

Fibergate (9450, Corporate)

Renovation & new build WiFi

5th June 2023

Share price: ¥1,324

Market cap: ¥27.3bn

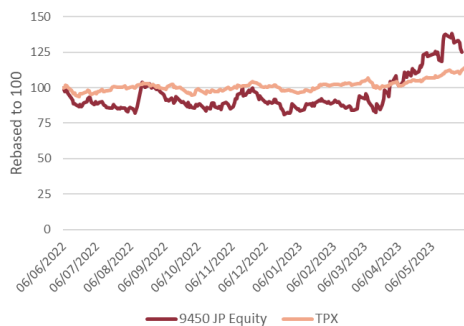
Renovation & new build WiFi demand is driving record stock & flow sales, with further growth likely as Business-Use performance improves.

Company sector

Diversified Telecommunication

Stock data

Price (¥)	1,324
Mkt cap (¥bn)/(\$m)	27.3 / 194.3
52-week range (¥)	812 - 1,476
Shares O/S (m)	20.6
Average daily value (\$m)	0.5
Free float (%)	40.6
Foreign shareholding (%)	2.0
Ticker	9450
Exchange	Tokyo Prime
Net Debt/Equity (x)	Net Cash



Source: Bloomberg

- **1-3Q sales & OP were comfortably above the company's conservative estimates, with the 1-3Q RPM notably surpassing the FY 2023 target driven by a strong flow of high margin Home-Use new building WiFi installation sales generating higher margins.**
- **1-3Q Home-Use sales were above plan, with growth evident in both renovation & new build related sales, the latter increasing due to seasonal construction project completions. New builds include a high margin, one-off installation charge which boosted sales & the OPM.**
- **Whilst we anticipate new build growth accelerating in the medium term, seasonally slower 4Q performance is set to weigh on Home-Use OPM. In tandem with an expected increase in low margin real estate sales, we foresee a lower FY 6/23 OPM but for aggregate OP to finish above the company's conservative forecast.**
- **In contrast, Business-Use sales & OP remained below plan, despite signs of recovery, as contract conclusion continues to have long lead times. Fibergate is therefore supplementing targeted long stay hospital & healthcare facility business with other orders, including events & business demand.**
- **We are encouraged by efforts to expand value-added services, such as renewable energy, EV charging, IoT solutions & cybersecurity, via different tie-ups & initiatives, which we believe bode well for long-term growth prospects.**
- **Whilst Fibergate's stock has started to recognise improving fundamentals, it remains -49% below its Dec 2020 high despite posting record 3Q stock & flow income. We believe this anomaly represents an opportunity & suggest investors book time with senior management to hear the investment case first hand [here](#).**

BUSINESS OVERVIEW

Fibergate is the #2 ranked supplier of domestic wireless telecom services, including free Wi-Fi spot construction, maintenance & operation.

Next event

FY 6/23 results on 10th Aug 2023.

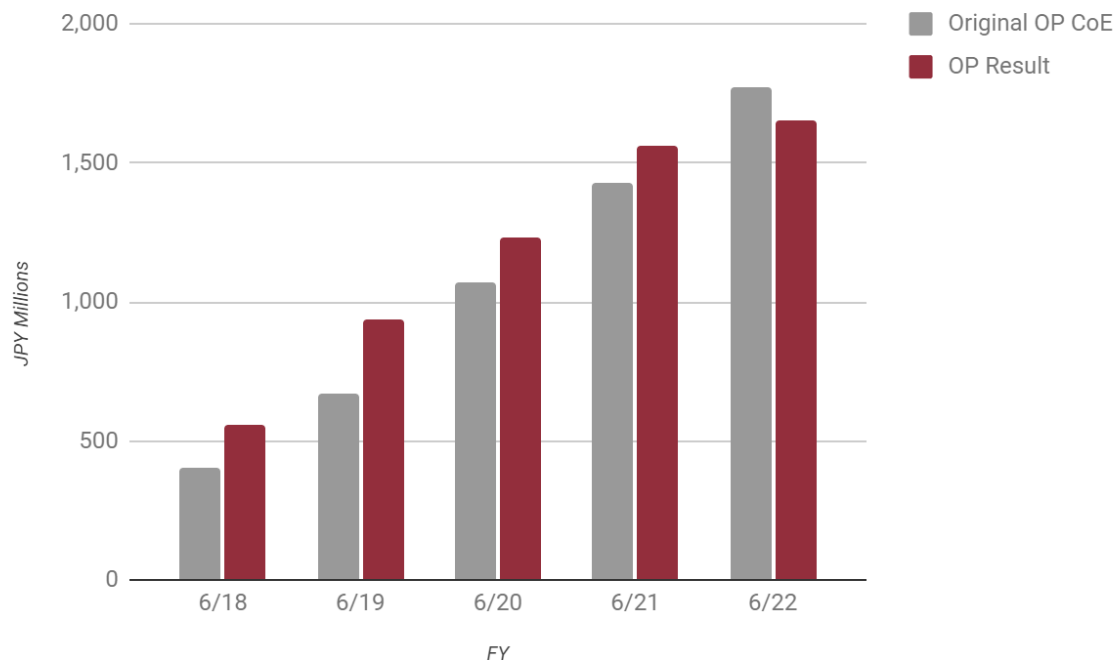
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Fibergate is a research client of Storm Research

