

**DAIDO STEEL CO., LTD. (5471 JP)***NO CHANGE IN FY23 FORECASTS. THE FIRM REMAINS CAUTIOUS ON RECOVERY IN STAINLESS STEEL FOR INDUSTRIAL MACHINERY***FY23 Q3 RESULTS**

Daido Steel (5471 JP) reported its FY23 Q3 (March year-end) results on 31 January 2024. Cumulative Q1~Q3 operating profit [OP] came in at ¥33,051mil (-12.2% YoY) on sales of ¥438,363mil (+0.8% YoY). In Q3 alone, Daido reported quarterly OP of ¥14,048mil (-2.6% YoY / +27.4% QoQ) on sales of ¥149,769mil (-2.0% YoY / +2.1% QoQ). Despite continued weakness in demand from the industrial machinery sector, Q3 sales of steel products improved from 263,000 tonne in Q2 to 286,000 tonne (-3.4% YoY / +8.7% QoQ), thanks primarily to higher demand for structural steel from Japanese OEM makers. Also contributing to the QoQ improvement in OP was a more stable environment for energy and raw materials costs.

Daido Steel (5471 JP): Earnings Results and Guidance Summary						
(¥mil)	FY23					
	1H	Q3	YoY (%)	Q3 Progress Rate(%)	FYCE	YoY (%)
Steel Products Sales Volume (tonne)	529,000	815,000	-2.5	75.7	1,076,000	-0.8
Sales	288,594	438,363	0.8	73.1	600,000	3.7
COGS	240,953	362,273	1.8	N/A	N/A	N/A
COGS / Sales (%)	83.5	82.6	+0.8ppt	N/A	N/A	N/A
GP	47,640	76,090	-3.6	N/A	N/A	N/A
GPM (%)	16.5	17.4	-0.7ppt	N/A	N/A	N/A
SG&A	28,637	43,038	4.3	N/A	N/A	N/A
SG&A / Sales (%)	9.9	9.8	+0.3ppt	N/A	N/A	N/A
OP	19,003	33,051	-12.2	70.3	47,000	0.0
OPM (%)	6.6	7.5	-1.2ppt	N/A	7.8	-0.3ppt
RP	21,083	35,358	-9.6	72.9	48,500	0.8
Extraordinary Profit / Loss	-2,680	-3,317	N/A	N/A	N/A	N/A
Corporation Tax	-5,941	-9,760	N/A	N/A	N/A	N/A
NP*	11,465	20,738	-26.4	64.8	32,000	-12.2

Source: Nippon-IBR based on Daido Steel's earnings results presentation materials  
\* NP attributed to the parent's shareholders

The progress rate of cumulative Q1~Q3 OP to the full-year FY23 company guidance of ¥47,000mil (+0.0% YoY) is just 70.3%. The FY23 OP forecast as of 28 April was based on the assumption that OP will improve in the 2H to ¥28,000mil (1H OP was ¥19,003mil) along with a recovery in sales volume. The firm is still experiencing 1) sluggish demand from SPE makers, 2) inventory adjustment delays in the stainless-steel market, and 3) sluggish industrial machinery sector orders (again) on the back of inventory adjustments in the sector's supply chain. However, Q3 earnings achieved 50% of the 2H OP guidance.

Furthermore, the open die forging generated stable OP in Q3, thanks to favourable order from sectors such as energy and aircraft. Since open die forging has a lead time of around 6~12 months, the solid orders received in

