

DAIDO STEEL CO., LTD (5471 JP)**DUE TO LACK OF CLARITY, ONLY FY25 1H GUIDANCE WAS MADE AVAILABLE.****EXECUTIVE SUMMARY**

- **FY24 Earnings:** Daido Steel (5471 JP) produced FY24 (March year-end) results full-year OP [IFRS basis] of ¥39,408mil (-6.7% YoY) on sales of ¥574,945mil (-0.6% YoY). The decline in OP is primarily due to tough comps – in FY23 the firm reported ¥7,200mil from real estate sales gains. However, adjusted for non-operating items such as FOREX gains, taxes on fixed assets and inventory revaluation gains (included in IFRS-based OP), and provision for paid holidays, FY24 OP would have risen +8.7% YoY, thanks primarily to increase in sales of open die forging which led to improved sales mix.
- **Assumptions for FY25 1H guidance:** Due to multiple unknown factors surrounding the business environment such as impact from the US trade tariff policy and volatile FOREX, Daido Steel only released FY25 1H guidance. The firm is guiding for 1H OP of ¥12,500mil (-31.5% YoY / -40.9% HoH) on sales of ¥275,000mil (-3.0% YoY / -5.7% HoH).

The 1H guidance is based on the following assumptions:

1. Steel products sales volumes remain flattish at 500K ton in 1H, only a slight recovery from 496K ton in FY24 2H,
 2. Performance of open die forging will also face slower demand on the back of production adjustments by Boeing (BA US) and suspending orders by oil & gas customers under the uncertainty over US government policy,
 3. A one-off cost of ¥2,400mil for the relocation of factories, and
 4. More conservative FOREX rate of ¥140/USD, which will likely give approx. ¥1,500mil negative hit 1H OP.
- **FY25 full-year guidance and MTP:** FY25 guidance will be released once the visibility of business environment improves. The Mid-Term Plan [MTP] and capital allocation policy will also be reviewed.
 - **Potential change in Capital Allocation 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. On 28 November 2024, Daido Steel announced the completion of share buyback programme, repurchasing a total of 7,398,900 shares (3.46% of shares outstanding) at a total cost of ¥8,497mil.

Daido Steel (5471): Share Information

Market Cap (¥mil)		210,000	Market Cap (\$mil)			1,448
22-day Average Trading Volume (¥mil)		756	22-day Average Trading Volume (\$mil)			5.2
Share performance (%)	5471	TOPIX	Earnings Summary (¥mil, %)	FY23	FY24	FY25 CE
Share price (28 May 2025)	967	2,769.51	Sales	578,564	574,945	N/A
3mo (from 28 Feb 2025)	-20.8	3.3	OP	42,250	39,408	N/A
6mo (from 28 Nov 2024)	-17.8	3.1	OPM (%)	7.3	6.9	N/A
YTD	-19.1	0.5	EBITDA	68,621	69,673	N/A
1yr	-39.3	0.0	EPS (¥)	143.37	134.57	N/A
5yrs	30.9	77.1	Financial Leverage (X)	1.8	1.8	N/A
Per-share and Valuations	5471	TOPIX	Net D/E Ratio (X)	0.2	0.2	N/A
EPS (¥, FY25 CE)	N/A	182.48	FCF	17,900	37,930	N/A
DPS (¥, FY25 CE)	N/A	N/A	Shareholder Return Summary	FY23	FY24	FY25 CE
BPS (¥, Dec-24)	2,085.61	1875.16	Dividend (¥)	46.00	47.00	N/A
FCFPS (¥, FY25 EST)	N/A	N/A	Dividend Payout (%)	32.1	34.9	N/A
Forward PER (X)	N/A	14.82	Dividend Yield (%)	N/A	N/A	N/A
PBR (x)	0.46	1.48	DOE (%)	2.5	2.3	N/A
PCFR (x)	N/A	N/A	Treasury Shares (%)	N/A	1.6	N/A
EV/EBITDA (X)	1.9*	N/A	ROE (%)	11.6	6.5	N/A

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

FY24 RESULTS

Daido Steel (5471 JP) produced FY24 (March year-end) full-year OP [IFRS basis] of ¥39,408mil (-6.7% YoY) on sales of ¥574,945mil (-0.6% YoY). The decline in OP is primarily due to tough comps – in FY23 the firm reported ¥7,200mil from real estate sales gains. However, adjusted for non-operating items such as FOREX gains, taxes on fixed assets and inventory revaluation gains (included in IFRS-based OP), and provision for paid holidays, FY24 OP would have risen +8.7% YoY, thanks primarily to increase in sales of open die forging which led to improved sales mix.

