

25 February 2020

(mil, ex-treasury share)

Exchange	Currency	Mkt Cap Local	EV Local	Mkt Cap USD	EV USD	JPY/USD
Tokyo	JPY	13,586	3,181	123	29	111

EBARA JITSUGYO CO., LTD. designs, manufactures, and installs water and sewage treatment equipment. The Company also plans, produces, and constructs environment-related equipment, such as ozone application and wind/water power devices.

Address: 7-14-1 Ginza Chuo-Ku, 104-8174 Japan

Website: www.ejk.co.jp/

Sector: Environ Engineer & Consulting

Employees: 462

Last Price	2,061
P/E (Trailing 12m)	9.0
Dividend Yield	2.9%
Price to Book Ratio	0.9
90d ADV (in JPY mm)	68
Shares Out. (in mn)	7
Shares Out. ex-treasury	7
Market Cap Incl. treasury	13,840
Insider Ownership	2%
Foreign Ownership	14%
Anti-Takeover Defense	No

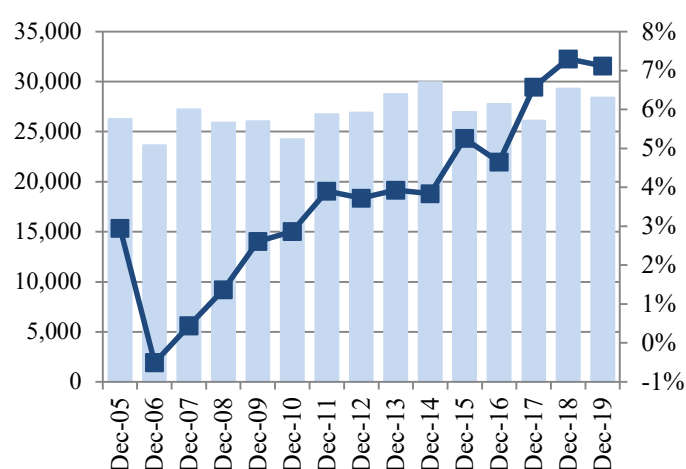
Investment Theses

A fabless manufacturer of water and sewage treatment equipment with its biggest growth driver arisen from increasing sentiment towards environment is traded at almost book value for 12% ROE and approximately 1.4x EV/EBITDA for 19% ROIC. Also, the company holds Net Cash worth approximately 77% of Market Capitalization. There is no longer the founder family's involvement in the management.

