NAIGAI TRANS LINE / 9384

COVERAGE INITIATED ON: 2012.10.17
LAST UPDATE: 2017.12.15

Shared Research Inc. has produced this report by request from the company discussed in the report. The aim is to provide an "owner's manual" to investors. We at Shared Research Inc. make every effort to provide an accurate, objective, and neutral analysis. In order to highlight any biases, we clearly attribute our data and findings. We will always present opinions from company management as such. Our views are ours where stated. We do not try to convince or influence, only inform. We appreciate your suggestions and feedback. Write to us at sr_inquiries@sharedresearch.jp or find us on Bloomberg.

Research Coverage Report by Shared Research Inc.

INDEX

How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Key financial data

Income statement (JPYmn)	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Est.
Total sales	**8,735**	**11,444**	**12,538**	**13,405**	**16,797**	**20,095**	**22,658**	**19,979**	**21,500**
YoY	-26.7%	31.0%	9.6%	6.9%	25.3%	19.6%	12.8%	-11.8%	7.6%
Gross profit	3,211	3,710	3,981	4,115	4,843	5,663	6,185	5,745	
YoY	-19.1%	15.5%	7.3%	3.4%	17.7%	16.9%	9.2%	-7.1%	
GPM	36.8%	32.4%	31.8%	30.7%	28.8%	28.2%	27.3%	28.8%	
Operating profit	636	1,031	1,079	908	1,142	1,145	1,578	1,309	1,500
YoY	-42.3%	62.1%	4.7%	-15.8%	25.8%	0.3%	37.8%	-17.0%	14.6%
OPM	7.3%	9.0%	8.6%	6.8%	6.8%	5.7%	7.0%	6.6%	7.0%
Recurring profit	809	1,036	1,046	975	1,205	1,208	1,569	1,333	1,500
YoY	-26.3%	28.1%	1.0%	-6.8%	23.6%	0.3%	29.9%	-15.0%	12.5%
RPM	9.3%	9.1%	8.3%	7.3%	7.2%	6.0%	6.9%	6.7%	7.0%
Net income	**396**	**652**	**568**	**459**	**730**	**216**	**1,006**	**439**	**1,100**
YoY	-36.5%	64.6%	-12.9%	-19.2%	59.0%	-70.4%	365.1%	-56.4%	150.8%
Net margin	4.5%	5.7%	4.5%	3.4%	4.3%	1.1%	4.4%	2.2%	5.1%
Per share data									
Shares issued (year end; '000)	2,446	2,596	2,616	5,261	5,349	5,349	10,698	10,698	
EPS	40.5	66.3	54.6	21.9	68.9	20.2	94.7	45.2	113.4
EPS (fully diluted)	39.2	65.2	53.8	21.6	-	-	-	-	
Dividend per share	10.0	12.5	13.8	13.8	16.3	16.5	25.0	30.0	32.0
Book value per share	427.2	452.7	477.7	264.4	613.8	643.9	664.3	664.4	
Balance sheet (JPYmn)									
Cash and cash equivalents	3,161	3,960	3,895	3,957	4,033	4,914	4,694	4,497	
Total current assets	**3,672**	**4,586**	**4,573**	**4,988**	**6,138**	**6,993**	**6,746**	**6,615**	
Tangible fixed assets	447	428	612	633	631	639	702	1,909	
Investment and other assets	997	701	715	931	947	687	660	666	
Intangible fixed assets	104	218	425	558	1,264	848	757	203	
Total assets	**5,220**	**5,933**	**6,326**	**7,110**	**8,980**	**9,167**	**8,864**	**9,394**	
Accounts payable	503	604	620	762	1,197	1,117	1,040	985	
Short-term debt	0	0	87	49	256	29	-	24	
Total current liabilities	**865**	**1,057**	**1,030**	**1,232**	**2,026**	**1,836**	**1,698**	**1,640**	
Long-term debt	-	-	42	27	-	-	-	500	
Total fixed liabilities	**149**	**153**	**256**	**268**	**329**	**353**	**380**	**898**	
Total liabilities	**1,014**	**1,210**	**1,285**	**1,499**	**2,355**	**2,189**	**2,078**	**2,538**	
Net assets	**4,206**	**4,723**	**5,041**	**5,611**	**6,625**	**6,978**	**6,786**	**6,856**	
Total interest-bearing debt	0	0	129	75	256	29	-	524	
Statement of cash flows (JPYmn)									
Cash flows from operating activities	524	820	701	668	432	963	1,053	947	
Cash flows from investing activities	172	27	-574	-671	-499	160	161	-1,305	
Cash flows from financing activities	-99	-36	-106	-263	52	-416	-1,068	365	
Financial ratios									
ROA (RP-based)	16.0%	18.6%	17.1%	14.5%	15.0%	13.3%	17.4%	14.6%	
ROE	9.8%	14.6%	11.7%	8.7%	12.0%	3.2%	15.1%	6.8%	
Equity ratio	80.2%	79.2%	79.0%	78.2%	73.1%	75.1%	72.7%	68.6%	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: The company conducted a 2-for-1 stock split in FY12/12 and in FY12/15.

Recent updates

Highlights

On **December 15, 2017,** Naigai Trans Line Ltd. (NTL) announced an upward revision to its dividend forecast.

Given its earnings trends, the company raised its year-end dividend forecast by JPY2 per share to JPY17 (JPY15 per share in the previous forecast). As such, the annual dividend forecast is now JPY32, up by JPY2 from the JPY30 forecast in February 2017.

On **November 21, 2017,** Shared Research updated the report following interviews with the company.

On **October 30, 2017**, the company announced earnings results for Q3 FY12/17; see the results section for details.

