

Showa Paxxs Corporation (TSE: 3954)

Opportunity to buy positive EBITDA business (8x P/E), grown BV at 7%+ CAGR but trading at <35% of BV

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Price Target: ¥3328 | Upside: 96% | Rating: Outperform

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Company Summary:

The domestic leader in kraft paper bags for synthetic resin products, chemical products, rice, and barley. Established in 1935 under the name of Showa Seitai Kogyo. Leverages advanced technical expertise and high value-added products to differentiate from others and is gradually increasing its market share in kraft paper bags as a result of the acquisitions of regional companies in the same business. Has strengths in sales to the petrochemical industry for the use in export packing materials. Produces kraft paper bags at its subsidiary in Thailand, which is positioned as an export base to China and Asia, in addition to Thailand's domestic market on its own. Packaging bags centering on kraft paper bags account for a majority of the total sales and profits. Also engages in the manufacture of film products for agricultural and industrial use.

Business Description: Heavy-Duty Packing Bags

- Domestic leader in kraft paper bags for synthetic resin products, chemical products, rice and barley
- Produces kraft paper bags at its subsidiary in Thailand, which is positioned as an export base to China and Asia, in addition to Thailand enjoying growing demand
- Different bags produced include sewn bottom bag, bag in bag, easy open bag, pinch bottom bag, pasted bottom bag, valve bag and bag + box (bax)

Business Description: Containers

- Widely used in a range of fields from transporting powders and liquids
- Type of container required varies by the contents being transported and thus Showa Paxxs offers them in various types

Elcon (for powder):

- Comes in four different types: B-type, J-type, high weather resistance type, and Rappy
- Made of polypropylene cloth material
- Undergoes tests based on Japanese Industrial Standards (Z1651)

Balcony (for powder):

- Container inner bags for bulk cargo that can easily transport bulk cargo such as powders and granules without using tank trucks or dedicated containers
- Easy to attach and detach from containers due to its lightweight
- Effective in reducing transportation costs for powders and granules

S-Cube (for liquids)

- A liquid product transport bag developed as an inner bag for a 1,000-liter collapsible container
- Possible to supply products that are produced in processing plants with a cleanliness level of 10,000 class (ISO standard) and that also have oxygen barrier properties

Key Ratios and Statistics (¥M):

Price Target	¥3328
Upside	96%
Share Price (10/3)	¥1650
Market Cap	¥7259
Enterprise Value	¥565.5
52-Week Low	¥1484
52-Week High	¥1700

(¥M)	2021A	2021A	2022A	2023A	2024E
Revenue	19,938	21,599	22,277	21,163	20,105
Gross Profit	3,650	3,983	3,738	3,492	3,317
EBIT	1,170	1,404	1,116	847	804

Figure 1 - Shareholding Structure

Investor Name	% Outstanding
Sun A. Kaken Co Ltd	19.01%
Shinsei Pulp & Paper Co., Ltd.	18.81%
MUFG Bank, Ltd.	3.03%
Tokushu Tokai Paper Co Ltd	2.92%
Morofuji (Shuhei)	1.84%
Mizuho Bank, Ltd.	1.80%
Showa Paxxs Corp. Employees	1.62%

- Easy to put on and take off, and can be folded compactly, so transportation and storage costs can be reduced
- Compared to transport containers such as 200-liter drums, transport efficiency, and work efficiency are greatly improved, and costs can be reduced
- No need to wash the container, thus cleaning time and costs are also saved

Estanque (for liquids)

- It is installed in a 20-foot dry container and pumped in and out
- After transportation the bag can be removed to load other items, reducing transportation costs
- Able to accommodate 18,000-24,000 liters of liquid
- Reduced internal cleaning costs given there is no need to wash the inside
- Made of polyethylene instead of metal, so there is no corrosion occurring as there would be with metal

Business Description: Film Products

- They offer both industrial and agricultural use films
- Industrial-Use Films: Estite, Eslap and Pallet Cover
- Agricultural-Use Films: Kiriyoke Bernal, Super Bernal, High Clear Fruit, and Agricultural Sakubi

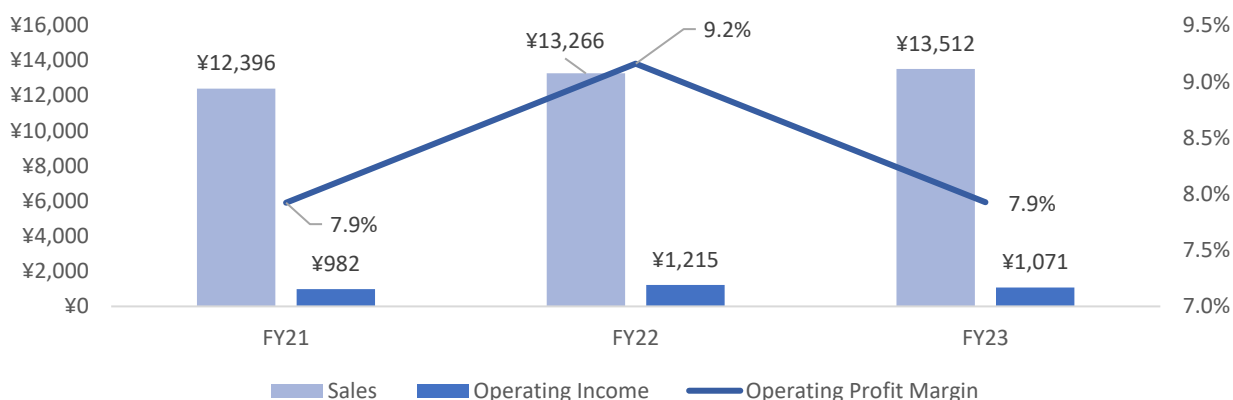
Business Description: Packaging Machine Equipment