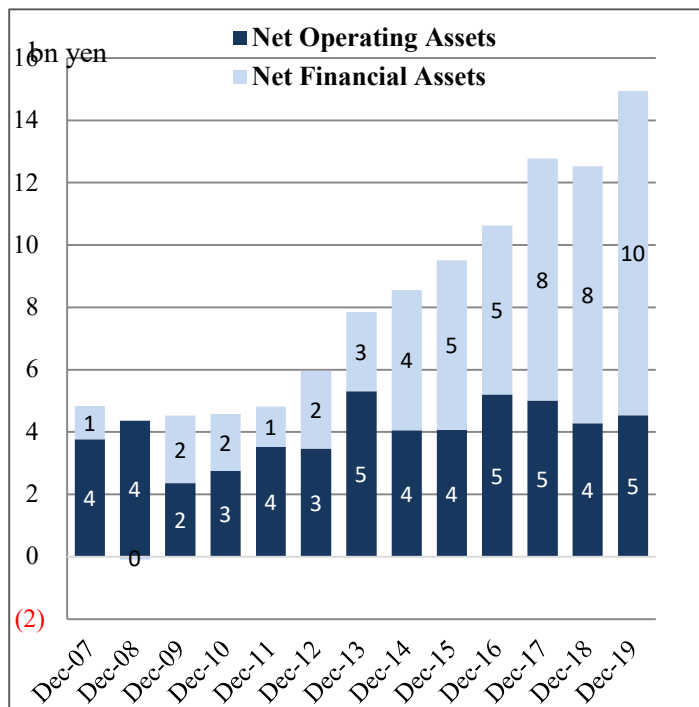
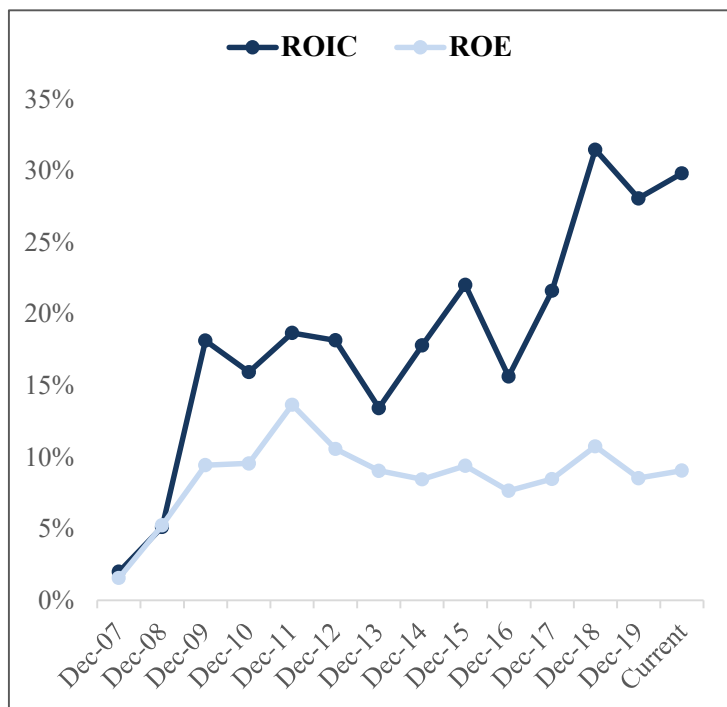
Stock Performance



Sales (lhs, Ymn) OP margin (rhs)

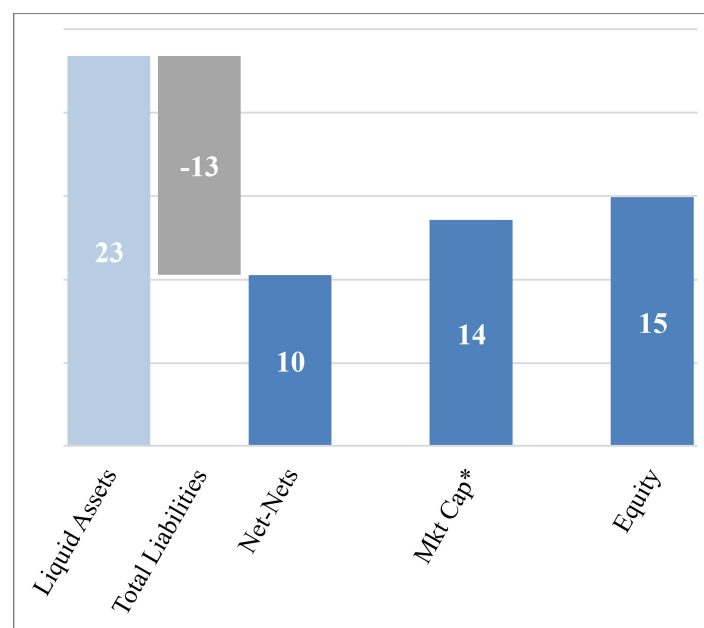
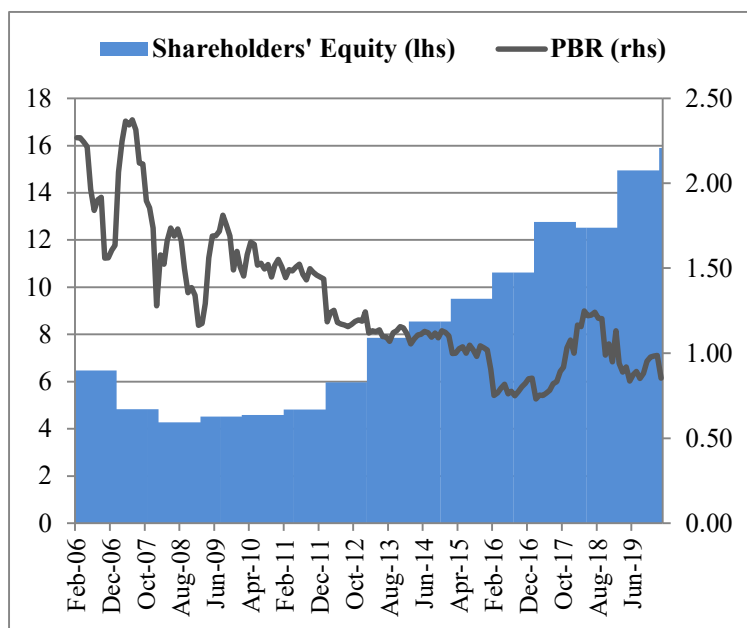