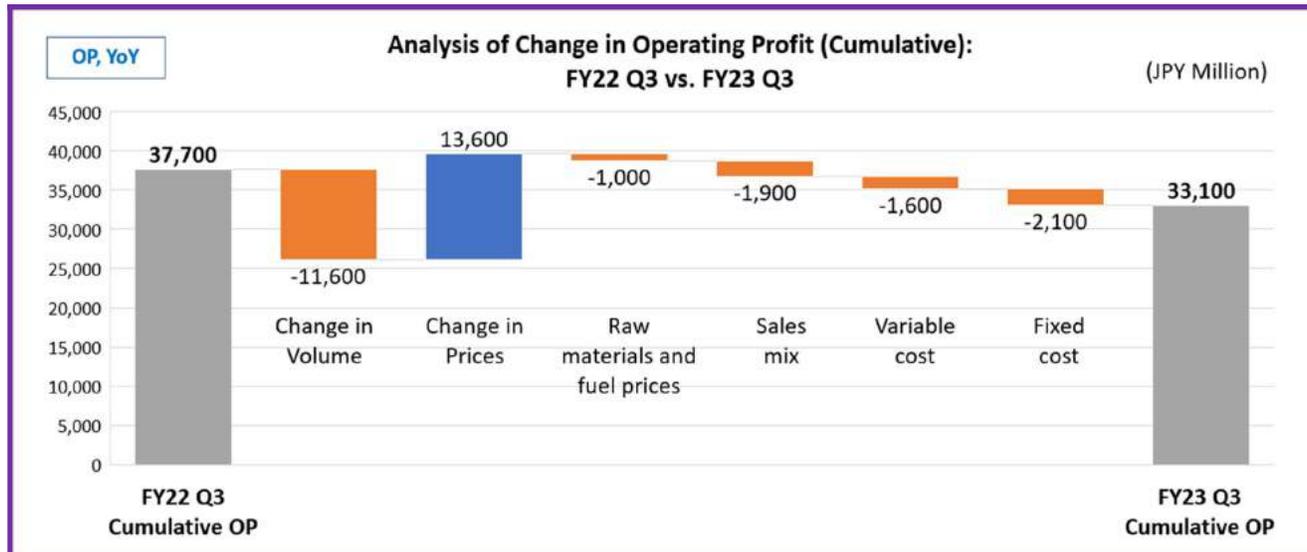
**EXECUTIVE SUMMARY**

- Daido Steel (5471 JP) reported FY23 Q3 (March year-end) results on 31 Jan 2024. For Q1~Q3, cumulative operating profit [OP] was ¥33,051mil (-12.2% YoY) on sales of ¥438,363mil (+0.8% YoY). In Q3 alone, the firm reported OP of ¥14,048mil (-2.6% YoY / +27.4% QoQ) on sales of ¥149,769mil (-2.0% YoY / +2.1% QoQ).
- The full-year FY23 guidance is for OP of ¥47,000mil (+0.0% YoY), with the 2H OP at ¥28,000mil. The progress rate of Q3 OP to FY23 OP forecast is just 70.3%. The firm is still experiencing 1) sluggish demand from SPE makers, 2) inventory adjustment delays in the stainless-steel market and 3) sluggish orders from the industrial machinery sector, again on the back of inventory adjustment in the sector's supply chain. However, Q3 earnings achieved 50% of the 2H OP earnings. Furthermore, the open die forging generated stable OP in Q3, thanks to favourable order from sectors such as energy and aircraft.
- Daido maintained its full year guidance for FY23 OP of ¥47,000mil (+0.0% YoY) on sales of ¥600,000mil (+3.7% YoY). The FY23 annual DPS will remain at ¥46 (a 1:5 stock split was implemented on 1 Jan 2024), or a pay-out ratio of 30.6%.
- Steel products sales volumes will likely remain solid thanks to the recovery in auto production. However, the slow recovery in orders from the industrial machinery sector mains a risk to FY23 earnings.
- Daido's capital allocation will primarily focus on the following three areas:
  - (1) CAPEX,
  - (2) investments related to achieving a carbon neutral status, and
  - (3) dividend payments.

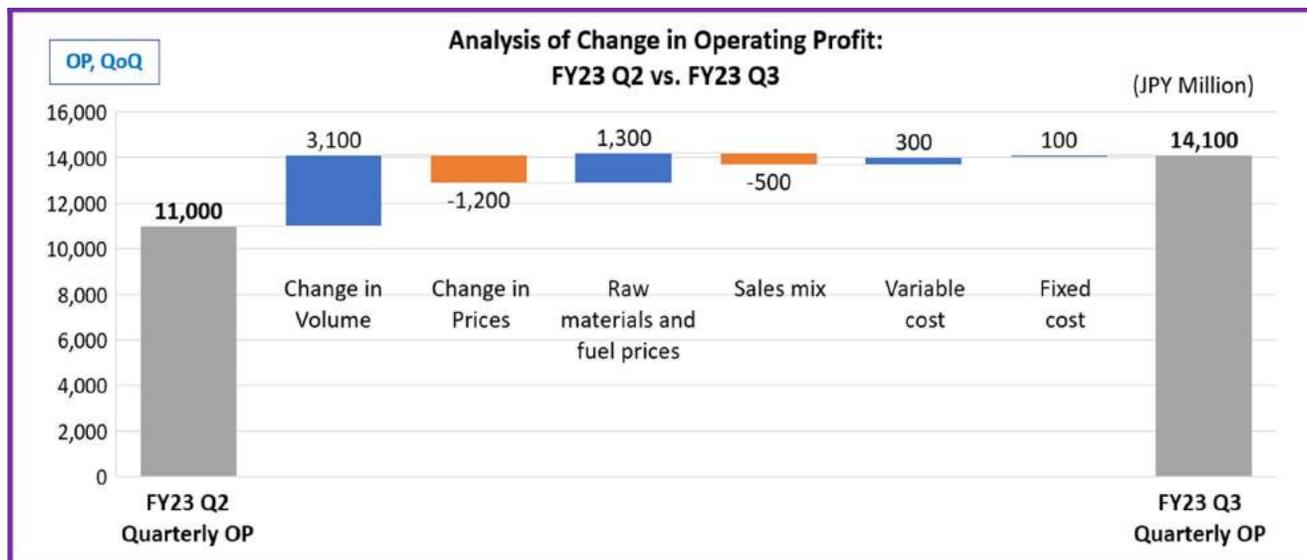
1H will be realised in 2H earnings and beyond. Consequently, management have kept their full year forecasts.

The -¥11,600mil YoY decline in cumulative Q1~Q3 sales volumes was offset by a +¥13,600mil YoY boost from price revisions – including a hike in base prices which offset the deterioration in the steel scrap slide gap (-¥300mil YoY). Compared to FY22 Q1~Q3, higher raw materials (steel scrap +¥4,800mil YoY / alloys, such as nickel -¥700mil YoY) and energy costs (-¥5,100mil), and a worsened sales mix (-¥1,900mil) squeezed FY23 Q1~Q3 OP by -¥4,600mil.