Year end	6/2021	6/2022	1-3Q 6/2023	6/2023E
Sales (¥bn)	8.5	10.6	8.2	12.9
OP (¥bn)	1.6	1.7	1.7	2.0
NP (¥bn)	1.0	1.1	1.2	1.3
EPS (¥)	50.1	52.6	57.7	63.7
DPS (¥)	4.0	4.5	n/a	9.0
Sales growth YoY (%)	+14.4	+25.1	+14.3	+21.4
OP growth YoY (%)	+26.3	+6.0	+39.1	+22.3
NP growth YoY (%)	+41.1	+ 5.3	+42.4	+21.2
EPS growth YoY (%)	+38.4	+5.0	+42.4	+21.1
PER (x)	30.7	18.1	n/a	20.7
EV/EBITDA (x)	13.2	8.3	n/a	8.9
PBR (x)	8.5	5.9	n/a	6.2
ROE (%)	31.9	30.9	38.3	n/a
ROIC (%)	15.0	12.6	16.1	n/a
FCF yield (%)	n/a	0.5	n/a	n/a
Dividend yield (%)	0.4	0.5	0.5	0.7

RESULTS VS FORECAST HISTORY



* Listed on 23rd March 2018.

EARNINGS

1-3Q 6/23 OPM increased +3.8ppt YoY to 21.1% & the company achieved 86% of its conservative OP FY forecast as **concerns over a slowdown in existing building demand proved overdone.**

The Home-Use division was the main driver of above plan earnings, with both existing & new building construction projects contributing to sales & OP, boosted by seasonal new build completions in the 3Q.

Business Use sales growth was slightly below plan due to long lead times. Fibergate's main targeted longer 'stay time' areas, particularly hospitals & nursing care facilities, are showing a gradual improvement as post COVID activity resumes. It is also targeting customers that can make speedier decisions, such as businesses, & short-term event use, as opposed to healthcare institutions that rely on receiving subsidies, as these take time.

- *Profitability:* The 1-3Q OPM improved +3.8ppt YoY to 21.1% whilst the SG&A to sales ratio declined -2.4ppt YoY to 30.2%, with the increase in sales & improvement in sales mix helping offset higher personnel & depreciation expenses associated with business expansion. The broadband line usage fee is increasing but Fibergate is effectively controlling cost per unit through efficient operation of lines.

FY 6/23 OUTLOOK

Fibergate has left its FY 6/23 forecasts unchanged, expecting above plan Home Use earnings to be offset by below plan Business Use earnings. In Home-Use, 3Q new building related sales were strong due to typical seasonality of projects being completed, but we expect 4Q new build exposure to decline QoQ. New & existing building demand is forecast to remain strong as Business-Use demand picks up. As a result, **we anticipate the company beating its conservative FY 6/23 estimates.**

HOME USE
BUSINESS

(JPY Millions)	1H 6/23 Results	YoY	1-3Q 6/23 Results	YoY	6/23 CoE	YoY
Sales	4,501	15.2%	7,134	18.1%	9,320	14.5%
OP	1,389	30.7%	2,286	33.0%	2,530	9.1%
OPM	30.9%	3.7%	32.0%	3.6%	27.1%	-1.3%

As of the 3Q, the Home-Use division had achieved 76.5% of its sales & 90% of its FY 6/23 OP targets, with **both renovation & new building demand strong**. The number of connected WiFi units totaled 524,600 +20.3%YoY & +5.9%QoQ versus the company's FY 6/23 target of 544,800 +20.7%YoY, achieving a market share of 11.9%. 3Q standalone Home-Use sales increased +23.4%YoY, +17%QoQ & OP +36.7%YoY, +25%QoQ.

