

## Fibergate (9450, Corporate)

## Growth in tandem

1<sup>st</sup> Dec 2023

Share price: ¥950

Market cap: ¥19.6bn

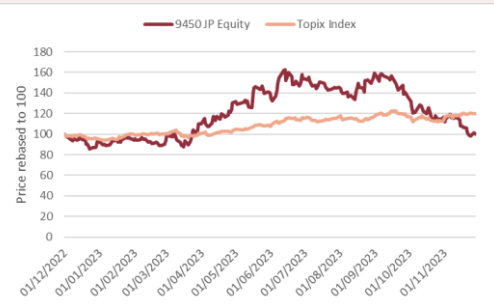
**1Q results offer the prospect of Home-Use & Business-Use WiFi solutions driving growth in tandem.**

## Company sector

Diversified Telecommunication

## Stock data

Price (¥)	950
Mkt cap (¥bn)/(\$m)	19.6 / 132.3
52-week range (¥)	811 - 1,606
Shares O/S (m)	20.6
Average daily value (\$m)	1.3
Free float (%)	42.3
Foreign shareholding (%)	9.8
Ticker	9450
Exchange	Tokyo Prime
Net Debt/Equity (x)	Net Cash



Source: Bloomberg

## BUSINESS OVERVIEW

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

## Next event

1H 6/24 results on 14<sup>th</sup> Feb 2024.

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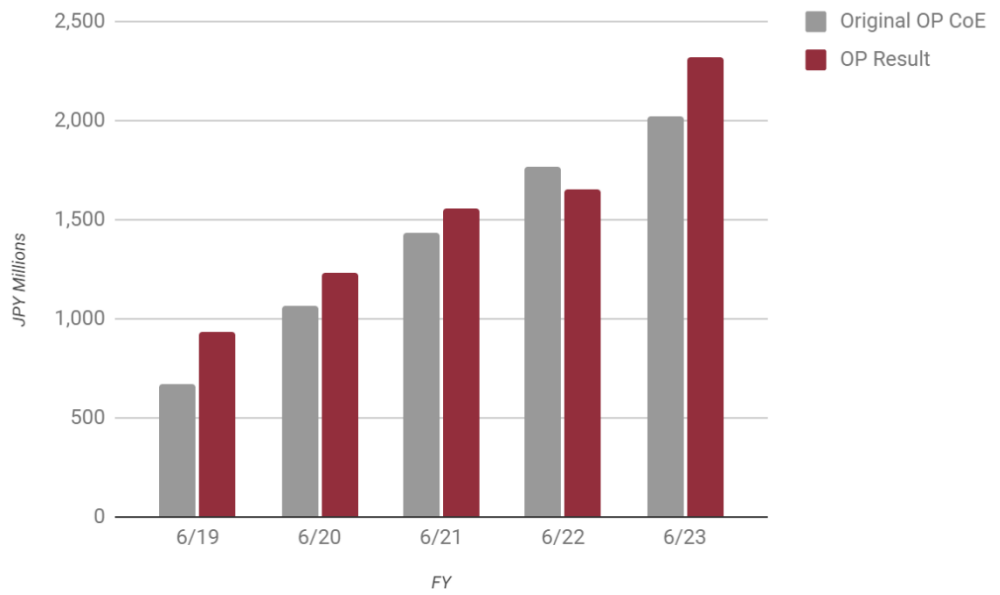
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**Fibergate is a research client of Storm Research**

- 1Q sales & OP were broadly in line with the company forecast as above plan Home-Use sales & OP offset the slower than expected start to Business-Use sales growth, the latter mainly due to a delay in completion of a large hospital project.
- Demand for both existing & new build Home-Use remains strong, with residence WiFi unit connections increasing +18%YoY to >560k. Fibergate is currently focusing on increasing ARPU through cross-selling additional products such as internet-enabled facial recognition intercom FG Smartcall, network cameras & smart locks.
- The Business-Use macro environment is strong, led by DX & a tight labour market requiring peak efficiency. The Business-Use pipeline is growing, with price increases & a focus on larger facilities boosting sales & profitability, despite lengthy lead times & decision times resulting in a slower than expected 1Q acceleration.
- We note 1Q FY 6/24 represented the 22<sup>nd</sup> consecutive quarterly growth of stock sales since Fibergate listed in 2018, at a CAGR of +31%, reflecting both success in the consistent accumulation of property contracts but also the continued extremely low churn rate.
- Following an increase in Business-Use sales, Fibergate's FCF turned positive in FY 6/23, stayed positive in 1Q & we expect it to persist. While the company's dividend payout ratio remains relatively low given ongoing investment, it acknowledges the need to raise it in the longer term & is also conducting consistent share buybacks.
- On 12x FY 6/24 earnings, we believe evidence of Business-Use acceleration & the shift to FCF positive confirm Fibergate's strategy, as laid out in our Nov 2022 [initiation report](#), is working. We encourage investors to book time with senior management to analyse the investment thesis in detail: [here](#).