- Simple packing and automatic packing machines

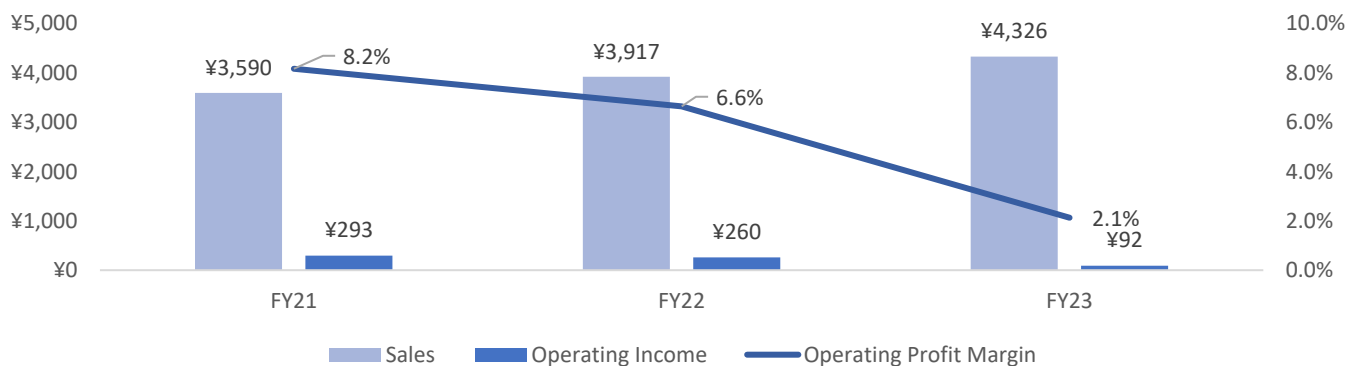
For more thorough descriptions of product offerings see Appendix

		Mar-20	Mar-21	Mar-22	Mar-23	5 Year Avg.	5 Year Ind. Avg.
Growth	Sales Growth Rate	-1.80%	-7.00%	8.30%	2.30%	1.70%	14.50%
	Operating Profit Growth Rate	-10.60%	-14.00%	19.80%	-16.50%	4.20%	-33.70%
Profit	ROE	6.50%	5.20%	5.80%	4.80%	6.40%	3.30%
	ROA	4.10%	3.20%	3.70%	3.10%	3.90%	1.40%
	Operating Profit Margin	6.30%	5.90%	6.50%	5.30%	6.50%	3.50%
Eff.	Total Asset Turnover	0.83	0.75	0.75		0.80	0.76
Safety	Capital Adequacy Ratio	64.10%	66.20%	66.00%		62.80%	42.70%
	Current Ratio	234.50%	241.30%	237.70%		218.90%	238.60%

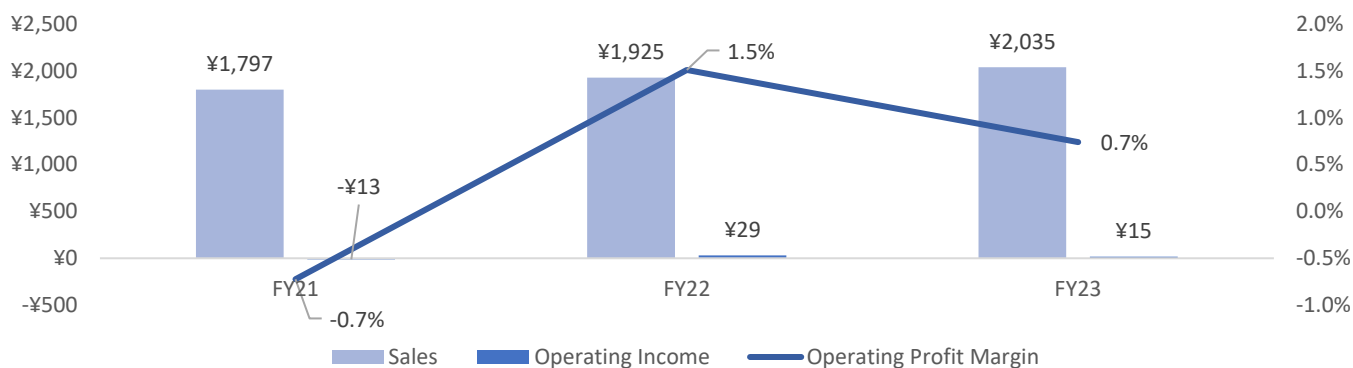
Heavy-duty Packing Bags (millions of yen)



Film Products (millions of yen)



Containers (millions of yen)



Corporate Activism Background in Japan

In 2022, activist investors sent a record total of 293 shareholder proposals to a record number of 77 Japanese publicly listed companies with demands on changing the capital structure, management pay, and overall transparency in disclosures. Highlights from 2022's proxy season include the following:

- 816 directors failed to attain majority support (104 more than in 2021)
- Support levels for say-on-pay proposals dropped to 85% on average, the lowest level in five years
- Greater number of retail shareholders, but their voting participation remains relatively low compared to that of institutional shareholders

Surprisingly, a large portion of such proposals were approved. And even those proposals that were not approved put companies' management on notice that the change is required, and pressure will likely persist. Historically, Japanese companies have been known for their large crossholdings, especially between companies that cooperate between each other. This has led to unnecessary capital tie-up that would sit on companies' balance sheets for years. Other issues that attracted activist investors to Japanese companies are their large cash balances and unwillingness to distribute it in the form of buybacks or dividends.

Investor activism does not necessarily only originate from foreign institutions. Japan's Government Pension Fund, which is one of the largest owners of Japanese equities is also pushing for significant. In their mandate if a particular company is not able to achieve at least 8% ROE in the medium-term, the fund will pressure the company for a management change.

Despite the rise of investor activism, Japanese companies continue to resist the pressure and do not have a framework to deal with activists and their demands. Also, the law amendment adopted in 2020 prohibits foreign investors to obtain 1% or higher voting interest in designated companies operating sensitive businesses without a prior notification and approval from the Japanese government. The 10% ownership threshold for all other non-designated companies remains in place. While this rule's intended goal is to prevent the transfer of sensitive information or technology to mostly perceived hostile Chinese hands, it appears that its secondary effect is to help certain Japanese companies to avoid foreign activist campaigns.

There is also an ongoing generational change in Japanese management, where post-1980s defensive CEOs are being replaced by a younger cohort of managers who are more open-minded, seek growth opportunities and better returns, and who can be properly rewarded with restricted stock compensation for their efforts. In my research it has become very clear to me that change in the Japanese corporate culture is a slow and gradual process that will take years to fully take hold.

Thesis Points:

1. *Discount to Book Value Shrinking*

Showa currently trades at approximately 1700 yen/share as of 8/18/2023. With 4,4410,000 shares outstanding. This translates into a market cap of Yen 7.55 billion (approx. USD 52 million). For FY2023 they reported net income of Yen 947 million and book value of Yen 21,255 million. This equates to a trailing P/E ratio of 7.95 and a Price/Book Value of 35%. The company has a net cash balance of Yen 930 million.