For corporate releases and developments more than three months old, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative (JPYmn)	FY12/16 Q1	FY12/16 Q2	FY12/16 Q3	FY12/16 Q4	FY12/17 Q1	FY12/17 Q2	FY12/17 Q3	FY12/17 Q4	FY12/17 % of FY	FY12/17 FY Est.
Sales	5,098	10,013	14,880	19,979	5,190	10,523	16,093		74.9%	21,500
YoY	-8.1%	-11.9%	-12.3%	-11.8%	1.8%	5.1%	8.2%			7.6%
Gross profit	1,395	2,822	4,234	5,745	1,463	2,952	4,443			
YoY	-7.4%	-8.2%	-8.0%	-7.1%	4.9%	4.6%	4.9%			
GPM	27.4%	28.2%	28.5%	28.8%	28.2%	28.1%	27.6%			
SG&A expenses	1,125	2,244	3,334	4,435	1,100	2,233	3,375			
YoY	2.4%	-2.1%	-3.4%	-3.7%	-2.3%	-0.5%	1.2%			
SG&A ratio	22.1%	22.4%	22.4%	22.2%	21.2%	21.2%	21.0%			
Operating profit	269	578	901	1,309	363	719	1,068		71.2%	1,500
YoY	-33.9%	-26.0%	-21.8%	-17.0%	34.8%	24.4%	18.6%			14.6%
OPM	5.3%	5.8%	6.1%	6.6%	7.0%	6.8%	6.6%			7.0%
Recurring profit	261	510	854	1,333	389	749	1,109		73.9%	1,500
YoY	-35.6%	-34.4%	-25.4%	-15.0%	49.0%	46.9%	29.9%			12.5%
RPM	5.1%	5.1%	5.7%	6.7%	7.5%	7.1%	6.9%			7.0%
Net income	166	352	585	439	378	617	877		79.7%	1,100
YoY	-32.1%	-25.6%	-15.9%	-56.4%	127.8%	75.1%	49.9%			150.8%
Net margin	3.3%	3.5%	3.9%	2.2%	7.3%	5.9%	5.4%			5.1%

Quarterly (JPYmn)	FY12/16 Q1	FY12/16 Q2	FY12/16 Q3	FY12/16 Q4	FY12/17 Q1	FY12/17 Q2	FY12/17 Q3	FY12/17 Q4
Sales	5,098	4,916	4,866	5,100	5,190	5,334	5,570	
YoY	-8.1%	-15.5%	-13.3%	-10.3%	1.8%	8.5%	14.5%	
Gross profit	1,395	1,427	1,413	1,510	1,463	1,489	1,491	
YoY	-7.4%	-9.0%	-7.5%	-4.6%	4.9%	4.3%	5.5%	
GPM	27.4%	29.0%	29.0%	29.6%	28.2%	27.9%	26.8%	
SG&A expenses	1,125	1,118	1,090	1,102	1,100	1,133	1,142	
YoY	2.4%	-6.4%	-5.7%	-4.8%	-2.3%	1.3%	4.7%	
SG&A ratio	22.1%	22.8%	22.4%	21.6%	21.2%	21.2%	20.5%	
Operating profit	269	309	322	409	363	356	349	
YoY	-33.9%	-17.4%	-13.1%	-4.1%	34.8%	15.3%	8.2%	
OPM	5.3%	6.3%	6.6%	8.0%	7.0%	6.7%	6.3%	
Recurring profit	261	248	344	480	389	359	360	
YoY	-35.6%	-33.1%	-6.3%	12.8%	49.0%	44.6%	4.7%	
RPM	5.1%	5.1%	7.1%	9.4%	7.5%	6.7%	6.5%	
Net income	166	187	233	-146	378	239	260	
YoY	-32.1%	-18.7%	4.7%	-	127.8%	28.3%	11.8%	
Net margin	3.3%	3.8%	4.8%	-	7.3%	4.5%	4.7%	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Performance breakdown by segment

Cumulative (JPYmn)	FY12/16 Q1	FY12/16 Q2	FY12/16 Q3	FY12/16 Q4	FY12/17 Q1	FY12/17 Q2	FY12/17 Q3	FY12/17 Q4
Sales	5,098	10,013	14,880	19,979	5,190	10,523	16,093	
YoY	-8.1%	-11.9%	-12.3%	-11.8%	1.8%	5.1%	8.2%	
Japan	3,458	6,792	10,187	13,636	3,465	7,032	10,776	
YoY	-9.2%	-12.1%	-11.4%	-11.1%	0.2%	3.5%	5.8%	
Overseas	1,640	3,222	4,693	6,343	1,724	3,491	5,317	
YoY	-5.7%	-11.5%	-14.3%	-13.2%	5.1%	8.4%	13.3%	
Operating profit	269	578	901	1,309	363	719	1,068	
YoY	-33.9%	-26.0%	-21.8%	-17.0%	34.8%	24.4%	18.6%	
Japan	155	338	555	827	221	424	638	
YoY	-28.3%	-12.3%	-6.4%	-2.7%	43.2%	25.3%	15.0%	
Overseas	121	253	364	507	148	308	448	
YoY	-38.8%	-38.1%	-37.0%	-32.7%	22.3%	21.8%	23.1%	
Eliminations, company-wide	-6	-13	-19	-25	-6	-13	-19	
Quarterly (JPYmn)	**FY12/16 Q1**	**FY12/16 Q2**	**FY12/16 Q3**	**FY12/16 Q4**	**FY12/17 Q1**	**FY12/17 Q2**	**FY12/17 Q3**	**FY12/17 Q4**
Sales	5,098	4,916	4,866	5,100	5,190	5,334	5,570	
YoY	-8.1%	-15.5%	-13.3%	-10.3%	1.8%	8.5%	14.5%	
Japan	3,458	3,334	3,395	3,449	3,465	3,567	3,744	
YoY	-9.2%	-14.9%	-10.1%	-10.4%	0.2%	7.0%	10.3%	
Overseas	1,640	1,582	1,471	1,651	1,724	1,768	1,826	
YoY	-5.7%	-16.8%	-19.8%	-10.0%	5.1%	11.7%	24.1%	
Operating profit	269	309	322	409	363	356	349	
YoY	-33.9%	-17.4%	-13.1%	-4.1%	34.8%	15.3%	8.2%	
Japan	155	184	217	272	221	202	215	
YoY	-28.3%	8.0%	4.5%	6.0%	43.2%	10.3%	-1.2%	
Overseas	121	132	111	143	148	160	140	
YoY	-38.8%	-37.3%	-34.3%	-18.7%	22.3%	21.5%	26.0%	
Eliminations, company-wide	-6	-6	-6	-6	-6	-6	-6	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

External environment (reference)