On the other hand, FY24 results slightly fell short of guidance for both sales and OP (-0.9% and -1.5%, respectively) due to weaker than expected steel product sales volumes which dipped -5.3% YoY to 1,015K ton, and slumped below the 500K ton-level in 2H.

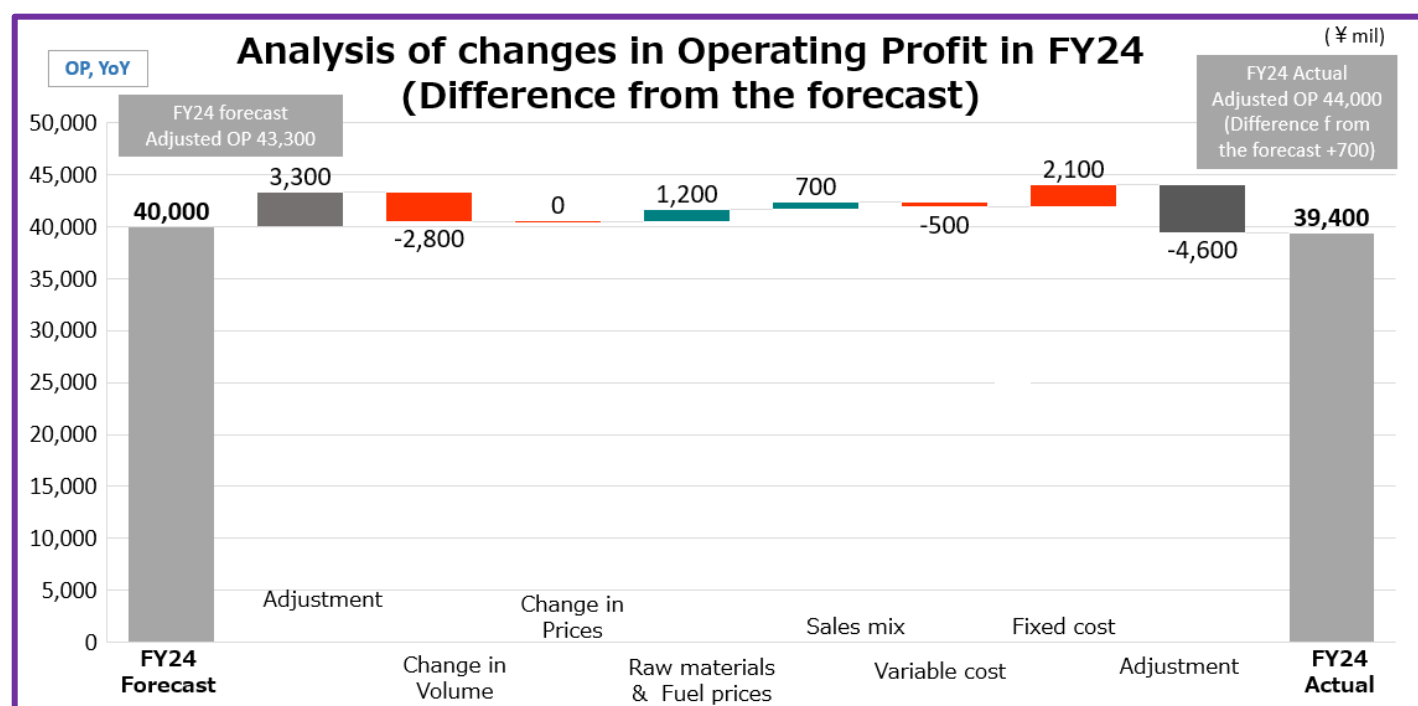
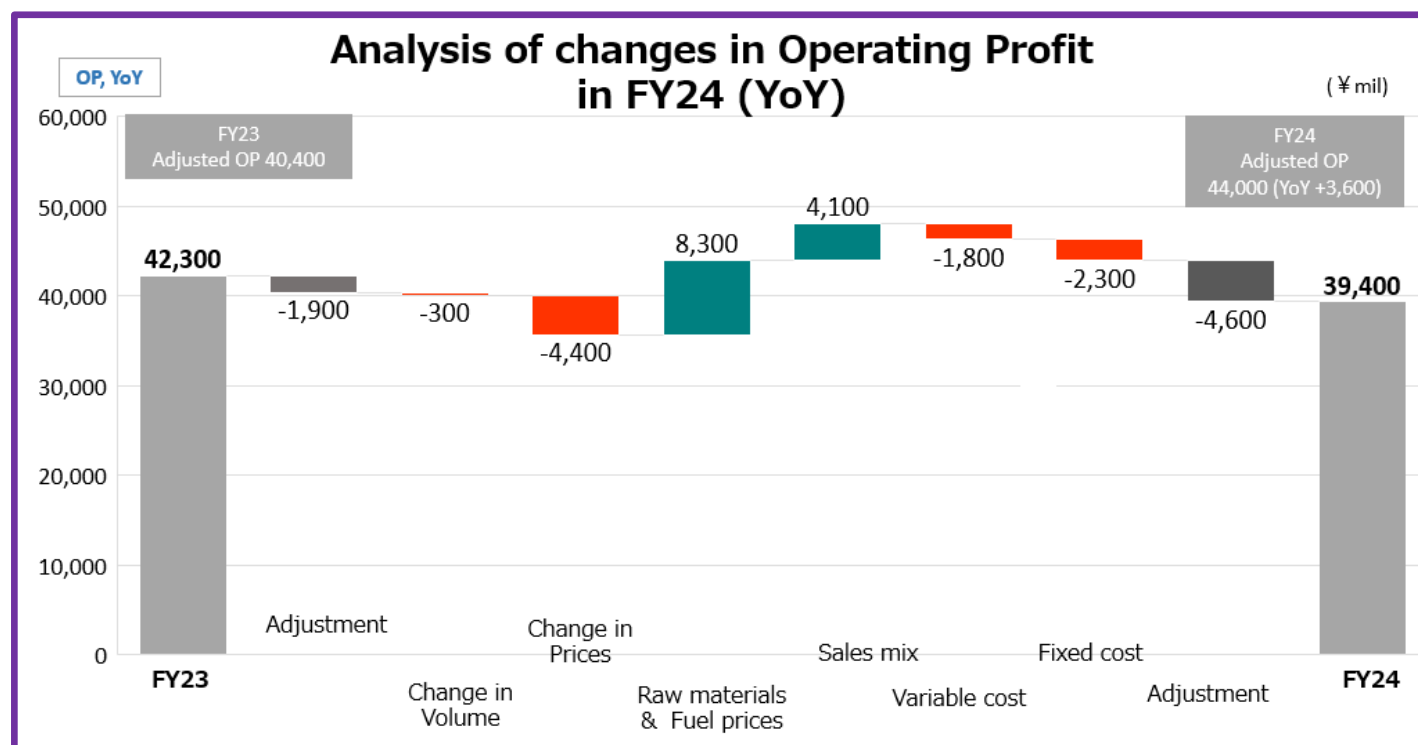
In Q4 alone, the firm produced OP of ¥5,338mil (+29.5% YoY / -66.2% QoQ) on sales of ¥140,984mil (+0.9% YoY / -6.3% QoQ).