To further demonstrate how cheap the business is, other than using discount to book value as an example we can look at the Enterprise Multiple. Also known as Greenblatt’s earnings yield, is a highly predictive measure of relative valuation, more so than any other “price-to-a-fundamental” metric. Showa for FY2023 reported an EBITDA of Yen 1,377 million against an Enterprise Value of Yen 507 million. This results in an enterprise multiple of 2.71.

The company has historically traded below a Price/Book Value of 1, which is indicative of the fact that the market effectively expects them to deliver a rate of return less than the cost of capital, and thus will destroy value for shareholders in the long run. However, this has not been the case. In 2014, the company only had net cash of Yen 108 million yen compared to Yen 930 million today. Book value increased from Yen 6,664 million in FY2010 to Yen 21,255 million in FY2023, which represents book value growing at a 7% CAGR. This is not the typical growth profile of a company that is trading at 35% of book value. If we were to go ahead and also include the Yen 1,060 million of dividends that have been paid out since FY2010 then the CAGR for book value + dividends would be 8%+. The low capex demands and above-average return on equity profile mean that this business has a very high likelihood of getting cheaper over time as IAG holds it in its books.

Principally it should be understood there are perhaps three primary manners that a discount to book value can be reduced. They are as follows: using excess cash balance to pay out dividends, using excess cash balance to issue share buybacks, or reinvesting excess cash back into the business to hopefully improve ROE.

Manners in which discount to book value can shrink:

a. Regulatory Changes in Japan

Unlike in the US, management in Japan has been very slow to unlock value for shareholders. This is primarily driven by complex shareholding structures and a lack of activist investing in Japanese companies. This revolution took place in the US close to 3 decades ago but is still yet to take place in Japan, with many companies trading at significant discounts to tangible book value with unlevered asset-rich balance sheets. Showa Paxx Corp. is one of the best exemplifications, with one of the highest potentials to see value unlocked over the next 3-5 years.

There is, however, a specific catalyst. The Tokyo Exchange Group recently finalized its market restructuring rules. There have been rumors about changes coming to these rules since January of last year, but they have finally been confirmed and finalized in early June of 2023.

Currently, the Tokyo Stock Exchange has four market divisions: 1st Section, 2nd Section, Mothers, and JASDAQ (Standard and Growth). The reason for this was that when TSE and Osaka Securities Exchange integrated their equity markets in 2013, TSE maintained the existing market divisions of each one to avoid an impact on listed companies and investors.

This created a multitude of issues. The first and minor one is that the concept of each market division is ambiguous, which reduces convenience for many investors. There is overlap between the intended uses of the 2nd section, Mothers, and JASDAQ markets, the concept of the 1st Section is also unclear.

Figure 2: Discount to Tangible Book Value

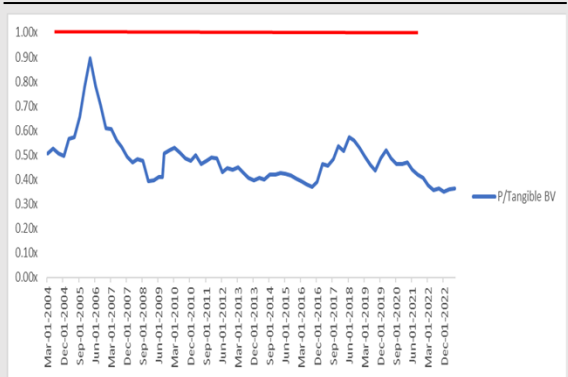


Figure 3: JPX Market Segment Reforms

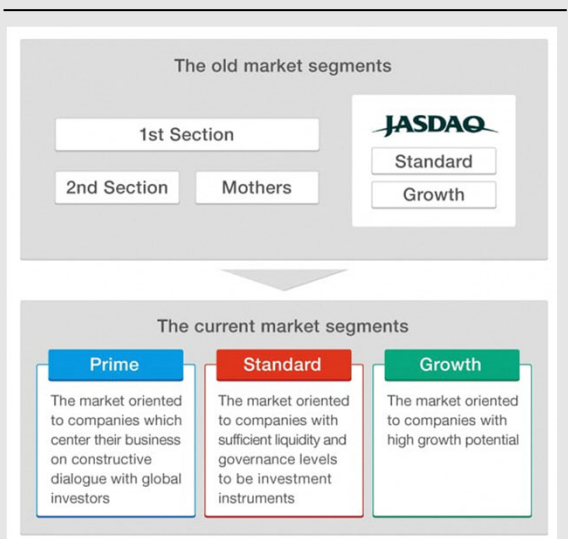


Figure 4: JPX Market Reform Requests

Details of Request

Companies Subject to Request

- All companies listed on the Prime and Standard Markets.

Requested Action

- In order to implement management that is conscious of cost of capital and stock price, please implement the following series of actions on an ongoing basis.
 - Analysis of Current Situation**
 - Gain a proper understanding of the company's cost of capital and profitability
 - Analyze and evaluate the current situation around these and the market valuation at board of directors meetings
 - Planning & Disclosure**
 - Have board of directors discuss and develop policies, targets, planning periods, and specific initiatives for improvement
 - Disclose clear information on these, along with assessment of the current situation, to investors
 - Implementation of Initiatives**
 - Push forward with management that is conscious of cost of capital and stock price, based on the disclosed plans
 - Engage in proactive dialogue with investors based on this disclosure

Conduct a progress analysis and update disclosures at least once a year

Note: Key points to consider when implementing each action are summarized from page 3.

Start Date

- Since analysis and discussion of the current situation must be carried out sufficiently before planning and disclosure can begin, TSE is not specifying a timeframe for the start date of disclosure, but requests as prompt a response as possible.
- Note: If it takes some time to analyze and discuss the current situation, disclosure could be expanded in stages, for example by first indicating the level of progress of plan development and preparation for disclosure and the expected timing of disclosure, and then disclosing specific details once the plan is developed.

Figure 5: JPX Cost of Capital Reforms

Key Points to Consider for "Analysis of Current Situation"

Examples of Possible Indicators

Cost of Capital	Balance Sheet Profitability	Market Valuation
<ul style="list-style-type: none"> Weighted Average Cost of Capital (WACC) Cost of Equity (rate of return expected by investors) 	<ul style="list-style-type: none"> Return on Invested Capital (ROIC) Return on Equity (ROE) 	<ul style="list-style-type: none"> Stock Price and Market Cap. Price-to-Book Ratio (PBR) Price Earnings Ratio (PER)

Note 1: Although there is no specific standard for which indicator to use, please consider which one to use in light of investors' needs and other factors.
 Note 2: The purpose of calculating the cost of capital is to analyze the current situation, not necessarily to calculate it in a precise manner.

