

DAIDO STEEL CO., LTD (5471 JP)**FY24 GUIDANCE WAS REVISED. POST FY24 GROWTH SCENARIO REMAIN UNCHANGED.****EXECUTIVE SUMMARY**

- **Earnings revision:** Given the shortfall in 1H earnings amid 1) lower-than-expected auto production volume which affected steel product sales volumes, and 2) slower demand recovery in the SPE and industrial machinery sectors, Daido Steel revised its FY24 earnings guidance from OP of ¥48,000mil (+13.6% YoY) on sales of ¥600,000mil (+3.7% YoY) to OP of ¥40,000mil (-5.3% YoY) on sales of ¥580,000mil (+0.2% YoY).
- **Will the earnings revision affect the growth beyond FY24?**
Daido Steel expects earnings growth from next year onwards thanks to: (1) the OP guidance in the Specialty Steel segment during the MTP is likely to be the minimum of what the firm may achieve even with little growth in sales volume, (2) stainless steel sales will likely be boosted amid a full-fledged recover in orders from the SPE sector in FY25 onwards, and (3) further expansion of open die forging sales-will continue to improve the sales mix.
- **Any change in shareholder return given earnings revision?**
No. The firm kept its FY24 dividend forecast unchanged at ¥47/share, generating a dividend payout ratio of 33.5%.
- **Daido Steel's PBR is currently 0.59x. What is the firm's plan to achieve PBR1.0x as guided by the TSE?**
Daido Steel aims to achieve PBR1.0x or more by (1) raising ROE to 9.0%+ during the MTP through improving sales mix by boosting sales of high value-added products and efficient use of assets, (2) promoting the firm's growth potential through improved disclosure of both financial and non-financial (e.g. ESG policies) information that will ultimately enhance the enterprise value, and (3) ensure a dividend pay-out ratio of 30% or more along with earnings growth. Extra shareholder returns might be possible depending on capital allocation during the MTP.

Daido Steel (5471 JP): Share Information and Valuation

Market Cap (¥mil)		257,500	Market Cap (\$mil)		1,662	
30-day Average Trading Volume (¥mil)		555	30-day Average Trading Volume (\$mil)		3.6	
Share performance (%)	5471	TOPIX	Earnings Summary (¥mil, %)	FY22	FY23	FY24CE
Share price (18 Nov 2024)	¥1,185	2,691.76	Sales	579,013	578,564	580,000
3mo (from 19 Aug)	-13.4	+1.9	OP	50,025	42,250	40,000
6mo (from 20 May)	-26.4	-2.8	OPM (%)	8.6	7.3	6.9
YTD	-20.8	+13.1	EBITDA	73,040	68,621	73,100*
1yr	-6.5	+13.4	Financial Leverage (X)	2.0	1.8	N/A
5yrs	+21.2	+59.1	Net D/E Ratio (X)	0.4	0.2	N/A
Per-share and Valuations	5471	TOPIX	FCF	9,000	17,900	16,900
EPS (¥, FY24 CE)	131.36	179.35				
DPS (¥, FY24 CE)	47	N/A	Shareholder Return Summary	FY22	FY23	FY24CE
BPS (¥, June-24)	1,983	1970.45	Dividend (¥)	46	46	47
FCFPS (¥, FY24EST)	77.9	N/A	Dividend Payout (%)	29.5	32.9	33.5
Forward PER (X)	9.02	15.00	Dividend Yield (%)			3.96
PBR (x)	0.60	1.37	DOE (%)	2.7	2.3	2.4*
PCFR (x)	15.2	N/A	Treasury Shares (%)			1.6
EV/EBITDA (X)	8.4	N/A	ROE (%)	9.8	11.6	6.5