Daido Steel (5471 JP): Earnings Results Summary							
(¥mil)	FY23		FY24				
	1H(IFRS)	FY(IFRS)	1H(IFRS)	FY(IFRS)	YoY (%)	New FYCE	FY vs FYCE (%)
Steel Products Sales Volume (ton)	529,000	1,072,000	519,000	1,015,000	-5.3	1,035,000	-1.9
Sales	287,235	578,564	283,439	574,945	-0.6	580,000	-0.9
COGS	239,462	480,618	231,582	470,757	-2.1	N/A	N/A
COGS / Sales (%)	83.4	83.1	81.7	81.9	-1.2ppt	N/A	N/A
GP	47,773	97,946	51,856	104,187	6.4	N/A	N/A
GPM (%)	16.6	16.9	18.3	18.1	+1.2ppt	N/A	N/A
SG&A	28,423	59,073	29,689	61,335	3.8	N/A	N/A
SG&A / Sales (%)	9.9	10.2	10.5	10.7	+0.5ppt	N/A	N/A
OP	17,695	42,250	18,258	39,408	-6.7	40,000	-1.5
OPM (%)	6.2	7.3	6.4	6.9	-0.4ppt	6.9	flat
Pretax profit	18,973	45,068	19,608	42,653	-5.4	42,500	0.4
Corporation Tax	-6,178	-12,493	-6,410	-12,092	-3.2	N/A	N/A
NP*	11,757	30,555	12,152	28,314	-7.3	28,000	1.1

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

Adjusted for the aforementioned non-operating items, the overall improvement in FY24 OP [+¥3,600mil / +8.7% YoY to ¥44,000mil, vs FY23 adjusted OP of ¥40,400mil] was mainly due to lower raw material and energy costs (-¥8,300mil), and an improved sales mix driven primarily by higher sales of open die forging (+¥4,100mil). However, the following factors weighed on profitability:

1. Price adjustments to reflect lower raw material (alloys such as Nickle),
2. Energy costs (-¥4,400mil), which includes a positive steel scrap slide gap (+¥2,100mil),
3. Weaker than expected sales volume (-¥300mil) and
4. Higher fixed and variable costs (-¥2,300mil and -¥1,800mil, respectively, including one-off costs).



