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Financial  
Research

## Corporate Fundamentals Research

### RUDEN HOLDINGS Co., Ltd. (1400 JP / JQG)

#### SUMMARY

Ruden Holdings (“Ruden”) engages in three businesses; 1) “house care” (mainly coating of floors and walls of houses), 2) building management (public/commercial buildings and condominiums), and 3) property business (development and brokerage). The main pillar is the house care business, in which the company holds a strong market position through strong relationships with major property developers.

Over the last three years, Ruden faced difficult market conditions owing to the slowdown in new housing sales (especially condominiums in the Tokyo area which is the company’s main market), and experienced a decline in order volumes in the house care business. In response to the changing market environment, Ruden undertook business reforms. More specifically, the company expanded into new business domains such as home renovations, worked to more effectively use business agents, and launched the new property business with a focus on foreign demand from overseas (mainly China) to invest in Japanese properties.

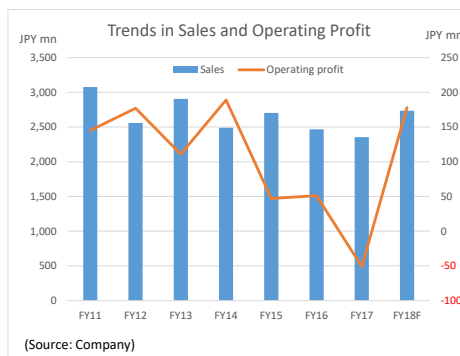
In FY17 (ending December 31), the company reported a small net loss due to costs associated with the disposal of unprofitable property subsidiary. With restructuring measures having been completed for the most part, the company has entered a new stage of growth, in our view.

#### COMPANY PROFILE

Ruden was founded in June 2000, initially to provide floor and wall coating services. In Japan, houses are designed to match the Japanese style of living; i.e., taking shoes off before entering the rooms. Floors (typically wooden floors) need to be kept clean, and therefore, there is a need to coat floors with resins (wax or synthetic material) to enhance their cleanness and durability. Coating can also be applied to inner walls and peripheral areas such as water section equipment. Ruden subsequently expanded into the property and building management businesses in 2006.

Ruden went public in 2005, and is currently listed on the TSE’s JASDAQ Growth Section. In 2008, shareholders who are in support of the current management team (led by Mr. Susumu Nishioka) became the largest shareholder group.

The company enjoyed relatively strong performance in the first half of the 2010s. However, the market environment turned to unfavorable in FY15 due to the slowdown in new housing sales, especially condominiums in the Tokyo area (because of the oversupply in the previous few years and sharp increase in property prices that reduced affordability for average families).



As a result, order volumes in the profitable house care business stagnated. Responding to the changes in the market environment, Ruden embarked on a reform of its business model, and several new projects are now developing at a rapid pace.

Recently, in January 2018, the company entered into business alliances with two Chinese companies in the property business, and raised capital (through third party allotment) for a new property project.

As of February 28, 2018, Ruden’s market capitalization was JPY6.4 bn at share price @JPY566.

**MANAGEMENT**

Mr. Susumu Nishioka (63) is the Chairman, leading Ruden. The company has roughly 70 full-time and 500 temporary employees. Mr. S. Nishioka has extensive experience and knowledge of the property business and is regarded as a pioneer in the Japanese market for small-sized condominiums for investment purposes.

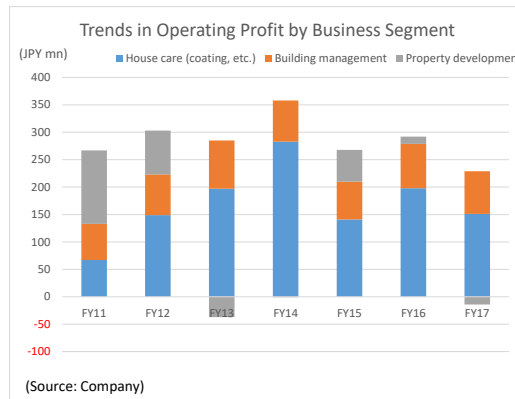
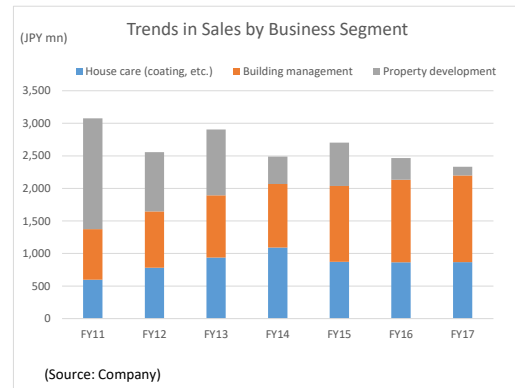
Mr. Takashi Nishioka (71), the elder brother of the Chairman, serves as President and heads the building management businesses. Mr. Satoru Sasaki (57), Director and Board member, is in charge of the house care business.

