

Consolidated Financial Results for the Six Months Ended September 30, 2020 [IFRS]



November 12, 2020

Company name: Shinwa Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange and Nagoya Stock Exchange

Code number: 3447

URL: <http://www.shinwa-jp.com/en/relation/index.html>

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Scheduled date of filing the quarterly securities report: November 12, 2020

Scheduled date of commencing dividend payments: —

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2020 (April 1, 2020 to September 30, 2020)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2020	6,381	(31.9)	745	(39.0)	711	(40.0)	490	(39.8)
September 30, 2019	9,370	8.7	1,222	21.7	1,186	21.8	814	29.9

	Profit attributable to owners of parent		Comprehensive income	
Six months ended	Million yen	%	Million yen	%
September 30, 2020	483	(40.6)	492	(39.6)
September 30, 2019	814	29.9	814	29.6

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2020	34.33	34.19
September 30, 2019	58.25	57.84

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
As of September 30, 2020	21,420	13,674	13,619	63.6
As of March 31, 2020	21,620	13,788	13,740	63.6

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2020	Yen —	Yen 0.00	Yen —	Yen 44.00	Yen 44.00
Fiscal year ending March 31, 2021	—	0.00			
Fiscal year ending March 31, 2021 (Forecast)			—	29.00	29.00

Note: Revision to the dividends forecast announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%
	13,900	(18.6)	1,550	(29.9)	1,480	(30.8)	1,019	(30.6)

	Profit attributable to owners of parent		Basic earnings per share
Full year	Million yen	%	Yen
	1,000	(31.8)	70.98

Note: Revision to the financial results forecast announced most recently: No

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in change in scope of consolidation): No
- (2) Changes in accounting policies and changes in accounting estimates
 - 1) Changes in accounting policies required by IFRS: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
- (3) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
September 30, 2020: 14,089,200 shares
March 31, 2020: 14,089,200 shares
 - 2) Total number of treasury shares at the end of the period:
September 30, 2020: - shares
March 31, 2020: - shares
 - 3) Average number of shares during the period:
Six months ended September 30, 2020: 14,089,200 shares
Six months ended September 30, 2019: 13,988,800 shares

*These consolidated financial results are outside the scope of quarterly review by Certified Public Accountants or auditing corporations.

*Explanation of the proper use of financial results forecast and other notes

Financial results forecasts were prepared based on information available at the time of the announcement of this document, and actual results may differ from the forecasts owing to a wide range of factors. For the conditions that form the assumptions for the financial results forecasts, please refer to (4) Explanation of Consolidated Financial Results Forecast and Other Forward-Looking Information in 1. Qualitative Information on Quarterly Financial Results for the Period under Review on page 5 of the Attachment.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

During the six months ended September 30, 2020, the Japanese economy faced extremely challenging conditions, with the spread of the novel coronavirus infection causing a serious slowdown not only in consumption but across socioeconomic activity.

Furthermore, while there are some signs of economic improvement, capital investment remains weak, and coronavirus situations both in Japan and overseas continue to be unpredictable.

In the construction industry, which is the supply destination of products manufactured by the Company, the declaration of a state of emergency caused the suspension and postponement of work at construction sites, as well as the suppression of new investment due to uncertainty about the future. However, once the state of emergency was lifted, there was steady and better-than-expected demand for construction, particularly for public works projects.

Under these circumstances, aiming to improve operating efficiency while prioritizing the health of its employees and customers, the Group has strived to prevent the spread of the disease and carry out efficient business operations through measures such as promoting working from home at all its facilities and encouraging the use of web conferences.

The Group has also endeavored to reduce costs and control expenditure through all sorts of measures such as reducing directors' compensation and other fixed costs on an ongoing basis and reviewing new investment projects, in preparation for a decrease in revenue.

The spread of the novel coronavirus infection caused a delay in the launch of GUANGDONG NISSHIN-CHUANGFU ADVANCED CONSTRUCTION MATERIALS Co., Ltd., a Chinese manufacturing subsidiary established last November, but the subsidiary commenced manufacturing and selling from June this year. Meanwhile, the Company closed its Philippine Representative Office in August this year, considering the prolonged disruption in economic activities and the outlook of public safety and other factors in the Republic of the Philippines.

As a result of the above, revenue for the six months ended September 30, 2020 amounted to ¥6,381 million (down 31.9% year on year). The gross profit ratio came to 25.4% (improved by 0.8 percentage points year on year). Operating profit was ¥745 million (down 39.0% year on year) and the operating profit ratio was 11.7% (fell by 1.4 percentage points year on year). Profit before tax amounted to ¥711 million (down 40.0% year on year), and profit attributable to owners of parent amounted to ¥483 million (down 40.6% year on year).