Financial Performance



Valuation

(Ybn)		Mkt Cap	EV	P/E	EV/EBITDA	P/B	Net-Cash/Mkt Cap	Net-Nets/Mkt Cap	ROE
6328	EBARA JITSUGYO	14	3	8	1.4	0.91	77%	76%	11%
9551	METAWATER CO LTD	103	88	18	8.8	2.13	15%	41%	12%
6489	MAEZAWA INDUSTRI	7	0	9	0.0	0.40	100%	148%	4%
6332	TSUKISHIMA KIKAI	58	26	15	3.4	0.86	58%	63%	6%



Business Analysis

* The company consists of three businesses: 1) manufacturing of environment-related products, 2) water treatment plant engineering & maintenance, and 3) pump & HVAC distribution. 1) Manufacturing a diverse range of environment-related products (ex., filter, deodorant, separator, measuring equipment) is the most profitable business for the company, and the management aims to generate 50% of consolidated Gross Profit from it in the long term (vs. current 25.8%). 2) Water treatment plant engineering & maintenance is a stable business, serving both municipal and various non-municipal customers. 3) Pump & HVAC business operates as a distributor of Ebara, the Japan's largest pump maker (no capital relationship between two companies). The company was founded as 1), but eventually, expanded into 2), and then 3), because of their sense of urgency to have their own products.

* The biggest sales driver is increasing awareness towards environment which Japan, as a country which heavily relies on fossil fuel, needs to address in the long term.

* The company is a fables company. Among its employees, 20% are researchers and 70% are nationally certified engineers.

Margin of Safety

The stable business, which generates approximately 11% of ROE and 19% of ROIC over the last decade, is traded at P/B 0.9x and EV/EBITDA 1.4x. Net Cash accounts for approximately 77% of Market Capitalization.

Analysis on shareholder base

* Mr. Suzuki, Chairman/CEO, owns only 2% of TSO, or a little below \$3M-worth shares.

* Mr. Mizushima, Honorary Consigliere/former CEO, owned 6%, but unfortunately, he passed away in July 2019.

* Shareholder structure as of June 30, 2019: Individuals: 50.2%, Financial institutions: 32.0%, Foreign Institutions: 12.8%

* Hikari Tsushin, which is led by the founder Chairman who is an advocate of Berkshire Hathaway, submitted its significant filing in August and September 2019.

Allocation of Capital

* Dividend P/O ratio averaged 26% over the past 3 years.

* The company bought back 1.7% of TSO in 2018. There was no other buyback in the past 15 years.

* The management plans to prioritize its environment related product segment in allocating capital. However, given the fables nature of the company, the management appears to realize that there is still pressing issue of enhancing capital allocation through increasing Total Payout Ratio.