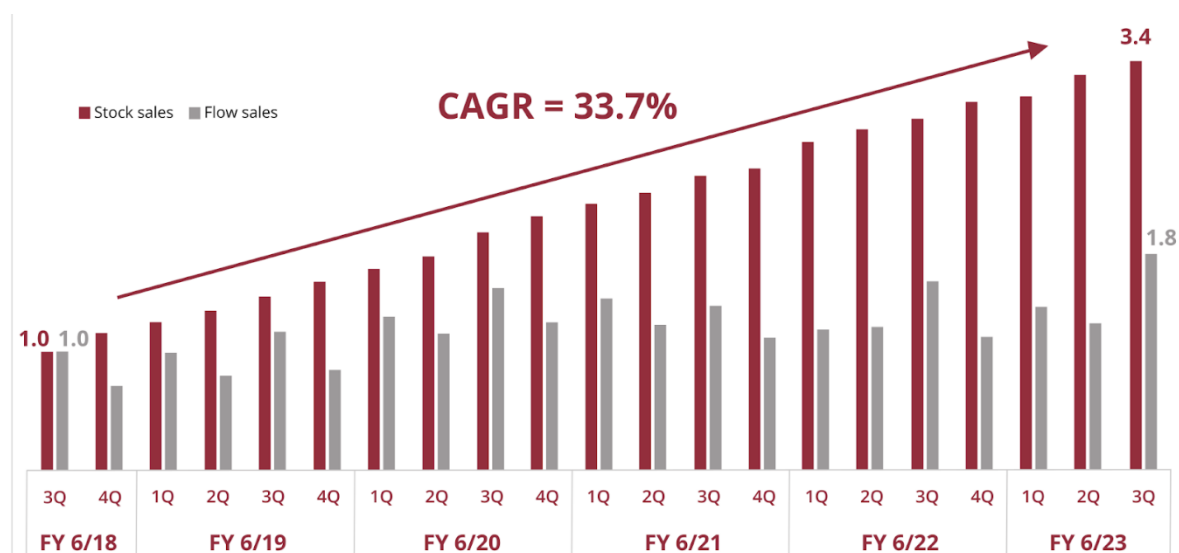
The new building contribution increased in the 3Q due to seasonal timing of construction projects being completed. Of the Y2.63bn 3Q Home-use sales, approx. Y900m (or 34%) was flow revenue relating to new building Home-use WiFi installation.

This compares to 1-3Q Home-Use flow business revenue of approx. Y2.1bn, or 29% of 1-3Q Home-Use total sales. The increase in new build WiFi projects resulted in high margin one-off flow business as WiFi equipment was installed, which boosted 3Q OPM.

For new build projects Fibergate receives a fee for installing the WiFi & a monthly fee per room over the course of the 6 year contract. For existing buildings, Fibergate receives a higher monthly fee per room over the course of the 6 year contract but does not receive an initial installation fee.

The initial new building flow fee is higher margin than the monthly recurring fee thereby raising OPM in the short term. The total amount received over the 6 year contract period is the same for new buildings & existing buildings.

- Quarterly stock & flow sales (excluding Real Estate):



Note: Adjusted for 3Q FY 6/18 = 1. The apparent height of bars may differ even if the figures appear the same due to rounding differences. This revenue breakdown is a continuous comparative figure based on the company's definition & is strictly different from period-proportioned sales under revenue recognition standards.

Source: Company.

Flow income increased +1.8x compared to 3Q FY 6/18, also posting a quarterly high as a result of new building WiFi installation revenue.

We note stock income has increased for 20 consecutive quarters since listing. New construction projects have been added to existing building projects & **the upward trend is accelerating, with 3Q QoQ growth at a record high.**

Due to the seasonality of construction, we expect the contribution from new builds to decline in the 4Q but **foresee the total contribution of new builds increasing gradually as a percentage of total each quarter.** As of the 3Q, new orders were approx. 50% new build & 50% existing.

- *FY 6/23 outlook:* Fibergate assumes cumulative contracted residential Wi-Fi units reach 545,000 in FY 6/23, +21%YoY & +93,500 units YoY. It had assumed demand for existing properties would slow significantly but its view has proved overly conservative.

High margin new building WiFi installation flow sales were strong in the 3Q due to typical seasonality of construction projects being completed. The 4Q new build exposure is forecast to seasonally decline QoQ but we expect it to increase as a percentage of the total over the medium term.