As the Group is comprised of a single business segment, information regarding the revenue of each Division is provided below.

1) Scaffolding Equipment Division

The Scaffolding Equipment Division was affected by the suspension and postponement of work at existing construction sites as well as the postponement of new construction investment projects due to the spread of the novel coronavirus infection. However, the decline in construction activities was not as sharp as anticipated, and demand for the Company's products was firm. As a result, revenue for the Scaffolding Equipment Division for the six months ended September 30, 2020 amounted to ¥5,436 million (down 32.6% year on year), exceeding the initial forecast.

2) Logistics Equipment Division

In the Logistics Equipment Division, products involved in overseas distribution, including pallets for the automobile industry and bulk containers for liquid shipping, were affected by the decline in distribution overseas due to the spread of the novel coronavirus infection.

In addition, the acceptance inspection that was initially scheduled for a large-scale warehouse construction project was delayed until October. As a result, revenue of the Logistics Equipment Division for the six months ended September 30, 2020 amounted to ¥945 million (down 27.6% year on year), falling short of the initial forecast.

(Thousand yen)

Name of product and service		For the six months ended September 30, 2019	For the six months ended September 30, 2020
Scaffolding equipment	Wedge binding type scaffolding	5,015,510	2,913,751
	Next generation scaffolding	1,172,177	973,795
	Other scaffolding equipment	1,876,926	1,548,614
	Subtotal	8,064,614	5,436,162
Logistics equipment	Pallets	1,305,857	945,211
	Subtotal	1,305,857	945,211
Total		9,370,471	6,381,373

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the second quarter of the fiscal year under review increased by ¥31 million from the end of the previous fiscal year to ¥8,376 million, mainly due to factors such as an increase in cash and cash equivalents of ¥162 million, an increase in trade and other receivables of ¥108 million, and a decrease in inventories of ¥228 million. Additionally, non-current assets decreased by ¥231 million from the end of the previous fiscal year to ¥13,043 million. The decrease was primarily attributable to factors such as a decrease in property, plant and equipment of ¥230 million. As a result, total assets decreased by ¥200 million from the end of the previous fiscal year to ¥21,420 million.

(Liabilities)

Current liabilities at the end of the second quarter of the fiscal year under review increased by ¥128 million from the end of the previous fiscal year to ¥2,146 million, mainly due to factors such as an increase in trade and other payables of ¥349 million and a decrease in income taxes payable of ¥201 million. Additionally, non-current liabilities decreased by ¥215 million from the end of the previous fiscal year to ¥5,598 million. The decrease was primarily attributable to factors such as a decrease in borrowings of ¥242 million. As a result, total liabilities decreased by ¥86 million from the end of the previous fiscal year to ¥7,745 million.

(Equity)

Total equity at the end of the second quarter of the fiscal year under review decreased by ¥113 million from the end of the previous fiscal year to ¥13,674 million. This was mainly attributable to factors such as the posting of profit attributable to owners of parent of ¥483 million and dividends paid of ¥619 million leading to a decrease in retained earnings of ¥136 million.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the end of the second quarter of the fiscal year under review was ¥3,282 million, an increase of ¥162 million from the end of the previous fiscal year.

Cash flows from each activity for the six months ended September 30, 2020 and their primary factors are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities for the six months ended September 30, 2020 was ¥1,058 million, a decrease of ¥169 million year on year. The main factors affecting cash inflows are related to profit before tax of ¥711 million, depreciation and amortization of ¥346 million, an increase in trade and other payables of ¥351 million and a decrease in inventories of ¥228 million. The main factors affecting cash outflows are related to income taxes paid of ¥432 million and an increase in trade and other receivables of ¥175 million.

(Cash flows from investing activities)

Net cash used in investing activities for the six months ended September 30, 2020 was ¥44 million, a decrease of ¥141 million year on year. The main factor affecting cash outflows is purchase of property, plant and equipment of ¥66 million.

(Cash flows from financing activities)

Net cash used in financing activities for the six months ended September 30, 2020 was ¥853 million, a decrease of ¥68 million year on year. The main factors affecting cash outflows are dividends paid of ¥618 million and repayments of long-term borrowings of ¥250 million.

(4) Explanation of Consolidated Financial Results Forecast and Other Forward-Looking Information

With regard to the consolidated financial results forecast for the fiscal year ending March 31, 2021, the Company revised the first half and full-year forecasts announced on May 15, 2020 in light of the recent financial results and other factors. For details, please see “Notice Regarding Revisions of Financial Results Forecast (IFRS) and Dividends Forecast,” which was released on October 29, 2020.

