

## DAIDO STEEL CO., LTD. (5471 JP)

DEMAND FROM SEMICONDUCTOR AND INDUSTRIAL MACHINERY SECTORS ESTIMATED TO RECOVER LATER IN FY24

### FY23 RESULTS

Daido Steel (5471 JP) produced FY23 (March year-end) results on 10 May 2024, with FY23 OP of ¥42,113mil (-10.4% YoY) on sales of ¥581,287mil (+0.5% YoY). In the Q4 alone, OP came in at ¥9,062mil (-2.9% YoY / -35.5% QoQ) on sales of ¥142,924mil (-0.6% YoY / -4.6% QoQ). Both FY23 Sales and OP undershot the firm's guidance revised on 30 October by -3.1% and -10.4%, respectively. Net profit [NP] hit a record level, thanks to gains from the sale of (1) strategically held investment securities (+¥26,696mil) and (2) property (+¥7,047mil).

The shortfall in sales was mainly because the expected Q4 recovery in the industrial machinery sector did not materialise. Also, Q4 sales volumes were lower due to 1) the negative impact from the Noto earthquake, 2) fraud issues at OEM makers, 3) weak auto sales by Japanese OEM makers in China.

Daido Steel (5471 JP): Earnings Results and Guidance Summary					
¥mil	FY23				
	1H	FY	YoY (%)	FYCE	FY vs. FYCE (%)
Steel Products Sales Volume (tonne)	529,000	1,072,000	-1.2	1,076,000	-0.4
Sales	288,594	581,287	0.5	600,000	-3.1
COGS	240,953	479,772	0.7	N/A	N/A
COGS / Sales (%)	83.5	82.5	+0.2ppt	N/A	N/A
GP	47,640	101,515	-0.8	N/A	N/A
GPM (%)	16.5	17.5	-0.2ppt	N/A	N/A
SG&A	28,637	59,401	7.3	N/A	N/A
SG&A / Sales (%)	9.9	10.2	+0.6ppt	N/A	N/A
OP	19,003	42,113	-10.4	47,000	-10.4
OPM (%)	6.6	7.2	-0.9ppt	7.8	-0.6ppt
RP	21,083	45,031	-6.4	48,500	-7.2
Extraordinary Profit / Loss	-2,680	28,529	2,198.9	N/A	N/A
Corporation Tax	-5,941	-21,238	95.4	N/A	N/A
NP*	11,465	49,759	36.6	32,000	55.5

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

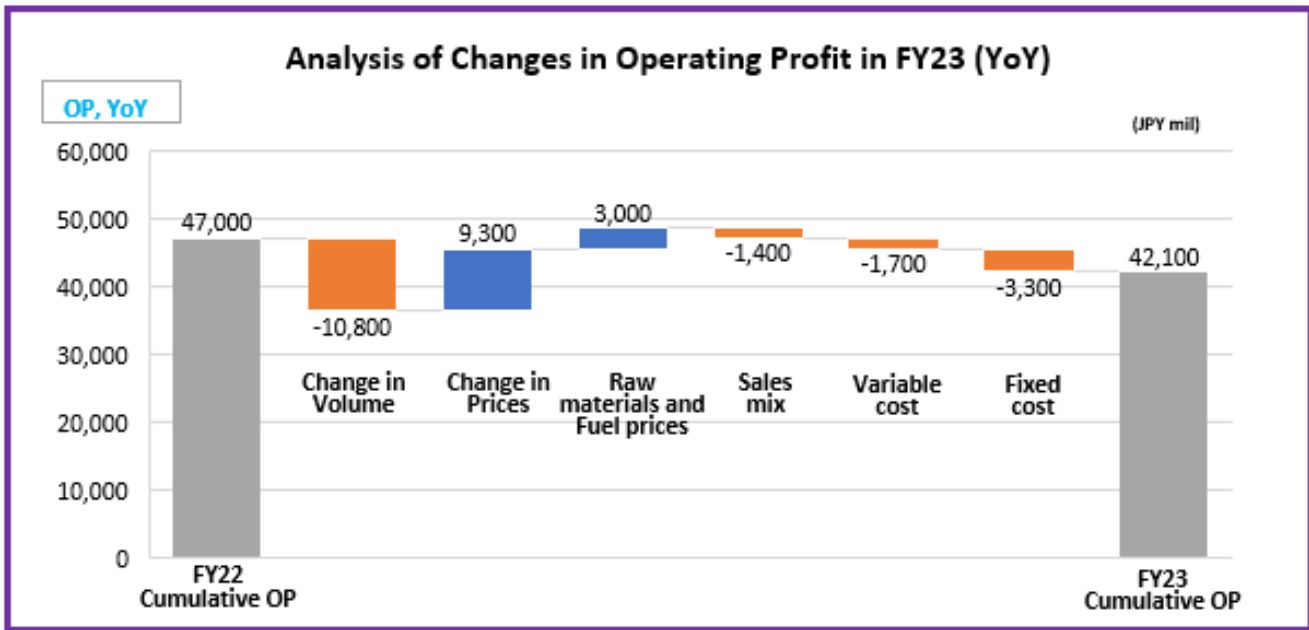
Although the firm saw solid progress in earnings until Q3 with generating 50% of 2H OP guidance in Q3 OP alone, 2H OP fell short of the company estimate by approx.¥4,900mil (-17.5%). The primary reasons for the shortfall include 1) lower than expected sales volume and decline in sales of group companies, and 2) there was approx. ¥2,000mil negative impact to OP in 2H, including inventory revaluation loss associated with decline in the Nickel market. On the segment basis, the one that underperformed the most was Performance Materials & Magnetic Materials [PM& MM] segment. Due to the decline in orders from the semiconductor sector and continued weakness in demand from the industrial machinery sector, Daido's High Performance Materials & Magnetic Materials [PM&MM] segment missed the company's new full year sales and OP forecasts released on 30 October by -3.4% and -24.0%, respectively. However, although 2H OP fell short of guidance, it improved HoH to ¥23,110mil (-2.7% YoY) vs 1H