FY24 PERFORMANCE BY SEGMENT

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

1. Specialty Steel Segment

[FY24 Sales ¥210,162mil (-3.9% YoY) / OP ¥12,088mil (-11.9% YoY) / OPM 5.8% (-0.5ppt YoY)]

During CY24, the firm continued to see weaker than expected sales volumes of its steel products, which remained at 85K ton/month (vs 89K ton/month in FY23) – and still around -18% below the recent CY21 peak – mainly due to the decline in auto production by Japanese OEMs in China.

The FY24 normalised segment OP landed as expected, because the decline in sales volumes which negatively affected segment OP by -¥1,400mil, was offset by (1) the positive slide gap of the steel scrap market (+¥700mil), and (2) a lower fixed cost ratio on the back of an increase in production to stockpile prior to the surge in energy costs during the winter (+¥800mil) in Q3.

In Q4 alone, segment OP was ¥859mil (-41.3% YoY / -83.2% QoQ) on sales of ¥49,739mil (-2.9% YoY / -9.5% QoQ).

2. High-Performance Materials & Magnetic Materials Segment

[FY24 sales ¥200,863mil (-0.8% YoY) / OP ¥11,028mil (+7.3% YoY) / OPM 5.5% (+0.4ppt YoY)]

The rise in FY24 segment OP was supported by an increase in sales volumes of stainless steel, thanks to a boost in demand for data centre HDDs in 1H. However, the recovery in demand for stainless steel was not as strong as expected on the back of sluggish recovery in demand from both the auto and the SPE sectors.

The delay in a fully-fledged recovery in SPE-related demand negatively affected the segment sales mix. While high alloy sales recovered on the back of recovery in demand for electronics components, sales of magnetic products declined due to weak demand from the industrial machinery sector and the closure of magnetic subsidiary in China.

As a result, the segment produced FY24 OP of ¥11,028mil (+7.3% YoY) on sales of ¥200,863mil (-0.8% YoY). In Q4 alone, the segment OP declined -76.4% YoY / -92.2% QoQ to ¥432mil on sales of ¥47,779mil (-3.1% YoY) / -9.8% QoQ).

Normalised FY24 segment OP would have come in at around ¥13,800mil (-4.2% YoY), compared to the firm's guidance of ¥15,000mil (+4.2% YoY). The shortfall in normalised OP was triggered by weaker than expected stainless steel sales volumes (-¥1,600mil impact to normalised OP) on the back of weaker recovery in auto sector demand.

3. Parts for Automobiles / Industrial Equipment Segment

[FY24 sales ¥113,031mil (+7.7% YoY) / OP ¥11,337mil (+98.2% YoY) / OPM 10.0% (+4.6 ppt YoY)]

The substantial +98.2% YoY surge in FY24 segment OP was due to an improvement in production throughput in open die forging, supported by continued strong demand from the aircraft, heavy electric and oil and gas industries. Open die forging sales, which generated some 47% of FY24 segment sales, expanded +15.8% YoY, boosting the sales mix by approx. +¥4.1mil YoY. Main customers by industry for Daido Steel's open die forging include the heavy electric, oil & gas and aircraft sectors.

FY24 earnings were not affected by strike at Boeing, due to long lead times between orders and sales. For the oil and gas industry, the firm supplies high alloys used for excavator joints. Here, Daido Steel's sales have been expanding as it has received certified supplier status with four companies. However, orders from oil & gas sector were suddenly suspended in Q4 given the unclarity surrounding the industry and weak crude oil market. Sales of engine valves at a subsidiary also improved, thanks to solid demand in the US.

