

## Fibergate (9450, Corporate)

## Business-Use emergence

30<sup>th</sup> May 2024

Share price: ¥ 1,245

Market cap: ¥25.6bn

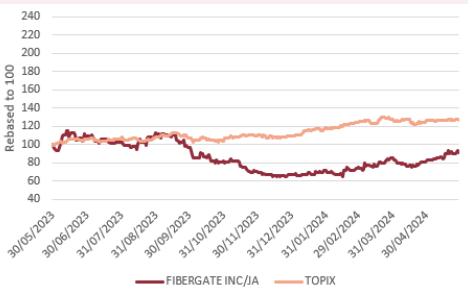
**3Q earnings confirmed the emergence of the Business-Use division as a new driver of long-term earnings growth.**

## Company sector

Diversified Telecommunication (GICS Industry)

## Stock data

Price (¥)	1,245
Mkt cap (¥bn)/(\$m)	25.6 / 163.3
52-week range (¥)	875 - 1,606
Shares O/S (m)	20.6
Average daily value (\$m)	0.9
Free float (%)	45.4
Foreign shareholding (%)	9.8
Ticker	9450
Exchange	Tokyo Prime
Net Debt/Equity (x)	51.4



Source: Bloomberg

## BUSINESS OVERVIEW

Fibergate is the #2 ranked supplier of domestic wireless telecom services, including free Wi-Fi spot construction, maintenance & operation.

## Next event

FY 6/24 results in August 2024.

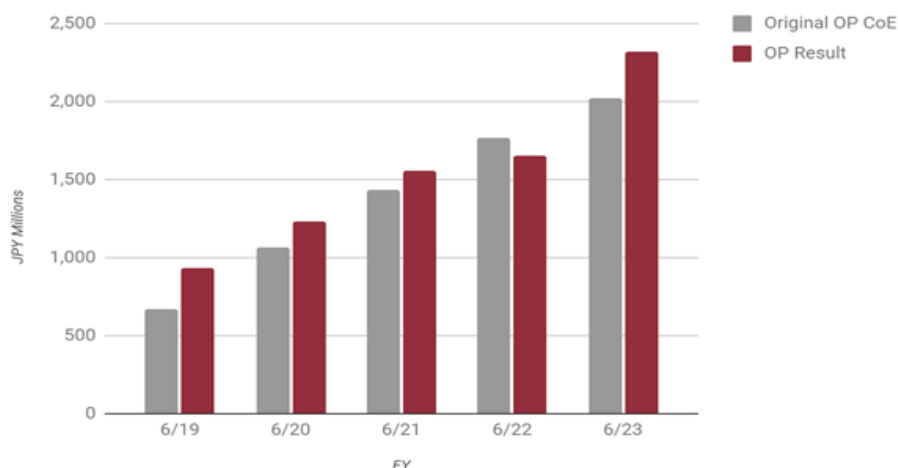
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**Fibergate is a research client of Storm Research**

- **Broadly in line 1-3Q FY 6/24 earnings included a 3Q acceleration in Business-Use division sales & OP due to a number of large, high margin contracts facilitated by an increase in sales partnerships.**
- **In contrast, Home-Use existing building sales were slightly weaker than expected due to slower existing building demand versus tough YoY hurdles, although we note new building demand remained strong & the cross-selling ratio improved.**
- **Due to their complex nature & large scale, Business-Use lead times are long. As a result, the pick-up in sales growth post COVID has been slow, but the 3Q acceleration confirms it has begun, driven by both new project sales & price increases.**
- **Given the robust Business-Use order pipeline, allied to strong DX & internet-related project demand, we expect growth to prove sustainable over the long-term. We also note the lack of direct competition & that Fibergate is 20-30% cheaper than equipment makers that do overlap, ensuring a compelling price advantage.**
- **Having started cross-selling related equipment in June 2023, including services such as the FG Smart Call doorbell, FGTV & network cameras, sales have progressed to the point where 3Q cross-sales exceeded 10% of Home-Use divisional flow sales, with further gains likely in the medium term.**
- **With a strong balance sheet, consistently high returns, a rising dividend & improving underlying performance, we conclude Fibergate is strongly positioned to continue growing its business over the long-term. On 15x FY 6/24 earnings, we propose investors get in touch to book time with senior management: [here](#).**