**SHAREHOLDERS**

K.K. Landnetwork (a property company) is the largest shareholder (25.8% stake), and supports the current management team together with other major shareholders. Mr. Nishioka’s family members hold 24.1% stake in the company. The remaining shares are held by minority shareholders.

**BUSINESS**

Ruden has three core businesses; 1) house care, 2) building management, and 3) property business. The main pillar is the house care business, in which the company holds a strong market position through strong relationships with the major property developers.



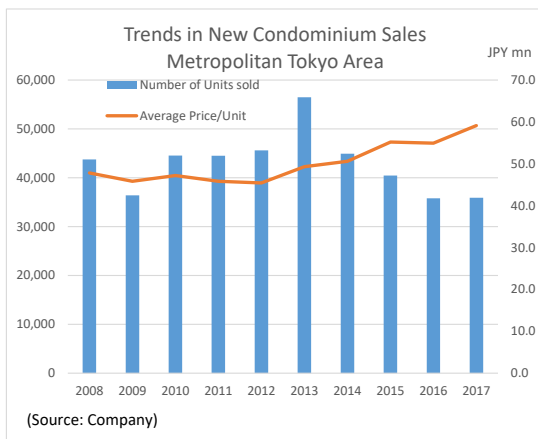
**House care:** House care is Ruden’s core business, and represents roughly 70% of the company’s operating profit. The mainstay service is the coating of floors and walls in individuals’ homes.



The market is fragmented, but Ruden has a strong position as the only listed company in the industry. The company has earned trust from major property developers. Ruden is authorized to formally reach out to individuals who have purchased new condominiums from these developers.

Ruden manufactures coating materials in its own production facility, achieving high operating profit margin of around 20%.

The business environment has become difficult in the recent years, because of the slowdown in new housing sales. This is expected to continue in the medium-term. As such, Ruden is focusing on entering the second-hand apartment market, which has not been fully cultivated to date and which the company recognizes to have substantial potential demand.



**Building management:** Ruden excels in the management of public buildings, as well as commercial buildings and condominiums (through owners’ associations). This is a relatively stable business with sales volumes growing steadily over the past few years. However, the operating profit margin (roughly 6% in FY17) has come under pressure, given the increased competition in the bidding to win contracts.

**Property business:** After disposing its property business subsidiary (which had been struggling to sell its inventory), Ruden recently re-established the business with a new strategy to focus on foreign investors (mainly from China) seeking opportunities to invest in Japanese properties (mainly condominiums).

In January 2018, the company engaged in business alliances with two major Chinese companies, Zhong Shin Luxin (a CITIC group travel company) and Shanghai De Wei (a property company), to tap the potential investor base. The two Chinese companies arrange tours

for investors to introduce Ruden’s projects in Japan.

Ruden is currently working on a condominium construction project in “Sendagi” area (a popular residential area close to the academic zones in central Tokyo), which is expected to be completed by the end of 2018. The Sendagi project (total scale roughly JPY800 mn) is expected to make significant contribution to the bottom line when completed.

**GROWTH STRATEGY**

The company formulated and launched new business strategies for each business segment.

**House care:** Ruden is activating its “periodic checking and inspection” services for aged buildings, which can lead to winning mandates for coating services.



The company also plans to expand this business to non-residential areas such as railway station facilities, in cooperation with railway companies. If the business proves to be successful, potential demand could be substantial in light of the upcoming 2020 Olympic in Tokyo.

To increase its capacity to provide services, Ruden launched a franchise (agent) system in addition to the subcontractor system. The agents are relatively large in size, and are able to handle large-scale projects.

**Building management:** In addition to the traditional bidding-oriented markets, Ruden is strengthening efforts to build direct relationships with the owners of commercial buildings to achieve higher profit margins.

**Property business:** Given the strong demand from Chinese wealthy individuals, the management expects the business to grow both in the development of new apartments and broking of condominium units. Ruden’s basic strategy is to focus on projects for which the company can add value. Given the recent rise in property prices, Ruden’s management takes a very selective approach to minimize investment risks.

**FINANCIAL POSITION**

Ruden’s financial position is modestly sound, despite the recent volatility in earnings. The company maintains a strong capital ratio (84.4% at the end of December 2017) and ample liquidity (cash holdings of JPY 730 mn or 30% of total assets).

**Income statement:** Because of the decline in sales volume in the house care business over the past three years, the operating profit margin dropped from 7.6% in FY14 to 2.1% in FY16 and turned to negative territory in FY17.