### EXECUTIVE SUMMARY

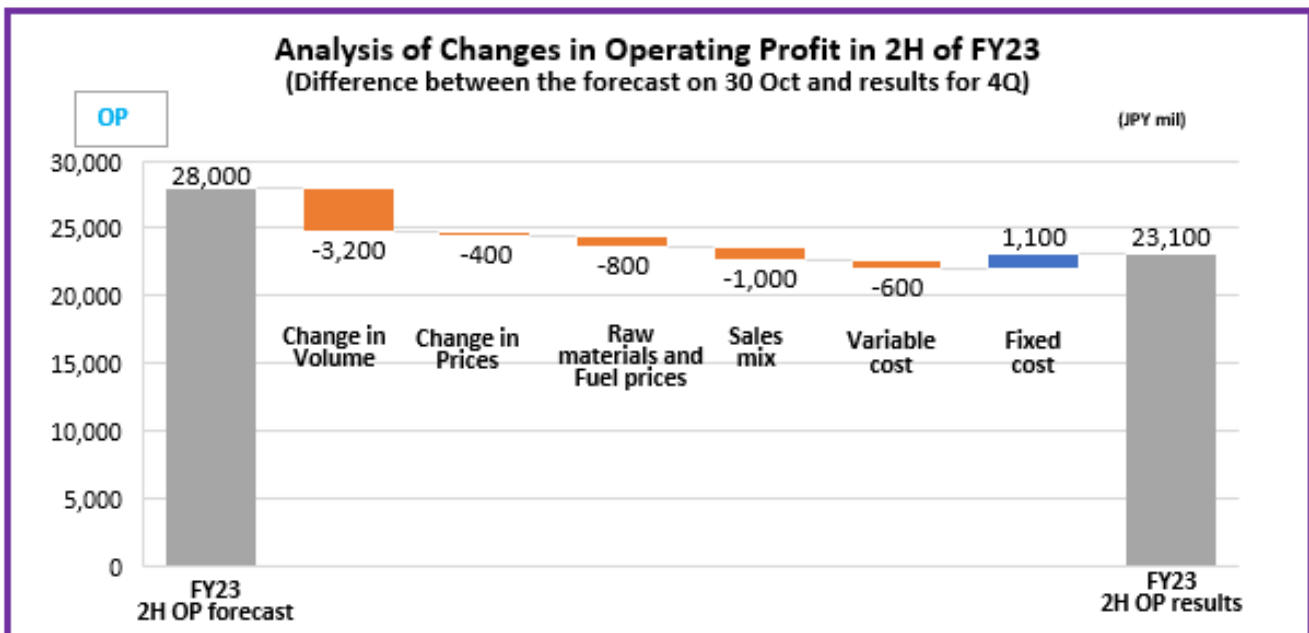
- Daido Steel (5471 JP) saw a -10.4% YoY decline in FY23 (March year-end) OP to ¥42,113mil on sales of ¥581,287mil (+0.5% YoY). For the Q4, OP came in at ¥9,062mil (-2.9% YoY / -35.5% QoQ) on sales of ¥142,924mil (-0.6% YoY / -4.6% QoQ).
- FY23 OP fell -¥4,872mil YoY / -10.4% YoY, with the largest impact from the weak sales volumes of steel products (approx. -¥10,800mil YoY) due to lackluster demand for stainless steel from both the semiconductor and industrial machinery sector.
- From FY24, Daido Steel will use IFRS as its accounting standard. The firm guides for FY24 1H OP of ¥22,000mil on sales of ¥290,000mil and FY24 OP of ¥48,000mil on sales of ¥600,000mil. Due to the shift to IFRS, like-for-like YoY comparisons are not provided. On a Japanese GAAP basis, the FY24 guidance would call for OP of ¥50,000mil (+18.7% YoY) on sales of ¥600,000 (+3.2% YoY).
- Assumptions for FY24 earnings are: 1) Auto production will be at the level that reflects real demand, 2) a recovery in demand from the industrial machinery sector from 2H, 3) that demand from the SPE sector will remain weak but there might be a sudden might pick up momentum, 4) the current global geopolitical issues may impact business conditions and earnings.
- FY24 dividend policy remains the same – benchmark pay-out ratio of 30%.
- Daido's capital allocation will primarily focus on the following three areas:
  - CAPEX,
  - investments related to achieving a carbon neutral status, and
  - dividend payments.