Source: Nippon-IBR based on data on Bloomberg and Toyo Keizai

* Nippon-IBR estimates

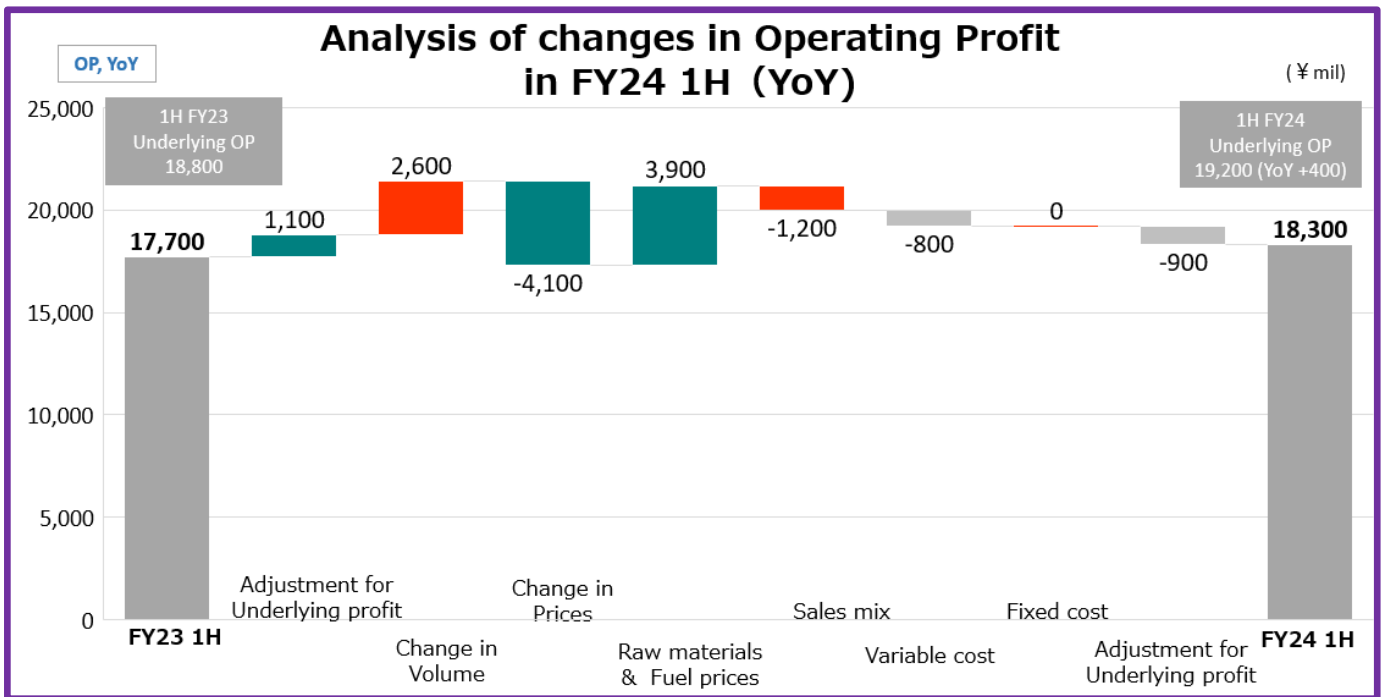
FY24 1H RESULTS

Daido Steel (5471 JP) produced FY24 1H (March year-end) results and a revision to the full-year guidance on 30 October. The 1H performance was weaker than expected, coming in with OP of ¥18,258mil (+3.2% YoY) on sales of ¥283,439mil (-1.3% YoY) vs original guidance for OP of ¥22,000mil on sales of ¥290,000mil. Consequently, the FY24 guidance was revised down from OP of ¥48,000mil (+13.6% YoY) on sales of ¥600,000mil (+3.7% YoY) to OP of ¥40,000mil (-5.3% YoY) on sales of ¥580,000mil (+0.2% YoY). Key points are:

