

24 February 2020

(mil, ex-treasury share)

| Exchange | Currency | Mkt Cap Local | EV Local | Mkt Cap USD | EV USD | JPY/USD |
|----------|----------|---------------|----------|-------------|--------|---------|
| Tokyo    | JPY      | 12,028        | 5,919    | 108         | 53     | 111.31  |

**SAKAI OVEX CO., LTD.** processes synthetic fabrics, focusing on the dyeing process. The Company also designs, manufactures, and sells apparel and textile products on Original Equipment Manufacturer(OEM) basis. Sakai Ovex also plans and produces factory automation system.

**Address:** 2-15-1 Hanandonaka Fukui, 918-8530 Japan

**Website:** [www.sakaiovex.co.jp/](http://www.sakaiovex.co.jp/)

**Sector:** Textile & Textile Products

**Employees:** 1040

|                                  |        |
|----------------------------------|--------|
| <b>Last Price</b>                | 1,930  |
| <b>P/E (Trailing 12m)</b>        | 5.9    |
| <b>Dividend Yield</b>            | 3.1%   |
| <b>Price to Book Ratio</b>       | 0.55   |
| <b>90d ADV (in JPY mm)</b>       | 24     |
| <b>Shares Out. (in mn)</b>       | 6      |
| <b>Shares Out. ex-treasury</b>   | 6      |
| <b>Market Cap Incl. treasury</b> | 12,422 |
| <b>Insider Ownership</b>         | 2%     |
| <b>Foreign Ownership</b>         | 20%    |
| <b>Anti-Takeover Defense</b>     | No     |

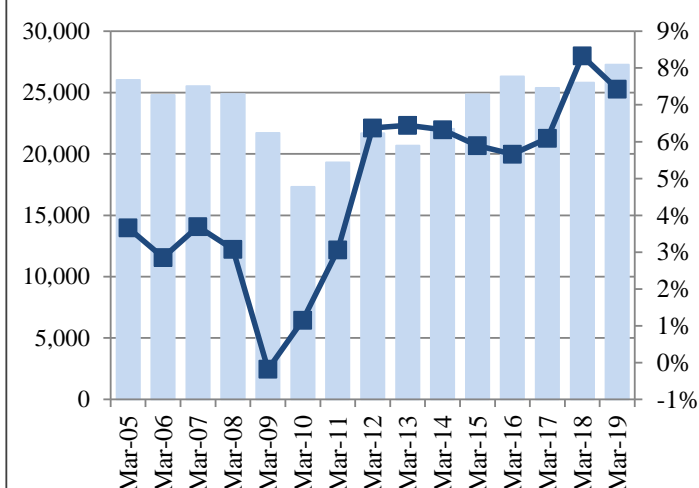
### Investment Theses

Sakai Ovex, originally started as a textile refinery house in the rural Fukui region of Japan, today owns a few more peripheral businesses. The mainstay, the textile refinery, dyeing, and resin application appears to have a competitive edge thanks to the one-stop controlling of fibre refinery to finalize many types of cloth. This business contributes about 2/3 of the company profit, of which more than half comes from the Chinese JV with Toray. Other business includes the apparel product planning/project managements, and the control systems engineering that serves automation equipment manufacturers. All of them have been respectably profitable since the drastic business portfolio restructuring during 2008-2010. More than one third of the company's EBIT comes from the equity-method Chinese JV, and hence does not show up in the operating profit in J-GAAP, but only in net income level at the bottom line. Whether this is one of reasons or not, the business that has generated the cumulative JPY 15bn with a ROIC of 14% is priced JPY 4.8bn, 0.3x of the net operating assets JPY 14bn, puzzlingly cheap. I regard the fair EV >JPY 20bn. Together with the net financial assets of JPY 6bn, the intrinsic value to shareholders is put around JPY 28bn, which implies more than 150% upside