Year end	6/2022	6/2023	1Q 6/2024	6/2024E
Sales (¥bn)	10.6	12.8	2.9	13.7
OP (¥bn)	1.7	2.3	0.5	2.5
NP (¥bn)	1.1	1.5	0.4	1.7
EPS (¥)	52.6	72.7	18.2	82.3
DPS (¥)	4.5	10.0	n/a	10.0
Sales growth YoY (%)	+25.1	+20.4	+10.1	+7.2
OP growth YoY (%)	+6.0	+40.4	+9.4	+9.1
NP growth YoY (%)	+ 5.3	+38.1	+9.8	+13.4
EPS growth YoY (%)	+5.0	+38.2	+10.3	+13.2
PER (x)	18.1	20.5	17.8	11.5
EV/EBITDA (x)	8.3	8.6	7.7	5.8
PBR (x)	5.9	6.4	5.6	4.0
ROE (%)	30.9	37.1	36.4	n/a
ROIC (%)	12.6	16.7	17.0	n/a
FCF yield (%)	0.5	6.2	n/a	n/a
Dividend yield (%)	0.5	0.7	n/a	1.1

**RESULTS VS FORECAST HISTORY**

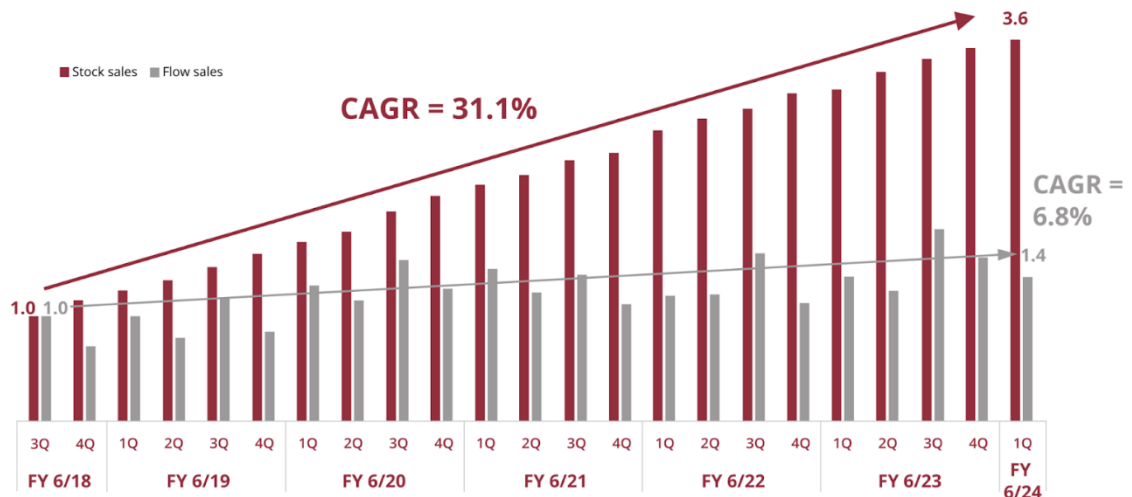


**EARNINGS**

1Q 6/24 earnings were strong, with sales +10%YoY & RP +14%Y driven by new & existing Home-Use building demand which was above the company's conservative forecast. 1Q Business-Use sales were broadly flat YoY due to a large hospital project where completion was delayed until October in the 2Q.