In Q3 alone, however, Daido saw a +¥3,100mil / +27.4% QoQ improvement in OP thanks to an increase in sales volumes (+3,100mil QoQ) which offset the -¥1,200mil QoQ decline in price changes. The surge in the cost of energy and raw materials also peaked which added +¥1,300mil to Q3 OP.



Source: Nippon-IBR based on FY23 Q3 Earnings Results Materials published by Daido Steel



Source: Nippon-IBR based on FY23 Q3 Earnings Results Materials published by Daido Steel

## FY23 Q3 EARNINGS BY SEGMENT

The FY23 Q3 performance for Daido Steel's three major segments is discussed below:

### 1. Specialty Steel Segment

**[FY23 Q1~Q3 Sales ¥167,503mil (+3.3% YoY) / OP ¥12,237mil (+43.8% YoY) / OPM 7.3% (+2.1ppt YoY)]**

Specialty Steel FY23 Q3 sales rose +3.3% YoY to ¥167,503mil, thanks to a recovery in auto production as the supply of semiconductors improved. Cumulative Q1~Q3 OP surged +43.8% YoY to ¥12,237mil, thanks to 1) successful price hikes reflecting the higher energy costs, and 2) rising costs peaking out. Consequently, segment OPM improved to 7.3% (+2.1ppt YoY), offsetting the negative impact from the ongoing inventory adjustments of tool steel and a deterioration in the sales mix (-¥4,500mil).

In the Q3 alone, segment OP came in at ¥5,915mil (+37.9% YoY / +64.8% QoQ) on sales of ¥58,599mil (-1.5% YoY / +9.4% QoQ), which led to an OPM of 10.1% (+2.9ppt YoY / +3.4ppt QoQ).

### 2. High Performance Materials & Magnetic Materials Segment

**[FY23 Q1~Q3 sales ¥153,096mil (-8.5% YoY) / OP ¥11,237mil (-43.9% YoY) / OPM 7.3% (-4.7ppt YoY)]**

The segment reported FY23 Q1~Q3 OP of ¥11,237mil (-43.9% YoY) on sales of ¥153,096mil (-8.5% YoY), resulting in the OPM contracting -4.7ppt YoY to 7.3%. The sales performance was affected by 1) a decline in semiconductor-related orders for stainless steel on the back of delayed inventory adjustments, 2) sluggish orders from the industrial machinery sector due to prolonged inventory adjustment in the sector's supply chain. Inventory adjustment delays added to the decline in sales volumes (-¥13,100mil) and could not be fully offset by price hikes (+¥6,300mil).

In the Q3 alone, the segment reported OP of ¥4,171mil (-36.8% YoY / +11.7% QoQ) on sales of ¥50,487mil (-12.5% YoY / -1.7% QoQ), generating an OPM of 8.3%.

Stainless steel is mostly used in highly processed auto parts, such as sensors and fuel injection high pressure parts, therefore, tends to have a longer value chain before delivery to end-users. Consequently, the impact from inventory adjustments tends to have a time lag. Daido Steel had expected demand from the SPE sector would likely peak out in FY23, along with the silicon cycle trend. The core reason for the segment earnings weakness is, therefore, due to the prolonged inventory adjustments in stainless steel for the machinery sector.

### 3. Parts for Automobiles / Industrial Equipment Segment

**[FY23 Q1~Q3 sales ¥78,282mil (+4.1% YoY) / OP ¥5,160mil (-12.7% YoY) / OPM 6.6% (-1.3ppt YoY)]**

Parts for Automobile and Industrial Equipment reported FY23 Q1~Q3 OP of ¥5,160mil (-12.7% YoY) on sales of ¥78,282mil (+4.1% YoY). In the Q1, sales of high alloy products, such as open die forging, were affected by the shortage of throughput at Daido's Shibukawa Factory, though the issue was resolved in Q2. As a result, the segment's sales mix improved and led to the OPM substantially rising from 2.2% in Q1 to 7.5% in Q2; and then rising again to 9.6% in Q3. Demand for open die forging products – from energy, aircraft, and the oil and gas sector – remained solid, while casting products manufactured by the firm's subsidiary Daido Casting (unlisted) saw earnings remain sluggish.

In the Q3 alone, the segment produced OP of ¥2,584mil (+1.3% YoY / +26.2% QoQ) on sales of ¥26,880mil (+4.4% YoY / -1.6% QoQ), to produce an OPM of 9.6%.