OP of ¥19,003mil (-18.2% YoY). Despite almost flat steel product sales volumes in the 2H [543,000 tonnes (-0.4% YoY / +2.6% HoH)], price hikes contributed to the HoH improvement in OP.

FY23 total OP declined -¥4,872mil YoY (-10.4% YoY), with the largest impact from the decline in steel products sales volumes (approx. -¥10,800mil YoY) due to lackluster demand for stainless steel from both the semiconductor and industrial machinery sector. In addition, there was a hit from the change in sales mix (-¥1,400mil YoY) due to less demand for stainless steel products and a decline in sales of tool steel, although high margin open die forging and engineering revenue improved. These factors were offset by price hikes (+¥9,300mil YoY) and lower raw material costs (+¥3,000mil YoY) thanks to lower steel scrap and Nickel prices compared to FY22.



Source: Nippon-IBR based on FY23 Earning Results Materials published by Daido Steel



Source: Nippon-IBR based on FY23 Earning Results Materials published by Daido Steel

## FY23 EARNINGS BY SEGMENT

The FY23 performance for Daido Steel's three major segments is discussed below:

### 1. Specialty Steel Segment

**[FY23 Sales ¥219,021mil (+2.0% YoY) / OP ¥14,797mil (+51.4% YoY) / OPM 6.8% (+2.3ppt YoY)]**

Specialty Steel Segment produced FY23 OP of ¥14,797mil (+51.4% YoY) on sales of ¥219,021mil (+2.0% YoY). Steel products sales volumes were -1.2% lower YoY, however, price hikes to cover the surge in the cost of energy contributed to sales growth. The surge in OP was thanks to 1) a recovery in auto production as the supply of semiconductors improved and, 2) successful price hikes reflecting higher energy costs. Consequently, segment OPM increased +2.3ppt YoY to 6.8%.

The FY23 OP performance came in ahead of guidance by approx. ¥1,300mil / 9.6% YoY, thanks to 1) effective stockpiling, to mitigate the higher energy costs, resulted in reduced fixed cost, and 2) FOREX valuation gains. In the Q4 alone, segment OP came in at ¥2,560mil (+103.2% YoY / -56.7% QoQ) on sales of ¥51,518mil (-2.0% YoY / -12.1% QoQ), which led to an OPM of 5.0% (+2.6ppt YoY / -5.1ppt QoQ). The QoQ decline in the segment earnings are the result of several unique factors that negatively affected the auto sector such as 1) the Noto Peninsula earthquake 2) cases of fraud at Japanese OEMs, and 3) weak sales of Japanese OEMs in China.

### 2. High Performance Materials & Magnetic Materials Segment

**[FY23 sales ¥202,832mil (-7.7% YoY) / OP ¥14,432mil (-40.6% YoY) / OPM 7.1% (-4.0ppt YoY)]**

The segment reported FY23 OP of ¥14,432mil (-40.6% YoY) on sales of ¥202,832mil (-7.7% YoY), resulting in the OPM contracting -4.0ppt YoY to 7.1%. The sales performance was affected by 1) a decline in semiconductor-related orders for stainless steel on the back of delayed inventory adjustments, and 2) sluggish orders from the industrial machinery sector due to prolonged inventory adjustment in the sector's supply chain.