1Q stock & flow earnings growth were in line with plan, with **growth in the Business-Use division expected to boost stock business & FCF further in the medium term.**

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



\* Note: adjusted for 3Q 6/18 = 1. The apparent heights of bars can appear different despite numbers appearing the same due to rounding. 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

We believe the company's FY 6/24 forecasts for sales growth of +7%YoY & RP growth of +10%YoY are achievable. Whilst it represents a deceleration versus FY 6/23 sales growth of +20.4%YoY & RP growth of +42.8%YoY, FY 6/23 results were boosted by volatile non-core Real Estate division earnings. Stripping out the RE division, FY 6/23 core WiFi related sales increased +19.7%YoY. In FY 6/24, Fibergate assumes core WiFi related sales increase +16%YoY.

The 1Q FY 6/24 EBITDA margin remained high at 33%, in line with Fibergate's aim to keep it in the 30% range.

## HOME USE BUSINESS

(JPY Millions)	6/23 Results	YoY	1Q 6/24 Results	YoY	6/24 CoE	YoY
<b>Sales</b>	9,600	17.9%	2,521	11.7%	11,020	14.8%
<b>OP</b>	2,970	28.1%	714	6.4%	3,290	10.8%
<b>OPM</b>	30.9%	2.5%	28.3%	-1.4%	29.9%	-1.1%

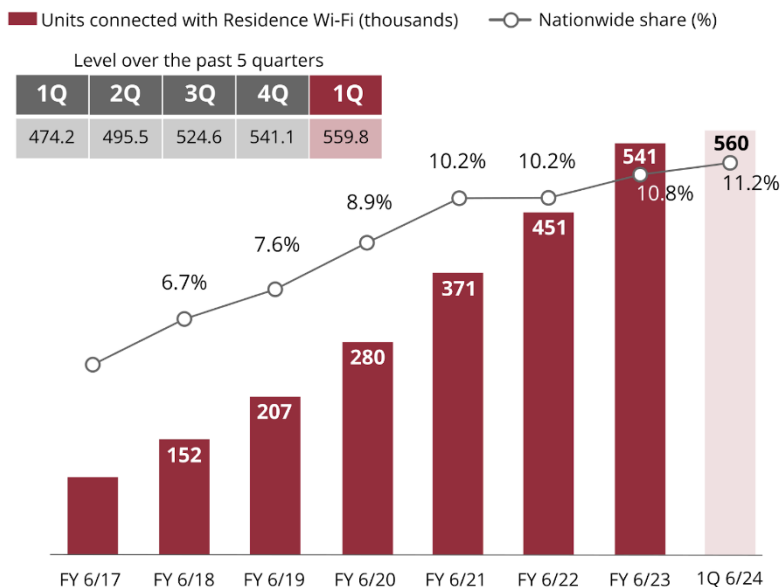
1Q Home-Use sales & OP were slightly ahead of the company's conservative forecast, which assumes a 2H skew. 1Q new construction units increased +5%YoY.

As of 1Q FY 6/24, the number of Residence Wi-Fi service unit connections totalled approx. 560,000 +19,000 QoQ & +18%YoY. The pace of increase in the number of connected units was steady & has been in line with expectation.

**New construction projects accounted for 43% of the total number of units opened**, were in line with plan & are forecast to remain at approx. 40% of total units in the medium term.

Fibergate assumes FY 6/24 newly connected residential Wi-Fi units are set to increase by >92,000 units, with a net increase of 85,400. The cumulative number of units is set at 626,500 for FY 6/24.

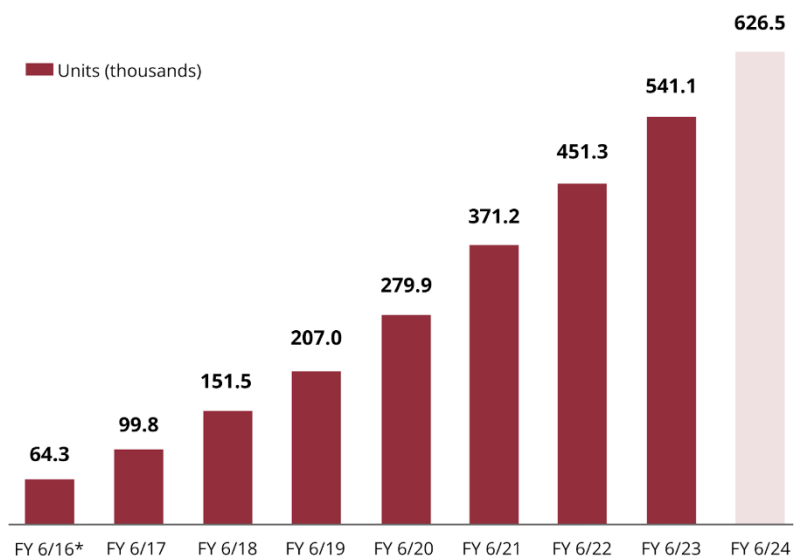
- Number of units connected with Residence Wi-Fi & nationwide share:



\* Note: The nationwide share is calculated by dividing the total number of condominium ISPs offered for all condominiums at the end of each March (figure from the MM Research Institute) by the number of company contracted units at the end of the company's fiscal year (or the end of the most recent quarter).

