-angle Cordless cleaner. Source: Company.

INVENTORY

1H inventory declined -¥4.1bn to ¥118bn aided by strong sales, mainly of aircon. Although there is room for a further decline in inventory, EDION is focusing on improving the inventory turnover ratio.

- Stores: 2Q net directly operated store numbers declined -1 to 456, with 1 opening & 2 closures. Including 748 franchise (FC) stores, the total store number was 1,204, with a 1H net increase of +2. EDION expects to open a further +2 stores in the 2H but, including closures, the net increase is likely to be 0.

The company is focusing on repainting the exteriors of existing stores, with 13 stores completed in the 1H & a further 21 to be repainted in the 2H.

CAPITAL EFFICIENCY

EDION is aware of its 0.9x P/B ratio & **continues to focus on improving capital efficiency**. As of the 1H 3/25, its net debt was ¥56.4bn with a 38.7% net debt to equity ratio. The shareholders' equity ratio was 53.3%, with RoE at 5.5% & ROIC at 4.9%¹.

¹ Source: Bloomberg

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.

SHAREHOLDER RETURNS

EDION is paying well in excess of its dividend payout ratio policy of >30%. Its originally planned FY 3/24 dividend of ¥44 (flat YoY) **was revised at FY results to ¥45, with a payout of 50%.** In FY 3/25, the company assumes ¥46 & a payout ratio of 36%.

As of the 1H 3/25, the outstanding zero coupon CB, which expires in June 2025, was worth ¥4.3bn. EDION expects it to be fully converted by expiry. The company completed share buybacks in FY 3/22 & FY 3/23 as part of its shareholder return program & is continuing to buy back shares in FY 3/25 to the amount of ¥10bn.

PREVIOUS REPORTS

- 20th August 2024: [‘Strength to persist’](#)
- 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 Sanfrece Hiroshima
Oct 2023	Jtop absorbed E-Logi
March 2024	Acquired Azabu Co., Ltd.
Aug 2024	Acquired Muroyama Logistics Co.,Ltd.

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	9.62
The Master Trust Bank of Japan, Ltd.	9.46
EDION Corp Employee Stockholdings	7.24
Daiichi	3.24
Custody Bank of Japan, Ltd.	3.03
Masataka Kubo	2.12
EDION Corp Customer Stockholdings	1.61
Mitsubishi UFJ Financial Group	1.59
Sumitomo Life Holdings	1.53
Hiroshima Bank, Ltd.	1.53

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

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