In addition to expanding both existing & new contracted units, Fibergate continues to promote value-added services such as cameras & smart locks. It is also developing new services such as EV charging & solar panels (details below).

BUSINESS USE BUSINESS

(JPY Millions)	1H 6/23 Results	YoY	1-3Q 6/23 Results	YoY	6/23 CoE	YoY
Sales	680	14.5%	1,062	13.5%	1,830	47.1%
OP	116	-10.1%	206	9.6%	570	142.6%
OPM	17.1%	-4.7%	19.4%	-0.7%	31.1%	12.3%

Within the Business-Use division, Fibergate has a balance of flow (installation) & stock (monthly subscription) business & **the 1-3Q breakdown of stock to flow business was approx. 50:50.** Pre-COVID, flow revenue (mainly initial installation work) was approx. 2x that of stock revenue, but it declined as commercial facilities halted capex on WiFi facilities during COVID.

- *Earnings:* 1-3Q Business-Use sales & OP were below plan. Following a significant sales decline during COVID, Fibergate had expected a rapid FY 6/23 recovery at its targeted large 'long stay' projects of nursing care home facilities & hospitals, both of which are expected to deliver steady stock business revenue in the long term. Both have expanded more slowly than expected due to significant lead times to receive subsidies from local authorities & subsequent long order & sales lead times. 3Q standalone Business-Use sales increased +11.4%YoY, +8.8%QoQ & OP +53.4%YoY, +27%QoQ.

Fibergate has therefore shifted its short-term focus to projects that do not take as much decision time, including short-term event WiFi installation, construction site installation (through a tie-up with Nishimatsu Construction (1820)) & WiFi at exhibitions & offices. It is also re-focusing on growth at shopping malls as the decision-making process is currently faster than 'long stay' venues.

WiFi services for commercial facilities, WiFi for public transportation (such as taxis) & WiFi services for tourist facilities (such as hotels & outdoor events) are recovering, with sales & OPM close to pre-coronavirus levels.

- FY 6/23 outlook: Fibergate has not revised its divisional estimates & is proactively aiming to boost short term flow sales. We expect the FY forecast to prove optimistic as the pace of recovery for large, long stay projects remains slow.

- FY 6/24 outlook: **The company continues to believe there is significant untapped demand for 'long stay' venues**, including hospitals, nursing care facilities & government facilities. Whilst demand recovery to date has been slow, it expects it to be a key driver of FY 6/24 earnings.

REAL ESTATE BUSINESS

(JPY Millions)	1H 6/23 Results	YoY	1-3Q 6/23 Results	YoY	6/23 Original CoE	YoY	6/23 Revised CoE*	YoY
Sales	19	-76.3%	23	-89.7%	1,740	40.5%	1,750	41.4%
OP	-2	n/a	-9	n/a	100	69.5%	80	35.6%
OPM	n/a	n/a	n/a	n/a	5.7%	1.0%	4.6%	-0.2%

* Revised with 1Q results.

1-3Q sales consisted of rental income from Reunir Gracias Kawaguchi, a new-generation SDG ecological condominium owned by FG Smart Asset Co. Ltd.

Fibergate also buys buildings & occasionally land that small/medium sized real estate agents are unable to buy due to lack of funds, adds WiFi & resells them. Longer term, it also plans to add IoT & renewable energy solutions.

There were no real estate sales in 1-3Q but sales are expected in the 4Q & the FY 6/23 OP forecast of ¥80m is likely achievable.

Fibergate does not expect the division to be an earnings driver, rather a key vehicle for Home-Use WiFi growth, & FY 6/24 sales & OP are expected to be broadly flat YoY.

ADDITIONAL SERVICES

Fibergate is expanding its list of value-added services. Services include:

- Renewable energy through subsidiary Off Grid Lab Co Ltd. In the long term, it believes it can rival the Home-Use & Business-Use divisions in sales & profits, although short-term upfront costs are expected to weigh on earnings.

- EV charging through a business tie-up with Terra Motors, initiated on 1st April 2023 to improve the asset value of buildings, convenience of condominiums & facilities & to accelerate the contribution to SDGs. The service is set to be promoted for both Home-Use & Business-Use.

- IoT solutions & information security products for condominiums through a business alliance agreement with Fanstyle, a subsidiary of LA Holdings (2986).