Source: Company

- Units connected with Residence Wi-Fi:



\* Note: FY 6/16 figures are for 6 months only. Source: Company

- Cross-selling: Fibergate is aiming to increase revenue per customer by expanding cross-selling of other products. **As of the 1Q, the cross-sell ratio was 7.6% versus the FY 6/23 average of 6.5%.**

Ancillary goods include FG Smartcall, an internet-enabled facial recognition intercom that is placed in the main entrance hall. It allows residents to register their face for automatic entry, tracks who has been entering the apartment block, refuses entry to certain people & allows residents to answer the intercom remotely using a dedicated app on their smartphone. The

unit sells initially at approx. ¥200,000 with the monthly charge dependent on the size of the property.

Other ancillary goods include FGTV, network cameras, delivery boxes & smart locks & EV charging. The company is also exploring renewable energy storage & management solutions, such as for use with solar panels, & has completed a test installation in 1 building, Reunir Gracias Kawaguchi.

Home-Use solar-panel sales are set to start in FY 6/24 but are likely to gradually contribute to earnings from FY 6/25.

- OPM: FY 6/23 OPM declined -1.4ppt YoY, broadly in line with the company forecast given increases in personnel costs & depreciation.

- FY 6/24: Fibergate anticipates strong growth continuing through both existing & new buildings. It has likely forecast conservatively as it is unclear which sales route exposure is likely to be greater. It assumes units grow in line with the market CAGR of +10.8%, reaching approx. 700,000 by FY 6/26. We contend this is **likely conservative given Fibergate's potential to continue taking market share**. The company also forecasts pricing to remain flat given competition with other companies.

## BUSINESS USE BUSINESS

(JPY Millions)	6/23 Results	YoY	1Q 6/24 Results	YoY	6/24 CoE	YoY
Sales	1,512	21.5%	327	-0.6%	1,860	23.0%
OP	289	23.0%	56	21.7%	460	59.2%
OPM	19.1%	0.2%	17.1%	3.1%	24.7%	5.6%

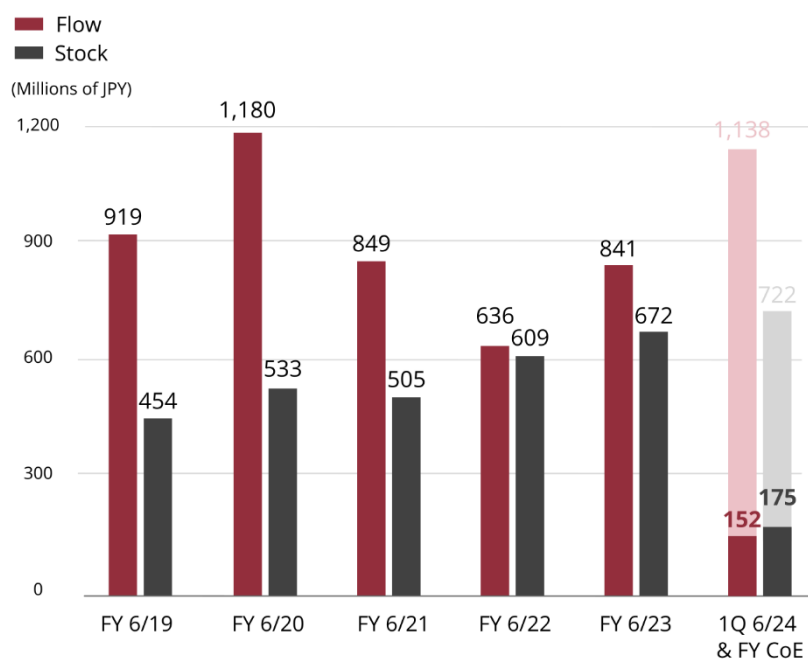
1Q 3/24 Business-Use sales were lower than expected as some projects were delayed into the 2Q, in particular a large hospital project which was completed in October in the 2Q. The macro environment is favourable, driven by DX related demand & a requirement to make facilities more efficient given domestic labour shortage issues which have increased investment into IT infrastructure & in turn internet connectivity.