Cumulative (Average for cumulative period)	FY12/16 Q1	FY12/16 Q2	FY12/16 Q3	FY12/16 Q4	FY12/17 Q1	FY12/17 Q2	FY12/17 Q3	FY12/17 Q4
Trade index (volume)	87.4	87.8	88.5	90.0	91.8	92.3	93.3	
YoY	-3.2%	-2.3%	-1.2%	0.3%	5.1%	5.1%	5.3%	
Trade index (value)	103.9	102.4	101.9	103.9	112.8	112.1	113.5	
YoY	-11.4%	-10.5%	-10.4%	-8.3%	8.5%	9.5%	11.3%	
Marine container export (JPYtn)	2.55	2.55	2.53	2.57	2.71	2.72	2.76	
YoY	-6.5%	-7.8%	-8.5%	-7.3%	5.9%	6.9%	9.2%	
JPY/USD	115.4	111.8	108.7	108.8	113.6	112.3	111.9	
YoY	-3.0%	-7.0%	-10.1%	-10.1%	-1.6%	0.5%	3.0%	
Quarterly (3-months average)	**FY12/16 Q1**	**FY12/16 Q2**	**FY12/16 Q3**	**FY12/16 Q4**	**FY12/17 Q1**	**FY12/17 Q2**	**FY12/17 Q3**	**FY12/17 Q4**
Trade index (volume)	87.4	88.2	90.0	94.5	91.8	92.7	95.2	
YoY	-3.2%	-1.3%	1.0%	4.7%	5.1%	5.1%	5.8%	
Trade index (value)	103.9	100.9	101.0	109.8	112.8	111.5	116.2	
YoY	-11.4%	-9.5%	-10.3%	-1.9%	8.5%	10.4%	15.1%	
Marine container export (JPYtn)	2.55	2.54	2.49	2.71	2.71	2.74	2.84	
YoY	-6.5%	-9.1%	-10.0%	-3.5%	5.9%	8.0%	14.0%	
JPY/USD	115.4	108.2	102.4	109.3	113.6	111.1	111.0	
YoY	-3.0%	-10.9%	-16.2%	-9.9%	-1.6%	2.7%	8.4%	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: JPY/USD exchange rates are based on the monthly average of TTM.

Q3 FY12/17 results

- **Sales:** JPY16.1bn (+8.2% YoY)
- **Operating profit:** JPY1.1bn (+18.6% YoY)
- **Recurring profit:** JPY1.1bn (+29.9% YoY)
- **Net income:** JPY877mn (+49.9% YoY)

Net Income refers to net income attributable to parent company shareholders.

In cumulative Q3 FY12/17, with regard to Japan's trading volume, which has an impact on NTL's earnings, both exports and imports have been on an uptrend versus the previous year, with exports to China and other Asian countries in particular showing a pronounced recovery. In addition, sales rose due to higher sales in the two domestic subsidiaries and overseas subsidiaries.

Gross profit was JPY4.4bn (+4.9% YoY) as GPM fell 0.9pp YoY to 27.6%. GPM fell due to higher container space procurement costs. SG&A expenses were JPY3.4bn (+1.2%), largely unchanged YoY. As a result, operating profit rose. Recurring profit rose due to improved non-operating income as the company booked JPY4mn in foreign exchange gains (JPY73mn in foreign exchange losses in Q3 FY012/16). Net income attributable to parent company shareholders rose significantly due to the booking of JPY102mn in gains on the sale of investment securities.

Sales reached 74.9% of FY12/17 full-year forecasts (Q3 FY12/16 results reached 74.5% of full-year forecasts), while operating profit reached 71.2% (68.8%), recurring profit reached 73.9% (64.0%), and net income attributable to parent company shareholders was 79.7% (133.4%). Each result ended roughly within company expectations.

NTL worked to establish a structure that would enable sales growth in the ASEAN region. It acquired a 100% interest in GTC-ASIA (Myanmar) Co. Ltd. in August 2017, renaming it NTL Naigai Trans Line (Myanmar) Co. Ltd., and making it a non-consolidated subsidiary. Further, subsidiary NTL Naigai Trans Line (Thailand) Co., Ltd. opened a new branch at Laem Chabang (the largest international trading port in Thailand) and began operation in October 2017.

Earnings by segment were as follows.

Japan

- **Sales:** JPY10.8bn (+5.8% YoY)
- **Operating profit:** JPY638mn (+15.0% YoY)

At the parent level, LCL and FCL export services both posted a YoY sales increase. The two domestic subsidiaries also reported higher sales and profits YoY. Higher sales and profits in the two domestic subsidiaries contributed significantly to higher sales and profits in the Japan segment.

The mainstay less-than-container load (LCL) export business has experienced long-term trends of lower volume and sales. However, in cumulative Q3, both volume and sales rose YoY, leading to higher sales and profits in parent-only results.

Flying Fish Inc., which operates an integrated transport solutions business, recorded higher sales. Imports of food products from Europe to Japan were robust. In addition, because the company booked JPY460 in impairment losses on goodwill from Flying Fish Inc. in FY12/16, there were no impairment losses on goodwill this fiscal year, leading to higher profits.

UCI Airfreight Japan, Inc., which operates an international air transport and international marine transport business, also recorded higher sales and profits. Sales were robust for customs operations at both Kansai International Airport and Narita International Airport, contributing to results.

Overseas

- **Sales:** JPY5.3bn (+13.3% YoY)
- **Operating profit:** JPY448mn (+23.1% YoY)

Sales and profits increased due to sales contribution from South Korea-based subsidiary Naigai-Eunsan Logistics and higher sales and profits at the company's Thailand and Indonesia subsidiaries.

From November 2016, Naigai-Eunsan Logistics has been operating a warehouse business in Busan New Port, South Korea. In Q3, this warehouse has been operating smoothly and has booked reasonable sales and profits.

Changed in assets, liabilities, and net assets

Total assets increased to JPY10.1bn (+JPY664mn from end-FY12/16) because of a JPY693mn rise in current assets (mainly an increase in cash and deposits).

Liabilities increased to JPY2.6bn (+JPY32mn from end-FY12/16).

Net assets increased to JPY7.5bn (+JPY632mn from end-FY12/16) mainly because of a JPY586mn rise in retained earnings.

For details on previous quarterly and annual results, please refer to the Historical performance section.