Questions to Answer and Points to Note

Questions to Answer in Analysis and Assessment	Points to Note
<ul style="list-style-type: none"> Whether the company has achieved profitability that exceeds its cost of capital, and if not, the reasons why 	<ul style="list-style-type: none"> In analyzing and assessing profitability, companies could use ROIC in comparison with WACC, and ROE with cost of equity In addition to company-wide analysis and assessment, companies could calculate ROIC or other indicators for each business segment and analyze/assess profitability for each one.
<ul style="list-style-type: none"> Even if the company has achieved the above, if the market valuation is not high enough (e.g., PBR less than 1), the reasons why 	<ul style="list-style-type: none"> If profitability exceeds cost of capital but the PBR is not high enough (e.g., below 1), it suggests that investors are not seeing enough growth potential. Companies could also analyze/assess PBR, PER, or similar indicators in terms of changes over time and comparison with other companies in the same industry.

Furthermore, the current market divisions are not providing sufficient incentives for listed companies to sustainably increase corporate value. For example, since delisting criteria are significantly less strict than initial listing criteria, the delisting criteria do not incentivize listed companies to continue to satisfy after listing the level of quality required at the time of initial listing.

Thus, the TSE has introduced a broad range of new measures to revamp the Japanese stock market. Among the latest measures was one that directed listed companies to “comply or explain” if they are trading below a price-to-book ratio of one. The TSE warned that such companies could face the prospect of delisting as soon as 2026. There is a strong case to be made this will press Japanese companies’ notoriously resistant management (which typically views shareholders as enemies) for greater capital efficiency and profitability. There has been a historic case of companies and managers not proactively listening to shareholder proposals. Furthermore, rules will also require companies to publish public disclosures in English, alongside the currently provided statements in Japanese.

b) Pressure from Existing Shareholders

Typically, cross-shareholding (somewhat typical in Japan) is seen as a significant disadvantage by activist investors or to unlock value more generally. Showa owns approx. 11.5% of Sun A. Kaken and conversely Sun A. Kaken owns approx. 20% of Showa. Sun A. Kaken has been running its own share-buyback program given pressure from Shinsei Pulp & Trading which is also a common shareholder of both companies. Thus, it would not be irrational to posit that such pressure from Shinei Pulp & Trading is due to come at Showa. The added cross-shareholding and similar industry serves as indicators that Showa is perhaps next.

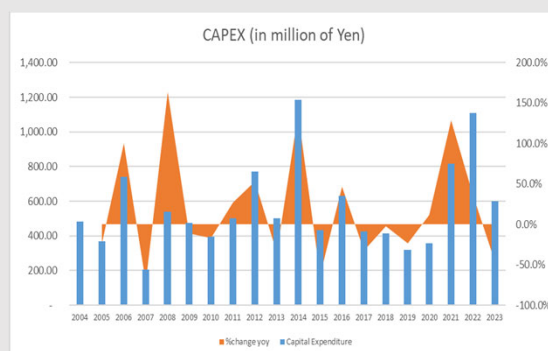
The Question of CAPEX

- Perhaps the largest concern comes from further CAPEX that may come in the guise of management’s attempts to improve metrics like ROE/ROA
- While CAPEX in itself may not be bad, unlike with other companies it would be hard to be confident in management’s ability to pursue high ROIC investments
- Each dollar that is reinvested into the business comes out as 35 cents, so it would also not be ideal in terms of the timeline of realization of shareholder value
- However, CAPEX at Showa has been relatively consistent, averaging approximately Yen 564 million over the last 19 years
- Management did announce ‘PAXXS Vision -2030’ in July of 2022
- After the announcement of this plan CAPEX did jump to Yen 1.11 billion for FY2022 but in FY2023 returned to a normalized level of Yen 599 million
- While this may come off as concerning, that management may launch some new crazy CAPEX, it is much more likely that the majority of the CAPEX happened in 2022 and this was put together as an explanation for it, and therefore are towards the tail end of this CAPEX
- Additionally, while not confident in management being able to invest in high ROIC investment I have sufficient faith that they know how to invest in positive NPV CAPEX as they have done so in the past
- Not a material threat to the main thesis

Figure 6 – PAXXS Vision 2030



Figure 7 – Historical CAPEX



Valuation:

Base Case Operating Build

Revenue Build Base Case								
For the Fiscal Period Ending								
Currency (in millions)	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27	31-Mar-28	31-Mar-29	31-Mar-30
	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY
Revenues								
Heavy Packaging Bag	13,830	13138.5	12481.575	11857.496	11264.621	10701.39	10166.321	9658.0048
%YoY growth	4.25%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Film products	3,842	3649.9	3467.405	3294.0348	3129.333	2972.8664	2824.223	2683.0119
%YoY growth	-1.94%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Other	2,492	2367.4	2249.03	2136.5785	2029.7496	1928.2621	1831.849	1740.2565
%YoY growth	11.61%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Real Estate Rental	250	237.12	225.264	214.0008	203.30076	193.13572	183.47894	174.30499
%YoY growth	-2.63%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Container	1,863	1770.23	1681.7185	1597.6326	1517.7509	1441.8634	1369.7702	1301.2817
%YoY growth	-3.21%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Corporate	0	0	0	0	0	0	0	0
%YoY growth		0%	0%	0%	0%	0%	0%	0%
Total Revenues	22,277	21,163	20,105	19,100	18,145	17,238	16,376	15,557
%YoY growth	3.14%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
(less) COGS	18,539	17,671	16,788	15,948	15,151	14,393	13,674	12,990
%rev	83.22%	84%	84%	84%	84%	84%	84%	84%
Gross Profit	3,738	3,492	3,317	3,151	2,994	2,844	2,702	2,567
%Gross Margin	16.78%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%
(less) SG&A	2,622	2,645	2,513	2,387	2,268	2,155	2,047	1,945
%rev	11.77%	13%	13%	13%	13%	13%	13%	13%
EBIT	1,116	847	804	764	726	690	655	622
%Blended EBIT Margin	5.01%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