Daido Steel (5471JP): Sales, OP and OPM by Segment										
(¥mil)		FY23			FY24					
		1H	2H	FY	1H	2H	FY	YoY (%)	FYCE	FY vs FYCE (%)
Specialty Steel	Sales	108,626	110,117	218,743	105,478	104,684	210,162	-3.9	214,000	-1.8
	OP	6,253	7,471	13,724	6,112	5,976	12,088	-11.9	12,500	-3.3
	OPM (%)	5.8	6.8	6.3	5.8	5.7	5.8	-0.5ppt	5.8	flat
High Performance Materials & Magnetic Materials	Sales	102,346	100,038	202,384	100,116	100,747	200,863	-0.8	204,000	-1.5
	OP	4,988	5,287	10,275	5,081	5,947	11,028	7.3	13,000	-15.2
	OPM (%)	4.9	5.3	5.1	5.1	5.9	5.5	+0.4ppt	6.4	-0.9ppt
Parts for Automobile and Industrial Equipment	Sales	51,071	53,925	104,996	53,734	59,297	113,031	7.7	112,000	0.9
	OP	3,209	2,510	5,719	4,829	6,508	11,337	98.2	10,500	8.0
	OPM (%)	6.3	4.7	5.4	9.0	11.0	10.0	+4.6ppt	9.4	+0.6ppt
Engineering	Sales	11,008	12,083	23,091	10,587	13,480	24,067	4.2	22,000	9.4
	OP	998	1,138	2,136	809	1,392	2,201	3.0	1,500	46.7
	OPM (%)	9.1	9.4	9.3	7.6	10.3	9.1	-0.2ppt	6.8	+2.3ppt
Trading & Service	Sales	14,182	15,165	29,347	13,522	13,298	26,820	-8.6	28,000	-4.2
	OP	2,224	8,145	10,369	1,428	1,342	2,770	-73.3	2,500	10.8
	OPM (%)	15.7	53.7	35.3	10.6	10.1	10.3	-25.0ppt	8.9	+1.4ppt
Total	Sales	287,235	291,329	578,564	283,439	291,506	574,945	-0.6	580,000	-0.9
	OP	17,695	24,555	42,250	18,258	21,150	39,408	-6.7	40,000	-1.5
	OPM (%)	6.2	8.4	7.3	6.4	7.3	6.9	-0.4ppt	6.9	flat

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 and OP <IFRS>										
(¥mil)		FY23				FY24				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY (%) QoQ (%)
Specialty Steel	Sales	55,221	53,405	58,872	51,245	53,427	52,051	54,945	49,739	-2.9 -9.5
	OP	2,648	3,605	6,008	1,463	3,319	2,793	5,117	859	-41.3 -83.2
	OPM (%)	4.8	6.8	10.2	2.9	6.2	5.4	9.3	1.7	-1.2ppt -7.6ppt
High Performance Materials & Magnetic Materials	Sales	51,169	51,177	50,741	49,297	49,694	50,422	52,968	47,779	-3.1 -9.8
	OP	3,561	1,427	3,456	1,831	2,962	2,119	5,515	432	-76.4 -92.2
	OPM (%)	7.0	2.8	6.8	3.7	6.0	4.2	10.4	0.9	-2.8ppt -9.5ppt
Parts for Automobile and Industrial Equipment	Sales	24,115	26,956	27,560	26,365	27,196	26,538	30,015	29,282	11.1 -2.4
	OP	874	2,335	2,212	298	2,800	2,029	3,950	2,558	758.4 -35.2
	OPM (%)	3.6	8.7	8.0	1.1	10.3	7.6	13.2	8.7	+7.6ppt -4.5ppt
Engineering	Sales	5,021	5,987	6,097	5,986	4,616	5,971	5,686	7,794	30.2 37.1
	OP	474	524	669	469	240	569	487	905	93.0 85.8
	OPM (%)	9.4	8.8	11.0	7.8	5.2	9.5	8.6	11.6	+3.8ppt +3.0ppt
Trading & Service	Sales	6,358	7,824	8,264	6,901	7,159	6,363	6,908	6,390	-7.4 -7.5
	OP	1,176	1,048	8,103	42	754	674	762	580	1,281.0 -23.9
	OPM (%)	18.5	13.4	98.1	0.6	10.5	10.6	11.0	9.1	+8.5ppt -1.9ppt
Total	Sales	141,886	145,349	151,534	139,795	142,094	141,345	150,522	140,984	0.9 -6.3
	OP	8,739	8,956	20,433	4,122	10,067	8,191	15,812	5,338	29.5 -66.2
	OPM (%)	6.2	6.2	13.5	2.9	7.1	5.8	10.5	3.8	+0.9ppt -6.7ppt

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

FY25 1H OUTLOOK

Due to multiple unknown factors surrounding the business environment, such as the impact from the US trade tariff policy and volatile FOREX, Daido Steel only released a FY25 1H forecast, guiding for 1H OP of ¥12,500mil (-31.5% YoY / -40.9% HoH) on sales of ¥275,000mil (-3.0% YoY / -5.7% HoH). The 1H guidance is based on the following assumptions:

1. Steel products sales volume remain flattish at 500K ton – a slight recovery from 496K ton in FY24 2H, on the back of (1) Auto production volumes by Japanese OEMs of 12.3mil vehicles, largely the same level of 12.1mil units in FY24 1H and 12.6mil units in FY24 2H and (2) Industrial machinery-related demand is not expected to rapidly recover sequentially HoH.
2. A negative impact of -¥5,800mil YoY from pricing
3. The performance of open die forging, which improved sales mix in FY24, will also face slower demand on the back of production adjustments by Boeing and suspending orders by oil & gas customers given the uncertainty over US government policy. Declines in open die forging revenues, which is included in -¥2,200mil YoY change in sales mix, are budgeted to reduce 1H OP
4. A one-off cost for relocation of factories (-¥2,400mil).
5. A more conservative FOREX rate of ¥140/USD, vs the FY24 1H average of ¥152.6/USD and FY24 2H average of ¥152.5/USD (approx. ¥1,500mil). Under IFRS, valuation losses of receivables and payables due to changes in FOREX are reflected in OP. Consequently, the firm has reflected a -¥700mil loss in its 1H OP guidance.