Daido Steel (5471JP): Sales, OP and OPM by Segment (Cumulative)											
(¥mil)		FY22			FY23						
		1H	Q3	FY	1H	Q3	YoY (%)	2H CE	FY CE	YoY (%)	
Specialty Steel	Sales	102,740	162,203	214,770	108,904	167,503	3.3	118,100	227,000	5.7	
	OP	4,223	8,511	9,771	6,322	12,237	43.8	7,200	13,500	38.2	
	OPM (%)	4.1	5.2	4.5	5.8	7.3	+2.1ppt	6.1	5.9	+1.4ppt	
High Performance Materials & Magnetic Materials	Sales	109,566	167,253	219,724	102,609	153,096	-8.5	107,400	210,000	-4.4	
	OP	13,437	20,034	24,286	7,066	11,237	-43.9	11,900	19,000	-21.8	
	OPM (%)	12.3	12.0	11.1	6.9	7.3	-4.7ppt	11.1	9.0	-2.1ppt	
Parts for Automobile and Industrial Equipment	Sales	49,485	75,230	101,232	51,402	78,282	4.1	62,600	114,000	12.6	
	OP	3,362	5,913	8,217	2,576	5,160	-12.7	7,400	10,000	21.7	
	OPM (%)	6.8	7.9	8.1	5.0	6.6	-1.3ppt	11.8	8.8	+0.7ppt	
Engineering	Sales	8,336	13,544	18,956	11,014	17,105	26.3	12,000	23,000	21.3	
	OP	412	678	1,425	1,066	1,766	160.5	400	1,500	5.3	
	OPM (%)	4.9	5.0	7.5	9.7	10.3	+5.3ppt	3.3	6.5	-1.0ppt	
Trading & Service	Sales	11,727	16,493	23,881	14,662	22,375	35.7	11,300	26,000	8.9	
	OP	1,816	2,502	3,293	1,951	2,654	6.1	1,100	3,000	-8.9	
	OPM (%)	15.5	15.2	13.8	13.3	11.9	-3.3ppt	9.7	11.5	-2.3ppt	
Total	Sales	281,857	434,726	578,564	288,594	438,363	0.8	311,400	600,000	3.7	
	OP	23,225	37,654	46,986	19,003	33,051	-12.2	28,000	47,000	0.0	
	OPM (%)	8.2	8.7	8.1	6.6	7.5	-1.2ppt	9.0	7.8	-0.3ppt	

Source: Nippon-IBR based on FY22 & FY23 Q1~Q3 Earnings Results Materials published by Daido Steel

Daido Steel (5471JP): Sales, OP and OPM by Segment (Quarterly)										
(¥mil)		FY22				FY23				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)	QoQ (%)
Specialty Steel	Sales	50,591	52,149	59,463	52,567	55,333	53,571	58,599	-1.5	9.4
	OP	135	4,088	4,288	1,260	2,732	3,590	5,915	37.9	64.8
	OPM (%)	0.3	7.8	7.2	2.4	4.9	6.7	10.1	+2.9ppt	+3.4ppt
High Performance Materials & Magnetic Materials	Sales	54,431	55,135	57,687	52,471	51,252	51,357	50,487	-12.5	-1.7
	OP	7,507	5,930	6,597	4,252	3,331	3,735	4,171	-36.8	11.7
	OPM (%)	13.8	10.8	11.4	8.1	6.5	7.3	8.3	-3.1ppt	+1.0ppt
Parts for Automobile and Industrial Equipment	Sales	23,828	25,657	25,745	26,002	24,082	27,320	26,880	4.4	-1.6
	OP	1,758	1,604	2,551	2,304	529	2,047	2,584	1.3	26.2
	OPM (%)	7.4	6.3	9.9	8.9	2.2	7.5	9.6	-0.3ppt	+2.1ppt
Engineering	Sales	3,778	4,558	5,208	5,412	5,022	5,992	6,091	17.0	1.7
	OP	-65	477	266	747	500	566	700	163.2	23.7
	OPM (%)	n/a	10.5	5.1	13.8	10.0	9.4	11.5	+6.4ppt	+2.1ppt
Trading & Service	Sales	5,051	6,676	4,766	7,388	6,248	8,414	7,713	61.8	-8.3
	OP	883	933	686	791	881	1,070	703	2.5	-34.3
	OPM (%)	17.5	14.0	14.4	10.7	14.1	12.7	9.1	-5.3ppt	-3.6ppt
Total	Sales	137,682	144,175	152,869	143,838	141,938	146,656	149,769	-2.0	2.1
	OP	10,190	13,035	14,429	9,332	7,979	11,024	14,048	-2.6	27.4
	OPM (%)	7.4	9.0	9.4	6.5	5.6	7.5	9.4	-0.0ppt	+1.9ppt

Source: Nippon-IBR based on FY22 & FY23 Q1~Q3 Earnings Results Materials published by Daido Steel

## FY23 OUTLOOK

Daido Steel has maintained its full year FY23 guidance for OP of ¥47,000mil (+0.0% YoY) on sales of ¥600,000mil (+3.7% YoY). The FY23 annual dividend will remain at ¥46/share (after a 1:5 stock split was implemented on 1 January 2024), or a pay-out ratio of 30.6%.

Earnings Forecast									
(¥mil)	FY21			FY22			FY23 CE		
	1H	2H	FY	1H	2H	FY	1H	2H CE	FY CE
Steel Products Sales Volume (tonne)	634,000	619,000	1,253,000	540,000	545,000	1,085,000	529,000	547,000	1,076,000
Sales	255,224	274,443	529,667	281,857	296,707	578,564	288,594	311,400	600,000
OP	19,156	17,826	36,982	23,225	23,761	46,986	19,003	28,000	47,000
OPM (%)	7.5	6.5	7.0	8.2	8.0	8.1	6.6	9.0	7.8
RP	20,556	18,644	39,200	24,092	24,030	48,122	21,083	27,400	48,500
Extraordinary Profit / Loss	-424	1,970	1,546	-407	1,648	1,241	-2,680	2,700	0
Corporation Tax	-5,643	-5,477	-11,120	-4,225	-6,642	-10,867	-5,941	-9,600	-16,500
NP*	12,840	14,054	26,894	18,294	18,144	36,438	11,465	20,500	32,000