**Demand for large projects is particularly strong for hospitals & care homes**, but also for distribution centres, exhibition centres & chain stores. Demand from tourist facilities, including hotels, is also picking up with the recovery in overseas tourism post COVID.

1Q 3/24 OPM improved +3.1ppt YoY as parts procurement issues have been mainly resolved & as price increases of approx. +10% have been gradually implemented into new customers' monthly subscription & equipment from the 1Q. **Fibergate has assumed a FY 6/24 OPM improvement of +5.6ppt to 24.7% YoY as a result of this.**

Fibergate is considering raising prices for existing customers, which has not been accounted for in its FY 6/24 forecasts & is also targeting FY 6/24 growth in sales of cybersecurity & other ancillary products to corporates.

## - Business-Use Stock/flow Sales:



Source: Company.

In Aug 2023, Fibergate introduced a lease-type model for its telecommunication equipment, thereby reducing the initial investment burden on the customer, which it believes will accelerate the proliferation of its services in restaurants & shops. We do not expect it to have a significant impact on sales as it represents a stock business shift, increasing the stock business percentage in the Business-Use division.

Fibergate continues to increase its sales partners & targets 150 partners medium term versus 50 in FY 6/23.

## REAL ESTATE BUSINESS

(JPY Millions)	6/23 Results	YoY	1Q 6/24 Results	YoY	6/24 CoE	YoY
Sales	1,674	35.2%	4	-20.0%	830	-50.4%
OP	136	130.5%	-2	n/a	80	-41.2%
OPM	8.1%	3.4%	n/a	n/a	9.6%	1.5%

For 6/24, Fibergate has only assumed sales of items already included in inventory & has cautiously assumed zero additional property purchases. 1Q was in line with expectation.

## SHAREHOLDER RETURNS

In FY 6/24, Fibergate is maintaining a dividend of Y10, implying a payout ratio of 12%.

It is focused on using cash for growth investment but is also **mindful that the current payout ratio is low, particularly as FCF has turned positive**. As Business-Use sales increase we expect FCF to improve further given the upfront flow nature of the earnings.

Fibergate has been buying back shares on a regular basis since Mar 2020 when it purchased 111,400. It subsequently purchased 88,000 in Dec 2021, 74,400 in Aug 2023 & has most

recently completed the purchase of 89,686 (0.4%) of outstanding shares in Nov 2023. We expect further buybacks although the company has no concrete plans. There are also currently no plans to cancel the shares, which could be used for employee benefit schemes or M&A.

PREVIOUS  
REPORTS

- 28<sup>th</sup> Sep 2023: [‘Improving momentum’](#)
- 5<sup>th</sup> Jun 2023: [‘Renovation & new build WiFi’](#)
- 3<sup>rd</sup> March 2023: [‘Laying foundations’](#)
- 25<sup>th</sup> Nov 2022: [‘Strong residential WiFi’](#)
- 11<sup>th</sup> Nov 2022: Initiating coverage: [‘Residential & business WiFi’](#)

## COMPANY INFORMATION

Major shareholders	Stake %
MI Corp KK	23.26
Masanori Inomata	13.82
Japan Custody Bank	13.11
Sumitomo Mitsui Trust Hdgs	8.32
Japan Master Trust Custody Bank	7.97
Taizou Matsumoto	5.35
Government of Norway	1.51
Nomura PB Nominees	1.32
MSCO Customer Securities	0.90
Bank of New York	0.81

*Source: Company.*

### Company contact details

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## J GAAP Financial statements

Income statement (¥bn)	FY 6/21	FY 6/22	FY 6/23
Sales	8.5	10.6	12.8
COGS	4.1	5.8	7.1
<b>Gross profit</b>	<b>4.4</b>	<b>4.8</b>	<b>5.7</b>
Gross profit margin (%)	51.2	45.5	44.9
Operating expense	2.8	3.2	3.4
<b>Total OP</b>	<b>1.6</b>	<b>1.7</b>	<b>2.3</b>
OP margin (%)	18.4	15.5	18.1
Non-Op Income (Loss)	0.1	0.1	0.1
<b>Pretax Income</b>	<b>1.5</b>	<b>1.6</b>	<b>2.2</b>
Tax	0.5	0.5	0.7
Effective tax rate (%)	31.0	32.2	31.7
<b>Net income</b>	<b>1.0</b>	<b>1.1</b>	<b>1.5</b>