- 1H Sales ¥283,439mil (-1.3% YoY) / -2.3% below forecast.
Steel products sales volumes fell short of the initial assumption of 526,000 tonne to land at 519,000 tonne (-1.9% YoY) on the back of continued weak auto production. As a result, 1H Specialty Steel segment sales fell -2.9% YoY to ¥105,478mil, approx. ¥4,500mil below forecast. 1H sales of Parts for Automobiles and Industrial Equipment also fell short of the firm's forecast by approx. ¥1,300mil due to a decline in sales of engine shafts for automobiles, despite solid sales of open die forging in the same segment.
- 1H OP ¥18,258mil (+3.2% YoY) / -17.0% below forecast.
OP fell short of the initial guidance by ¥3,700mil / -17.0% due to 1) a decline in production volumes, (2) an increase in raw material costs as Nickle prices temporarily rose, and (3) a one-off loss related to the closure of a magnet subsidiary in China (-¥2,088mil).

Daido Steel (5471 JP): Earnings Results and Guidance Summary						
(¥mil)	FY23		FY24			
	1H (IFRS)	FY (IFRS)	1H (IFRS)	YoY (%)	1H CE	1H vs 1H CE
Steel Products Sales Volume (tonne)	529,000	1,072,000	519,000	-1.9	526,000	-1.3
Sales	287,235	578,564	283,439	-1.3	290,000	-2.3
COGS	239,462	480,618	231,582	-3.3	N/A	N/A
COGS / Sales (%)	83.4	83.1	81.7	-1.7ppt	N/A	N/A
GP	47,773	97,946	51,856	8.5	N/A	N/A
GPM (%)	16.6	16.9	18.3	+1.7ppt	N/A	N/A
SG&A	28,423	59,073	29,689	4.5	N/A	N/A
SG&A / Sales (%)	9.9	10.2	10.5	+0.6ppt	N/A	N/A
OP	17,695	42,250	18,258	3.2	22,000	-17.0
OPM (%)	6.2	7.3	6.4	+0.2ppt	7.6	-1.2ppt
Pretax profit	18,973	45,068	19,608	3.3	23,000	-14.7
Corporation Tax	-6,178	-12,493	-6,410	3.8	N/A	N/A
NP*	11,757	30,555	12,152	3.4	15,000	-19.0

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



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

The overall +3.2% YoY (+¥563mil) improvement in FY24 1H OP was mainly on the back of lower raw material and energy costs (+¥3,900mil). An increase in sales volumes (+¥2,600mil) also boosted OP, due to solid sales volumes of stainless-steel products despite the weakness in the auto sector. However, price adjustments to reflect lower costs of raw materials (alloys such as Nickle) and energy (-¥4,100mil), in addition to a change in the sales mix of stainless-steel products, which includes FOREX valuation losses (-¥1,800mil), weighed on profitability.

While FOREX gains and loss are reflected in OP under IFRS, they are included in non-operating income under the Japanese GAAP. FY24 Q1 FOREX gains were approx. ¥800mil but with the strengthening yen QoQ, the firm reported a FOREX loss of -¥2,400mil in Q2.

FY24 1H PERFORMANCE BY SEGMENT

Key factors regarding the performance of Daido Steel's three major segments are discussed below:

1. Specialty Steel Segment

[FY24 1H Sales ¥105,478mil (-2.9% YoY) / OP ¥6,112mil (-2.3% YoY) / OPM 5.8% (+0.0ppt YoY)]

The 1H performance was negatively affected by a decline in structural steel sales volumes amid a reduction in auto production by Japanese OEMs in China as well as a slow recovery in domestic production after certification problems. In Q2 alone, the segment reported OP of ¥2,793mil (-22.5% YoY / -15.8% QoQ) on sales of ¥52,051mil (-2.5% YoY / -2.6% QoQ).