With regard to the forecast for the fiscal year ending March 31, 2021, there remain a considerable number of uncertainties, including the trend of novel coronavirus infections in Japan and overseas, trade issues overseas and economic trends, causing extremely uncertain conditions. However, there are signs of improvement as efforts are being made to increase the level of socioeconomic activities while taking measures to prevent the spread of the novel coronavirus infection. Under such circumstances, we have formulated the financial results forecast for the fiscal year based on the following assumptions.

1) Scaffolding Equipment Division

Despite expectations for a recovery in demand for scaffolding equipment following the lifting of the declaration of a state of emergency, with the resumption of construction work that had been suspended or postponed, we anticipate that companies will remain cautious towards capital investments, and demand for the Company’s products will recover more slowly than initially expected.

Based on these assumptions, the Company expects revenue of the Scaffolding Equipment Division in full year to amount to ¥11,156 million (down 23.3% year on year).

2) Logistics Equipment Division

The Logistics Equipment Division offers made-to-order products for storage and transportation to wide range of industries.

Among these, products involved in overseas distribution, including pallets for the automobile industry and bulk containers for liquid shipping, have been affected by the decline in distribution due to the spread of the novel coronavirus infection. However, the Company anticipates investments in logistics equipment will gradually normalize as the distribution volume picks up both in Japan and overseas.

In addition, a receiving inspection is scheduled to be conducted for a large-scale distribution warehouse project. Accordingly, the Company expects revenue of the Logistics Equipment Division in full year to come to ¥2,743 million (up 8.1% year on year).

The Company will continue to endeavor to reduce costs through all sorts of measures such as reducing directors’ compensation and other fixed costs and streamlining new investment projects.

Based on the above, for the fiscal year ending March 31, 2021, the Company expects revenue of ¥13,900 million (down 18.6% year on year), operating profit of ¥1,550 million (down 29.9% year on year), profit before tax of ¥1,480 million (down 30.8% year on year), and profit attributable to owners of parent of ¥1,000 million (down 31.8% year on year).

The above forecasts were prepared based on the information available at the time of the announcement of this document and include much uncertain factors such as the impact of the novel coronavirus infection and changes in industry conditions such as demand trend. The actual results, therefore, may substantially differ from the forecasts due to changes in various factors.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousand yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and cash equivalents	3,120,411	3,282,707
Trade and other receivables	2,777,446	2,885,775
Inventories	2,405,597	2,176,802
Other current assets	42,132	31,683
Total current assets	8,345,587	8,376,969
Non-current assets		
Property, plant and equipment	2,370,577	2,139,934
Right-of-use assets	353,196	365,960
Goodwill	9,221,769	9,221,769
Intangible assets	1,258,021	1,247,126
Other financial assets	59,617	57,786
Other non-current assets	11,760	10,725
Total non-current assets	13,274,943	13,043,303
Total assets	21,620,530	21,420,272

	(Thousand yen)	
	As of March 31, 2020	As of September 30, 2020
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	739,649	1,089,605
Borrowings	495,430	530,150
Income taxes payable	432,829	231,720
Other financial liabilities	83,340	80,375
Other current liabilities	267,084	215,089
Total current liabilities	2,018,335	2,146,941
Non-current liabilities		
Borrowings	5,202,637	4,960,329
Provisions	45,561	45,570
Other financial liabilities	240,131	261,401
Deferred tax liabilities	321,913	327,650
Other non-current liabilities	3,900	3,900
Total non-current liabilities	5,814,144	5,598,852
Total liabilities	7,832,479	7,745,794
Equity		
Share capital	150,125	150,125
Capital surplus	6,951,814	6,966,121
Retained earnings	6,640,266	6,504,072
Other components of equity	(1,534)	(749)
Total equity attributable to owners of parent	13,740,672	13,619,569
Non-controlling interests	47,378	54,908
Total equity	13,788,051	13,674,478
Total liabilities and equity	21,620,530	21,420,272

(2) Condensed Quarterly Consolidated Statements of Profit or Loss and Comprehensive Income
Condensed Quarterly Consolidated Statement of Profit or Loss
For the Six-Month Period

(Thousand yen)

	For the six months ended September 30, 2019	For the six months ended September 30, 2020
Revenue	9,370,471	6,381,373
Cost of sales	(7,063,265)	(4,761,315)
Gross profit	2,307,206	1,620,058
Selling, general and administrative expenses	(1,084,798)	(908,123)
Other income	2,926	38,541
Other expenses	(2,795)	(5,172)
Operating profit	1,222,539	745,303
Finance income	80	155
Finance costs	(35,989)	(33,542)
Profit before tax	1,186,630	711,916
Income tax expense	(371,822)	(221,424)
Profit	814,807	490,492
Profit attributable to		
owners of parent	814,807	483,730
Non-controlling interests	—	6,761
Profit	814,807	490,492
Earnings per share		
Basic earnings per share (yen)	58.25	34.33
Diluted earnings per share (yen)	57.84	34.19