The decline in sales volume could not be offset by price hikes to meet the surge in energy costs. Management had anticipated industrial machinery sector demand would recover from Q4; however, the situation did not improve. This led to FY23 segment earnings to fall short of the sales and OP guidance by -3.4% and -24.0% respectively. Contributions to OP from sales volumes were approx. -¥2,200mil lower than expected. Fewer shipments to the semiconductor sector also led to a deterioration in the sales mix. Furthermore, the fall in Nickel prices – from \$10/lb in April 23 to approx. \$7.7/lb in March 24 – resulted in a revaluation of inventory. In the Q4 alone, the segment reported OP of ¥3,195mil (-24.9% YoY / -23.4% QoQ) on sales of ¥49,736mil (-5.2% YoY / -1.5% QoQ), generating an OPM of 6.4% (-1.7ppt YoY / -1.9ppt QoQ).

Stainless steel is mostly used in highly processed auto parts, such as sensors and fuel injection high pressure parts, therefore, tends to have a longer value chain before delivery to end-users. Consequently, the impact from inventory adjustments is subject to time lags. Daido Steel had expected SPE-related demand would likely peak out in FY23, along with the silicon cycle trend, hence the core reason for the segment earnings weakness is due to the prolonged inventory adjustments in stainless steel for the machinery sector. The firm maintains its cautious view, though anticipates a recovery from FY24 2H onwards.

### 3. Parts for Automobiles / Industrial Equipment Segment

**[FY23 sales ¥105,633mil (+4.3% YoY) / OP ¥7,539mil (-8.3% YoY) / OPM 7.1% (-1.0ppt YoY)]**

Parts for Automobile and Industrial Equipment reported FY23 OP of ¥7,539mil (-8.3% YoY) on sales of ¥105,633mil (+4.3% YoY). In the Q1, sales of high alloy products, such as open die forging, were affected by the shortage of throughput at Daido's Shibukawa Factory, though the issue was resolved in Q2. As a result, the segment's sales mix improved and led to the OPM substantially rising from 2.2% in Q1 to 7.5% in Q2; and then rising again to 9.6% in Q3. However, the segment OPM fell again to 8.7% in Q4 primarily due to the shipment-based product mix. This saw FY23 segment sales and OP fall short of guidance by -7.3% and -24.6%, respectively. Demand for open die forging products – from energy, aircraft, and the oil and gas sector – remained solid, while earnings from the firm's subsidiary Daido Casting (unlisted) remained sluggish. In the Q4 alone, the segment produced OP of ¥2,379mil (+3.3% YoY / -7.9% QoQ) on sales of ¥27,351mil (+5.2% YoY / +1.8% QoQ), to produce an OPM of 8.7% (-0.2ppt YoY / -0.9ppt QoQ).

Daido Steel (5471JP): Sales, OP and OPM by Segment (Cumulative)								
(¥mil)		FY22		FY23				
		1H	FY	1H	FY	YoY (%)	FY CE	FY vs. FYCE (%)
Specialty Steel	Sales	102,740	214,770	108,904	219,021	2.0	227,000	-3.5
	OP	4,223	9,771	6,322	14,797	51.4	13,500	9.6
	OPM (%)	4.1	4.5	5.8	6.8	+2.3ppt	5.9	+0.9ppt
High Performance Materials & Magnetic Materials	Sales	109,566	219,724	102,609	202,832	-7.7	210,000	-3.4
	OP	13,437	24,286	7,066	14,432	-40.6	19,000	-24.0
	OPM (%)	12.3	11.1	6.9	7.1	-4.0ppt	9.0	-1.9ppt
Parts for Automobile and Industrial Equipment	Sales	49,485	101,232	51,402	105,633	4.3	114,000	-7.3
	OP	3,362	8,217	2,576	7,539	-8.3	10,000	-24.6
	OPM (%)	6.8	8.1	5.0	7.1	-1.0ppt	8.8	-1.7ppt
Engineering	Sales	8,336	18,956	11,014	23,117	22.0	23,000	0.5
	OP	412	1,425	1,066	2,424	70.1	1,500	61.6
	OPM (%)	4.9	7.5	9.7	10.5	+3.0ppt	6.5	+4.0ppt
Trading & Service	Sales	11,727	23,881	14,662	30,681	28.5	26,000	18.0
	OP	1,816	3,293	1,951	2,900	-11.9	3,000	-3.3
	OPM (%)	15.5	13.8	13.3	9.5	-4.3ppt	11.5	-2.0ppt
Total	Sales	281,857	578,564	288,594	581,287	0.5	600,000	-3.1
	OP	23,225	46,986	19,003	42,113	-10.4	47,000	-10.4
	OPM (%)	8.2	8.1	6.6	7.2	-0.9ppt	7.8	-0.6ppt

Source: Nippon-IBR based on FY23 Earnings Results Materials published by Daido Steel  
Total numbers are after adjusted for inter-segment trades.