Whilst 1H segment sales fell short of the firm's forecast by approx. ¥4,500mil or - 4.1%, the segment OP overshoot the forecast thanks primarily to lower-than-expected steel scrap price (see my comment above). As a result, segment OP overshoot the forecast by approx. ¥600mil (+11.1%) thanks to:

- (1) lower raw materials and energy costs (+¥1,000mil),
- (2) price revisions (+¥700mil) and
- (3) improved fixed cost coverage on the back of increased production for stockpiling to avoid the impact of higher energy cost during the summer (+900mil).

These factors offset the negative impact to earnings from (1) lower than expected steel products sales volumes due to production declines by Japanese OEM makers in China, which lowered segment OP by -¥600mil vs forecast and (2) the change in sales mix (-¥1,400mil).

2. High-Performance Materials & Magnetic Materials Segment

[FY24 1H sales ¥100,116mil (-2.2% YoY) / OP ¥5,081mil (+1.9% YoY) / OPM 5.1% (+0.2ppt YoY)]

The segment 1H sales landed largely in line with the firm's forecast. Stainless steel sales volumes recovered as expected at the beginning of FY24 amid spot demand for HDDs used in data centres. However, OP was negatively affected by a temporary surge in the Nickel price, as well as a decline in profits at a magnet materials subsidiary. Consequently, 1H segment OP fell short of the firm's forecast by as much as ¥4,400mil.

Normalised 1H profits, excluding the one-off cost booked in the Q1 associated for the closure of a subsidiary in China (-¥2,088mil), inventory revaluation losses, provisions for environment related costs and fixed asset taxes, 1H segment OP would have come in at around ¥6,800mil (approx. -4.2% YoY).

This is short of the firm's forecast by ¥1,900mil with the OP variance comprising:

- (1) The surge in raw materials, including Nickel (-¥1,800mil),
- (2) A change in sales mix (-¥600mil), and
- (3) higher variable costs (-¥600mil).

These negative factors were offset by:

- (1) price hikes (+¥1,100mil) and
- (2) increased sales volumes (+¥100mil).

In Q2 alone, the segment produced OP of ¥2,119mil (+48.5% YoY / -28.5% QoQ) on sales of ¥50,422mil (-1.5% YoY / +1.5% QoQ).

3. Parts for Automobiles / Industrial Equipment Segment

[FY24 1H sales ¥53,734mil (+5.2% YoY) / OP ¥4,829mil (+50.5% YoY) / OPM 9.0% (+2.7 ppt YoY)]

The substantial +50.5% YoY surge in OP was due to an improvement in production throughput in open die forging, supported by strong demand from the aircraft, heavy electric and oil and gas industries. Daido Steel's open die forging business has not been affected by strike at Boeing (BA US) due to long lead time between order and sales. For the oil and gas industry, the firm supplies high alloys used for excavator joints. Daido Steel has been progressing with gaining certified supplier status with four companies.

As of 1H, 33% of the open die forging orders came from the oil & gas sector, followed by 26% from the aircraft. So far, the firm has less exposure to the semiconductor segment, although demand for corrosive gas pipes will likely increase going forward.

1H segment sales fell short of the firm's forecast by approx. ¥1,300mil due to falling sales volumes at its auto parts (engine shafts) subsidiary, however, the OP was largely in line with expectations, thanks to the favourable open die forging business. This led to an improved sales mix with open die forging sales now approx. 49% of total segment sales in 1H, vs 44% in FY23.

By March 2025, the firm plans to have completely withdrawn from the less profitable turbine housing products business included in its precision casting products.