Full-year company forecasts

Company forecasts	FY12/16			FY12/17		
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	**10,013**	**9,966**	**19,979**	**10,523**	**10,977**	**21,500**
YoY	-11.9%	-11.8%	-11.8%	5.1%	10.1%	7.6%
Cost of sales	7,191	7,043	14,234	7,572		
Gross profit	**2,822**	**2,923**	**5,745**	**2,952**		
YoY	-8.2%	-6.1%	-7.1%	4.6%		
GPM	28.2%	29.3%	28.8%	28.1%		
SG&A expenses	2,244	2,192	4,435	2,233		
SG&A-to-sales ratio	22.4%	22.0%	22.2%	21.2%		
Operating profit	**578**	**731**	**1,309**	**719**	**781**	**1,500**
YoY	-26.0%	-8.3%	-17.0%	24.4%	6.8%	14.6%
OPM	5.8%	7.3%	6.6%	6.8%	7.1%	7.0%
Recurring profit	**510**	**824**	**1,333**	**749**	**751**	**1,500**
YoY	-34.4%	3.9%	-15.0%	46.9%	-8.8%	12.5%
RPM	5.1%	8.3%	6.7%	7.1%	6.8%	7.0%
Net income	**352**	**86**	**439**	**617**	**483**	**1,100**
YoY	-25.6%	-83.8%	-56.4%	75.1%	460.6%	150.8%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Full-year earnings forecasts for FY12/17:

- **Sales:** JPY21.5bn (+7.6% YoY)
- **Operating profit:** JPY1.5bn (+14.6% YoY)
- **Recurring profit:** JPY1.5bn (+12.5% YoY)
- **Net income:** JPY1.1bn (+150.8% YoY)

Net Income refers to net income attributable to parent company shareholders.

The company anticipates a modest increase in LCL export handling volume. Based on the rising volume of exports to Asia starting in 2H FY12/16, the company also expects increases in handling volumes of its FCL export and import-related services. FY12/17 sales and earnings will get an added boost from the company's newly opened warehouse in Busan (South Korea), which began operations in November 2016.

The company says shipping prices are trending higher but it is assuming flat freight rates for Japan and Southeast Asia (key areas for the company).

For the yen/dollar exchange rate, the company is assuming an average effective rate of JPY108/USD in FY12/17 versus JPY108.8/USD in FY12/16. With respect to exchange rate sensitivity, the company indicated that a one-yen change in the exchange rate will impact consolidated sales by about JPY100mn and gross profit by about JPY30mn.

Japan

NTL expects parent level sales from mainstay LCL exports to start growing after a decline in FY12/16 amid an extended slowdown in the Chinese and other Asian economies. The company also expects a small increase in revenues on the import side. At the parent company level, Shared Research estimates sales of JPY10.4bn (+4.7% YoY) and operating profit of JPY830mn (+14.5%).

The company’s third medium-term plan positions the forwarding businesses operated by its domestic subsidiaries, Flying Fish and UCI Airfreight Japan, as a central growth driver. NTL forecasts sales growth of 8.3% and 6.5%, respectively.

Subsidiary Flying Fish booked a JPY460mn loss on goodwill impairment in FY12/16. As this goodwill charge for Flying Fish will not be incurred in FY12/17, profits should be boosted by JPY55mn.

Overseas

NTL expects Naigai-Eunsan Logistics to help drive sales growth as it makes a full-year contribution following the start of operations in November 2016. The US subsidiary has a firmer management foundation, and the company expects solid growth from Shanghai NTL-Logistics and other existing overseas subsidiaries, for increased sales and profits.

Medium- to long-term outlook

Numerical targets of third medium-term plan

The company has created its third medium-term plan, spanning January 2017–December 2019. The plan targets an ROE of 14% in FY12/19 (6.8% in FY12/16), and an operating profit margin of 7% (6.6%).

Overview of third medium-term plan

The key points in the medium-term plan (covering January 2017–December 2019) are as follows.

NTL plans to leverage the reputation, cargo handling skill, and resources it has built up through its LCL import and export business to achieve sales of JPY30bn within the next few years (JPY20.0bn in FY12/16) as a comprehensive international freight forwarder. The company then plans to position itself as a logistics company with sales on the scale of JPY50bn.

The core long-term strategies by business are as follows.

Parent company

NTL sees LCL services as the backbone of the parent. It aims to step up its marketing activities involving in-house customs clearance and domestic and international freight forwarding to its existing customer base. The goals are to grow sales by expanding handling volumes and cut costs to grow profits.

Domestic group companies

- For domestic group companies, NTL plans to inject management resources into the freight forwarding business, focusing on Flying Fish as the core forwarding company. It aims to expand the territory of Flying Fish and nurture it to be a new core business on a par with the LCL business.
- NTL aims to boost profitability further by expanding the air freight and customs clearance businesses as steady earnings businesses of UCI Airfreight Japan.

Overseas group companies

- NTL plans to have the entire group support the warehouse business at Naigai-Eunsan Logistics (which began operations in November 2016) so it can achieve scale and move into the black quickly.
- It intends to establish management structures in each overseas group company tailored to regional and business-specific characteristics to drive earnings growth.
- It plans to build partnerships where profit growth can be shared by strengthening relationships with existing agents overseas and establishing relationships with new agents.

The company, at its 1H FY12/17 earnings briefing session (in August 2017), commented that it was considering expanding the service area of its freight forwarding business both in Japan and abroad, pursuing M&A opportunities mainly outside Japan, providing operational support and agent services related to cross-border e-commerce, as it seeks to achieve JPY30bn in sales over the next several years.

NTL in July 2017 announced the acquisition of shares in GTC-ASIA (Myanmar) Co. Ltd., which operates international freight forwarding services in Myanmar, to turn it into a subsidiary, as part of a third medium-term management plan that covers a period from January 2017 through December 2019. Under current law in Myanmar, foreign investment is required to be through joint ventures with local partners. However, GTC-ASIA was established as a company wholly owned by a single entity before the nation revised the law. Therefore, GTC-ASIA will be allowed to operate as a wholly owned unit of NTL and expand its business throughout Myanmar after the share purchase.

NTL expects that the acquisition of GTC-ASIA will help the company increase the handling of LCL shipments from Japan to Myanmar. In the medium-term, NTL also plans to provide project cargo services, such as shipments of parts and materials from Japan to Myanmar, and apparels from Myanmar to Japan.