Year end	6/2022	6/2023	1-3Q 6/2024	6/2024E
Sales (¥bn)	10.6	12.8	9.5	13.7
OP (¥bn)	1.7	2.3	1.9	2.5
NP (¥bn)	1.1	1.5	1.3	1.7
EPS (¥)	52.6	72.7	61.9	82.3
DPS (¥)	4.5	10.0	5.0	17.5
Sales growth YoY (%)	+25.1	+20.4	+15.9	+7.2
OP growth YoY (%)	+6.0	+40.4	+8.3	+9.1
NP growth YoY (%)	+ 5.3	+38.1	+6.8	+13.4
EPS growth YoY (%)	+5.0	+38.2	+7.3	+13.2
PER (x)	18.1	20.5	15.1	15.1
EV/EBITDA (x)	8.3	8.6	6.5	7.0
PBR (x)	5.9	6.4	4.3	4.6
ROE (%)	30.9	37.1	31.6	n/a
ROIC (%)	12.6	16.7	16.2	n/a
FCF yield (%)	0.5	6.2	n/a	n/a
Dividend yield (%)	0.5	0.7	n/a	1.4

RESULTS VS  
FORECAST HISTORY

## EARNINGS

1-3Q results were broadly in line with the company forecast, with **slightly weaker than expected Home-Use earnings offset by above plan Business-Use sales & OP**. There were also Real Estate division sales recorded ahead of schedule in the 3Q, whilst the cross-sell flow (installation) sales ratio was 10.6%.

Home-Use new building sales strength persisted & stock business revenue is continuing to steadily accumulate, but existing building unit sales were weaker versus tough high margin flow unit hurdles & were slightly disappointing.

We note 4Q 6/23 sales had been weaker QoQ following a strong 3Q, but Fibergate does not anticipate 4Q weakness recurring in FY 6/24 & YoY comparisons are likely to be easier. There has been no major change in market conditions.

3Q Business-Use sales accelerated & **we expect this business to drive earnings growth given the healthy order pipeline & strong sales channels developed through diverse nationwide partnerships**.

- *Costs*: Whilst personnel & amortisation expenses continue to rise, the company expects this to be offset by sales growth & an increase in profitable Business-Use contracts in the 2H, resulting in a forecast OPM improvement of +0.4ppt to 18.5% in FY 6/24.

## HOME-USE

(JPY Millions)	1Q 6/24 Results	YoY	1H 6/24 Results	YoY	1-3Q 6/24 Results	YoY	6/24 CoE	YoY
<b>Sales</b>	2,521	11.7%	5,086	13.0%	7,816	9.6%	11,020	14.8%
<b>OP</b>	714	6.4%	1,482	6.7%	2,299	0.6%	3,290	10.8%
<b>OPM</b>	28.3%	-1.4%	29.1%	-1.7%	29.4%	-2.6%	29.9%	-1.1%

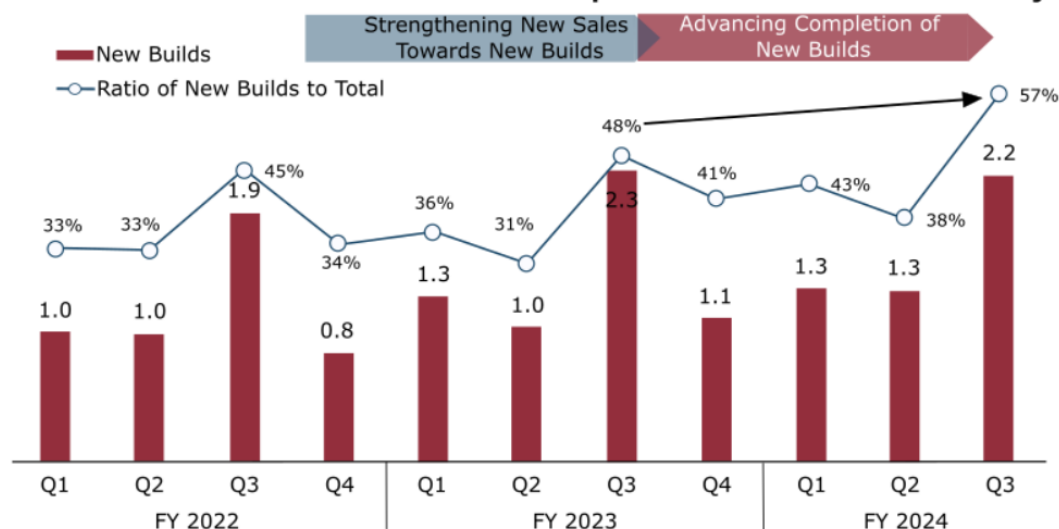
Standalone 3Q Home-Use sales increased +3.7%YoY but OP declined -8.9%YoY. Monthly subscription (stock) business OP continued to grow, but installation (flow) sales were weaker YoY resulting in a temporary decline in divisional OP.