Condensed Quarterly Consolidated Statement of Comprehensive Income
For the Six-Month Period

(Thousand yen)

	For the six months ended September 30, 2019	For the six months ended September 30, 2020
Profit	814,807	490,492
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	—	1,552
Total of items that may be reclassified to profit or loss	—	1,552
Other comprehensive income	—	1,552
Comprehensive income	814,807	492,045
Comprehensive income attributable to		
owners of parent	814,807	484,515
Non-controlling interests	—	7,529
Comprehensive income	814,807	492,045

(3) Condensed Quarterly Consolidated Statement of Changes in Equity
For the Six Months Ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Total equity attributable to owners of parent	Total equity
Balance at beginning of period	150,125	6,915,576	5,793,305	12,859,007	12,859,007
Cumulative effect of accounting change	—	—	(4,805)	(4,805)	(4,805)
Restated balance	150,125	6,915,576	5,788,499	12,854,201	12,854,201
Profit	—	—	814,807	814,807	814,807
Comprehensive income	—	—	814,807	814,807	814,807
Dividends	—	—	(615,507)	(615,507)	(615,507)
Share-based remuneration transactions	—	18,445	—	18,445	18,445
Total transactions with owners	—	18,445	(615,507)	(597,061)	(597,061)
Balance at end of period	150,125	6,934,022	5,987,799	13,071,947	13,071,947

For the Six Months Ended September 30, 2020 (From April 1, 2020 to September 30, 2020)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Other components of equity		Total equity attributable to owners of parent	Non-controlling interests	Total equity
				Exchange differences on translation of foreign operations	Total other components of equity			
Balance at beginning of period	150,125	6,951,814	6,640,266	(1,534)	(1,534)	13,740,672	47,378	13,788,051
Profit	—	—	483,730	—	—	483,730	6,761	490,492
Other comprehensive income	—	—	—	785	785	785	767	1,552
Comprehensive income	—	—	483,730	785	785	484,515	7,529	492,045
Dividends	—	—	(619,924)	—	—	(619,924)	—	(619,924)
Share-based remuneration transactions	—	14,306	—	—	—	14,306	—	14,306
Total transactions with owners	—	14,306	(619,924)	—	—	(605,618)	—	(605,618)
Balance at end of period	150,125	6,966,121	6,504,072	(749)	(749)	13,619,569	54,908	13,674,478

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousand yen)

	For the six months ended September 30, 2019	For the six months ended September 30, 2020
Cash flows from operating activities		
Profit before tax	1,186,630	711,916
Depreciation and amortization	328,940	346,966
Finance income and finance costs	35,909	33,387
Loss (gain) on sale of fixed assets	(199)	(15)
Loss on disposal of property, plant and equipment	0	285
Share-based remuneration expenses	18,445	14,306
Decrease (increase) in inventories	(46,768)	228,914
Decrease (increase) in trade and other receivables	(229,941)	(175,892)
Increase (decrease) in trade and other payables	25,119	351,197
Other	77,710	112
Subtotal	1,395,845	1,511,177
Interest and dividends received	80	155
Interest paid	(21,044)	(19,425)
Income taxes paid	(195,667)	(432,922)
Income taxes refund	49,482	—
Net cash provided by (used in) operating activities	1,228,696	1,058,985
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	50,035	—
Proceeds from sale of property, plant and equipment	200	19,419
Purchase of property, plant and equipment	(235,097)	(66,019)
Purchase of intangible assets	(3,456)	—
Other	2,488	1,832
Net cash provided by (used in) investing activities	(185,830)	(44,767)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	33,973
Repayments of long-term borrowings	(250,000)	(250,000)
Payments of financial expenditures	(3,991)	(4,544)
Capital contribution from non-controlling interests	—	32,788
Dividends paid	(612,364)	(618,384)
Repayments of lease liabilities	(55,529)	(46,982)
Net cash provided by (used in) financing activities	(921,885)	(853,150)
Effect of exchange rate changes on cash and cash equivalents	—	1,228
Net increase (decrease) in cash and cash equivalents	120,980	162,296
Cash and cash equivalents at beginning of period	1,742,662	3,120,411
Cash and cash equivalents at end of period	1,863,642	3,282,707

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Significant subsequent events)

There is no relevant information.