Fibergate is mainly based in major cities in Japan & overseas in Taiwan. Fanstyle is based in Okinawa & mainly develops & sells its own brand Reve series condominiums near Naha City. **The alliance will allow Fibergate & Fanstyle to develop condominiums that utilise IoT solutions & information security products.**

- Cybersecurity: Fibergate announced a tie up with Digital Data Solution Co on 24th April 2023 & will promote Tosenbo, an internet exit countermeasure type unauthorised intrusion blocking system, to businesses, with a sales contribution expected from FY 6/24.

Fibergate targets sales of Y25bn & an RPM of >17% to FY 6/27.

MTP

SHAREHOLDER RETURNS

As of 3Q FY 6/23, the shareholder equity ratio was 31.3% versus Fibergate's short term target of >30% despite a decline due to the change in revenue recognition standards.

Whilst cash outflow for growth investment continues, as of 3Q FY 6/23 the company was FCF positive.

At 3Q results on 15th May, Fibergate announced a FY 6/23 dividend hike from Y7 to Y9 +100%YoY, which includes a commemorative dividend of Y2 per share to celebrate the 20th anniversary of its founding in 2003.

PREVIOUS REPORTS

- 3rd March 2023: '[Laying foundations](#)'
- 25th Nov 2022: '[Strong residential WiFi](#)'
- 11th Nov 2022: Initiating coverage: '[Residential & business WiFi](#)'

COMPANY INFORMATION

Key corporate timeline

Dec 2003	Began fully-fledged operations. Core business: selling broadband lines via the internet and a network of multiple brick-and-mortar locations
Feb 2004	Started business: free internet for communal housing
Jan 2005	Established Tokyo Office in Minato-ku, Tokyo
Nov 2005	Started business: free internet for communal housing using wireless LAN Unified all services and began operation using the FGBB® Series across the board
June 2006	Began providing free internet for communal housing using a private brand
Sep 2008	Started business: internet connection for monthly serviced apartments
Jan 2009	Call centre began providing customer service to tenants of FGBB® equipped properties in multiple languages
June 2009	Started business: the free Wi-Fi service “Wi-Fi Nex®”
Apr 2011	Established Osaka Office in Chuo-ku, Osaka
June 2013	Established NOIS Inc. as a wholly-owned subsidiary to plan, develop, and sell computer hardware and software, and to act as an internet line agency
March 2014	Started business: the sale of company-developed communication devices
Apr 2014	Began providing Wi-Fi services for stores and commercial facilities under a private brand
June 2014	Established Fukuoka Office in Hakata-ku, Fukuoka
Oct 2014	Established Nagoya Office in Atsuta-ku, Nagoya
Jan 2015	Acquired Telecommunications Contractor Authorization (Governor of Hokkaido Authorization (Fune-26) Ishi No.22017)
July 2015	Began providing the Wi-Fi service “SHINOBI Wi-Fi” to visiting foreigners Established Fibergate Taiwan Inc. as a wholly-owned subsidiary in Taiwan
Jan 2016	Acquired a license as a telecommunications business in accordance with the Telecommunications Business Act (Registration Number: No.358) Certified as a Management Innovation Plan Approval Company by the Governor of Hokkaido (Sekishoro: No.74-33)
Feb 2016	Acquired Privacy Mark certification (Registration Number: No. 17002586 (01))
June 2016	End of fiscal year changed from December to June
Aug 2016	Nagoya Office moved to Naka-ku, Nagoya
June 2017	Satellite office opened in the Tokyo Office
	Osaka Office moved to Chuo-ku, Osaka
	Established Sendai Office in Miyagino-ku, Sendai
	Fukuoka Office moved within Hakata-ku, Fukuoka
March 2018	Listed on TSE Mothers
May 2018	Began providing the “One-Touch Wi-Fi” service as a Wi-Fi service for offices and stores
Nov 2018	Acquired certification as an Information Security Management System (ISMS) (Certification No.: MSA-IS-284)
June 2019	Transferred to the TSE 1 st Section
July 2019	Listed on the Main Market of the Sapporo Securities Exchange
Jan 2020	Established FG-Lab Inc. as a wholly-owned subsidiary that researches and develops company-provided telecommunication devices and systems