**The number of active connections for the Residence Wi-Fi service reached 603,700** at the end of the 3Q, continuing a steady increase of connections per quarter, with 1Q +18,700, 2Q +21,200 & 3Q +22,700, totalling +62,600 FYTD.

In FY 6/24, Fibergate assumes +>90,000 new Wi-Fi units to total 626,000. At the current pace, new units are likely to fall slightly short of target after slower existing building growth in the 3Q, but Fibergate does not consider this a concern as **any shortfall can be offset by growth in the accelerating Business-Use division**.

The total number of new connections installed in the 3Q declined -4%YoY, with strong sustained growth in new construction installations but a slightly disappointing outcome for existing units against tough YoY hurdles. As a result, the proportion of new build connections reached 57% of the total.

### Home-Use Trends in the Number of Units Opened for New Construction Projects



Source: Company

- *Cross selling*: Fibergate started to focus on cross-selling of related equipment from June 2023. Services include the FG Smart Call doorbell, FG TV, network cameras, delivery box installation, smart lock & smart sensor & EV charging systems.

**Additional product sales totalled ¥80m, or 10.6% of 3Q Home-Use flow sales, versus the average of 6.5% in FY 6/23 & 7.5% in 1H 6/24, & were in line with the company's target of 10%.**

Longer term cross-selling is likely to focus on renewable energy, including solar panels & storage batteries, & Fibergate aims to raise its cross-selling sales ratio target to approx. 10-15%.

- *Pricing*: Monthly subscription prices remained flat YoY as they are tied to rents which, despite recent inflationary product price increases, have not yet been positively impacted. **Fibergate expects rents to rise in the medium term, enabling it to raise its prices.**

## BUSINESS-USE

(JPY Millions)	1Q 6/24 Results	YoY	1H 6/24 Results	YoY	1-3Q 6/24 Results	YoY	6/24 CoE	YoY
<b>Sales</b>	327	-0.6%	683	0.4%	1,174	10.5%	1,860	23.0%
<b>OP</b>	56	21.7%	154	32.8%	318	54.4%	460	59.2%
<b>OPM</b>	17.1%	3.1%	22.5%	5.5%	27.1%	7.7%	24.7%	5.6%

Following a slow start in FY 6/23 & 1H 6/24, 3Q sales & OP accelerated, with sales growth of +28.5%YoY generating an OPM of 33.3%. Fibergate assumes a 2H OPM of 25.8%, a level we consider conservative.

**Strong 3Q sales & OP growth was driven by new project sales & price increases** that were gradually implemented into new customers' monthly subscriptions & equipment from the 1Q.

The Business-Use division has been a key target for growth of large-scale projects & high value-added services, but it had a slow start due to long lead times at large institutions for decision making on significant & complex projects with connections to existing systems, existing IoT networks or for DX. These more complex services include customised services with higher prices & margins.

Fibergate does not have any direct competitors specialising in Wi-Fi services & **mainly competes with large equipment makers & companies such as NEC (6701) or NTT (9432), but is 20-30% cheaper**, making it extremely competitive from a price perspective. Although it occasionally competes with installation companies which can be cheaper, Fibergate offers higher levels of service before & after installation, making it more attractive.

**Fibergate has been targeting Business-Use growth for 18 months & orders are finally translating into sales**, driving both sales mix & OPM improvement. Orders remain strong & we expect robust sales & OP growth to continue into the 4Q & over the medium term due to high demand for DX & internet related projects, although the large size of some projects risks causing a degree of quarterly earnings volatility.