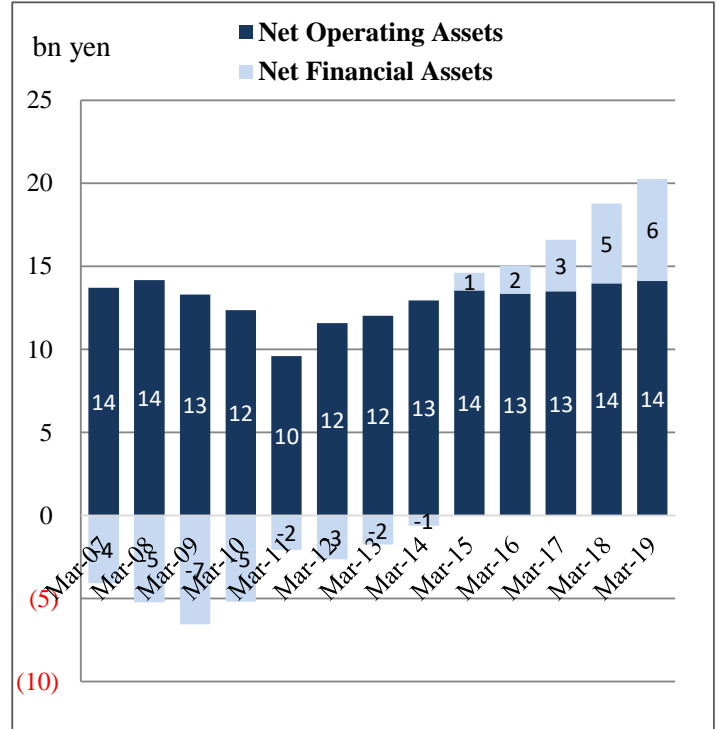
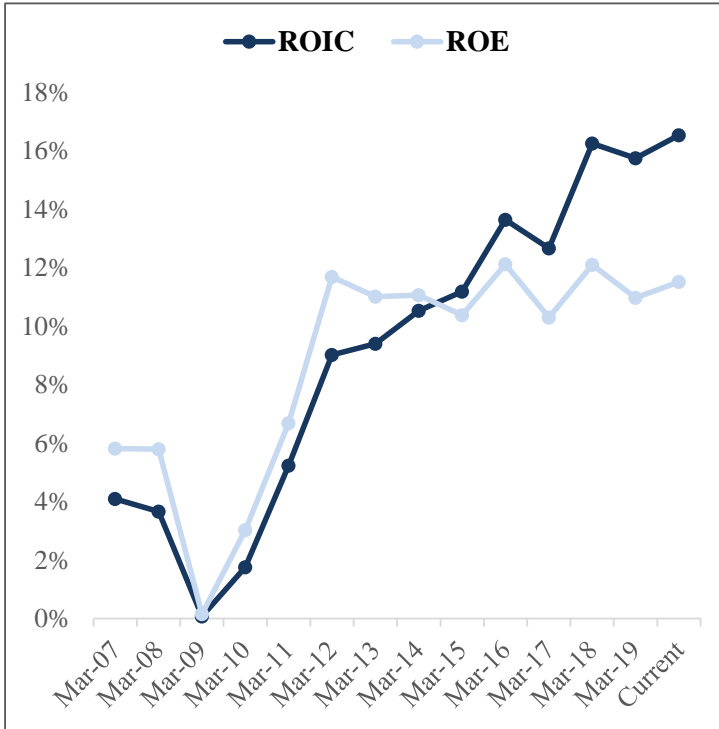
Stock Performance



Sales (lhs, Ymn) OP margin (rhs)