March 2020	Established BizGenesis Inc. to provide telecommunication services to corporations
Apr 2020	Relocated Fukuoka office within Hakata-ku, Fukuoka
Feb 2021	Established FG Smart Asset Inc. as a wholly-owned subsidiary to engage in real estate-related business including the purchase, sale, leasing, and management of real estate
July 2021	Established OffGrid-Lab Inc. to operate a renewable energy business
Apr 2022	Acquired TM Asset Inc. as a wholly-owned sub-subsiary to engage in real estate sales and leasing
July 2022	Merged with BizGenesis Inc., a telecommunication service provider for enterprises

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Major shareholders	Stake %
Masanori Inomata	25.85
MI Corp KK	23.06
Newton Investment Management	8.23
GPIF	5.49
Taizou Matsumoto	5.31
Sumitomo Mitsui Trust Holdings	5.17
Nomura Holdings	4.18
Norges Bank	2.58
Kingdom of Norway	2.32
Vanguard	1.22

Source: Bloomberg.

J GAAP Financial statements

Income statement (¥bn)	FY 6/20	FY 6/21	FY 6/22
Sales	7.42	8.49	10.62
COGS	3.6	4.1	5.8
Gross profit	3.9	4.4	4.8
Gross profit margin (%)	52.1	51.2	45.5
Operating expense	2.6	2.8	3.2
Total OP	1.23	1.56	1.65
OP margin (%)	16.6	18.4	15.5
Non-Op Income (Loss)	0.1	0.1	0.1
Pretax Income	1.2	1.5	1.6
Tax	0.5	0.5	0.5
Effective tax rate (%)	38.9	31.0	32.2
Net income	0.72	1.02	1.07

Cash flow statement (¥bn)	FY 6/20	FY 6/21	FY 6/22
Net income/pre-tax profit	0.7	1.0	1.1
Depreciation/amortization	0.8	1.0	1.2
Other non-cash items	0.1	0.3	(0.2)
Changes in working capital	0.1	-0.2	-0.1
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Operating Activities	1.7	1.7	2.3
Change in fixed & intangible assets	-2.1	-2.2	-2.3
Net change in long-term investments	0.0	0.0	0.0
Net cash from acquisitions & divestitures	0.0	0.0	-0.3
Other investing activities	0.0	0.0	0.0
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Investing Activities	-2.1	-2.3	-2.6
Dividends paid	0.0	-0.1	-0.1
Cash from (repayment) debt	0.7	1.4	0.6
Cash from (repurchase) of equity	0.0	0.0	-0.1
Other financing activities	0.0	0.0	-0.1
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Financing Activities	0.7	1.3	0.4
FX impact	0.0	0.0	0.0
Net cash flow	0.4	0.8	0.1
Free cash flow	-0.3	-0.5	0.1
EBITDA	2.0	2.6	2.9

Balance sheet (¥bn)	FY 6/20	FY 6/21	FY 6/22
Cash & equivalents	1.4	2.2	2.3
Accounts & notes receivable	1.1	1.2	1.4
Inventories	0.3	0.4	2.1
Other short-term assets	0.0	0.1	0.1
Current assets	2.8	3.9	6.0
Property, plant & equipment (net of depreciation)	4.0	5.2	6.2
Long term investments & receivables	0.0	0.0	0.1
Other long-term assets	0.2	0.2	0.8
Total non-current assets	4.2	5.5	7.1
Total assets	7.0	9.4	13.1
Payables & accruals	1.0	1.0	0.9
Short-term debt	1.1	1.2	2.6
Other short-term liabilities	0.1	0.2	2.2
Total current liabilities	2.2	2.4	5.6
Long term debt	2.0	3.3	4.1
Other long-term liabilities	0.0	0.1	0.1
Total non-current liabilities	2.0	3.3	4.2
Total liabilities	4.3	5.7	9.8
Share capital & APIC	0.9	0.9	0.9
Treasury stock	0.1	0.1	0.2
Retained earnings	1.9	2.9	2.6
Other equity	0.0	0.0	0.0
Equity before minority interest	2.7	3.7	3.3
Total equity	2.7	3.7	3.3
Total liabilities & equity	7.0	9.4	13.1

Key metrics	FY 6/20	FY 6/21	FY 6/22
Profitability			
Gross margin (%)	52.1	51.2	45.5
Operating margin (%)	16.6	18.4	15.5
Net margin (%)	9.7	12.0	10.1
ROIC (%)	14.4	15.0	12.6
Liquidity			
Current ratio (x)	1.2	1.6	1.1
Quick ratio (x)	1.1	1.4	0.7
Leverage			
Debt/Equity ratio	113.4	121.1	202.9
Net Debt/Equity ratio	61.2	61.4	132.6

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