3954 DCF Base Case							
As of 7/19/2023							
Year	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Period	1	2	3	4	5	6	7
EBIT	847	804	764	726	690	655	622
Corporate Tax Rate	30.62%	30.62%	30.62%	30.62%	30.62%	30.62%	30.62%
EBIAT	587	558	530	504	478	454	432
D&A	500	500	500	500	500	500	500
Change in Net Working Capital	(666)	(208)	(202)	(189)	(157)	(164)	(138)
Capex	(560)	(560)	(560)	(560)	(560)	(560)	(560)
Unlevered Free Cash Flows	(139)	290	268	255	261	231	234
WACC (Discount Rate)	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
PV of FCF	(123)	227	186	156	142	111	99
Sum of (stage 1)	589						

3954 Value Base Case	
Perp. Rate	-5.00%
Implied EV/FCF	4.27x
Discount Rate Used	13.00%
Free Cash Flow in 1+t	222.22
Terminal Value	1,172.84
PV of Terminal Value	498.53
Enterprise Value	1,087.13
less Debt	(1,874.00)
plus Cash and Cash Equivalents	14,989.00
Equity Value	14,202.13
Diluted Shares Outstanding	4,400,000
Equity Value per Share	¥ 3,227.76
Upside	96%
Current Share Price	¥ 1,650.00

Valuation:

Bear Case Operating Build

Revenue Build Bear Case								
For the Fiscal Period Ending								
	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27	31-Mar-28	31-Mar-29	31-Mar-30
Currency (in millions)	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY
Revenues								
Heavy Packaging Bag	13,830	11064	9404.4	8463.96	8040.762	7638.7239	7256.7877	6893.9483
%YoY growth	4.25%	-20%	-15%	-10%	-5%	-5%	-5%	-5%
Film products	3,842	3073.6	2612.56	2351.304	2233.7388	2122.0519	2015.9493	1915.1518
%YoY growth	-1.94%	-20%	-15%	-10%	-5%	-5%	-5%	-5%
Other	2,492	1993.6	1694.56	1525.104	1448.8488	1376.4064	1307.586	1242.2067
%YoY growth	11.61%	-20%	-15%	-10%	-5%	-5%	-5%	-5%
Real Estate Rental	250	199.68	169.728	152.7552	145.11744	137.86157	130.96849	124.42007
%YoY growth	-2.63%	-20%	-15%	-10%	-5%	-5%	-5%	-5%
Container	1,863	1490.72	1267.112	1140.4008	1083.3808	1029.2117	977.75114	928.86358
%YoY growth	-3.21%	-20%	-15%	-10%	-5%	-5%	-5%	-5%
Corporate	0	0	0	0	0	0	0	0
%YoY growth		0%	0%	0%	0%	0%	0%	0%
Total Revenues	22,277	17,822	15,148	13,634	12,952	12,304	11,689	11,105
%YoY growth	3.14%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
(less) COGS	18,539	15,148	12,876	11,588	11,009	10,459	9,936	9,439
%rev	83.22%	85%	85%	85%	85%	85%	85%	85%
Gross Profit	3,738	2,673	2,272	2,045	1,943	1,846	1,753	1,666
%Gross Margin	16.78%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
(less) SG&A	2,622	2,228	1,894	1,704	1,619	1,538	1,461	1,388
%rev	11.77%	13%	13%	13%	13%	13%	13%	13%
EBIT	1,116	446	379	341	324	308	292	278
%Blended EBIT Margin	5.01%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

3954 DCF Bear Case

As of 7/19/2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Year	1	2	3	4	5	6	7
Period	1	2	3	4	5	6	7
EBIT	446	379	341	324	308	292	278
Corporate Tax Rate	30.62%	30.62%	30.62%	30.62%	30.62%	30.62%	30.62%
EBIAT	309	263	236	225	213	203	193
D&A	500	500	500	500	500	500	500
Change in Net Working Capital	(666)	(208)	(202)	(189)	(157)	(164)	(138)
Capex	(2,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Unlevered Free Cash Flows	(1,857)	(445)	(465)	(464)	(444)	(461)	(445)
WACC (Discount Rate)	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
PV of FCF	(1,643)	(348)	(322)	(285)	(241)	(221)	(189)
Sum of (stage 1)	(2,840)						

3954 Value Bear Case

Perp. Rate	-5.00%
Implied EV/FCF	8.16x
Discount Rate Used	13.00%
Free Cash Flow in 1+t	(422.95)
Terminal Value	(2,232.22)
PV of Terminal Value	(948.83)
Enterprise Value	(3,788.48)
less Debt	(1,874.00)
plus Cash and Cash Equivalents	14,989.00
Equity Value	9,326.52
Diluted Shares Outstanding	4,400,000
Equity Value per Share	¥ 2,119.66
Upside	28%
Current Share Price	¥ 1,650.00

Valuation:

Bull Case Operating Build

Revenue Build Bull Case								
For the Fiscal Period Ending								
	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27	31-Mar-28	31-Mar-29	31-Mar-30
Currency (in millions)	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY
Revenues								
Heavy Packaging Bag	13,830	14383.2	14958.528	15556.869	16179.144	16502.727	16667.754	16834.432
%YoY growth	4.25%	4%	4%	4%	4%	2%	1%	1%
Film products	3,842	3995.68	4155.5072	4321.7275	4494.5966	4584.4885	4630.3334	4676.6367
%YoY growth	-1.94%	4%	4%	4%	4%	2%	1%	1%
Other	2,492	2591.68	2695.3472	2803.1611	2915.2875	2973.5933	3003.3292	3033.3625
%YoY growth	11.61%	4%	4%	4%	4%	2%	1%	1%
Real Estate Rental	250	259.584	269.96736	280.76605	291.9967	297.83663	300.815	303.82315
%YoY growth	-2.63%	4%	4%	4%	4%	2%	1%	1%
Container	1,863	1937.936	2015.4534	2096.0716	2179.9144	2223.5127	2245.7479	2268.2053
%YoY growth	-3.21%	4%	4%	4%	4%	2%	1%	1%
Corporate	0	0	0	0	0	0	0	0
%YoY growth		0%	0%	0%	0%	0%	0%	0%
Total Revenues	22,277	23,168	24,095	25,059	26,061	26,582	26,848	27,116
%YoY growth	3.14%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
(less) COGS	18,539	19,114	19,878	20,673	21,500	21,930	22,150	22,371
%rev	83.22%	83%	83%	83%	83%	83%	83%	83%
Gross Profit	3,738	4,054	4,217	4,385	4,561	4,652	4,698	4,745
%Gross Margin	16.78%	17.50%	17.50%	17.50%	17.50%	17.50%	17.50%	17.50%
(less) SG&A	2,622	2,780	2,891	3,007	3,127	3,190	3,222	3,254
%rev	11.77%	12%	12%	12%	12%	12%	12%	12%
EBIT	1,116	1,274	1,325	1,378	1,433	1,462	1,477	1,491
%Blended EBIT Margin	5.01%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%