Weak 1H sales indicate the company's FY 6/24 sales forecast is set to be challenging but, with above plan 3Q OP & a similar OPM expected in the 4Q, Fibergate is likely to beat its FY 6/24 OP forecast, offsetting any potential shortfall in the Home-Use division.

Fibergate's key target areas are: Medical (hospitals) & Nursing (care homes), which account for 16% of BU sales; Public Transport / Logistics (8%); & Tourism (6%). B2B equipment accounts for 24% of sales & the remainder is others. Fibergate does not disclose its order backlog but confirms that the pipeline is growing.

- *Sales partners:* As of 3Q 6/24, **Fibergate had increased its sales partners by +35%YoY to 81 & expects the higher numbers to drive sales growth**. It targets 150 partners in the medium term versus 50 in FY 6/23.

Key partners include small regional companies with sales networks that sell directly to potential Business-Use customers. For example, regional banks that have salespeople regularly talking to potential Business-Use customers, or bed sensor makers that have salespeople regularly visiting care homes.

## REAL ESTATE

(JPY Millions)	1Q 6/24 Results	YoY	1H 6/24 Results	YoY	1-3Q 6/24 Results	YoY	6/24 CoE	YoY
<b>Sales</b>	4	-20.0%	36	89.5%	547	1609.4%	830	-50.4%
<b>OP</b>	-2	n/a	10	n/a	74	n/a	80	-41.2%
<b>OPM</b>	n/a	n/a	27.8%	n/a	13.5%	n/a	9.6%	1.5%

1-3Q sales were strong YoY as FY 6/23 real estate sales were concentrated in the 4Q. In addition, a portion of sales originally planned for the 4Q 6/24 was realised in the 3Q & commanded a higher than forecast OPM due to a conservative forecast.

Fibergate expects 1 building sale in the 4Q, but it is difficult to gauge whether it will be realised or delayed into the 1Q 6/25 given the lack of visibility over sales timing. Fibergate also procured one building in the 3Q which it aims to sell in FY 6/25.

Fibergate's Renewable Energy business (included within Real Estate as it remains small) has moved from test phase into phase 2 of actual installation in various Home-Use locations. As of the 3Q, the company posted small renewable energy sales & OP.

Fibergate targets the start of its VPP (Virtual Power Plant) service from 2025 as part of phase 3 &, longer term, as part of phase 4 (in 2030), its **introduction into 30,000 apartments & generating power equivalent to a nuclear power plant of approx. 1 million kW**. The final phase is to establish an offgrid system. Fibergate anticipates the contribution from renewable energy increasing from FY 6/25.

## CAPITAL EFFICIENCY

Fibergate is focused on capital efficiency with regard to both shareholder returns & its share price.

The 3Q FY 6/24 RoIC was 16.2% & has been consistently improving since FY 6/18, when it was 11.8%. The company is targeting 17.5% by FY 6/24 & Fibergate is focused on achieving high returns, with its RoIC having consistently exceeded its WACC since IPO. Similarly, its RoE has been consistently >30%.

## SHAREHOLDER RETURNS

The company plans to divide its use of profits into three, with one third allocated for shareholder return dividends, one third for employee incentives, & one third to be retained as internal reserves.

As a result, Fibergate has revised its final FY 6/24 dividend from ¥5 to ¥12.5, with the FY 6/24 dividend totalling ¥17.5, +75%YoY versus the FY 6/23 dividend of ¥10, which included a ¥2 commemorative dividend. The implied FY 6/24 payout ratio is 21.2% versus 12.2% in FY 6/23.