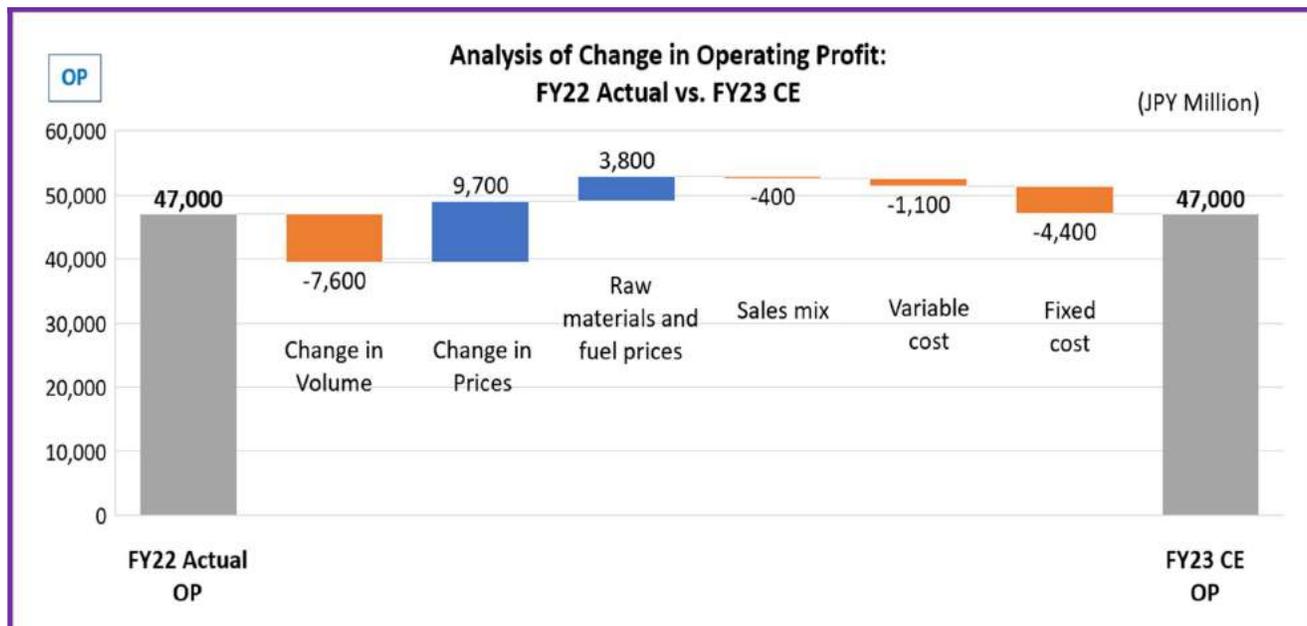
Source: Nippon-IBR based on Daido Steel's earnings results presentation materials  
\* NP attributed to the parent's shareholders

Although the firm maintained its FY23 OP forecast as of 28 April, the core assumptions were revised at the time of 1H results as follows:

- FY23 specialty steel sales volumes were reduced from 1,129,000 tonnes (+4.1% YoY) to 1,076,000 tonnes (-0.8% YoY) and are based on Daido's own CY23 forecast for the Japanese OEM's global auto production estimates of 26.5mil units (+10.4% YoY) – 1H 12.9mil units (+8.4% YoY / +3.2% HoH) and 2H 13.7mil units (+9.6% YoY / +6.2% HoH). This compares to the previous forecast of 25.1mil units (+4.6% YoY). However, Daido remains cautious on Japanese OEM's auto production which has been below its own estimate.  
Meanwhile, demand from the industrial machinery sector has been weaker than expected on the back of slowing overseas demands, including China, and prolonged inventory adjustments. As a result, compared to the full-year forecast announced on 28 April, the expected decline in sales volumes will likely reduce FY23 OP by -¥12,200mil.
- The impact of higher energy and raw materials costs, however, now appear less severe than the firm's forecast for a hit to original FY23 OP of -¥12,800mil, with management now guiding for a positive contribution of +¥17,800mil.
- Daido has introduced energy price-linked surcharges on approximately 50% of its total sales volumes. Impact of price changes to FY23 OP was originally estimated at +¥14,000mil. At the time of 1H results, the assumption was revised down by ¥4,300mil to +¥9,700mil impact to FY23 OP.