Daido Steel (5471JP): Sales, OP and OPM by Segment							
(¥mil)		FY23		FY24			
		1H	FY	1H	YoY (%)	1H CE	vs 1H CE
Specialty Steel	Sales	108,626	218,743	105,478	-2.9	110,000	-4.1
	OP	6,253	13,724	6,112	-2.3	5,500	11.1
	OPM (%)	5.8	6.3	5.8	+0.0ppt	5.0	+0.8ppt
High-Performance Materials & Magnetic Materials	Sales	102,346	202,384	100,116	-2.2	100,000	0.1
	OP	4,988	10,275	5,081	1.9	9,500	-46.5
	OPM (%)	4.9	5.1	5.1	+0.2ppt	9.5	-4.4ppt
Parts for Automobile and Industrial Equipment	Sales	51,071	104,996	53,734	5.2	55,000	-2.3
	OP	3,209	5,719	4,829	50.5	5,000	-3.4
	OPM (%)	6.3	5.4	9.0	+2.7ppt	9.1	-0.1ppt
Engineering	Sales	11,008	23,091	10,587	-3.8	10,000	5.9
	OP	998	2,136	809	-18.9	500	61.8
	OPM (%)	9.1	9.3	7.6	-1.5ppt	5.0	+2.6ppt
Trading & Service	Sales	14,182	29,347	13,522	-4.7	15,000	-9.9
	OP	2,224	10,369	1,428	-35.8	1,500	-4.8
	OPM (%)	15.7	35.3	10.6	-5.1ppt	10.0	+0.6ppt
Total	Sales	287,235	578,564	283,439	-1.3	290,000	-2.3
	OP	17,695	42,250	18,258	3.2	22,000	-17.0
	OPM (%)	6.2	7.3	6.4	+0.2ppt	7.6	-1.2ppt

Source: Nippon-IBR based on Daido Steel's earnings results materials
Total numbers are after adjusted for inter-segment trades.

Daido Steel (5471 JP): Quarterly Segment Sales, OP and OPM <IFRS>							
(¥mil)		FY23		FY24			
		Q1	Q2	Q1	Q2	YoY (%)	QoQ (%)
Specialty Steel	Sales	55,221	53,405	53,427	52,051	-2.5	-2.6
	OP	2,648	3,605	3,319	2,793	-22.5	-15.8
	OPM (%)	4.8	6.8	6.2	5.4	-1.4ppt	-0.8ppt
High-Performance Materials & Magnetic Materials	Sales	51,169	51,177	49,694	50,422	-1.5	1.5
	OP	3,561	1,427	2,962	2,119	48.5	-28.5
	OPM (%)	7.0	2.8	6.0	4.2	+1.4ppt	-1.8ppt
Parts for Automobile and Industrial Equipment	Sales	24,115	26,956	27,196	26,538	-1.6	-2.4
	OP	874	2,335	2,800	2,029	-13.1	-27.5
	OPM (%)	3.6	8.7	10.3	7.6	-1.1ppt	-2.7ppt
Engineering	Sales	5,021	5,987	4,616	5,971	-0.3	29.4
	OP	474	524	240	569	8.6	137.1
	OPM (%)	9.4	8.8	5.2	9.5	+0.7ppt	+4.3ppt
Trading & Service	Sales	6,358	7,824	7,159	6,363	-18.7	-11.1
	OP	1,176	1,048	754	674	-35.7	-10.6
	OPM (%)	18.5	13.4	10.5	10.6	-2.8ppt	+0.1ppt
Total	Sales	141,886	145,349	142,094	141,345	-2.8	-0.5
	OP	8,739	8,956	10,067	8,191	-8.5	-18.6
	OPM (%)	6.2	6.2	7.1	5.8	-0.4ppt	-1.3ppt

Source: Nippon-IBR based on Daido Steel's earnings results materials
Total numbers are after adjusted for inter-segment trades.

