

Consolidated Financial Results for the Nine Months Ended December 31, 2020 [IFRS]



February 12, 2021

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: February 12, 2021

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 Nine Months Ended December 31, 2020 (April 1, 2020 to December 31, 2020)

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

	Revenue		Operating profit		Profit before tax		Profit	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2020	10,699	(21.8)	1,516	(17.2)	1,465	(17.6)	1,015	(16.8)
December 31, 2019	13,688	1.2	1,831	14.6	1,778	14.5	1,220	21.4

	Profit attributable to owners of parent		Comprehensive income	
Nine months ended	Million yen	%	Million yen	%
December 31, 2020	1,003	(17.8)	1,019	(16.5)
December 31, 2019	1,220	21.4	1,220	21.3

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2020	71.24	70.95
December 31, 2019	87.28	86.22

(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 December 31, 2020	22,159	14,202	14,140	63.8
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)				33.00	33.00

Note: Revision to the dividends forecast announced most recently: Yes

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)	1,741	(21.2)	1,670	(21.9)	1,150	(21.7)

	Profit attributable to owners of parent		Basic earnings per share	
Full year	Million yen	%	Yen	
	1,150	(21.6)	81.62	

Note: Revision to the financial results forecast announced most recently: Yes

*** 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):
December 31, 2020: 14,089,200 shares
March 31, 2020: 14,089,200 shares
 - 2) Total number of treasury shares at the end of the period:
December 31, 2020: - shares
March 31, 2020: - shares
 - 3) Average number of shares during the period:
Nine months ended December 31, 2020: 14,089,200 shares
Nine months ended December 31, 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 nine months ended December 31, 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. While there are some signs of economic improvement at present, 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 issued in April 2020 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 demand for construction, particularly for public works projects.

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 aimed to improve profitability by focusing on the manufacture and supply of safety equipment and other high value-added products, which remained in high demand despite the coronavirus crisis.

Furthermore, 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.

The spread of the novel coronavirus infection caused a delay in the launch of GUANGDONG NISSHINCHUANGFU ADVANCED CONSTRUCTION MATERIALS Co., Ltd., a Chinese manufacturing subsidiary established in November 2019, but the subsidiary commenced manufacturing and selling from June 2020. Meanwhile, the Company closed its Philippine Representative Office in August 2020, 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 nine months ended December 31, 2020 amounted to ¥10,699 million (down 21.8% year on year). The gross profit ratio came to 26.5% (improved by 1.3 percentage points year on year). Operating profit was ¥1,516 million (down 17.2% year on year) and the operating profit ratio was 14.2% (improved by 0.8 percentage points year on year). Profit before tax amounted to ¥1,465 million (down 17.6% year on year), and profit attributable to owners of parent amounted to ¥1,003 million (down 17.8% year on year), exceeding expectations.

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 construction work 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, such as safety equipment, was firm. As a result, revenue for the Scaffolding Equipment Division for the nine months ended December 31, 2020 amounted to ¥8,587 million (down 26.8% year on year), exceeding expectations.

2) Logistics Equipment Division

The Logistics Equipment Division performed strongly as business activity gradually recovered, primarily in the automobile industry, despite the adverse effects of a decline in distribution, mainly overseas, due to the spread of the novel coronavirus infection.

In addition, the acceptance inspection for a large-scale warehouse construction project, which had previously been delayed, was implemented as planned during the third quarter of the fiscal year under review. As a result, revenue of the Logistics Equipment Division for the nine months ended December 31, 2020 amounted to ¥2,112 million (up 8.1% year on year), exceeding expectations.

(Thousand yen)

Name of product and service		For the nine months ended December 31, 2019	For the nine months ended December 31, 2020
Scaffolding equipment	Wedge binding type scaffolding	7,386,643	4,769,453
	Next generation scaffolding	1,616,487	1,407,546
	Other scaffolding equipment	2,731,184	2,410,184
	Subtotal	11,734,315	8,587,184
Logistics equipment	Pallets	1,954,396	2,112,644
	Subtotal	1,954,396	2,112,644
Total		13,688,712	10,699,829

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the third quarter of the fiscal year under review increased by ¥840 million from the end of the previous fiscal year to ¥9,186 million, mainly due to factors such as an increase in cash and cash equivalents of ¥1,320 million, an increase in trade and other receivables of ¥158 million, and a decrease in inventories of ¥628 million. Additionally, non-current assets decreased by ¥301 million from the end of the previous fiscal year to ¥12,973 million. The decrease was primarily attributable to factors such as a decrease in property, plant and equipment of ¥293 million. As a result, total assets increased by ¥539 million from the end of the previous fiscal year to ¥22,159 million.