Raw Materials Price Trend								
			FY20	FY21	FY22	FY23		
			Result	Result	Result	Q2	Q3	2H Assumption
Scrap	H2	¥000/t	24.9	47.6	46.3	42.9	43.7	44.0
	Factory Bundle		28.9	53.9	50.7	46.8	48.2	48.0
Nickle	LME	\$/Lb	6.8	9.3	11.6	9.7	7.8	10.0
Crude Oil	Dubai Brent	\$/bbl	45.8	76.6	90.3	81.1	82.4	85.0
FOREX	TTM	¥/\$	107.1	113.4	135.5	140.9	143.3	145.0

Source: Daido Steel FY20~FY23 Q3 Earnings Results Tanshin



Source: Nippon-IBR based on FY23 1H Earnings Results Materials published by Daido Steel

### FY23 FORECASTS BY SEGMENT

Daido Steel (5471JP): Sales, OP and OPM by Segment (Cumulative)									
(¥mil)		FY22		FY23					
		1H	FY	1H	2H			FY	
					Q3	Q4 CE	2H CE	FY CE	YoY (%)
Specialty Steel	Sales	102,740	214,770	108,904	58,599	59,501	118,100	227,000	5.7
	OP	4,223	9,771	6,322	5,915	1,285	7,200	13,500	38.2
	OPM (%)	4.1	4.5	5.8	10.1	2.2	6.1	5.9	+1.4ppt
High Performance Materials & Magnetic Materials	Sales	109,566	219,724	102,609	50,487	56,913	107,400	210,000	-4.4
	OP	13,437	24,286	7,066	4,171	7,729	11,900	19,000	-21.8
	OPM (%)	12.3	11.1	6.9	8.3	13.6	11.1	9.0	-2.1ppt
Parts for Automobile and Industrial Equipment	Sales	49,485	101,232	51,402	26,880	35,720	62,600	114,000	12.6
	OP	3,362	8,217	2,576	2,584	4,816	7,400	10,000	21.7
	OPM (%)	6.8	8.1	5.0	9.6	13.5	11.8	8.8	+0.7ppt
Engineering	Sales	8,336	18,956	11,014	6,091	5,909	12,000	23,000	21.3
	OP	412	1,425	1,066	700	-300	400	1,500	5.3
	OPM (%)	4.9	7.5	9.7	11.5	N/A	3.3	6.5	-1.0ppt
Trading & Service	Sales	11,727	23,881	14,662	7,713	3,587	11,300	26,000	8.9
	OP	1,816	3,293	1,951	703	397	1,100	3,000	-8.9
	OPM (%)	15.5	13.8	13.3	9.1	11.1	9.7	11.5	-2.3ppt
Total	Sales	281,857	578,564	288,594	149,769	161,631	311,400	600,000	3.7
	OP	23,225	46,986	19,003	14,048	13,952	28,000	47,000	0.0
	OPM (%)	8.2	8.1	6.6	9.4	8.6	9.0	7.8	-0.3ppt

Source: Nippon-IBR based on FY22 & FY23 Q3 Earnings Results Materials published by Daido Steel

FY23 earnings outlook for Daido Steel's three major segments are as follows:

### 1. Specialty Steel

**[FY23 sales ¥227,000 mil (+5.7% YoY) / OP ¥13,500mil (+38.2% YoY) / OPM 5.9% (+1.4ppt YoY)]**

Daido Steel is guiding for FY23 OP of ¥13,500mil (+38.2% YoY) on sales of ¥227,000mil (+5.7% YoY). The sales forecast was revised down from the original forecast of ¥232,000mil (+8.0% YoY) due to (1) continuing inventory adjustments in tool steel and (2) weak demand from the industrial machinery sector. However, the segment OP forecast remains unchanged and assume that:

1. Sales volumes start to improve YoY from 2H, as global auto production volumes recover,
2. OPMs will be optimized as much as possible on the back of price adjustments to offset higher energy and raw materials costs. With the surge in costs easing, the firm reckons that margins remain stable, and
3. Tool steel prices in the 2H will be raised by approx. +5~15%. The slide gap will likely fall back by -¥1,000mil YoY to ¥400mil compared to the positive impact of ¥1,400mil in FY22. From FY24 onwards, progress in inventory adjustments and new vehicle launches are expected to increase demand for new dies. The impact of the price increases implemented in February this year should also gradually become apparent and offset increase in costs such as labour, subcontractors and distribution.

Cumulative Q1~Q3 segment sales and OP has achieved 73.8% and 90.6% of the full-year FY23 segment forecast, respectively.

### 2. High Performance Materials & Magnetic Materials

**[FY23 sales ¥210,000mil (-4.4% YoY) / OP ¥19,000mil (-21.8% YoY) / OPM 9.0% (-2.1ppt YoY)]**

The segment full-year earnings forecast was revised down (sales -4.5% / OP -11.6%) due weak shipment volumes. Moreover, inventory adjustments of stainless steel will likely continue through the 2H. Signs of a recovery in shipments will likely become apparent from FY24 given:

1. The weak auto production during FY22 suggests high inventory levels of stainless steel remain throughout the entire supply chain. However, thanks to the recovery in auto production volumes, destocking of inventory will gradually progress in 2H.
2. Inventory adjustments in the industrial machinery sector tries to find a bottom in 2H.
3. According to World Semiconductor Trade Statistics [WSTS] market forecast, the semiconductor market is expected to bottom out in April~June 2024. Based on the market assumption, Daido Steel's order from the SPE sector is estimated to bottom out in Oct~Dec 2023 quarter and will lead to full-fledged recovery in FY2024.

Cumulative Q1~Q3 segment sales and OP achieved 72.9% and only 59.1% of the full-year segment forecast, respectively. Since Daido had already assumed a delay order recovery in the SPE sector to FY24, the key to meeting its segment guidance likely remains with industrial machinery sector orders.