Daido Steel (5471JP): Sales, OP and OPM by Segment (Quarterly)											
(¥mil)		FY22				FY23					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY (%)	QoQ (%)
Specialty Steel	Sales	50,591	52,149	59,463	52,567	55,333	53,571	58,599	51,518	-2.0	-12.1
	OP	135	4,088	4,288	1,260	2,732	3,590	5,915	2,560	103.2	-56.7
	OPM (%)	0.3	7.8	7.2	2.4	4.9	6.7	10.1	5.0	-2.6ppt	-5.1ppt
High Performance Materials & Magnetic Materials	Sales	54,431	55,135	57,687	52,471	51,252	51,357	50,487	49,736	-5.2	-1.5
	OP	7,507	5,930	6,597	4,252	3,331	3,735	4,171	3,195	-24.9	-23.4
	OPM (%)	13.8	10.8	11.4	8.1	6.5	7.3	8.3	6.4	-1.7ppt	-1.9ppt
Parts for Automobile and Industrial Equipment	Sales	23,828	25,657	25,745	26,002	24,082	27,320	26,880	27,351	5.2	1.8
	OP	1,758	1,604	2,551	2,304	529	2,047	2,584	2,379	3.3	-7.9
	OPM (%)	7.4	6.3	9.9	8.9	2.2	7.5	9.6	8.7	-0.2ppt	-0.9ppt
Engineering	Sales	3,778	4,558	5,208	5,412	5,022	5,992	6,091	6,012	11.1	-1.3
	OP	-65	477	266	747	500	566	700	658	-11.9	-6.0
	OPM (%)	n/a	10.5	5.1	13.8	10.0	9.4	11.5	10.9	-2.9ppt	-0.6ppt
Trading & Service	Sales	5,051	6,676	4,766	7,388	6,248	8,414	7,713	8,306	12.4	7.7
	OP	883	933	686	791	881	1,070	703	246	-68.9	-65.0
	OPM (%)	17.5	14.0	14.4	10.7	14.1	12.7	9.1	3.0	-7.7ppt	-6.1ppt
Total	Sales	137,682	144,175	152,869	143,838	141,938	146,656	149,769	142,924	-0.6	-4.6
	OP	10,190	13,035	14,429	9,332	7,979	11,024	14,048	9,062	-2.9	-35.5
	OPM (%)	7.4	9.0	9.4	6.5	5.6	7.5	9.4	6.3	-0.2ppt	-3.1ppt

Source: Nippon-IBR based on FY22 & FY23 Earnings Results Materials published by Daido Steel

## FY24 OUTLOOK

Daido Steel will use IFRS as its accounting standard from FY24. The firm guides for FY24 1H OP of ¥22,000mil on sales of ¥290,000mil and FY24 OP of ¥48,000mil on sales of ¥600,000mil. Due to shift to IFRS, like-for-like YoY comparisons are not provided. On a Japanese GAAP basis, the FY24 guidance would call for OP of ¥50,000mil (+18.7% YoY) on sales of ¥600,000 (+3.2% YoY). Compared to the Japanese GAAP, IFRS OP will be approx. -¥2,000mil lower – the gap due to differences in accounting for retirement benefit (-¥1,700mil) and SG&A itemisation (-¥300mil).

Daido Steel maintains an annual payout ratio of 30% as a benchmark for its shareholder return policy. In FY24, the firm plans to pay an annual dividend of ¥47/share (a 1:5 stock split was implemented on 1 January 2024), or a pay-out ratio of 30.4%.

Key assumptions by management for the FY24 outlook include:

- 1 Auto production will be at the level that reflects the real demand after adjustments runs their course amid normalised components supply – including semiconductors.
- 2 Demand from the industrial machinery sector will likely gradually recover towards the latter half of FY24.
- 3 Demand from the semiconductor sector might suddenly see a pickup in momentum.
- 4 The current ongoing global geopolitical issues might continue to cause sudden inflationary pressure and further supply chain disruptions.

Daido Steel (5471 JP): Earnings Results and Guidance Summary						
(¥mil)	FY22		FY23		FY24 (IFRS)	
	1H	FY	1H	FY	1H CE	FY CE
Steel Products Sales Volume (tonne)	540,000	1,085,000	529,000	1,072,000	526,000	1,080,000
Sales	281,857	578,564	288,594	581,287	290,000	600,000
COGS	230,921	476,224	240,953	479,772	N/A	N/A
COGS / Sales (%)	81.9	82.3	83.5	82.5	N/A	N/A
GP	50,935	102,340	47,640	101,515	N/A	N/A
GPM (%)	18.1	17.7	16.5	17.5	N/A	N/A
SG&A	27,710	55,353	28,637	59,401	N/A	N/A
SG&A / Sales (%)	9.8	9.6	9.9	10.2	N/A	N/A
OP	23,225	46,986	19,003	42,113	22,000	48,000
OPM (%)	8.2	8.1	6.6	7.2	7.6	8.0
RP / Pre-tax profit (IFRS)	24,092	48,122	21,083	45,031	23,000	50,000
Extraordinary Profit / Loss	-407	1,241	-2,680	28,529	N/A	N/A
Corporation Tax	-4,225	-10,867	-5,941	-21,238	N/A	N/A
NP*	18,294	36,438	11,465	49,759	15,000	33,000