3954 DCF Bull Case							
As of 7/19/2023							
Year	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Period	1	2	3	4	5	6	7
EBIT	1,274	1,325	1,378	1,433	1,462	1,477	1,491
Corporate Tax Rate	30.62%	30.62%	30.62%	30.62%	30.62%	30.62%	30.62%
EBIAT	884	919	956	994	1,014	1,024	1,035
D&A	500	500	500	500	500	500	500
Change in Net Working Capital	(666)	(208)	(202)	(189)	(157)	(164)	(138)
Capex	600	600	600	600	600	600	600
Unlevered Free Cash Flows	1,318	1,812	1,855	1,906	1,957	1,961	1,997
WACC (Discount Rate)	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
PV of FCF	1,166	1,419	1,285	1,169	1,062	942	849
Sum of (stage 1)	6,102						

3954 Value Bull Case	
Perp. Rate	0.50%
Implied EV/FCF	6.80x
Discount Rate Used	13.00%
Free Cash Flow in 1+t	2,006.90
Terminal Value	16,135.52
PV of Terminal Value	6,858.57
Enterprise Value	12,960.21
less Debt	(1,874.00)
plus Cash and Cash Equivalents	14,989.00
Equity Value	26,075.21
Diluted Shares Outstanding	4,400,000
Equity Value per Share	¥ 5,926.18
Upside	259%
Current Share Price	¥ 1,650.00

Sensitivity Tables:

Base Case

		WACC									
		95.62%	16.00%	15.00%	14.00%	13.00%	12.00%	11.00%	10.00%	9.00%	8.00%
Perp. GR	-10.00%	91.54%	92.16%	92.84%	93.58%	94.40%	95.31%	96.32%	97.45%	98.73%	
	-9.00%	91.77%	92.41%	93.13%	93.91%	94.78%	95.75%	96.83%	98.05%	99.43%	
	-8.00%	92.01%	92.69%	93.44%	94.27%	95.20%	96.23%	97.40%	98.71%	100.21%	
	-7.00%	92.28%	93.00%	93.79%	94.68%	95.67%	96.78%	98.04%	99.47%	101.11%	
	-6.00%	92.57%	93.33%	94.18%	95.12%	96.19%	97.39%	98.75%	100.32%	102.13%	
	-5.00%	92.89%	93.70%	94.61%	95.62%	96.77%	98.07%	99.57%	101.30%	103.32%	
	-4.00%	93.24%	94.11%	95.08%	96.18%	97.43%	98.86%	100.51%	102.43%	104.71%	
	-3.00%	93.64%	94.57%	95.62%	96.81%	98.17%	99.75%	101.59%	103.76%	106.35%	
	-2.00%	94.07%	95.08%	96.22%	97.52%	99.03%	100.79%	102.86%	105.33%	108.32%	
	-1.00%	94.56%	95.65%	96.90%	98.34%	100.02%	102.00%	104.35%	107.21%	110.74%	
0.00%	95.12%	96.31%	97.69%	99.29%	101.18%	103.43%	106.16%	109.52%	113.77%		

Bear Case





		WACC									
		28.46%	16.00%	15.00%	14.00%	13.00%	12.00%	11.00%	10.00%	9.00%	8.00%
Perp. GR	-10.00%	36.74%	35.40%	33.94%	32.35%	30.62%	28.71%	26.61%	24.27%	21.66%	
	-9.00%	36.31%	34.91%	33.39%	31.72%	29.89%	27.88%	25.64%	23.14%	20.34%	
	-8.00%	35.85%	34.38%	32.78%	31.03%	29.09%	26.95%	24.56%	21.87%	18.84%	
	-7.00%	35.34%	33.80%	32.12%	30.26%	28.21%	25.91%	23.34%	20.44%	17.13%	
	-6.00%	34.78%	33.16%	31.38%	29.41%	27.22%	24.75%	21.98%	18.81%	15.18%	
	-5.00%	34.17%	32.46%	30.57%	28.46%	26.11%	23.45%	20.42%	16.95%	12.92%	
	-4.00%	33.50%	31.68%	29.66%	27.40%	24.85%	21.96%	18.64%	14.79%	10.28%	
	-3.00%	32.75%	30.81%	28.65%	26.21%	23.43%	20.26%	16.58%	12.27%	7.16%	
	-2.00%	31.92%	29.84%	27.50%	24.84%	21.80%	18.29%	14.17%	9.29%	3.40%	
	-1.00%	30.99%	28.74%	26.20%	23.29%	19.92%	15.98%	11.32%	5.70%	-1.20%	
0.00%	29.94%	27.50%	24.71%	21.48%	17.72%	13.26%	7.89%	1.30%	-6.96%		

Bull Case

		WACC									
		259.16%	16.00%	15.00%	14.00%	13.00%	12.00%	11.00%	10.00%	9.00%	8.00%
Perp. GR	-10.00%	188.86%	194.01%	199.66%	205.87%	212.72%	220.33%	228.80%	238.30%	248.99%	
	-9.00%	190.78%	196.19%	202.14%	208.70%	215.98%	224.08%	233.15%	243.37%	254.95%	
	-8.00%	192.86%	198.56%	204.85%	211.81%	219.57%	228.24%	238.01%	249.06%	261.67%	
	-7.00%	195.14%	201.16%	207.83%	215.25%	223.55%	232.88%	243.45%	255.49%	269.31%	
	-6.00%	197.63%	204.02%	211.12%	219.06%	227.99%	238.09%	249.58%	262.78%	278.07%	
	-5.00%	200.37%	207.17%	214.77%	223.31%	232.97%	243.95%	256.56%	271.15%	288.19%	
	-4.00%	203.39%	210.67%	218.84%	228.07%	238.58%	250.62%	264.55%	280.82%	300.03%	
	-3.00%	206.74%	214.56%	223.40%	233.45%	244.96%	258.26%	273.79%	292.13%	314.05%	
	-2.00%	210.47%	218.93%	228.54%	239.55%	252.27%	267.10%	284.60%	305.52%	330.91%	
	-1.00%	214.65%	223.85%	234.38%	246.54%	260.72%	277.43%	297.40%	321.62%	351.55%	
0.00%	219.37%	229.45%	241.08%	254.63%	270.60%	289.66%	312.78%	341.33%	377.39%		

