

Transforming itself into a blue chip with attractive investor rebates and growth scenario : Long(New)

Daigo Fukunaga, Analyst

Share price (9/30): 1,263
Mkt cap (JPY bn): 12.7 (after retiring treasury shares)
FY6/14 P/E (CE): 15.8x
FY6/14 P/E (ARJE): 14.9x
FY6/13 P/B (act): 1.59x
FY6/13 net cash (act): ¥8.4bn

View on the share price

Until recently, while the company was attractive with a stable business model and solid balance sheet, it was generally overlooked in the market as “boring” with low liquidity, and market cap actually traded below net cash for some time.

However, this situation began to change sharply from this summer. The company disposed of unprofitable subsidiaries, focusing on growth business with large latent potential, and began tapping its rich cash position to increase shareholder rebates, as well as targeting higher ROE. Dividend payout is 50% on company estimates basis, with overall rebate payout of 100%. The company retired almost all of its treasury stock held recently, and has conducted off-market share buybacks. ARJ believes these attractive points deserve a higher valuation in the market. Even on technicals, we believe this stock can challenge 2,000 in the medium-term.

Business Overview

Multi Payments

This is agency payment service. Competitors include (3769) GMO Payment Gateway, (4819) Digital Garage subsidiary Econtext, and Veritrans. However, the company’s special feature is that it focuses on convenience store payment, a sales channel that is distinctly Japanese. Convenient store payment in Japan is said to account for roughly 10-15% of online payment by young generation and senior citizens that don’t have credit cards. The convenience store industry itself continues to grow, and for the time being 10-15% annual growth is likely achievable.

The company has a 60-70% share in convenience store payments. Including smaller chains, the company is the only one connected to all convenience store systems. In particular, the company handles all convenience store payments for Amazon (roughly 30% of sales).

Online Business

The company sells at convenience stores electronic money for use on SNS and online games. Sales to Gree etc SNS platforms have peaked out, and is not a growth area going forward.

New Business

The company is devoting resources and ARJ has high expectations for long-distance bus lines settlement business. Tickets for long-distance buses are generally not available online. There are few travel sites that handle them, and long-distance bus companies do not generally have their own websites. Buying tickets at the ticket window continues to be the main sales channel. Also, there is no system for checking seat vacancies after departure, or the current state of route operations, with a weak point of making it difficult to board mid-route.

In order to resolve these issues, the company is creating a portal site for long-distance bus companies, utilizing a special device equipped with the company’s payment system and GPS functionality, building an efficient ticket sales system that has real-time access to seat vacancies. The company is providing this service for free, charging its normal commission for agency payments.

Currently the company has payment service sales for long-distance bus companies of roughly ¥0.5bn (tie-ups with roughly 120 bus companies). However, this is high margin business with fees of 5%, generating gross profits of roughly ¥0.3bn. The company plans to launch the new service around the end of the current FY6/14, and after running a test period, target a full-scale earnings contribution from FY6/16. First the company plans to double sales and GP, later focusing on raising transaction volume per tie-up company to maintain growth going forward. Although the long-distance bus market itself is not expected to grow sharply, however it

is a ¥1 trillion major market in Japan, which is behind in going online, and while it may look boring at first glance, actually has large potential in our view.

Capex for this new business is system development expense of ¥0.3bn (depreciation ¥60mn), and annual advertising expense of ¥0.1bn (small, for flyers distributed on buses etc). Risk is therefore low.

MTP Overview

- Numerical targets: FY6/16 OP of ¥2.0bn (FY6/13 act was ¥1.39bn), ROE 15%
- Shareholder rebates: 50% dividend payout, remainder used for share buybacks and retiring treasury stock, rebating 100% of term profits
- New business development: IT systems project for buses
- Vesting conditions for employee compensation (340,000 shares, 940 strike price) stock option grants: after achieving year one and two targets 20%, after achieving year three targets 80%

Earnings Trend

For FY6/14, based on historical experience, company estimates tend to be conservative, so ARJ estimates are a bit stronger than the company's. However, we have adopted the company estimate for dividends. Going forward, we assume GP of multi-payment business grows at 10% annually, and in the final year new business will contribute GP of ¥0.3bn.

After dividends, the remainder of term profits are assumed to go for share buybacks, however in order to simplify calculations, EPS is calculated using the number of shares outstanding at the end of the previous term. In other words, we are trying to show the impact of share buybacks on raising EPS comes with a lag.