Shareholder returns

NTL is targeting a dividend payout ratio of 30% (66.3% in FY12/16).

Business

Description

Business model

Aiming to become comprehensive international freight forwarder

The company is looking to become a full-service international freight forwarder. In contrast to its old business model, in which parent company operations consisted largely of LCL/FCL export services and LCL/FCL import services, and focused mainly on handling the marine transport aspect of international shipments (port-to-port services), NTL is looking to become a provider of one-stop, door-to-door shipping services, including not only marine shipping but also land and air transport, as well as ancillary services such as warehousing, customs clearance, and packaging.

A forwarder is a business that does not own means of transportation (such as vessels, airplanes, railcars and trucks) but acts as an agent on behalf of the shipper. A freight forwarder primarily conducts door-to-door multimodal transport through the use of other parties' transport systems. Unlike carriers that own vessels and aircraft, NTL runs a service business without the holding of such assets.

Primary business: less-than-container-load (LCL) exports

NTL's business focus is on less-than-container-load (LCL) exports. In FY12/16, the company's LCL export services generated JPY4.5bn in revenues, or 22.3% of consolidated sales. With a gross profit margin of around 40%, this is the company's most profitable service, and Shared Research estimates that it accounted for roughly 30% of consolidated gross profit in FY12/16.

However, with the surge in M&A in the wake of the 2008 global financial crisis, NTL moved away from dependence on LCL export services for profits at the parent level, aiming to diversify risk. Under this new business model, the ratio of LCL exports to consolidated sales and gross profit is on the decline.

Sales: consolidated, parent, and LCL exports

(JPYmn)	FY12/10	FY12/12	FY12/14	FY12/16
Consolidated sales	11,444	13,405	20,095	19,979
Parent sales	9,137	9,022	10,155	9,938
% of total	79.8%	67.3%	50.5%	49.7%
LCL export	5,398	4,672	4,708	4,450
% of total	47.2%	34.9%	23.4%	22.3%

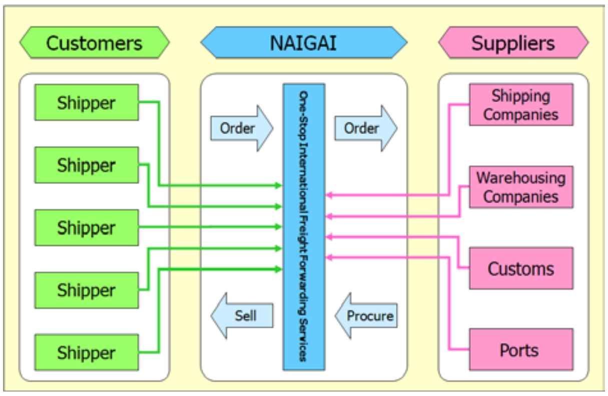
Source: Shared Research based on company data

Main supplier: marine shipping companies and warehouse operators

The company's main service suppliers are the large marine shipping companies with which it books ocean freight transport, and warehousing companies that fill containers with cargo. Large shipping companies include Nippon Yusen K.K. (NYK LINE, TSE1: 9101), Mitsui O.S.K. Lines, Ltd. (TSE1: 9104), and Kawasaki Kisen Kaisha, Ltd. ("K" LINE, TSE1: 9107). In addition, NTL has long-term consignment agreements with Hong Kong-based Orient Overseas Container Line Ltd. (0316HK) and South Korea-based HANJIN SHIPPING Co., Ltd. (117930KS), among others. Warehousing suppliers include Mitsubishi Logistics Corporation (TSE1: 9301), Mitsui-Soko Co., Ltd. (TSE1: 9302), and Sankyu Inc. (TSE1: 9065).

Main customers: trading companies and manufacturers

The company serves various customers, such as manufacturers and trading companies, large and small. These customers engage NTL to transport all kinds of cargo, including machinery, auto parts, chemicals, and textiles. Also, because NTL is an independent NVOCC, it can use space of industry peers (e.g., shipping companies) when they cannot fill a container with their consigned shipments. This is called co-loading. Roughly 50% of sales come from co-loading involving shipments handled by industry peers. NTL aims to increase sales from dedicated container shipments directly consigned by shippers.



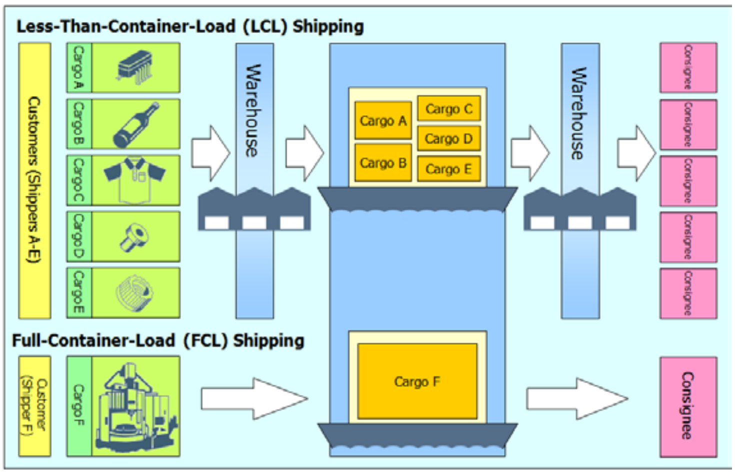
Source: Shared Research based on company data

LCL export services

In LCL exports, small-lot (i.e., less-than-container-load) export cargo originating from multiple clients is packed and transported in a container. LCL exports are characterized by high gross profit margins, at around 40%, compared with about 15% for full-container-load (FCL) exports, which use an entire container for each client. The industry average load factor necessary to break even appears to be around 45% for LCL exports, while NTL claims its average load factor is about 60%.

In this business, per-client sales are low, at a maximum of JPY5mn per month, due to the small size of the shipments handled. NTL regularly serves approximately 6,000 corporate clients. The company's advantage is that it does not heavily depend on particular industries and clients. However, as company materials indicate, Japan's total export value influences NTL's performance. As a result, its business is undoubtedly affected by macroeconomic conditions.