(Liabilities)

Current liabilities at the end of the third quarter of the fiscal year under review increased by ¥329 million from the end of the previous fiscal year to ¥2,347 million, mainly due to factors such as an increase in trade and other payables of ¥142 million and an increase in borrowings of ¥89 million. Additionally, non-current liabilities decreased by ¥204 million from the end of the previous fiscal year to ¥5,609 million. The decrease was primarily attributable to factors such as a decrease in borrowings of ¥238 million. As a result, total liabilities increased by ¥124 million from the end of the previous fiscal year to ¥7,957 million.

(Equity)

Total equity at the end of the third quarter of the fiscal year under review increased by ¥414 million from the end of the previous fiscal year to ¥14,202 million. This was mainly attributable to factors such as the posting of profit attributable to owners of parent of ¥1,003 million and dividends paid of ¥619 million leading to an increase in retained earnings of ¥383 million.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the end of the third quarter of the fiscal year under review was ¥4,440 million, an increase of ¥1,320 million from the end of the previous fiscal year.

Cash flows from each activity for the nine months ended December 31, 2020 and their primary factors are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities for the nine months ended December 31, 2020 was ¥2,256 million, an increase of ¥465 million year on year. The main factors affecting cash inflows are related to profit before tax of ¥1,465 million, depreciation and amortization of ¥504 million, a decrease in inventories of ¥629 million, and an increase in trade and other payables of ¥145 million. The main factors affecting cash outflows are related to income taxes paid of ¥433 million and an increase in trade and other receivables of ¥194 million.

(Cash flows from investing activities)

Net cash used in investing activities for the nine months ended December 31, 2020 was ¥112 million, a decrease of ¥214 million year on year. The main factor affecting cash outflows is purchase of property, plant and equipment of ¥131 million.

(Cash flows from financing activities)

Net cash used in financing activities for the nine months ended December 31, 2020 was ¥827 million, a decrease of ¥124 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 full-year (April 1, 2020 to March 31, 2021) consolidated results forecast and dividend forecast announced on October 29, 2020 in light of the consolidated financial results for the nine months ended December 31, 2020 and other factors (hereinafter “the current revisions”). For details, please refer to “Notice Regarding Revisions of Financial Results Forecast (IFRS) and Dividends Forecast,” released today.

The current revisions are formulated based on the assumption that no substantial delay or slowdown will occur in construction work, even though a sense of stagnation may arise in economic activity in Japan overall, with the emergence of a third wave of novel coronavirus infections and the declaration of a state of emergency issued in January 2021, while also taking into account the consolidated financial results for the nine months ended December 31, 2020.

1) Scaffolding Equipment Division

The declaration of a state of emergency in January 2021 is not anticipated to give rise to any substantial delay or slowdown in construction or other work. However, companies’ cautious approach to capital investment is expected to stay firmly-rooted, and the pace of recovery in demand for the Company’s products is expected to remain slow.

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 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, orders received for large-scale projects have been strong, and 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 consolidated revenue of ¥13,900 million (down 18.6% year on year), operating profit of ¥1,741 million (down 21.2% year on year), profit before tax of ¥1,670 million (down 21.9% year on year), profit of ¥1,150 million (down 21.7% year on year) and profit attributable to owners of parent of ¥1,150 million (down 21.6% year on year).

In addition, the Company has revised the amount of its total annual dividend forecast to ¥33 per share, an increase of ¥4 per share compared to the previous dividend forecast, based on the current revisions and the Company’s payout ratio target.

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 December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	3,120,411	4,440,474
Trade and other receivables	2,777,446	2,935,648
Inventories	2,405,597	1,777,018
Other current assets	42,132	33,099
Total current assets	8,345,587	9,186,240
Non-current assets		
Property, plant and equipment	2,370,577	2,077,316
Right-of-use assets	353,196	359,627
Goodwill	9,221,769	9,221,769
Intangible assets	1,258,021	1,246,529
Other financial assets	59,617	57,835
Other non-current assets	11,760	10,397
Total non-current assets	13,274,943	12,973,475
Total assets	21,620,530	22,159,715

	(Thousand yen)	
	As of March 31, 2020	As of December 31, 2020
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	739,649	882,532
Borrowings	495,430	585,056
Income taxes payable	432,829	476,980
Other financial liabilities	83,340	80,479
Other current liabilities	267,084	322,527
Total current liabilities	2,018,335	2,347,577
Non-current liabilities		
Borrowings	5,202,637	4,963,695
Provisions	45,561	45,575
Other financial liabilities	240,131	272,990
Deferred tax liabilities	321,913	323,580
Other non-current liabilities	3,900	3,900
Total non-current liabilities	5,814,144	5,609,740
Total liabilities	7,832,479	7,957,317
Equity		
Share capital	150,125	150,125
Capital surplus	6,951,814	6,966,121
Retained earnings	6,640,266	7,024,075
Other components of equity	(1,534)	524
Total equity attributable to owners of parent	13,740,672	14,140,846
Non-controlling interests	47,378	61,552
Total equity	13,788,051	14,202,398
Total liabilities and equity	21,620,530	22,159,715