FY24 OUTLOOK

Given the shortfall in 1H earnings, Daido Steel revised down its full-year FY24 guidance from OP of ¥48,000mil (+13.6% YoY) on sales of ¥600,000mil (+3.7% YoY) to OP of ¥40,000mil (-5.3% YoY) on sales of ¥580,000mil (+0.2% YoY). Reasons for the downward revision are as follows:

- Lower-than-expected structural steel sales volumes on the back of the prolonged negative impact of lower-than-expected auto production volumes by Japanese OEM makers due to (1) weak sales in China, and (2) a slower recovery in domestic auto production due to certification issues at some OEMs. Daido has revised down its forecast for Japanese OEMs' production volumes for FY24 from +1.9% to -4.3% YoY.
- The delayed recovery in demand for stainless steel from the SPE and industrial machinery sectors – now expected to come through in FY25 vs initial expectation of the pick-up starting in FY24 2H – has led a change in the firm's assumptions regarding stainless steel demand for industrial machinery. Management now expects to see lower demand in 2H vs 1H, rather than the previous assumption for demand to recovery towards the end of CY2024.

As for the SPE sector, the order trend has likely hit the bottom in FY23 2H, however, due to prolonged inventory adjustments in the supply chain, a full-fledged recovery will likely be FY25 onwards.

FY24 OP guidance was revised down by -¥8,000mil (-16.7%), of which approx. -¥7,100mil is expected to come from (1) lower-than-expected specialty steel sales volumes (-45,000 tonne) and (2) -¥2,100mil from the change in sales mix including a decline in sales volumes of tool steel and FOREX-related losses. These two major negative factors will likely be offset by price revisions (+¥4,200mil) and improved raw materials (+¥500mil) – comprising+¥4,500mil from steel scrap market and +¥1,000mil by improved costs of energy and materials, but negative impact from surge in Nickle market (-¥5,000mil).

Daido Steel maintains an annual payout ratio of more than 30% as a benchmark for its shareholder return policy. In FY24, the firm will maintain an annual dividend of ¥47/share despite the earnings revision (a 1:5 stock split was implemented on 1 January 2024), or a pay-out ratio of 35.8% (or excluding one-off extraordinary profits and loss such as from sale of fixed asset and impairment, dividend payout ratio is estimated at 33.5%).

Daido Steel (5471 JP): Earnings Forecast									
¥mil	FY23		FY24						
	1H	FY	1H	2H CE	New 2HCE	FY CE	YoY (%)	New FY CE	YoY (%)
Steel Products Sales Volume (tonne)	529,000	1,072,000	519,000	554,000	516,000	1,080,000	0.7	1,035,000	-3.5
Sales	287,235	578,564	283,439	310,000	296,600	600,000	3.7	580,000	0.2
OP	17,695	42,250	18,258	26,000	21,700	48,000	13.6	40,000	-5.3
OPM (%)	6.2	7.3	6.4	8.4	7.3	8.0	+0.7ppt	6.9	-0.4ppt
Pretax Profit	18,973	45,068	19,608	27,000	22,900	50,000	10.9	42,500	-5.7
Corporation Tax	-6,178	-12,493	-6,410	N/A	N/A	N/A	N/A	N/A	N/A
NP*	11,757	30,555	12,152	18,000	15,800	33,000	8.0	28,000	-8.4

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

* NP attributed to the parent's shareholders

FY24 OUTLOOK BY SEGMENT

The FY24 earnings outlook for Daido Steel's three major segments are as follows:

1. Specialty Steel

[FY24 sales ¥214,000mil (-2.2% YoY), OP ¥12,500mil (-8.9%), OPM 5.8%]

Daido Steel revised its FY24 earnings from OP of ¥12,500mil on sales of ¥225,000mil (IFRS basis) to OP of ¥12,500mil on sales of ¥214,000mil. Although segment sales were revised down on the back of lower-than-expected structural steel sales volumes, the OP remains unchanged thanks to a decline in steel scrap price, which improved the slide gap by approx. +¥2,500mil YoY and +¥2,000mil compared to the initial forecast.

The FY24 steel products sales volumes assumption was revised from 1,080,000 tonnes (+0.7% YoY) to 1,035,000 tonnes (-3.4% YoY), with 516,000 tonnes (-5.0% YoY / -0.6 % HoH) guided for the 2H. The firm revised global auto production by Japanese OEM makers in CY24 from 26.2mil units (13.1mil units semi-annually – with domestic production of 4.2mil units and overseas production of 8.9mil units) to 24.6mil units (1H 12.0mil units / 2H 12.6mil units).