## PREVIOUS REPORTS

- 5<sup>th</sup> March 2024: ['Business-Use traction'](#)
- 1<sup>st</sup> Dec 2023: ['Growth in tandem'](#)
- 28<sup>th</sup> Sep 2023: ['Improving momentum'](#)
- 5<sup>th</sup> Jun 2023: ['Renovation & new build WiFi'](#)
- 3<sup>rd</sup> March 2023: ['Laying foundations'](#)
- 25<sup>th</sup> Nov 2022: ['Strong residential WiFi'](#)
- 11<sup>th</sup> Nov 2022: Initiating coverage: ['Residential & business WiFi'](#)

**COMPANY  
INFORMATION**

Key corporate timeline	
2003	Began fully-fledged operations. Core business: selling broadband lines via the internet and a network of multiple brick-and-mortar locations
2004	Started business: free internet for communal housing
2005	Established Tokyo Office in Minato-ku, Tokyo Started business: free internet for communal housing using wireless LAN Unified all services and began operation using the FGBB® Series across the board
2006	Began providing free internet for communal housing using a private brand
2008	Started business: internet connection for monthly serviced apartments
2009	Call centre began providing customer service to tenants of FGBB® equipped properties in multiple languages Started business: the free Wi-Fi service “Wi-Fi Nex®”
2011	Established Osaka Office in Chuo-ku, Osaka
2013	Established NOIS Inc. as a wholly-owned subsidiary to plan, develop, and sell computer hardware and software, and to act as an internet line agency
2014	Started business: the sale of company-developed communication devices Began providing Wi-Fi services for stores and commercial facilities under a private brand Established Fukuoka Office in Hakata-ku, Fukuoka Established Nagoya Office in Atsuta-ku, Nagoya
2015	Acquired Telecommunications Contractor Authorization (Governor of Hokkaido Authorization (Fune-26) Ishi No.22017) Began providing the Wi-Fi service “SHINOBI Wi-Fi” to visiting foreigners Established Fibergate Taiwan Inc. as a wholly-owned subsidiary in Taiwan Acquired a license as a telecommunications business in accordance with the Telecommunications Business Act (Registration Number: No.358)
2016	Certified as a Management Innovation Plan Approval Company by the Governor of Hokkaido (Sekishoro: No.74-33) Acquired Privacy Mark certification (Registration Number: No. 17002586 (01) End of fiscal year changed from December to June Nagoya Office moved to Naka-ku, Nagoya
2017	Satellite office opened in the Tokyo Office Osaka Office moved to Chuo-ku, Osaka Established Sendai Office in Miyagino-ku, Sendai Fukuoka Office moved within Hakata-ku, Fukuoka
2018	Listed on TSE Mothers Began providing the “One-Touch Wi-Fi” service as a Wi-Fi service for offices and stores Acquired certification as an Information Security Management System (ISMS) (Certification No.: MSA-IS-284)
2019	Transferred to the TSE 1 <sup>st</sup> Section Listed on the Main Market of the Sapporo Securities Exchange
2020	Established FG-Lab Inc. as a wholly-owned subsidiary that researches and develops company-provided telecommunication devices and systems Established BizGenesis Inc. to provide telecommunication services to corporations Relocated Fukuoka office within Hakata-ku, Fukuoka
2021	Established FG Smart Asset Inc. as a wholly-owned subsidiary to engage in real estate-related business including the purchase, sale, leasing, and management of real estate Established OffGrid-Lab Inc. to operate a renewable energy business
2022	Acquired TM Asset Inc. as a wholly-owned sub-sub-subsidiary to engage in real estate sales and leasing Merged with BizGenesis Inc., a telecommunication service provider for enterprises
2023	Started the Renewable Energy business.

Major shareholders	Stake %
MI Corp KK	23.06
Masanori Inomata	21.99
Taizou Matsumoto	5.30
GPIF Japan	3.35
Newton Investment	3.26
Bank of New York Mellon Corp	1.81
Fibergate	1.56
Nomura Hdgs	1.54
Vanguard Group Inc	1.31
Sumitomo Mitsui Trust Hdgs	0.96

**Source:** Bloomberg

#### Company contact details

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## J GAAP Financial statements

Income statement (¥bn)	FY 6/21	FY 6/22	FY 6/23
Sales	8.5	10.6	12.8
COGS	4.1	5.8	7.1
<b>Gross profit</b>	<b>4.4</b>	<b>4.8</b>	<b>5.7</b>
Gross profit margin (%)	51.2	45.5	44.9
Operating expense	2.8	3.2	3.4
<b>Total OP</b>	<b>1.6</b>	<b>1.7</b>	<b>2.3</b>
OP margin (%)	18.4	15.5	18.1
Non-Op Income (Loss)	0.1	0.1	0.1
<b>Pretax Income</b>	<b>1.5</b>	<b>1.6</b>	<b>2.2</b>
Tax	0.5	0.5	0.7
Effective tax rate (%)	31.0	32.2	31.7
<b>Net income</b>	<b>1.0</b>	<b>1.1</b>	<b>1.5</b>