### 3. Parts for Automobile and Industrial Equipment Segment

**[FY23 sales ¥114,000mil (+12.6% YoY) / OP ¥10,000mil (+21.7% YoY) / OPM 8.8% (+0.7ppt YoY)]**

The segment looks set to enjoy solid growth in open die forging. Compared to 1H segment OP of ¥2,576mil (-23.4% YoY), the 2H OP forecast is expected to reach ¥7,400mil (+52.4% YoY), supported by:

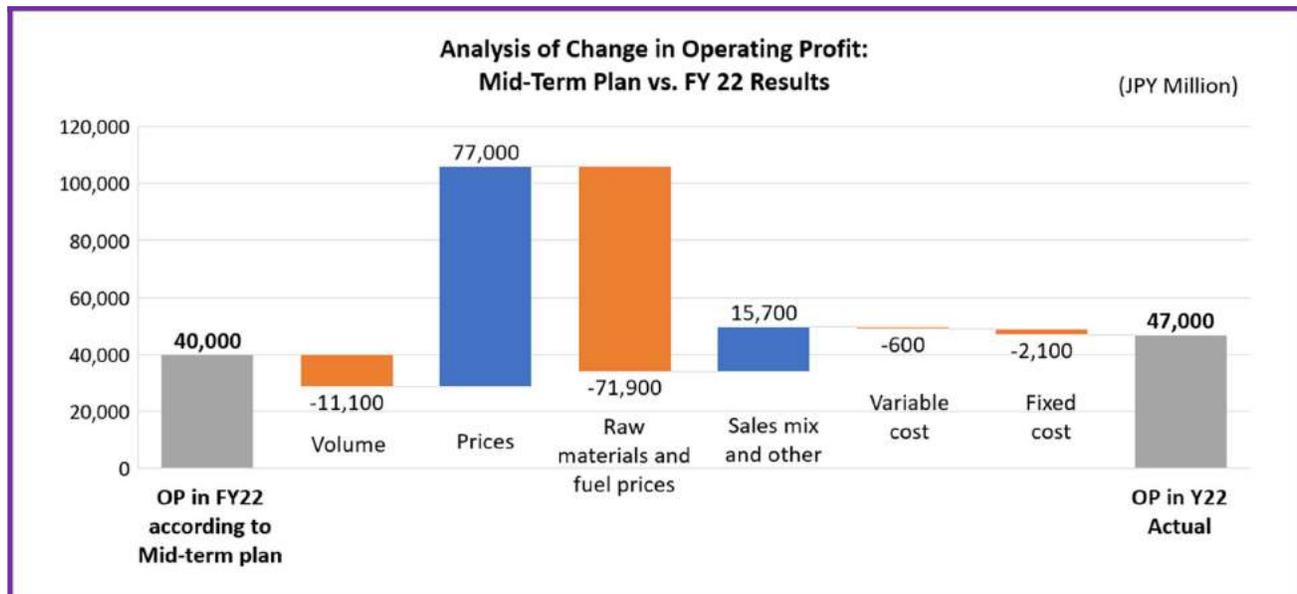
1. Open die forging lead times between order and shipment is usually 6~12 months. Given the fact that orders have remained solid throughout 1H, the visibility for the sales performance in the 2H is high – bar any production issues such as the low throughput experienced in Q1.
2. A subsidiary which manufactures engine valves is seeing a surge in demand in Japan and the US.
3. Shipment volumes of turbo-related products will likely increase along with the auto production recovery in 2H.

Cumulative Q1~Q3 segment sales and OP achieved only 68.7% and 51.6% of the full-year segment forecast, respectively. Open die forging will lead the segment earnings growth and will likely realise the strong order received

during 1H in Q4, based on the product’s lead time. With current orders continuing to be strong and open die forging for semiconductor components expected to contribute to segment earnings as the silicon cycle rises, growth can be expected in FY24 as well.

### MEDIUM TERM PLAN – RECAP

FY23 is the last year of the three-year medium-term management plan. The plan’s OP target of over ¥40,000mil was achieved in FY22. Growth in Daido Steel’s strategic products, such as high-performance stainless steel and open die forging, has led to a marked improvement in sales mix. As a result, ROE reached 10.4% in FY22, surpassing the medium-term target of 8%. The new medium-term plan will likely be announced after FY23 full-year results.



Source: Nippon-IBR based on FY22 Earnings Results Materials published by Daido Steel

Medium-term Management Plan (FY21~FY23) Target				
	Target to achieve in FY23	FY22 Results	FY23 Forecast	Progress
OP (¥mil)	40,000	47,000	47,000	Achieved in FY22
ROE (%)	8.0	10.4	8.4	Achieved in FY22
D/E ratio (x)	0.5	0.64	0.65	Likely fall short of the target.
Investment (¥mil)	85,000	-	90,000	Strategically invest on growing businesses
Sales volume (thousand tonne)	1,200	1,085	1,076	Likely fall short due to weak auto production

Source: Nippon-IBR based on Daido Steel's FY22 earnings results presentation

## CAPITAL ALLOCATION POLICY

Daido Steel has three major allocations for its capital: strategic investment for growth: (1) CAPEX, (2) investments related to achieving a carbon neutral status and (3) dividend payments. Over the current medium-term plan, Daido plans to spend total of ¥90,000mil for investment.