2. High-Performance Materials & Magnetic Materials

[FY24 sales ¥204,000mil (+0.8% YoY), OP ¥13,000mil (+26.5% YoY), OPM 6.4%]

Here, the firm revised the full-year FY24 segment guidance from OP of ¥20,500mil on sales of ¥210,000mil to OP of ¥13,000mil (+26.5% YoY) on sales of ¥204,000mil (+0.8% YoY). Without the one-off costs including those related to the closure of a Chinese subsidiary in Q1, FY24 segment OP would be ¥14,500mil.

Although HDD-related demand enjoyed an increase in spot orders during 1H due to customers building inventory on the back of solid data centre CAPEX, the firm expects that 2H order growth will likely slow. Furthermore, stainless steel demand for SPE is not expected to fully recover until FY25.

Given there are, however, some signs that orders are gradually recovering, Daido Steel aims to be proactive in its production management so as to capture any sudden jump in demand from the SPE sector. The gradual recovery of orders from the industrial machinery sector will also likely continue with FY23 Q4 marking the bottom.

3. Parts for Automobile and Industrial Equipment Segment

[FY24 sales ¥112,000mil (+6.7% YoY), ¥10,500mil (+83.6% YoY), OPM 9.4%]

The full-year guidance was revised from OP of ¥11,000mil on sales of ¥115,000mil to OP of ¥10,500mil on sales of ¥112,000mil. Q1 segment OP reached 56% of 1H forecast. Since FY23 Q1, when the firm faced production throughput issues and cost increases as it had to subcontract out orders to meet the demand, throughputs have gradually improved. However, given several customers are delaying their orders, earnings of an engine valve subsidiary will likely be lower than the original forecast.

Daido Steel (5471JP): Revision on Sales, OP and OPM by Segment								
(¥mil)		FY24						
		1H	YoY (%)	2H CE	New 2HCE	FYCE	New FYCE	YoY (%)
Specialty Steel	Sales	105,478	-2.9	115,000	108,500	225,000	214,000	-2.2
	OP	6,112	-2.3	7,000	6,400	12,500	12,500	-8.9
	OPM (%)	5.8	+0.0ppt	6.1	5.9	5.6	5.8	-0.5ppt
High-Performance Materials & Magnetic Materials	Sales	100,116	-2.2	110,000	103,900	210,000	204,000	0.8
	OP	5,081	1.9	11,000	7,900	20,500	13,000	26.5
	OPM (%)	5.1	+0.2ppt	10.0	7.6	9.8	6.4	+1.3ppt
Parts for Automobile and Industrial Equipment	Sales	53,734	5.2	60,000	58,300	115,000	112,000	6.7
	OP	4,829	50.5	6,000	5,600	11,000	10,500	83.6
	OPM (%)	9.0	+2.7ppt	10.0	9.6	9.6	9.4	+4.0ppt
Engineering	Sales	10,587	-3.8	10,000	11,400	20,000	22,000	-4.7
	OP	809	-18.9	1,000	700	1,500	1,500	-29.8
	OPM (%)	7.6	-1.5ppt	10.0	6.1	7.5	6.8	-2.5ppt
Trading & Service	Sales	13,522	-4.7	15,000	14,500	30,000	28,000	-4.6
	OP	1,428	-35.8	1,000	1,100	2,500	2,500	-75.9
	OPM (%)	10.6	-5.1ppt	6.7	7.6	8.3	8.9	-26.4ppt
Total	Sales	283,439	-1.3	310,000	296,600	600,000	580,000	0.2
	OP	18,258	3.2	26,000	21,700	48,000	40,000	-5.3
	OPM (%)	6.4	+0.2ppt	8.4	7.3	8.0	6.9	-0.4ppt

Source: Nippon-IBR based on Daido Steel's earnings results materials
Total numbers are after adjusted for inter-segment trades.