As mentioned above, the majority of the company's clients are regulars. They appear to value NTL's reliable services. The company said its shipping charges are set 10-20% higher than those of competitors, reflecting its comprehensive strengths, such as frequent shipping schedules, the greater ability to secure container space from shipping companies, and the use of reliable business partners. NTL also offers direct connections to key ports across the world, providing distinct advantages in the form of swift information delivery and lower cost, compared with competing services.



Source: Shared Research based on company data

Segments

The company's segments consist of Japan and Overseas. As of FY12/16, the Japan segment accounted for 68.2% of consolidated sales and 62.0% of operating profit. The Overseas segment accounted for 31.8% of sales and 38.0% of operating profit (simple aggregate of segment profits).

In recent years, the proportion of sales and earnings accounted for by the Japan segment has been declining and proportion accounted for by the Overseas segment has been increasing.

Trends in sales and earnings by segment

	FY12/07	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	11,486	11,910	8,735	11,444	12,538	13,405	16,797	20,095	22,658	19,979
YoY	-	3.7%	-26.7%	31.0%	9.6%	6.9%	25.3%	19.6%	12.8%	-11.8%
Japan	9,166	9,677	6,883	8,955	9,128	9,798	11,829	14,293	15,346	13,636
YoY	-	5.6%	-28.9%	30.1%	1.9%	7.3%	20.7%	20.8%	7.4%	-11.1%
% of sales	79.8%	81.3%	78.8%	78.3%	72.8%	73.1%	70.4%	71.1%	67.7%	68.2%
Overseas	2,320	2,233	1,852	2,489	3,410	3,607	4,968	5,801	7,312	6,343
YoY	-	-3.7%	-17.1%	34.4%	37.0%	5.8%	37.7%	16.8%	26.0%	-13.2%
% of sales	20.2%	18.7%	21.2%	21.7%	27.2%	26.9%	29.6%	28.9%	32.3%	31.8%
Operating profit	1,058	1,102	636	1,031	1,079	908	1,142	1,145	1,578	1,309
YoY	-	4.2%	-42.3%	62.2%	4.6%	-15.8%	25.8%	0.3%	37.8%	-17.0%
Japan	816	831	444	739	782	638	631	846	850	827
YoY	-	1.9%	-46.6%	66.4%	5.8%	-18.4%	-1.2%	34.1%	0.5%	-2.7%
% of OP	77.2%	75.5%	69.8%	71.6%	69.5%	65.9%	52.5%	71.0%	53.0%	62.0%
Overseas	241	270	192	293	342	331	572	346	754	507
YoY	-	12.0%	-28.9%	52.4%	16.9%	-3.4%	72.8%	-39.5%	117.8%	-32.7%
% of OP	22.8%	24.5%	30.2%	28.4%	30.5%	34.1%	47.5%	29.0%	47.0%	38.0%
Elimination	-	-	-	-	-45	-61	-60	-47	-25	-25

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Japan segment

The Japan segment is composed of the parent company, UCI Airfreight Japan, Inc., and Flying Fish Inc. As of FY12/16, the parent company generated 72.9% of the segment's sales, and 27.1% of the segment's operating profit.

Japan segment: sales and earnings at parent and consolidated levels

	FY12/07	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	9,166	9,677	6,883	8,955	9,128	9,798	11,829	14,293	15,346	13,636
YoY	-	5.6%	-28.9%	30.1%	1.9%	7.3%	20.7%	20.8%	7.4%	-11.1%
Parent	9,818	10,168	7,054	9,137	9,096	9,022	9,494	10,156	10,911	9,938
YoY	-	3.6%	-30.6%	29.5%	-0.4%	-0.8%	5.2%	7.0%	7.4%	-8.9%
% of sales	107.1%	105.1%	102.5%	102.0%	99.7%	92.1%	80.3%	71.1%	71.1%	72.9%
Cons.–parent difference	-652	-491	-171	-182	32	776	2,334	4,138	4,435	3,698
YoY	-	-24.7%	-65.1%	6.5%	-117.3%	2356.2%	201.0%	77.2%	7.2%	-16.6%
% of sales	-	-	-	-	0.3%	7.9%	19.7%	28.9%	28.9%	27.1%
Operating profit	816	831	444	739	782	638	631	846	850	827
Parent	816	831	447	755	748	646	672	806	744	728
YoY	-	1.9%	-46.3%	69.1%	-0.9%	-13.6%	4.0%	20.0%	-7.7%	-2.1%
% of OP	100.0%	100.0%	100.6%	102.2%	95.7%	101.2%	106.5%	95.3%	87.6%	88.1%
Cons.–parent difference	-	-	-3	-16	34	-8	-41	40	106	99
YoY	-	-	-	-	-308.6%	-122.2%	442.8%	-197.0%	166.1%	-6.6%
% of OP	-	-	-	-	4.3%	-	-	4.7%	12.4%	11.9%

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Parent performance by service

Sales by service at the parent can be divided into LCL exports, FCL exports, LCL imports, and FCL imports. As of FY12/16, exports comprised 71.3% of sales and imports 28.7%.

Parent sales by service line

(JPYmn)	FY12/13 Act.	FY12/14 Act.	FY12/15 Act.	FY12/16 Act.
Exports	6,918	7,388	8,007	7,088
YoY	-	6.8%	8.4%	-11.5%
% of parent sales	72.9%	72.7%	73.4%	71.3%
LCL	4,562	4,708	4,779	4,298
YoY	-	3.2%	1.5%	-10.1%
% of parent sales	48.0%	46.4%	43.8%	43.3%
FCL	1,676	1,984	2,285	1,855
YoY	-	11.4%	15.1%	-18.8%
% of parent sales	17.6%	19.5%	20.9%	18.7%
Other	680	696	943	935
Imports	2,577	2,768	2,903	2,849
YoY	-	7.4%	4.9%	-1.9%
% of parent sales	27.1%	27.3%	26.6%	28.7%
LCL	1,327	1,491	1,524	1,417
YoY	-	12.4%	2.2%	-7.0%
% of parent sales	14.0%	14.7%	14.0%	14.3%
FCL	897	900	956	932
YoY	-	0.4%	6.2%	-2.5%
% of parent sales	9.4%	8.9%	8.8%	9.4%

Source: Shared Research based on company data
Figures in table may vary from company materials due to differences in rounding methods.