In FY23, the firm has earmarked CAPEX of ¥28,800mil for strategic investments, business portfolio restructuring, productivity / cost improvements, carbon neutral-related investments and IT investments vs. depreciation costs of ¥26,400mil.

1. **CAPEX:** Daido Steel identifies 1) business portfolio restructuring, and 2) improvement in cost / production efficiency as a strategic investment focus. For example, in FY23, it plans to dedicate approx ¥5,200mil in CAPEX on a second vacuum remelting furnace (VAR) for the Chita Second Factory. This should enhance the production capacity of high-performance stainless steel and high alloys used for SPEs, for which Daido has approx 40% global market share. FY22 CAPEX was ¥24,300mil with depreciation of ¥26,100mil.
2. **Investment to achieve a carbon neutral status:** At the ESG presentation held on 19 Dec 2023, a renewed initiative, *Daido Carbon Neutral Challenge 2030*, was announced to explain how the firm aims to contribute to decarbonisation through its business operations. The aim is to (1) reduce Scope 1 & Scope 2 CO<sub>2</sub> emissions by -50% by 2030 compared to emission volume of approx 1mil tonnes in FY13 and (2) become carbon neutral by 2050 on a parent basis.  
(For details: [https://www.daido.co.jp/en/common/pdf/pages/ir/library/presentation/esg\\_briefing2023.pdf](https://www.daido.co.jp/en/common/pdf/pages/ir/library/presentation/esg_briefing2023.pdf)).
3. **Dividend policy:** The company currently does not have any shareholder return measures other than an annual cash dividend payout, at 30% of net profit. The FY22 annual dividend was ¥230/share vs a forecast of ¥200/share, bolstered due to better-than-expected profit level. For FY23, Daido is currently guiding for a dividend of ¥230/share (or ¥46.00/share after the 1:5 stock split implemented on 1 January 2024), which will generate a payout of 30.6% of FY23 profit forecast.

## RESPONDING TO TSE'S PBR1X INITIATIVE

Daido Steel had already achieved the ongoing medium-term plan's OP target of more than ¥40,000mil in FY22. So far, the firm has put the following strategies in place to improve ROE:

1. Expand sales of high value-added products, such as open die forging, high-performance stainless steel, and titanium products.
2. Restructure lower profit businesses and allocate management resources to the growing businesses.
3. Solidify optimal margins by passing on energy cost increases to prices.

While the OPM has improved over the past three years, the stock is hovering just above a PBR of 1x (1.06 as of 22 Feb 2024). The Tokyo Stock Exchange [TSE] launched an initiative for all TSE Prime and Standard Markets listed companies to achieve a PBR 1x, which means those valued below a PBR 1x must improve their capital efficiency. Consequently, on 15 January 2024, the Exchange disclosed the list of companies which disclosed their "Response to achieving cost-of-capital and share price conscious management". The list will be renewed monthly.

As noted above, Daido Steel will focus on investments for growth in areas such as open die forging, high performance stainless steel, titanium products and engineering products so as to improve profits. At the same time, a slimming down of the balance sheet will be achieved by the following measures:

1. Optimise inventory levels.
2. The sale of assets such as strategically held shares and shares owned by the firm's pension fund with the aim to reduce the holdings to below 20% of net assets. As of FY22, the equity holdings came down to ¥98,900mil, which was 24.3% of net asset as of FY22 (¥405,500mil).
3. Capitalise other assets such as real estate assets.

## GENERAL DISCLAIMER AND COPYRIGHT

*This report has been commissioned by Daido Steel Co., Ltd. (the Sponsor) and prepared and issued by Nippon Investment Bespoke Research UK Ltd (Nippon-IBR), in consideration of a fee payable by the Sponsor. Fees are paid on delivery of the report in cash without recourse. Nippon-IBR may seek additional fees for the provision of follow-up research reports and associated IR services for the Sponsor but does not get remunerated for any investment banking services. We never take payment in stock, options, or warrants for any of our services.*

**Accuracy of content:** *All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however Nippon-IBR does not guarantee the accuracy or completeness of this report and has not sought for this information to be independently verified. Opinions contained in this report represent those of the Nippon-IBR analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of their subject matter to be materially different from current expectations.*

**Exclusion of Liability:** *To the fullest extent allowed by law, Nippon-IBR shall not be liable for any direct, indirect, or consequential losses, loss of profits, damages, costs, or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.*

**No personalised advice:** *The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Nippon-IBR's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.*

**Investment in securities mentioned:** *Nippon-IBR has a restrictive policy relating to personal dealing and conflicts of interest. It does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees, and contractors of Nippon-IBR may have a position in any or related securities mentioned in this report, subject to its policies on personal dealing and conflicts of interest.*

**Copyright:** *Copyright 2024 Nippon Investment Bespoke Research UK Ltd.*

For further enquiry, please contact:

Nippon Investment Bespoke Research UK Ltd

118 Pall Mall

London SW1Y 5EA

TEL: +44 (0)20 7993 2583

Email : [enquiries@nippon-ibr.com](mailto:enquiries@nippon-ibr.com)



Research Beyond Horizons  
Japanese Equity Specialist

*Nippon Investment Bespoke Research UK Ltd (formerly known as NIB Research UK Ltd.) is registered in England and Wales (9100028) and is authorised and regulated by the Financial Conduct Authority <FRN: 928332>.*