Daido Steel ensures an annual payout ratio of more than 30% on normalised EPS which excludes any one-off impact to earnings as a benchmark for its shareholder return policy. In FY25, the firm will still pay a semi-annual dividend of ¥16/share, or a pay-out ratio of 41.2%, compared to ¥21/share or payout ratio of 31.0% in FY24 1H.

Management commit to announcing a full-year FY25 guidance and a revision of the MTP (FY24~FY26) as soon there is greater clarity on the external environment. Whilst the US trade tariff policies may well affect earnings, the firm has implemented several countermeasures to reduce the impact of such policies, such as:-

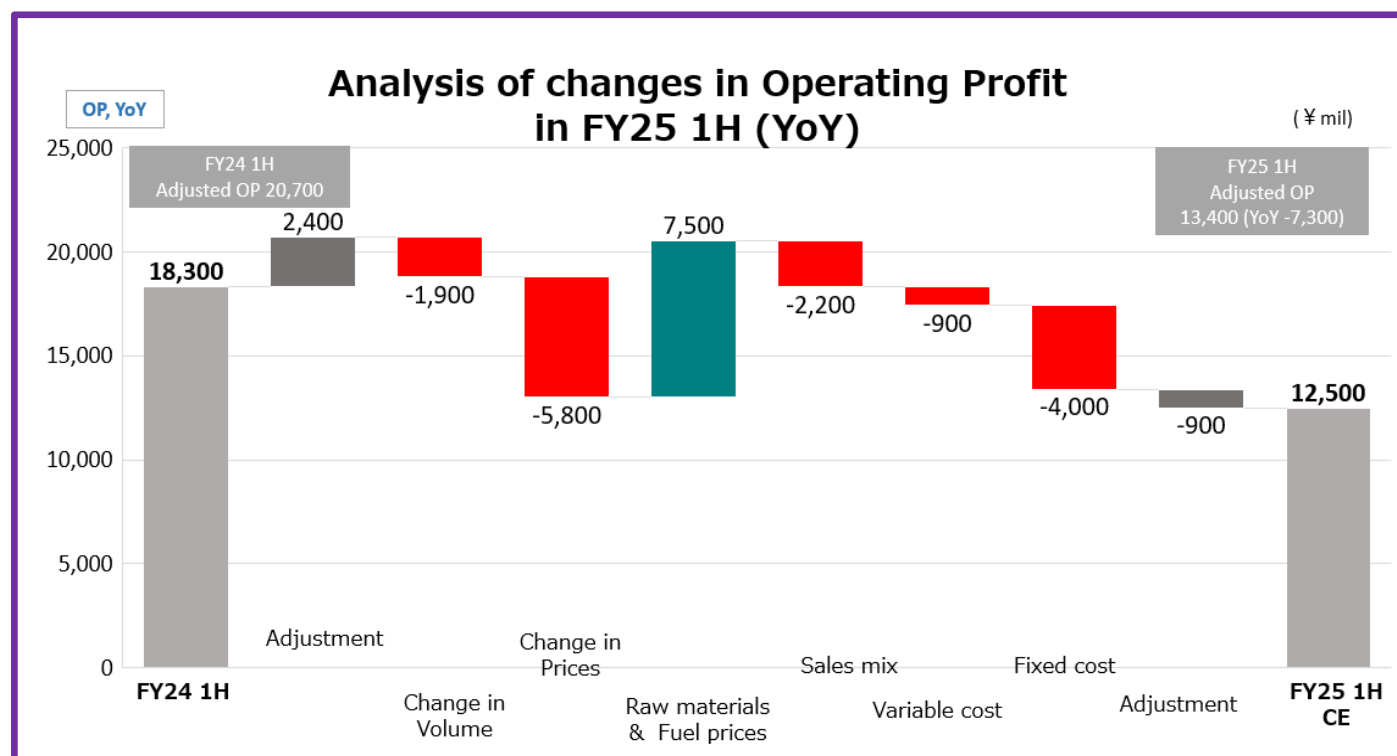
- Capture demand of US companies in Asian market in particular, from those that have granted Daido raw material approval by utilising its HQs in Singapore.
- Capture forging demand in the US from auto parts makers by utilising Daido's US forging subsidiary (OHIO STAR FORGE CO.).
- Promote replacement demand for high performance materials made in the US in China and East Asia.
- Accelerate market development of heavy rare earth (Dy, Tb) free hot deformed magnet, used for EV drive motor.