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

Raw Materials Price Trend							
			FY20	FY21	FY22	FY23	FY24
			Result	Result	Result	Result	Assumption
Scrap	H2	¥000/t	24.9	47.6	46.3	43.7	47.5
	Factory Bundle		28.9	53.9	50.7	47.9	52.0
Nickle	LME	\$/Lb	6.8	9.3	11.6	8.7	7.5
Crude Oil	Dubai Brent	\$/bbl	45.8	76.6	90.3	81.3	85.0
FOREX	TTM	¥/\$	107.1	113.4	135.5	144.6	150.0

Source: Daido Steel FY20~FY23 Earnings Results Tanshin

Management's strategies for growth in order to meet the firm's FY24 forecasts and achieve the new medium-term targets – due for release on 6 June – are based on the following factors:

- Reduce costs
- Improve labour productivity
- Ensure the firm's pricing strategy reflects any increasing inflationary pressure.
- Work on keeping the firm's operations as flexible as possible to meet the rapidly changing business environment.
- Promptly spend CAPEX for strategic products to ensure a prompt response for any surge in demand. Specifically, to be prepared should there be a rapid recovery in stainless steel for SPEs by having capability of flexible production.
- Continue to improve cash flow by optimising inventory assets under pricing pressure.
- Promote medium- to long-term business portfolio reforms.

The YoY increase in FY24 OP (Japanese GAAP basis) is estimated at approx. +¥7,900mil (+18.9% YoY), with contributions from 1) an increase in sales volumes (+¥11,400mil YoY), especially stainless steel, 2) lower raw material and energy costs (+¥4,500mil: Steel scrap -¥3,000mil, alloys including nickel +¥6,500mil, energy and other materials +¥1,000mil), and 3) an improved sales mix (+¥5,100mil) thanks to an increase in sales of open die forging, a change in sales mix of stainless steel, and an increase in tool steel). On the other hand, negative factors include 1) pricing (-¥8,400mil) and 2) higher fixed costs (-¥4,800mil), such as salary & bonus, subcontractor fees and maintenance costs to ensure stable operations.

## FY24 FORECASTS BY SEGMENT

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

### 1. Specialty Steel

**[FY24 sales ¥225,000mil, OP ¥12,500mil, OPM 5.6%]**

Daido Steel guides for FY24 1H Specialty Steel segment OP of ¥5,500mil on sales of ¥110,000mil, and FY24 OP of ¥12,500mil on sales of ¥225,000mil (IFRS basis). On a Japanese GAAP basis, guidance for OP would come in at ¥13,500mil (-8.8% YoY) on sales of 225,000mil (+2.7% YoY).

The YoY decline in the segment OP is primarily due to management's assumption that steel product sales volumes to the auto sector will likely decline YoY, and that fixed costs will rise. FY24 steel products sales volumes are expected to be almost flat at 1,080,000 tonnes (+0.7% YoY), with guidance for the 1H at 526,000 tonnes (-0.5% YoY / -3.1 % HoH). The firm assumes Japanese OEM makers' CY24 global auto production of 26.2mil units (13.1mil units semi-annually) and global auto demand of 91.7mil units. Semi-annual production of 13.1mil units is split into domestic production of 4.2mil units and overseas production of 8.9mil units. Moreover, the industrial machinery sector is also expected to recover from 2H.

Daido Steel's conservative view on 1H steel production is due to the seasonally lower numbers of operating days. However, the firm has ample production capacity to meet any unexpected surge in demand. In the event of this happening, management anticipates upside to earnings.

### 2. High Performance Materials & Magnetic Materials

**[FY24 sales ¥210,000mil, OP ¥20,500mil, OPM 9.8%]**

Here, the firm is guiding for FY24 1H segment OP of ¥9,500mil on sales of ¥100,000mil, and full-year FY24 OP of ¥20,500mil on sales of ¥210,000mil. On a Japanese GAAP basis, the FY24 guidance would call for OP of ¥21,000mil (+45.5%YoY) on sales of ¥210,000mil (+3.5% YoY). Higher shipments of products would also likely boost OP.