	FY11	FY12	FY13	FY14	FY15	FY16	FY17
<b>SALES</b>							
House care (coating, etc.)	598	782	938	1,093	872	865	867
Building management	776	866	957	976	1,166	1,269	1,332
Property development	1,704	910	1,010	421	665	332	134
Total	3,078	2,558	2,905	2,490	2,703	2,466	2,333
<b>OPERATING PROFIT</b>							
House care (coating, etc.)	67	149	197	283	141	198	151
Building management	66	74	88	75	69	81	78
Property development	134	80	-37	-1	58	13	-14
Sub-total	267	303	248	357	268	292	219
Consolidation adjustment	-122	-125	-137	-167	-222	-241	-270
Total	145	178	111	190	46	51	-51

(Source: Company data)

The management expects profitability to recover in FY18, thanks to the contribution of new businesses, mainly house care services for aged condominiums. According to the company’s own results forecast for FY18, performance is expected to recover to historically high levels with sales of JPY2,734 mn and operating profit of JPY178 mn. We understand that the forecast does not include the property business (Sendagi project), which is expected to come on line in FY19.

**Balance sheet:** Ruden has very low (currently zero) reliance on bank borrowings, because the core house care and building management businesses do not require inventories and the receivables turnover period is short. The property business is financed with cash holdings and equity financing.

In January 2018, Ruden issued new shares and warrants (each equivalent to 8% of outstanding shares) through third party allotment to Chinese investors (pure financial investment with no lock-up period). The new shares (JPY374 mn at share price @JPY370) were fully subscribed, and the proceeds were used to finance the

Sendagi project. Warrants (JPY374 mn at exercise price @JPY370) can be exercised anytime within two years.

**Cash flow:** Ruden’s cash flow had been affected by changes in inventory levels, and pre-tax profit had also been volatile due to the timing of property sales and other extraordinary factors. Given that the clean-up of the balance sheet is completed, we expect operating cash flow to stabilize, although future projects may have some impact. The management intends to finance future projects with capital generated internally, and does not expect to rely on external financing.

**OUTLOOK**

On February 28, 2018, Ruden announced the new three-year (FY18-20) business plan. The company expects its core house care business to grow steadily in new markets (for example, the sharp growth in the second-hand apartment-related business), and the company’s total revenue/profit structure is expected to become more stable going forward. In addition to the three core businesses, the recent acquisition of the software business (visual technology) could provide additional upside.

The theoretical share price of Ruden will be @JPY800 based on the business plan’s FY20 target net profit at PER 50x.

	FY2017	FY2018	FY2019	FY2020
	Actual	Guidance	Target	Target
Sales	2,355	2,734	3,241	3,620
Operating Profit	-51	178	267	381
OP margin	-2.2%	6.5%	8.2%	10.5%
Recurring Profit	-42	185	273	387
<b>Net Profit</b>	<b>-60</b>	<b>151</b>	<b>179</b>	<b>238</b>

(Source: Company)

Net Profit (JPY mn)	100	150	180	200	240	250
# of shares in issue	11,372,400					
Warrants	3,796,100					
Total (fully diluted)	15,168,500					
<b>EPS (JPY)</b>	<b>6.6</b>	<b>9.9</b>	<b>11.9</b>	<b>13.2</b>	<b>15.8</b>	<b>16.5</b>
<b>PER</b>						
<b>20</b>	132	198	237	264	316	330
<b>30</b>	198	297	356	396	475	494
<b>40</b>	264	396	475	527	633	659
<b>50</b>	330	494	593	659	791	824
<b>60</b>	396	593	712	791	949	989
<b>70</b>	461	692	831	923	1,108	1,154

(Estimation for simulation purposes only)

Current price level

FINANCIAL DATA

INCOME STATEMENT

(JPY mn)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18F
Sales	3,077	2,558	2,905	2,489	2,703	2,466	2,355	2,734
Gross profit	852	912	906	1,071	978	948	890	
SG&A	708	735	795	882	931	897	941	
Operating profit	145	177	111	189	47	51	-51	178
Nono-operating profit	29	30	30	28	93	18	17	
Non-operating expense	46	62	31	29	9	4	8	
Recurring profit	128	145	110	188	131	66	-42	185
Extraordinary profit/loss	-1	-213	172	16	-70	16	-27	
Pre-tax profit	128	-68	282	204	60	82	-69	
Taxation	21	10	22	45	20	24	-9	
Net profit/loss	107	-78	260	159	40	58	-60	151

(Source: Company data)

YoY CHANGE

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18F
Sales		-16.9%	13.6%	-14.3%	8.6%	-8.8%	-4.5%	16.1%
Gross profit		7.0%	-0.7%	18.2%	-8.7%	-3.1%	-6.1%	
SG&A		3.8%	8.2%	10.9%	5.6%	-3.7%	4.9%	
Operating profit		22.1%	-37.3%	70.3%	-75.1%	8.5%	-	-
Recurring profit		13.3%	-24.1%	70.9%	-30.3%	-49.6%	-	-
Net profit		-172.9%	-	-38.8%	-74.8%	45.0%	-	-