Daido Steel (5471 JP): Earnings Results and Forecast

(¥mil)	FY23			FY24			FY25 CE		
	1H	2H	FY	1H	2H	FY	1H CE	YoY (%)	HoH (%)
Steel Products Sales Volume (tone)	529,000	543,000	1,072,000	519,000	496,000	1,015,000	500,000	-3.7	0.8
Sales	287,235	291,329	578,564	283,439	291,506	574,945	275,000	-3.0	-5.7
OP	17,695	24,555	42,250	18,258	21,150	39,408	12,500	-31.5	-40.9
OPM (%)	6.2	8.4	7.3	6.4	7.3	6.9	4.5	-1.9ppt	-2.8ppt
Pretax profit	18,973	26,095	45,068	19,608	23,045	42,653	13,000	-33.7	-43.6
Corporation Tax	-6,178	-6,315	-12,493	-6,410	-5,682	-12,092	N/A	N/A	N/A
NP*	11,757	18,798	30,555	12,152	16,162	28,314	8,000	-34.2	-50.5

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 material

FY25 1H OUTLOOK BY SEGMENT

The FY25 1H earnings outlook for Daido Steel's three major segments are discussed below:

Daido Steel (5471JP): Sales, OP and OPM by Segment Forecast										
(¥mil)		FY23			FY24			FY25 CE		
		1H	2H	FY	1H	2H	FY	1H CE	YoY (%)	HoH (%)
Specialty Steel	Sales	108,626	110,117	218,743	105,478	104,684	210,162	99,000	-6.1	-5.4
	OP	6,253	7,471	13,724	6,112	5,976	12,088	3,000	-50.9	-49.8
	OPM (%)	5.8	6.8	6.3	5.8	5.7	5.8	3.0	-2.8	-2.7
High Performance Materials & Magnetic Materials	Sales	102,346	100,038	202,384	100,116	100,747	200,863	96,000	-4.1	-4.7
	OP	4,988	5,287	10,275	5,081	5,947	11,028	5,500	8.2	-7.5
	OPM (%)	4.9	5.3	5.1	5.1	5.9	5.5	5.7	0.6	-0.2
Parts for Automobile and Industrial Equipment	Sales	51,071	53,925	104,996	53,734	59,297	113,031	54,000	0.5	-8.9
	OP	3,209	2,510	5,719	4,829	6,508	11,337	2,000	-58.6	-69.3
	OPM (%)	6.3	4.7	5.4	9.0	11.0	10.0	3.7	-5.3	-7.3
Engineering	Sales	11,008	12,083	23,091	10,587	13,480	24,067	12,000	13.3	-11.0
	OP	998	1,138	2,136	809	1,392	2,201	500	-38.2	-64.1
	OPM (%)	9.1	9.4	9.3	7.6	10.3	9.1	4.2	-3.4	-6.1
Trading & Service	Sales	14,182	15,165	29,347	13,522	13,298	26,820	14,000	3.5	5.3
	OP	2,224	8,145	10,369	1,428	1,342	2,770	1,500	5.0	11.8
	OPM (%)	15.7	53.7	35.3	10.6	10.1	10.3	10.7	0.1	0.6
Total	Sales	287,235	291,329	578,564	283,439	291,506	574,945	275,000	-3.0	-5.7
	OP	17,695	24,555	42,250	18,258	21,150	39,408	12,500	-31.5	-40.9
	OPM (%)	6.2	8.4	7.3	6.4	7.3	6.9	4.5	-1.9	-2.8

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

1. Specialty Steel

[FY25 1H sales ¥99,000mil (-6.1% YoY), OP ¥3,000mil (-50.9% YoY), OPM 3.0%]

Daido Steel is guiding for FY25 1H segment OP of ¥3,000mil (-50.9% YoY / -49.8% HoH) on sales of ¥99,000mil (-6.1% YoY / -5.4% HoH). Management expects 1H steel product sales volumes remain relatively flat HoH at 500K ton (-3.7% YoY), primarily due to decline in auto production volumes by Japanese OEMs, especially in China where Japanese makers hold a low market share. Weak sales volumes are also likely to lead to an increase in the fixed cost ratio and a decline in profitability.