Since April 24, the trend in orders has been outperforming the firm's assumption thanks to:



1. The likely bottoming out of orders from the industrial machinery sector from 2H. Daido Steel refers to the Machine Tool Order statistics published monthly by Japan Machine Tool Builders’ Association [JMTBA] to create its own CY24 machine tool order estimate. Based on that assumption, CY24 machine tool orders will likely be around 83% of the pre-COVID peak of CY18 but if adjusted for inflation, 69% of CY18.
2. A rebound in nickel prices to \$8/lb has led to a speculation that nickel price will not fall further, hence customers start placing orders now.
3. Although stainless steel demand for SPEs has not yet shown signs of full-fledged recovery, there is a sign that orders are gradually recovering, for example, orders have been a couple of percentage points above the firm’s internal Q1 order assumption since April. While management expects inventory adjustments in the SPE value chain will likely continue through the 1H, the view is that demand may start recovering from 2H. Daido Steel aims to be proactive in its production management so as to maximise shipments so as to capture any sudden jump in demand from the SPE sector.

### 3. Parts for Automobile and Industrial Equipment Segment

[FY24 sales ¥115,000mil, ¥11,000mil, OPM 9.6%]

Daido Steel is guiding for FY24 1H segment OP of ¥5,000mil on sales of ¥55,000mil and full-year FY24 OP of ¥11,000mil on sales of ¥115,000mil. This compares with Japanese GAAP basis estimates for OP of ¥11,500mil (+52.5% YoY) on sales of ¥115,000mil (+8.9% YoY). Despite strong demand, the company faced production throughput issues and cost increases as it had to subcontract out to meet the demand. Current order levels have surpassed the firm’s optimal production level; therefore, as noted above, one of management’s strategies for the next medium-term plan is to ensure the open die forging production capacity is adjusted accordingly so production bottle necks are minimized to reduce subcontracting out and to improve production efficiency. For the time being, the firm has secured sufficient production capacity to meet its FY24 earnings forecast. Thanks to improvements in productivity, the segment will likely achieve OP of approx. ¥2,500~¥3,500mil per quarter.

Daido Steel (5471JP): Sales, OP and OPM by Segment (FY24 numbers adjusted for Japanese GAAP)										
¥mil		FY23					FY24 CE (adjusted for Japanese GAAP)			
		1H	FY	YoY (%)	FY CE	FY vs. FYCE (%)	1H CE	YoY (%)	FYCE	YoY (%)
Specialty Steel	Sales	108,904	219,021	2.0	227,000	-3.5	110,000	1.0	225,000	2.7
	OP	6,322	14,797	51.4	13,500	9.6	5,500	-13.0	13,500	-8.8
	OPM (%)	5.8	6.8	+2.3ppt	5.9	+0.9ppt	5.0	-0.8ppt	6.0	-0.8ppt
High Performance Materials & Magnetic Materials	Sales	102,609	202,832	-7.7	210,000	-3.4	100,000	-2.5	210,000	3.5
	OP	7,066	14,432	-40.6	19,000	-24.0	9,500	34.4	21,000	45.5
	OPM (%)	6.9	7.1	-4.0ppt	9.0	-1.9ppt	9.5	+2.6ppt	10.0	+2.9ppt
Parts for Automobile and Industrial Equipment	Sales	51,402	105,633	4.3	114,000	-7.3	55,000	7.0	115,000	8.9
	OP	2,576	7,539	-8.3	10,000	-24.6	5,000	94.1	11,500	52.5
	OPM (%)	5.0	7.1	-1.0ppt	8.8	-1.7ppt	9.1	+4.1ppt	10.0	+2.9ppt
Engineering	Sales	11,014	23,117	22.0	23,000	0.5	10,000	-9.2	20,000	-13.5
	OP	1,066	2,424	70.1	1,500	61.6	500	-53.1	1,500	-38.1
	OPM (%)	9.7	10.5	+3.0ppt	6.5	+4.0ppt	5.0	-4.7ppt	7.5	-3.0ppt
Trading & Service	Sales	14,662	30,681	28.5	26,000	18.0	15,000	2.3	30,000	-2.2
	OP	1,951	2,900	-11.9	3,000	-3.3	1,500	-23.1	2,500	-13.8
	OPM (%)	13.3	9.5	-4.3ppt	11.5	-2.0ppt	10.0	-3.3ppt	8.3	-1.2ppt
Total	Sales	288,594	581,287	0.5	600,000	-3.1	290,000	0.5	600,000	3.2
	OP	19,003	42,113	-10.4	47,000	-10.4	22,000	15.8	50,000	18.7
	OPM (%)	6.6	7.2	-0.9ppt	7.8	-0.6ppt	7.6	+1.0ppt	8.3	+1.1ppt

Source: Nippon-IBR based on FY23 Earnings Results Materials published by Daido Steel  
Total numbers are after adjusted for inter-segment trades.