GROWTH POTENTIAL BEYOND FY24

Although FY24 guidance was revised due to the prolonged impact from weak Japanese OEMs' auto production and a delay in order recovery in the SPE and industrial machinery sectors, Daido Steel has maintained its medium-term growth assumptions based on the following factors:

- The Specialty Steel segment OP forecast as per the FY24~FY26 Medium-term Plan (please see below) is likely to be the minimum of what Daido Steel might achieve even with little growth in sales volume. The firm aims to lower the segment's break-even point by improving productivity and production yields at factories.
- In the High-Performance Materials & Magnetic Materials segment, Daido Steel assumes that profit growth will likely pick up as demand from the SPE sector enters into a full-fledged recovery from FY25 onwards.
- Continuing expansion of the open die forging business, especially high alloys, will likely lead to profit expansion in the Parts for Automobile and Industrial Equipment segment.

Daido Steel (5471JP): Medium-term Target for Segment Sales, OP and OPM by Segment						
(¥mil)		FY23	FY24	FY25	FY26	3-year CAGR
		FY	FYCE	Target	Target	(%)
Specialty Steel	Sales	219,021	214,000	N/A	N/A	N/A
	OP	14,797	12,500	12,500	12,500	-5.5%
	OPM (%)	6.8	5.8	N/A	N/A	N/A
High-Performance Materials & Magnetic Materials	Sales	202,832	204,000	N/A	N/A	N/A
	OP	14,432	13,000	25,000	28,000	24.7%
	OPM (%)	7.1	6.4	N/A	N/A	N/A
Parts for Automobile and Industrial Equipment	Sales	105,633	112,000	N/A	N/A	N/A
	OP	7,539	10,500	13,000	14,500	24.4%
	OPM (%)	7.1	9.4	N/A	N/A	N/A
Engineering	Sales	23,117	22,000	N/A	N/A	N/A
	OP	2,424	1,500	2,000	2,500	1.0%
	OPM (%)	10.5	6.8	N/A	N/A	N/A
Trading & Service	Sales	30,681	28,000	N/A	N/A	N/A
	OP	2,900	2,500	2,500	2,500	-4.8%
	OPM (%)	9.5	8.9	N/A	N/A	N/A
Total	Sales	581,287	580,000	N/A	600,000	1.1%
	OP	42,113	40,000	55,000	60,000	12.5%
	OPM (%)	7.2	6.9	N/A	10.0	N/A

Source: Nippon-IBR based on Daido Steel's earnings results materials
NB: Figures for FY24 onwards are on IFRS basis, therefore, CAGR numbers compared to FY23 are for reference only.

RESPONDING TO TSE'S PBR1X INITIATIVE

Daido Steel aims to maintain a PBR above 1x (as of 1 November 2024, PBR is 0.59x) by (1) improving ROE to 9.0%+, (2) promoting the firm's growth potential through improved disclosure of both financial and non-financial (e.g. ESG policies) information that will ultimately enhance the enterprise value, and (3) ensure a dividend pay-out ratio of 30% or more along with earnings growth. Extra shareholder returns might be possible depending on capital allocation during the MTP.

1. Expand sales of high value-added products, such as open die forging, high-performance stainless steel, and titanium products.
2. Efficient use of assets by 1) optimal control of inventory, 2) the liquidation of strategically held stocks and real estate.
3. Dividend policy: Daido Steel commits to a stable dividend pay-out ratio of more than 30%. Under the ongoing MTP, the firm will consider boosting shareholder returns with some variation in capital allocations.

The Nikkei and Japan Alternative Data Accelerator Association [JPX] announced on 7 August 2024 that Daido Steel is one of the new constituents of JPX400, one of the benchmark indices, thanks to the firm's efforts to improve asset efficiency by unwinding strategically held shares.

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