Cash flow statement (¥bn)	FY 6/21	FY 6/22	FY 6/23
Net income/pre-tax profit	1.0	1.1	1.5
Depreciation/amortization	1.0	1.2	1.5
Other non-cash items	-0.1	0.1	0.6
Changes in working capital	-0.2	-0.1	0.8
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Operating Activities</b>	<b>1.7</b>	<b>2.3</b>	<b>4.3</b>
Change in fixed & intangible assets	-2.2	-2.3	-2.2
Net change in long-term investments	0.0	0.0	0.0
Net cash from acquisitions & divestitures	0.0	-0.3	0.0
Other investing activities	0.0	0.0	0.0
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Investing Activities</b>	<b>-2.3</b>	<b>-2.6</b>	<b>-2.2</b>
Dividends paid	-0.1	-0.1	-0.1
Cash from (repayment) debt	1.4	0.6	-1.9
Cash from (repurchase) of equity	0.0	-0.1	0.0
Other financing activities	0.0	-0.1	0.0
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Financing Activities</b>	<b>1.3</b>	<b>0.4</b>	<b>-2.0</b>
FX impact	0.0	0.0	0.0
<b>Net cash flow</b>	<b>0.8</b>	<b>0.1</b>	<b>0.1</b>
<b>Free cash flow</b>	<b>-0.5</b>	<b>0.1</b>	<b>1.9</b>
<b>EBITDA</b>	<b>2.6</b>	<b>2.9</b>	<b>3.8</b>

Balance sheet (¥bn)	FY 6/21	FY 6/22	FY 6/23
Cash & equivalents	2.2	2.3	2.4
Accounts & notes receivable	1.2	1.4	1.6
Inventories	0.4	2.1	1.3
Other short-term assets	0.1	0.1	0.1
<b>Current assets</b>	<b>3.9</b>	<b>6.0</b>	<b>5.6</b>
Property, plant & equipment (net of depreciation)	5.2	6.2	6.6
Long term investments & receivables	0.0	0.1	0.1
Other long-term assets	0.2	0.8	0.6
<b>Total non-current assets</b>	<b>5.5</b>	<b>7.1</b>	<b>7.2</b>
<b>Total assets</b>	<b>9.4</b>	<b>13.1</b>	<b>12.8</b>
Payables & accruals	1.0	0.9	1.1
Short-term debt	1.2	2.6	1.4
Other short-term liabilities	0.2	2.2	2.1
<b>Total current liabilities</b>	<b>2.4</b>	<b>5.6</b>	<b>4.7</b>
Long term debt	3.3	4.1	3.3
Other long-term liabilities	0.1	0.1	0.0
<b>Total non-current liabilities</b>	<b>3.3</b>	<b>4.2</b>	<b>3.3</b>
<b>Total liabilities</b>	<b>5.7</b>	<b>9.8</b>	<b>8.0</b>
Share capital & APIC	0.9	0.9	0.9
Treasury stock	0.1	0.2	0.2
Retained earnings	2.9	2.6	4.0
Other equity	0.0	0.0	0.0
<b>Equity before minority interest</b>	<b>3.7</b>	<b>3.3</b>	<b>4.7</b>
<b>Total equity</b>	<b>3.7</b>	<b>3.3</b>	<b>4.8</b>
<b>Total liabilities &amp; equity</b>	<b>9.4</b>	<b>13.1</b>	<b>12.8</b>

Key metrics	FY 6/21	FY 6/22	FY 6/23
<b>Profitability</b>			
Gross margin (%)	51.2	45.5	44.9
Operating margin (%)	18.4	15.5	18.1
Net margin (%)	12.0	10.1	11.6
ROIC (%)	15.0	12.6	16.6
<b>Liquidity</b>			
Current ratio (x)	1.6	1.1	1.2
Quick ratio (x)	1.4	0.7	0.8
<b>Leverage</b>			
Debt/Equity ratio	121.1	202.9	99.1
Net Debt/Equity ratio	61.4	132.6	48.1

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