Cash flow statement (¥bn)	FY 6/21	FY 6/22	FY 6/23
Net income/pre-tax profit	1.0	1.1	1.5
Depreciation/amortization	1.0	1.2	1.5
Other non-cash items	-0.1	0.1	0.6
Changes in working capital	-0.2	-0.1	0.8
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Operating Activities</b>	<b>1.7</b>	<b>2.3</b>	<b>4.3</b>
Change in fixed & intangible assets	-2.2	-2.3	-2.2
Net change in long-term investments	0.0	0.0	0.0
Net cash from acquisitions & divestitures	0.0	-0.3	0.0
Other investing activities	0.0	0.0	0.0
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Investing Activities</b>	<b>-2.3</b>	<b>-2.6</b>	<b>-2.2</b>
Dividends paid	-0.1	-0.1	-0.1
Cash from (repayment) debt	1.4	0.6	-1.9
Cash from (repurchase) of equity	0.0	-0.1	0.0
Other financing activities	0.0	-0.1	0.0
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Financing Activities</b>	<b>1.3</b>	<b>0.4</b>	<b>-2.0</b>
FX impact	0.0	0.0	0.0
<b>Net cash flow</b>	<b>0.8</b>	<b>0.1</b>	<b>0.1</b>
<b>Free cash flow</b>	<b>-0.5</b>	<b>0.1</b>	<b>1.9</b>
<b>EBITDA</b>	<b>2.6</b>	<b>2.9</b>	<b>3.8</b>

Balance sheet (¥bn)	FY 6/21	FY 6/22	FY 6/23
Cash & equivalents	2.2	2.3	2.4
Accounts & notes receivable	1.2	1.4	1.6
Inventories	0.4	2.1	1.3
Other short-term assets	0.1	0.1	0.1
<b>Current assets</b>	<b>3.9</b>	<b>6.0</b>	<b>5.6</b>
Property, plant & equipment (net of depreciation)	5.2	6.2	6.6
Long term investments & receivables	0.0	0.1	0.1
Other long-term assets	0.2	0.8	0.6
<b>Total non-current assets</b>	<b>5.5</b>	<b>7.1</b>	<b>7.2</b>
<b>Total assets</b>	<b>9.4</b>	<b>13.1</b>	<b>12.8</b>
Payables & accruals	1.0	0.9	1.1
Short-term debt	1.2	2.6	1.4
Other short-term liabilities	0.2	2.2	2.1
<b>Total current liabilities</b>	<b>2.4</b>	<b>5.6</b>	<b>4.7</b>
Long term debt	3.3	4.1	3.3
Other long-term liabilities	0.1	0.1	0.0
<b>Total non-current liabilities</b>	<b>3.3</b>	<b>4.2</b>	<b>3.3</b>
<b>Total liabilities</b>	<b>5.7</b>	<b>9.8</b>	<b>8.0</b>
Share capital & APIC	0.9	0.9	0.9
Treasury stock	0.1	0.2	0.2
Retained earnings	2.9	2.6	4.0
Other equity	0.0	0.0	0.0
<b>Equity before minority interest</b>	<b>3.7</b>	<b>3.3</b>	<b>4.7</b>
<b>Total equity</b>	<b>3.7</b>	<b>3.3</b>	<b>4.8</b>
<b>Total liabilities &amp; equity</b>	<b>9.4</b>	<b>13.1</b>	<b>12.8</b>

Key metrics	FY 6/21	FY 6/22	FY 6/23
<b>Profitability</b>			
Gross margin (%)	51.2	45.5	44.9
Operating margin (%)	18.4	15.5	18.1
Net margin (%)	12.0	10.1	11.6
ROIC (%)	15.0	12.6	16.6
<b>Liquidity</b>			
Current ratio (x)	1.6	1.1	1.2
Quick ratio (x)	1.4	0.7	0.8
<b>Leverage</b>			
Debt/Equity ratio	121.1	202.9	99.1
Net Debt/Equity ratio	61.4	132.6	48.1



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