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

(Thousand yen)

	For the nine months ended December 31, 2019	For the nine months ended December 31, 2020
Revenue	13,688,712	10,699,829
Cost of sales	(10,238,029)	(7,860,272)
Gross profit	3,450,682	2,839,556
Selling, general and administrative expenses	(1,619,334)	(1,357,888)
Other income	5,086	59,233
Other expenses	(4,664)	(24,077)
Operating profit	1,831,770	1,516,824
Finance income	94	357
Finance costs	(53,457)	(51,272)
Profit before tax	1,778,407	1,465,909
Income tax expense	(557,440)	(449,993)
Profit	1,220,966	1,015,915
Profit attributable to		
Owners of parent	1,220,966	1,003,733
Non-controlling interests	—	12,182
Profit	1,220,966	1,015,915
Earnings per share		
Basic earnings per share (yen)	87.28	71.24
Diluted earnings per share (yen)	86.22	70.95

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

(Thousand yen)

	For the nine months ended December 31, 2019	For the nine months ended December 31, 2020
Profit	1,220,966	1,015,915
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	—	4,050
Total of items that may be reclassified to profit or loss	—	4,050
Other comprehensive income	—	4,050
Comprehensive income	1,220,966	1,019,965
Comprehensive income attributable to		
Owners of parent	1,220,966	1,005,792
Non-controlling interests	—	14,173
Comprehensive income	1,220,966	1,019,965

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the Nine Months Ended December 31, 2019 (From April 1, 2019 to December 31, 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	–	–	1,220,966	1,220,966	1,220,966
Comprehensive income	–	–	1,220,966	1,220,966	1,220,966
Dividends	–	–	(615,507)	(615,507)	(615,507)
Share-based remuneration transactions	–	33,574	–	33,574	33,574
Total transactions with owners	–	33,574	(615,507)	(581,932)	(581,932)
Balance at end of period	150,125	6,949,150	6,393,959	13,493,235	13,493,235

For the Nine Months Ended December 31, 2020 (From April 1, 2020 to December 31, 2020)

(Thousand yen)

	(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	—	—	1,003,733	—	—	1,003,733	12,182	1,015,915
Other comprehensive income	—	—	—	2,058	2,058	2,058	1,991	4,050
Comprehensive income	—	—	1,003,733	2,058	2,058	1,005,792	14,173	1,019,965
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	7,024,075	524	524	14,140,846	61,552	14,202,398

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousand yen)

	For the nine months ended December 31, 2019	For the nine months ended December 31, 2020
Cash flows from operating activities		
Profit before tax	1,778,407	1,465,909
Depreciation and amortization	499,634	504,935
Finance income and finance costs	53,362	50,914
Loss (gain) on sale of fixed assets	(200)	(115)
Loss on disposal of property, plant and equipment	0	85
Share-based remuneration expenses	33,574	14,306
Decrease (increase) in inventories	(472,193)	629,126
Decrease (increase) in trade and other receivables	496,444	(194,317)
Increase (decrease) in trade and other payables	(196,246)	145,614
Other	66,186	102,990
Subtotal	2,258,969	2,719,449
Interest and dividends received	94	357
Interest paid	(31,043)	(30,020)
Income taxes paid	(486,328)	(433,180)
Income taxes refund	49,482	—
Net cash provided by (used in) operating activities	1,791,174	2,256,606
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	50,035	—
Proceeds from sale of property, plant and equipment	201	19,510
Purchase of property, plant and equipment	(384,167)	(131,660)
Purchase of intangible assets	(3,456)	(2,598)
Other	10,197	1,784
Net cash provided by (used in) investing activities	(327,190)	(112,963)
Cash flows from financing activities		
Proceeds from short-term borrowings	—	87,048
Repayments of long-term borrowings	(250,000)	(250,000)
Payments of financial expenditures	(6,502)	(7,557)
Capital contribution from non-controlling interests	—	33,150
Dividends paid	(612,766)	(618,861)
Repayments of lease liabilities	(81,857)	(70,896)
Net cash provided by (used in) financing activities	(951,126)	(827,117)
Effect of exchange rate changes on cash and cash equivalents	—	3,538
Net increase (decrease) in cash and cash equivalents	512,856	1,320,062
Cash and cash equivalents at beginning of period	1,742,662	3,120,411
Cash and cash equivalents at end of period	2,255,519	4,440,474

(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.