Daido Steel (5471JP): Sales, OP and OPM by Segment (Cumulative)				
(¥mil)		FY24 CE (IFRS)		
		1H CE	2H CE	FYCE
Specialty Steel	Sales	110,000	115,000	225,000
	OP	5,500	7,000	12,500
	OPM (%)	5.0	6.1	5.6
High Performance Materials & Magnetic Materials	Sales	100,000	110,000	210,000
	OP	9,500	11,000	20,500
	OPM (%)	9.5	10.0	9.8
Parts for Automobile and Industrial Equipment	Sales	55,000	60,000	115,000
	OP	5,000	6,000	11,000
	OPM (%)	9.1	10.0	9.6
Engineering	Sales	10,000	10,000	20,000
	OP	500	1,000	1,500
	OPM (%)	5.0	10.0	7.5
Trading & Service	Sales	15,000	15,000	30,000
	OP	1,500	1,000	2,500
	OPM (%)	10.0	6.7	8.3
Total	Sales	290,000	310,000	600,000
	OP	22,000	26,000	48,000
	OPM (%)	7.6	8.4	8.0

Source: Nippon-IBR based on FY23 Earnings Results Materials published by Daido Steel  
Total numbers are after adjusted for inter-segment trades.

## MEDIUM TERM PLAN – RECAP

FY23 was the last year of Daido Steel's current three-year medium-term management plan. The plan's OP target of over ¥40,000mil was achieved in FY22 and although the level of OP declined YoY in FY23, it still overshot the medium-term plan target. Although steel product sales volumes fell short of the plan for 1.2mil tonnes and landed at 1.072mil tonnes, OP was boosted by price hikes as the company introduced surcharges to reflect the higher cost of energy, which used to be not subject to surcharge.

Growth in Daido Steel's strategic products, such as high-performance stainless steel and open die forging, has led to a marked improvement in sales mix. As a result, ROE reached 10.4% in FY22, surpassing the medium-term target of 8%. In FY23, although high-performance stainless steel products were affected by weak demand, ROE reached 12.5% on the back of sale of assets boosting extraordinary profits.

The D/E ratio also landed at 0.41x, better than the firm's target of 0.5x, thanks to improved cash flow. The new medium-term plan will likely be announced on 6 June 2024.



	FY2023 mid-term targets	FY 2023 results	Evaluation
Operating income	Not less than 40 billion yen	42.1 billion yen	Operating income was higher than the target value.
ROE (Return on Equity)	8.0%	12.5%	ROE was significantly higher than the target value due to the sale of cross-shareholdings.
D/E ratio	0.50	0.41	Our financial position was strengthened by improved cash flow.
3-year total of investment (on an approval basis)	85 billion yen	94.7 billion yen	Strategic investments were promoted in fast-growing areas.
Specialty steel sales	Over 1,200 thousand tons	1,072 thousand tons	We failed to reach the target values for automobile- and industrial equipment-related products, due to declines in demand.

Source: Daido Steel Co., Ltd. FY23 Results Briefings

## PROMOTING CAPITAL EFFICIENCY

Daido's capital allocation primarily focuses on the following three areas:

- (1) CAPEX,
- (2) investments related to achieving a carbon neutral status, and
- (3) dividend payments.

During the medium-term management plan (FY21~FY23), Daido Steel continued to unwind strategically held shares. The firm sold a total of ¥44,800mil worth of holdings over the three years. In FY23, Daido Steel accelerated the sale of investment securities and sold four holdings (approx ¥35,800mil) and reported an extraordinary profit of +¥26,696mil. Due to the stock market strength, the total value of shares held on the balance sheet has not declined. However, the firm reduced 40% of its stock holdings.

In addition, Daido Steel reported an extraordinary profit of +¥7,047mil from the sale of fixed assets in FY23, of which +¥6,900mil was from sale of a leasing property owned by a subsidiary, currently leased to Aeon Mall Atsuta.

## RESPONDING TO TSE'S PBR1X INITIATIVE

Daido Steel aims to maintain a PBR above 1x (as of 23 May 2024, PBR is 0.78x) by the following strategies set in place to improve ROE:

1. Expand sales of high value-added products, such as open die forging, high-performance stainless steel, and titanium products.
2. Optimal use of assets by 1) optimal control of inventory, 2) liquidation of strategically held stocks and real estate
3. Dividend policy: Daido Steel commits to a stable dividend pay-out ratio – with some variation depending on the level of investments, profit, and the firm's financial situation.

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For further enquiry, please contact:

Nippon Investment Bespoke Research UK Ltd  
118 Pall Mall  
London SW1Y 5EA  
TEL: +44 (0)20 7993 2583  
Email : [enquiries@nippon-ibr.com](mailto:enquiries@nippon-ibr.com)



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