Appendix:

Different Elcon Product Offerings

<p>B Type</p> <p>Suspension methods: Bottom suspension belt, body suspension belt, and shoulder suspension belt methods. SWL (safe working load): ~1,500 kg. Sturdy type with reinforced belts on the main body. Filling is easy because the inlet opens wide. The laminated original fabric is also available.</p>	
<p>J Type</p> <p>Suspension method: Shoulder suspension rope type. SWL (safe working load): ~1,000kg. The special type of J type. Since there is no discharge port, it is ideal for one-way use such as export.</p>	
<p>High weather resistance type</p> <p>SWL (safe working load): 1,500 kg. Weather resistance: Equivalent to 3 years (weather resistance test: 900 hours). JFC regulations: JFC-902-2011 "Flexible container in line with decontamination guidelines" Compliant product. Common outlet: No discharge Outlet type, Outlet tube installation type. Inlet: Inlet tube installation type, Inlet (top) fully open type</p>	
<p>Rappy</p> <p>Discharge port: no discharge port type, easy-open discharge port installation type. Ideal for unitizing individual packaging. Many products in paper bags can be transported at one time, reducing labor costs.</p>	

Elcon Application Examples

Materials	Contents
Industrial Chemicals	Sodium sulfite, soda ash, sodium tripolyphosphate, sodium fluoride, sulfamic acid, phthalic anhydride, terephthalic acid, alumina, barium carbonate, barium chloride, titanium oxide, iron oxide, calcium phosphate, DMT, Glauber's salt, carbon black, melamine, Silica sand, slaked lime, quicklime, cement, ferrosilicon, asbestos, urea, refractory mortar, activated carbon, etc.
Rein	Phenolic resin, polyethylene, polypropylene, polystyrene, vinyl chloride, ABS resin, etc.
Food	Sugar, rice, wheat, corn, malt, soybeans, soybean meal, starch, wheat flour, rice bran, bran, fishmeal, glucose, chemicals, oil cake, etc.
Pesticide Fertilizer	Urea, ammonium chloride, potassium chloride, fused phosphate, ammonium sulfate, lime superphosphate, ammonium nitrate, talc, clay, pesticide intermediates, etc.
Others	Tiles, dyes, various powders, bulk contents, etc.

Balcony Usage Procedure

Step1 装着	<p>軽量な内袋で、装着が容易です。</p> <p>バルコンをコンテナ内で広げ、内袋に取り付けてあるひもをコンテナ側面、底面のフックにしっかりと縛り付けます。</p>	
Step2 充填	<p>短時間での充填が可能です。</p> <p>バルコンの注入口を開封し、注入口に充填用パイプを装着します。</p> <p>最初、内袋に空気を送り込み、コンテナの内壁に密着させ、その後内容物を充填します。</p>	
Step3 輸送	<p>陸上輸送・海上輸送の方法があります。</p> <p>内袋は衛生的で十分な強度のあるポリエチレン製ですので、安全に輸送できます。</p>	
Step4 排出	<p>排出も簡単。</p> <p>作業効率が改善できます。</p> <p>バルコンの排出口を開封し、傾斜装置によりコンテナの内容物の安息角に誘われて排出するか、吸い込み装置で内容物を吸い出します。</p>	
Step6 分離 Finish	<p>分離後のコンテナは、洗浄せずに通常使用が可能です。</p> <p>排出終了後、内袋をコンテナから取り外し分離します。</p>	

Balcony Usage Advantages

Mass Transportation	Large quantities can be transported without using dedicated containers or tank trucks
Washing	The use of balcony reduces the cleaning work of the container and leads to improvement of work efficiency
Short time filling	It is designed with strength in mind, so it can fill a large amount in a short time
Space Saving	Balcony can be folded compactly so it does not require a large storage space
Hygienical	Since the bag is completely integrated with a large molding machine, the interior is hygienic and does not contaminate the transported items
Handling	Designed with usage in mind, it has a very simple shape and is easy to handle

S-CUBE Work Procedure

STEP1: コンテナの組立・エスキューブのセッティング



STEP2: 充填作業



STEP3: 排出作業



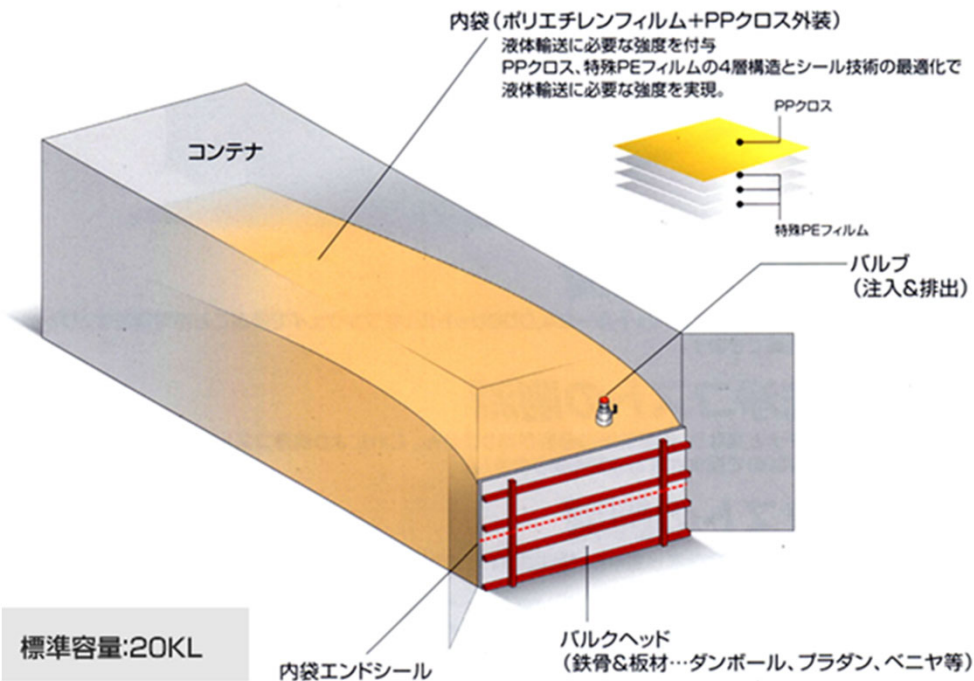
STEP4: エスキューブの取り外し・コンテナの折りたたみ



Estanque Work Procedure

Step1		装着作業 <ul style="list-style-type: none"> ●コンテナ内チェック ●壁面、床の清掃、養生 ●本体セット ●バルクヘッドのセット ●ホース接続
Step2		充填作業 <ul style="list-style-type: none"> ●バルブ(2インチ、3インチ)選択可能 ●バルブを開放し、ポンプで内容物を圧送 ●充填完了後、バルブを閉じる
Step3 Finish		排出作業 <ul style="list-style-type: none"> ●バルブを開放し、ポンプで内容物吸引 ●排出完了後、本体・養生シート・バルクヘッドの取り外し