2. High-Performance Materials & Magnetic Materials

[FY25 1H sales ¥96,000mil (-4.1% YoY), OP ¥ 5,500mil (+8.2% YoY), OPM 5.7%]

Here, the firm guides for FY25 1H segment OP of ¥5,500mil (+8.2 YoY / -7.5% HoH) on sales of ¥96,000mil (-4.1% YoY / -4.7% HoH). Although stainless steel demand for SPE is expected to gradually recover, management is currently taking a conservative stance on stainless steel sales volumes. Demand from the auto and industrial machinery sectors will likely see only a flattish growth, however, demand from data centre HDD will likely be solid. Therefore, Daido Steel aims to be proactive in its production management so as to capture any sudden jump in demand from the SPE sector, such as investment on Vacuum Arch Remelting [VAR] at the Chita second factory in Dec 2024 then in Feb 2025.

3. Parts for Automobile and Industrial Equipment Segment

[FY25 1H sales ¥54,000mil (+0.5% YoY), OP ¥2,000mil (-58.6% YoY), OPM 3.7%]

For FY25 1H, Daido Steel expects this segment to see OP fall to ¥2,000mil (-58.6% YoY / -69.3% HoH) on sales of ¥54,000mil (+0.5% YoY / -8.9% HoH). While open die forging remains the firm's core strategic product, it has been hit by the uncertainty from the US tariff situation. In addition to production adjustment by Boeing, customers are pending their orders as they wait to see the impact of the trade tariff issues. The firm reckons the current situation temporary.

M&A Activity:

Daido Steel announced its plan to acquire of all of Nippon Koshuha Steel [NKS] Co., Ltd (5476 JP) shares from Kobe Steel Ltd (5406 JP), subject to the completion of procedures. The procedures include a share exchange through which NKS will first become a wholly-owned subsidiary of Kobe Steel – which currently owns 51.69% of NKS – and a payment of dividends in kind by NKS to Kobe Steel in form of transferring all of its issued shares in Koshuha-Foundry Co., Ltd and assets held by NKS in connection with its casting iron business to Kobe Steel. Daido Steel will also need to obtain approvals from the Fair-Trade Commission and relevant authorities in Japan and overseas for the share acquisition of NKS. Therefore, it is still premature to estimate any impact that this intention to acquire NKS might give to the firm's earnings.

SELECTIVE GROWTH INVESTMENT

Although there is lack of clarity in the business environment at present, Daido Steel is willing to promote growth investment plans such as Superalloy Manufacturing Process Transformation that will likely generate investment return from FY26 onwards. In FY25, the firm plans to invest CAPEX of ¥54,200mil [IFRS basis], including VAR for titanium production to be launched in May 2025.

Daido Steel (5471JP): Medium-term Target for Segment Sales, OP and OPM by Segment						
(¥mil)		FY23	FY24	FY25	FY26	3-year CAGR
		FY	FY(IFRS)	Target	Target	(%)
Specialty Steel	Sales	219,021	210,162	N/A	N/A	N/A
	OP	14,797	12,088	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	200,863	N/A	N/A	N/A
	OP	14,432	11,028	25,000	28,000	24.7%
	OPM (%)	7.1	5.5	N/A	N/A	N/A
Parts for Automobile and Industrial Equipment	Sales	105,633	113,031	N/A	N/A	N/A
	OP	7,539	11,337	13,000	14,500	24.4%
	OPM (%)	7.1	10.0	N/A	N/A	N/A
Engineering	Sales	23,117	24,067	N/A	N/A	N/A
	OP	2,424	2,201	2,000	2,500	1.0%
	OPM (%)	10.5	9.1	N/A	N/A	N/A
Trading & Service	Sales	30,681	26,820	N/A	N/A	N/A
	OP	2,900	2,770	2,500	2,500	-4.8%
	OPM (%)	9.5	10.3	N/A	N/A	N/A
Total	Sales	581,287	574,945	N/A	600,000	1.1%
	OP	42,113	39,408	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 PBR 1X INITIATIVE

Daido Steel aims to maintain a PBR above 1x (0.47x as of 27 May 2025) 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) ensuring a dividend pay-out ratio of 30% or more along with earnings growth. Further shareholder returns might be possible depending on capital allocation during the MTP. However, given the current environment, Daido Steel will review the MTP as well as its capital allocation policy.

The firm continues to the efficient use of assets by optimising its inventory control and the continued liquidation of strategically held stocks and real estate – aiming to reduce ratio of such holdings to 15% by FY26 and 10% by FY30 of net assets, respectively. In FY24, the firm sold its position in six of its holdings (+¥24.1bil).

To improve capital efficiency, Daido Steel repurchased 7,398,900 shares (3.46% of shares outstanding) at a cost of ¥8,497mil – the cost of which almost offsets the ¥9,900mil gains from the liquidation of strategically held stocks sold between December 2024 and March 2025.

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