Service lines	Overview
LCL exports	The company's LCL export service handles small-lot shipments for export. These shipments are not enough to fill a standard marine shipping container on their own, so NTL consolidates shipments from multiple clients going to the same destination into a single container.
FCL exports	The company's FCL export service handles marine shipping for clients that can fill at least one shipping container.
LCL imports	The company's LCL import service provides shipping and related services for clients seeking to import, or serves as the import agent for the shipping company that issues the bill of lading. NTL notifies the importing client of the arrival of the shipment from overseas, moves the container into a warehouse, and removes the shipment from the common container so the importing client can take possession.
FCL imports	The company's FCL import service handles marine shipping for clients that are importing enough to fill at least one container on their own. This includes overseeing the transfer of the container from the cargo ship to the client at the port of arrival. At the client's request, the imported goods may be temporarily stored in a warehouse or delivered to the client's factory or other requested location.

With Japanese client companies continuing to reduce the volume of export shipments from their domestic factories and increasing the proportion of local procurement overseas, NTL expects to see its export-related business decline and its import-related business increase over the long term.

Accordingly, the company commented that it will likely become a comprehensive freight forwarder, rather than remaining an NVOCC focusing on port-to-port ocean freight transport. An NVOCC (Non-Vessel Operating Common Carrier) does not own vessels. It buys space from a carrier and sub-sells it to smaller shippers. As a comprehensive freight forwarder, NTL would serve as an agent, accepting the cargo from the shipper as an intermediary and using other companies as needed to provide door-to-door transportation.

Sales contributions from imports have risen in the past several years. However, according to the company, import operations require specific knowledge not only about ocean freight transport and customs clearance but also about imported goods and related industries. In response, in February 2013, NTL established a subsidiary, Flying Fish Inc., which specializes in international multimodal transport operations.

Domestic subsidiaries

UCI Air Freight Japan

International air and ocean freight transport; acquired in April 2012 to enter the air freight forwarding business.

Flying Fish

International transportation operations; established in February 2013 and took over the international multimodal transport operations business from Flying Fish Services in June 2013.

Overseas segment

The Overseas segment comprises subsidiaries in China (a local subsidiary of the parent, and a local subsidiary of Flying Fish), South Korea, Hong Kong, Singapore, Thailand, Indonesia, India, and North America.

Overseas segment: trends in sales and earnings

(JPYmn)	FY12/07	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16
Sales	2,320	2,233	1,852	2,489	3,410	3,607	4,968	5,801	7,312	6,343
YoY	-	-3.7%	-17.1%	34.4%	37.0%	5.8%	37.7%	16.8%	26.0%	-13.2%
Operating profit	241	270	192	293	342	331	572	346	754	507
YoY	-	12.0%	-28.9%	52.4%	16.9%	-3.4%	72.8%	-39.5%	117.8%	-32.7%

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Functions of overseas subsidiaries

Country	Company Name	Established	Primary business areas
Singapore	NTL NAIGAI TRANS LINE(S)PTE LTD	Apr. 1997	LCL import/export, warehousing, transshipment
Thailand	NAIGAI TRANS LINE (THAILAND) CO., LTD.	Jun. 2000	LCL import/export, equipment import
Indonesia	PT. NTL NAIGAI TRANS LINE INDONESIA	Apr. 2001	LCL import/export, equipment import
China (Shanghai)	SHANGHAI NTL-LOGISTICS LIMITED	Jan. 2003	LCL import/export, equipment import (five locations)
China (Hong Kong)	NTL-LOGISTICS （HK） LIMITED	Feb. 2006	LCL import/export
China (Shenzhen)	NTL-LOGISTICS （SHENZHEN） LIMITED	Nov. 2015	LCL import/export, other
US	NTL NAIGAI TRANS LINE (USA) INC.	Aug. 2003	LCL import/export, equipment import (three locations) Acquired international ocean freight company Cargo One Inc. in July 2010 as a subsidiary
South Korea	NTL NAIGAI TRANS LINE (KOREA) CO., LTD.	Sep. 2003	LCL import/export (two locations)
	Naigai-Eunsan Logistics Co., Ltd	Jun. 2015	Warehousing, cargo transport, cargo packaging, multiple transport intermediary
India	NTL-LOGISTICS (INDIA) PRIVATE LIMITED	Acquired and consolidated in Jan. 2011	Import/export, domestic shipping, warehousing (seven locations)

Source: Shared Research based on company data
NTL-Shenzhen is a wholly owned subsidiary of NTL Logistics (HK)

Eight of the company's overseas subsidiaries are tasked with import agency duties for freight that is shipped from the parent or from domestic subsidiaries to overseas ports, as well as freight that is being shipped from overseas to either Japan or other overseas locations. The remaining two companies deal in domestic shipping within India and China, and act as comprehensive freight forwarders for air, land, and ocean freight, including warehousing for the freight. Naigai-Eunsan Logistics Co., Ltd in Korea provides other services including warehousing and cargo transport.

Profitability snapshot, financial ratios

For the company's margins, a growing economy means higher container freight-in prices and thus lower GPMs, while a shrinking economy means lower container freight-in prices, resulting in higher GPMs. In contrast, for operating profit, a growing economy usually contributes to higher sales and gross profit, which absorb fixed costs and accordingly improve OPMs, despite lower GPM.

Profit margins (JPYmn)	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.
Gross profit	3,211	3,710	3,981	4,115	4,843	5,663	6,185	5,745
GPM	36.8%	32.4%	31.8%	30.7%	28.8%	28.2%	27.3%	28.8%
Operating profit	636	1,031	1,079	908	1,142	1,145	1,578	1,309
OPM	7.3%	9.0%	8.6%	6.8%	6.8%	5.7%	7.0%	6.6%
EBITDA	685	1,106	1,212	1,059	1,324	1,337	1,749	1,489
EBITDA margin	7.8%	9.7%	9.7%	7.9%	7.9%	6.7%	7.7%	7.5%
Net margin	4.5%	5.7%	4.5%	3.4%	4.3%	1.1%	4.4%	2.2%
Financial ratios								
ROA	16.0%	18.6%	17.1%	14.5%	15.0%	13.3%	17.4%	14.6%
ROE	9.8%	14.6%	11.7%	8.7%	12.0%	3.2%	15.1%	6.8%
Total asset turnover	1.7	2.1	2.0	2.0	2.1	2.2	2.5	2.2
Working capital	-121	-103	-57	93	509	423	571	691
Current ratio	425%	434%	444%	405%	303%	381%	397%	403%
Quick ratio	408%	421%	432%	390%	283%	351%	371%	376%
OCF / Current liabilities	0.60	0.85	0.67	0.59	0.27	0.50	0.60	0.57
Net debt / Equity	-68.0%	-75.5%	-68.8%	-60.3%	-52.8%	-67.2%	-69.2%	-57.9%
OCF / Total liabilities	0.52	0.68	0.55	0.45	0.18	0.44	0.51	0.37
Cash cycle (days)	-18.3	-11.9	-10.5	-7.8	-2.0	0.3	1.5	4.1
Changes in working capital	45	18	46	150	416	-87	149	120