Earnings Trend and Valuation

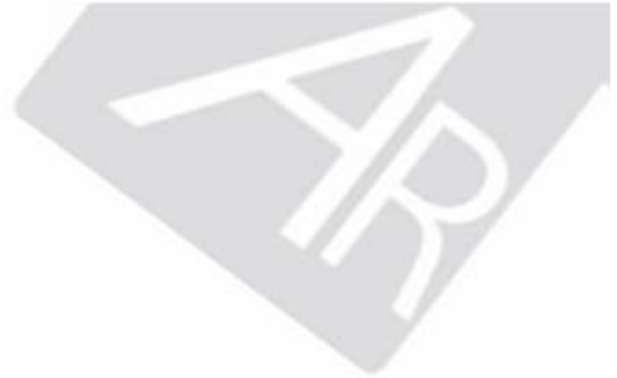
	12.6 A	13.6 A	14.6 CE	14.6 ARJE	15.6 ARJE	16.6 ARJE
GP	2,184	2,361	2,519	2,580	2,790	3,320
Multi Payment	1,725	1,890	2,018	2,090	2,300	2,530
Online (Web money)	425	492	498	490	490	490
Others	33	-21	3	0	0	300
SGA	986	968	1,069	1,060	1,150	1,250
OP	1,198	1,393	1,450	1,520	1,640	2,070
RP	1,278	1,420	1,430	1,520	1,640	2,070
NP	728	759	800	850	920	1,160
EPS (JPY)	72.5	75.6	79.7	84.7	95.0	124.5
DPS (JPY)		25	40	40	48	62
Price (JPY, 9/30)		1,263	1,263	1,263	1,263	1,263
PER		16.7	15.8	14.9	13.3	10.1
PBR		1.6	-	1.6	1.5	1.5
ROE		9.8%	-	10.7%	11.5%	14.5%

*Millions of yen

Source: Company data, Estimate by ARJ

Risks

- Contraction of the convenience store payment market
- Contraction of SNS web money market



ARJ Sales Contact

TOKYO

Ikuhiro Yamada	iyamada@ar-j.jp	+81-3-5649-8322
Yoshie Nakao	yoshie.nakao@ar-j.jp	+81-3-5649-8322
Atsushi Shimagaki	atsushi.shimagaki@ar-j.jp	+81-3-5649-8322

LONDON

Yumi Yamamoto	yumi.yamamoto@ar-j.jp	+44-20-3073-2610
---------------	-----------------------	------------------

NEW YORK

Chris Dodson	cdodson@agco.com	+1-212-453-3541
--------------	------------------	-----------------

レポートの内容についてのお問い合わせは、下記セールsteamまでよろしくお願いいたします。

東京

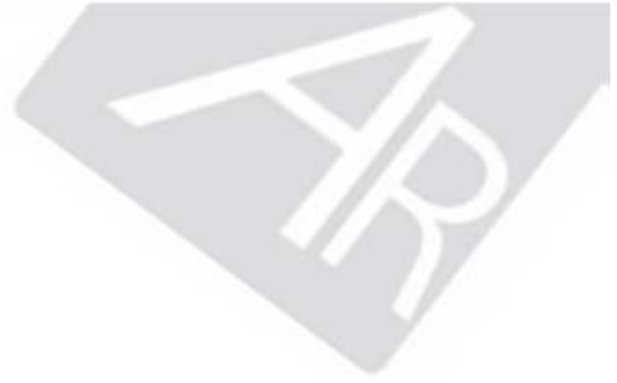
	メールアドレス	電話番号
山田育弘	iyamada@ar-j.jp	03-5649-8322
中尾佳枝	yoshie.nakao@ar-j.jp	03-5649-8322
島垣敦	atsushi.shimagaki@ar-j.jp	03-5649-8322

ロンドン

山本由美	yumi.yamamoto@ar-j.jp	+44-20-3073-2610
------	-----------------------	------------------

ニューヨーク

クリス・ドドソン	chris.dodson@ar-j.jp	+1-212-453-3541
----------	----------------------	-----------------



当社の発行するレポート等はお客様への情報提供のみを目的としています。これらレポート等は信頼できると思われる現在の公開情報に基づいて作成されていますが、当社はその正確性、完全性に関する責任を負いません。当社はレポート等の情報を合理的な範囲で更新していますが、変則的な間隔を置いて発行しているため、最新の情報と乖離している場合があります。

当社の発行するレポート等は、有価証券の売却もしくは購入を勧めるものではありません。また、これらレポート等は、機関投資家向けに発行されるもので、特定の投資目的、財務状況、もしくは要望を考慮したものではありません。配信される情報や分析、報道に関しては綿密な取材、調査に基づいたものであるものの、その正確性、信頼性、迅速性を当社が保証するものではありません。誤字、脱字などによる単純な表記ミスなどの理由による場合も含め、何らかの理由により誤りである可能性もあります。当社及び当社の発行するレポートを提供する如何なる関係者も、視聴者及び利用者の有価証券及び金融商品の売買により生じた如何なる損失、費用の責任を負わず、損害賠償に応じません。十分ご注意くださいようお願いいたします。

本レポートの作成者は本レポートの対象会社と重大な利益相反の関係にはありません。

発行人: 103-0013 東京都中央区日本橋人形町 3-7-10 DOLL-3 8F
株式会社アドバンストリサーチジャパン

This report is for information purpose only and is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Although we seek to update our research as appropriate, the contents may be different from the most recent fact as the report is published at irregular intervals as appropriate.