(Source: Company data)

PROFIT MARGIN (AS % OF SALES)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18F
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	27.7%	35.7%	31.2%	43.0%	36.2%	38.4%	37.8%	0.0%
SG&A	23.0%	28.7%	27.4%	35.4%	34.4%	36.4%	40.0%	0.0%
Operating profit	4.7%	6.9%	3.8%	7.6%	1.7%	2.1%	-2.2%	6.5%
Recurring profit	4.2%	5.7%	3.8%	7.6%	4.8%	2.7%	-1.8%	6.8%
Net profit	3.5%	-3.0%	9.0%	6.4%	1.5%	2.4%	-2.5%	5.5%

(Source: Company data)

EBITDA

(JPY mn)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Pre-tax profit	128	-68	-68	204	60	82	-69
Interest payment	7	1	1	0	0	0	0
Depreciation, Amortization	17	29	17	16	34	6	9
EBITDA	152	-38	-50	220	94	88	-60
EBITDA margin	4.9%	-1.5%	-1.7%	8.8%	3.5%	3.6%	-2.5%
Int.-bearing debt/EBITDA	0.4	0.0	0.0	0.0	0.0	0.0	-

(Source: Company data)

CASH FLOW

(JPY mn)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Operation	303	440	-10	-52	294	-300	-58
Investment	17	-90	-10	0	522	-217	19
Free cash flow	320	350	-20	-52	816	-517	-39
Financing	-285	-61	93	0	0	-4	50
Total	35	289	73	-52	816	-521	11

(Source: Company data)

**BALANCE SHEET**

(JPY mn)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17
<b>Current assets</b>							
Cash and deposits	113	401	477	423	1,241	723	730
Receivables	199	377	335	434	298	344	273
Real estate for sale	767	51	70	540	160	598	178
Advance payment	0	37	179	64	242	2	94
Loans	474	474	474	474	0	228	462
Loan loss reserves	-9	-31	-54	-78	-0	-0	0
Total current assets	1,557	1,325	1,500	1,940	1,965	2,047	2,098
<b>Fixed assets</b>							
Buildings	14	14	13	13	16	63	61
Goodwill	45	34	23	13	2	0	96
Investment securities	30	30	30	30	31	3	4
Investments	0	82	82	82	0	0	1
Long-term deposits	200	0	0	0	0	0	0
Problem loans	424	619	621	620	621	623	622
Loan loss reserves	-654	-649	-649	-620	-691	-693	-692
Total fixed assets	170	237	226	209	115	185	310
<b>Total assets</b>	1,726	1,561	1,725	2,149	2,081	2,232	2,409
<b>Current liabilities</b>							
Short-term borrowing	61	0	0	0	0	0	0
Accounts payable	172	153	158	279	168	176	171
Tax payable	24	11	25	40	10	23	9
Deposits received	221	4	8	10	20	36	38
Reserves for damages for breach of contract	0	190	0	0	0	0	0
Total current liabilities	503	418	220	432	262	265	255
<b>Fixed liabilities</b>							
Long-term Borrowing	0	0	0	0	0	0	109
Allowance for retirement benefits	6	6	5	6	7	7	8
Others	17	14	15	26	12	2	3
Total fixed liabilities	22	21	20	32	19	9	120
<b>Total liabilities</b>	526	438	240	465	281	274	375
<b>Net assets</b>							
Paid-in capital	1,735	1,735	1,782	1,782	1,782	1,782	1,809
Capital reserve	268	268	314	314	314	314	341
Retained earnings/losses	-802	-880	-620	-461	-421	-363	-423
Treasury stock	-0	-0	-0	-0	-0	-0	-0
Share warrant	0	0	9	49	125	225	306
Total net assets	1,201	1,123	1,486	1,684	1,800	1,958	2,033
<b>Total liabilities and net assets</b>	1,726	1,561	1,725	2,149	2,081	2,232	2,409

(Source: Company data)

**FINANCIAL RATIOS**

	FY11	FY12	FY13	FY14	FY15	FY16	FY17
ROA	6.2%	-5.0%	15.1%	7.4%	1.9%	2.6%	-2.5%
ROE	8.9%	-6.9%	17.5%	9.4%	2.2%	3.0%	-3.0%
Equity / total assets	69.6%	71.9%	86.1%	78.4%	86.5%	87.7%	84.4%

(Source: Company data)

**INTEREST-BEARING LIABILITIES**

(JPY mn)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Total	61	0	0	0	0	0	109

(Source: Company data)

**DISCLAIMER**

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