Cross-Section View of Estanque



Summary of Film Products Offered

List of industrial films


▶ Estite



▶ Eslap



▶ Esclair




▶ pallet cover




List of agricultural films


▶ Kiriyoke Bernal



▶ super bernal




▶ high clear fruit story



▶ agricultural sakubi



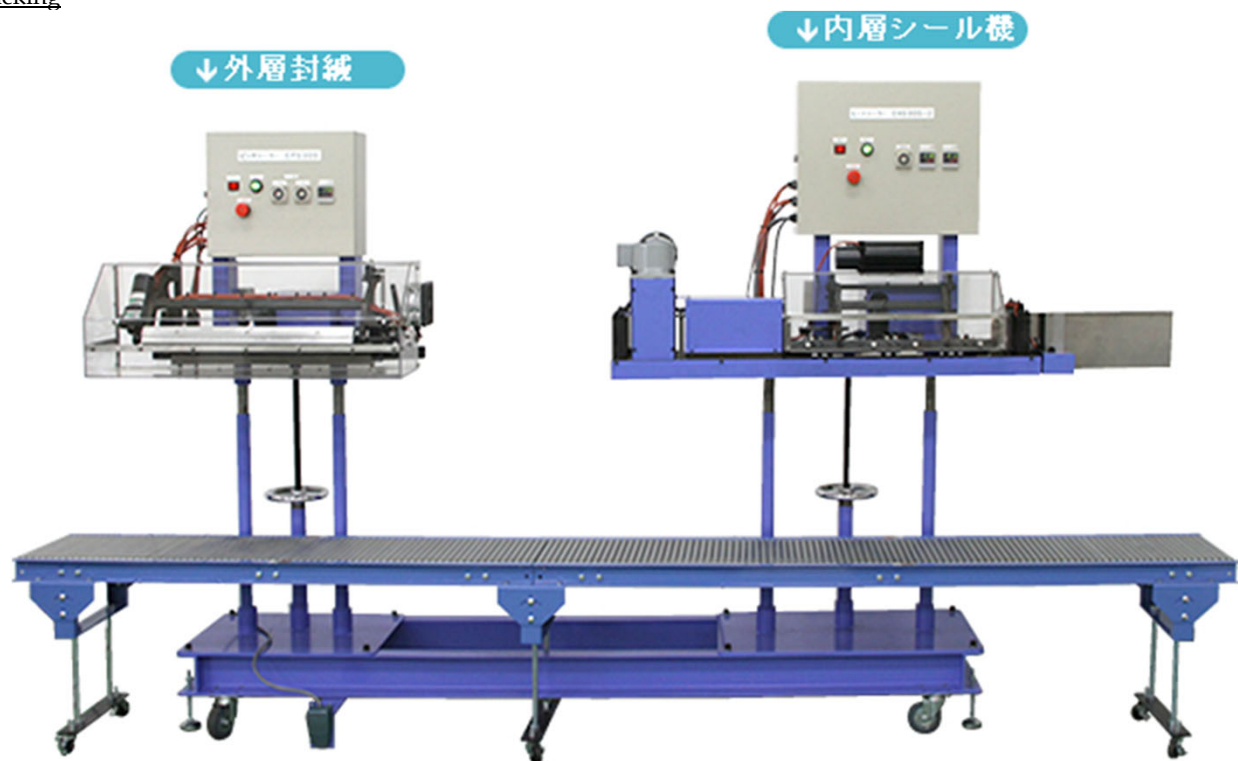
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Simple Packing

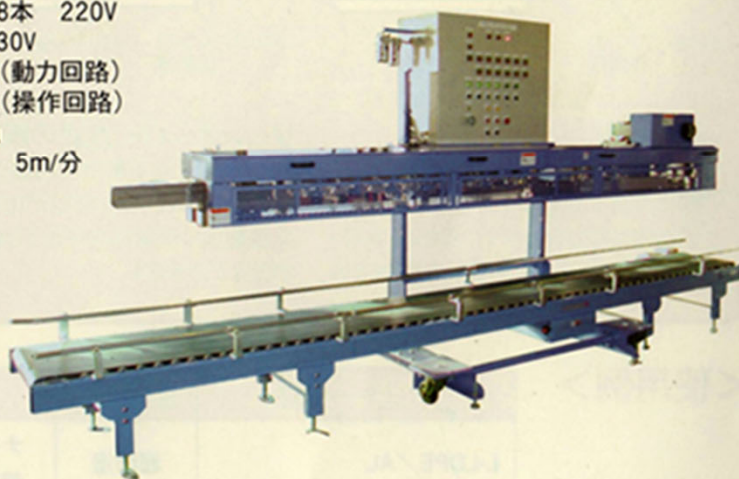


Automated Packing

ダブルピンチバッグには専用の封緘機が必要です。
最内層の素材と封緘処理能力に対応できる封緘機を選定して下さい。

型 式 : S-60S-4
モ ー タ ー : 0.75KW 200/220V 50/60Hz
ヒートバー用 : 500W×8本 220V
封 緘 用 : 3KW 230V
使用電源 : 200V 50/60Hz 3相(動力回路)
200V 50/60Hz 単相(操作回路)
空気使用量 : 約400N^l/分 0.5MPa
能 力 : MAX. 9m/分 NOL. 5m/分
オ プ シ ョ ン : ・インプリンター
・ダストクリーナー
・搬送用コンベア

※一次側の電気配線・空気配管は
貴社にてお願いします。
※電気・空気源は貴社にてご準備を
お願いします。



Product to be sealed for both packing machines: Pinch Bag, Double Pinch Bag, SS Pinch and Flash Pinch