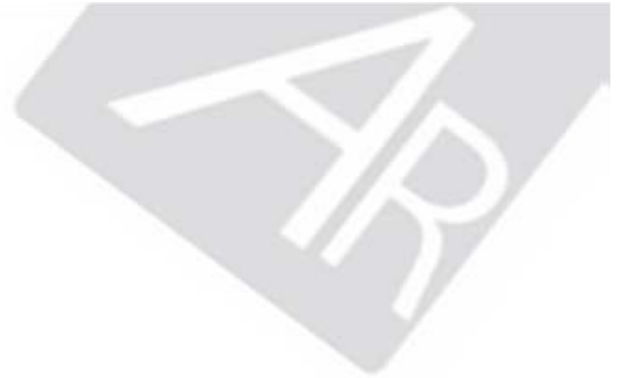
This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur.

The author of this report is not in relation of serious conflict of interest with the reported company.

Issuer:

Advanced Research Japan Co., Ltd.
8F DOLL-3 3-7-10 Nihonbashi Ningyo-cho Chuo-ku Tokyo Japan 103-0013

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by ARJ (Europe) Limited. Investment research issued by ARJ (Europe) Limited has been prepared in accordance with ARJ (Europe) Limited's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction.



アナリストによる証明

本レポート表紙に記載されたアナリストは、本レポートで述べられている内容が、分析対象銘柄の発行企業及びその証券に関するアナリスト個人の見解を正確に反映したものであることをここに証明いたします。また、当該アナリストは、過去・現在・将来にわたり、本レポート内で特定の判断もしくは見解を表明する見返りとして、直接又は間接的に報酬を一切受領しておらず、受領する予定もないことをここに証明いたします。

利益相反に関する開示事項

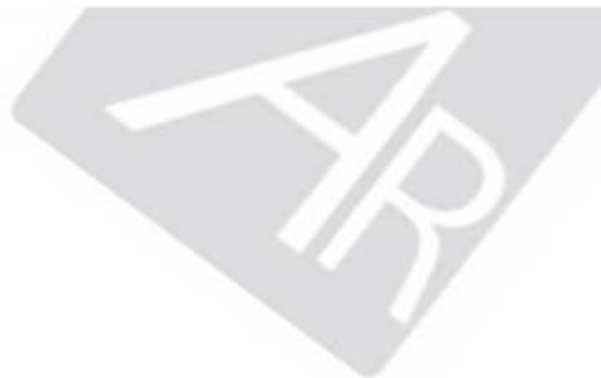
株式会社アドバンスリサーチジャパン（以下「ARJ」）は、契約に基づき、アナリスト・レポートの提供を継続的に行うことに対する対価を契約先証券会社より包括的に得ておりますが、本レポートに対して個別に対価を得ているものではありません。レポート対象企業の選定は ARJ が独自の判断に基づき行っているものであり、契約先証券会社を含む第三者からの指定は一切受けておりません。

担当アナリスト並びに ARJ と本レポートの対象会社との間には、重大な利益相反の関係はありません。

免責事項

当社の発行するレポート等はお客様への情報提供のみを目的としています。これらレポート等は信頼できるとされる現在の公開情報に基づいて作成されていますが、当社はその正確性、完全性に関する責任を負いません。当社はレポート等の情報を合理的な範囲で更新していますが、変則的な間隔を置いて発行しているため、最新の情報と乖離している場合があります。

当社の発行するレポート等は、有価証券の売却もしくは購入を勧めるものではありません。また、これらレポート等は、特定の投資目的、財務状況、もしくは要望を考慮したものでもありません。配信される情報や分析、報道に関しては綿密な取材、調査に基づいたものであるものの、その正確性、信頼性、迅速性を当社が保証するものではありません。誤字、脱字などによる単純な表記ミスなどの理由による場合も含め、何らかの理由により誤りである可能性もあります。当社及び当社の発行するレポートを提供する如何なる関係者も、視聴者及び利用者の有価証券及び金融商品の売買により生じた如何なる損失、費用の責任を負わず、損害賠償に応じません。十分ご注意くださいようお願いいたします。



レーティングシステム

個別銘柄に対する株価判断（レーティング）の定義

新規 Long :	新規に買いを推奨
新規 Short:	新規に売りを推奨
継続 Long :	新規の買いで推奨中、継続して買いを推奨
継続 Short :	新規の売りで推奨中、継続して売りを推奨
ポジション・クローズ (Long/Short) :	買いの推奨、又は、売りの推奨に対する反対売買の推奨
印象ポジティブ :	印象はポジティブだが、直ちに買いの推奨をするものではない
印象ネガティブ :	印象はネガティブだが、直ちに売りの推奨をするものではない
投資判断見送り :	レポート発行時点においては、買い、又は、売りの推奨をしない

目標株価が記載されている場合、対象レポートの種類により、下記の投資対象期間を想定し、目標株価を設定しています。

Research Report :	6～12ヶ月
Sales Note :	6ヶ月以内
ARJ Daily :	6ヶ月以内

尚、相場環境の変化、及び対象事業会社の動向を考慮し、株価の変動要素となりうる事象が上記投資対象期間に含まれないと思われる場合には、別途、レポート本文中に、その旨を明記する。

発行人: 103-0013 東京都中央区日本橋人形町 3-7-10 DOLL-3 8F
株式会社アドバンストリサーチジャパン