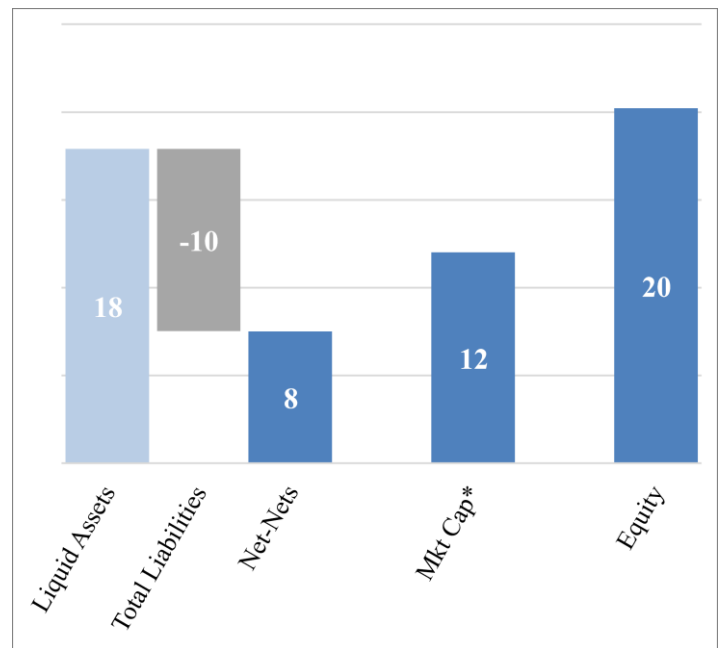
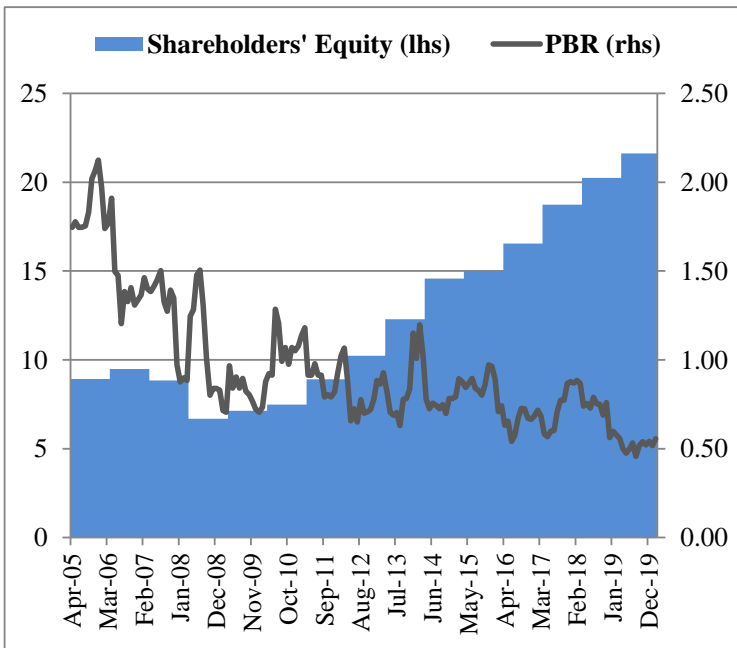


## Financial Performance



## Valuation

| (Ybn) |                  | Mkt Cap | EV | P/E | EV/EBITDA | P/B  | Net-Cash/Mkt Cap | Net-Nets/Mkt Cap | ROE  |
|-------|------------------|---------|----|-----|-----------|------|------------------|------------------|------|
| 3408  | SAKAI OVEX CO    | 12      | 6  | 5   | 1.6       | 0.55 | 51%              | 16%              | 10%  |
| 3580  | KOMATSU MATERE C | 34      | 14 | 20  | 4.0       | 0.96 | 59%              | 65%              | 5%   |
| 3577  | TOKAI SENKO KK   | 4       | 3  | -8  | 2.9       | 0.56 | 50%              | 45%              | -7%  |
| 3578  | SOKO SEIREN CO   | 1       | 0  | -5  | 0.3       | 0.61 | 105%             | 83%              | -12% |



### Business Analysis

Sakai Ovex's business originates in refining textile but today it runs four main ones: Textile refinery/dyeing (profit contribution <30%); the textile dyeing JV with Toray China (>35%); Apparel (<15%); Controlling systems (>10%); , and other (about 10%). The mainstay, the textile refinery, dyeing, and resin application both in Japan and China appears to have a competitive edge thanks to the one-stop controlling of fibre refinery to finalize many types of cloth. The apparel business deals with planning/designing apparel products and orchestration of the supply chain that connects Chinese suppliers to Japanese brands. The controlling systems provides system engineering for automation majors such as Mitsubishi and Omron. Since the business restricting during 2008-10, only competitive businesses have remain to contribute 14% ROIC over all.

### Margin of Safety

The enterprise value of a business that has generated the cumulative JPY 15bn FCF with a ROIC of 14% on average (obviously value-creating) for the past decade stands at JPY 4.8bn, which is only 0.3x of the net operating assets. EV/EBITDA (forward) is 1.2x today. The net financial assets of JPY 6.1bn covers over 50% of the market cap. Assuming the current ROIC for the next 15 years with no growth, I put the upside of this stock is more than 150% of today's price.

### Analysis on shareholder base

Enterprises and domestic traditional financial institutions hold over 20% between them, including Toray's 7.4%. Individual shareholders >30% and foreigners >20%, that includes Fidelities 6%, may prove favourable to shareholder activism.

### Allocation of Capital

Some 70% of the shareholders' equity is allocated to operation, the remaining held as the net financial assets. Dividend yield averages around 2% and some 3.5% of the market cap in total has been repurchased for the past five years.