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Strengths and weaknesses

Strengths

- **High-quality services:** The forwarder industry is essentially a service business, and therefore service quality leads to differentiation. Such factors as frequent shipping schedules, reliability, efficient documentation, and appropriate trouble follow-ups underpin service quality. Handling many clients and cargos put the company in the position to ship more frequently to more ports of destination than its competitors. Frequent shipping schedules enable NTL to attract more clients and offer less-than-container-load (LCL) services more frequently.
- **Sound balance sheet:** NTL's net assets stood at roughly JPY6.9bn as of the end of FY12/16, and JPY4.5bn, or roughly two-thirds, was cash and cash equivalents. The company has only JPY524mn in interest-bearing debt. Such a strong financial position will be an advantage for NTL in future investments and acquisitions, while showing the company's immunity from external conditions.
- **Drive for growth:** It appears to Shared Research that NTL is led by a chairman with substantial buying power (i.e., ability to secure container space) and supported by highly motivated personnel. Since its IPO, the company has been operating under a corporate culture focusing on growing into a global freight transporter.

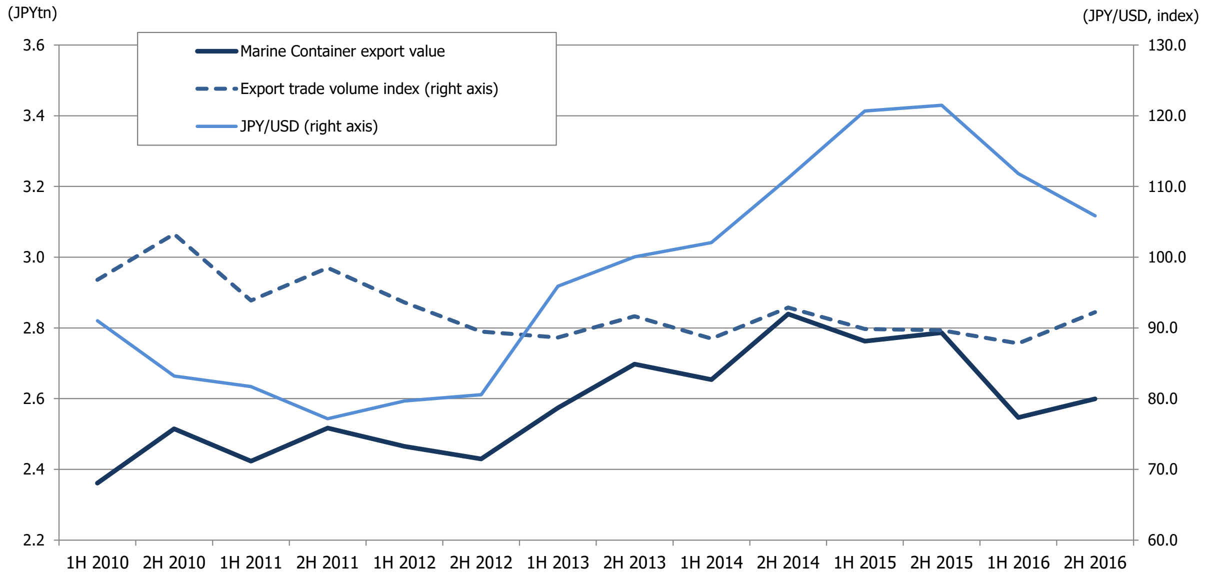
Weaknesses

- **Low growth potential in Japan:** NTL's growth potential is limited in Japan, partly due to the Japanese economy. Japan's exports market, where NTL has been traditionally strong, has been hollowing out as manufacturers (the company's customers) increasingly move production overseas. However, Flying Fish Inc., which acquired the business of Flying Fish Services Corp. in June 2013, has the potential for domestic business through its development of a comprehensive forwarding structure including door-to-door delivery.
- **Executives step in after acquisitions:** NTL's growth largely depends on acquisitions. But changing management at a newly acquired company requires executives of considerable skill—particularly due to differing management styles between companies in Japan and overseas. NTL possesses a limited number of executives capable of managing overseas.
- **Industry lacking skilled workers:** The company is faced with a lack of skilled workers. The shipping industry is a conservative one, and given that staff turnover is low, finding qualified and skilled workers is difficult. According to the Ministry of Health, Labour and Welfare, in 2015 the average accession rate for all industries was 16.3% and the separation rate was 15.0%. In contrast, in the shipping industry the accession rate was only 15.4% and the separation rate 12.0%. (The accession rate: the number of new employees divided by the number of full-time employees as of January 1 times 100. The separation rate is the number of departing employees divided by the number of full-time employees as of January 1 times 100.)

Market and value chain

Market overview

Exports and the forex rate



	2010		2011		2012		2013		2014		2015		2016	
(Half year average)	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H
Marine container export value (JPYtn)	2.4	2.5	2.4	2.5	2.5	2.4	2.6	2.7	2.7	2.8	2.8	2.8	2.5	2.6
Foreign exchange rate (JPY/USD)	91.0	83.2	81.7	77.2	79.7	80.6	95.9	100.0	102.1	111.2	120.7	121.5	111.8	105.9
Export trade volume index	96.8	103.3	93.9	98.5	93.6	89.5	88.7	91.7	88.5	92.9	89.8	89.7	87.8	92.2

Source: Shared Research based on Ministry of Finance, “Foreign Trade Statistics”
Note: All figures are the average for each period.

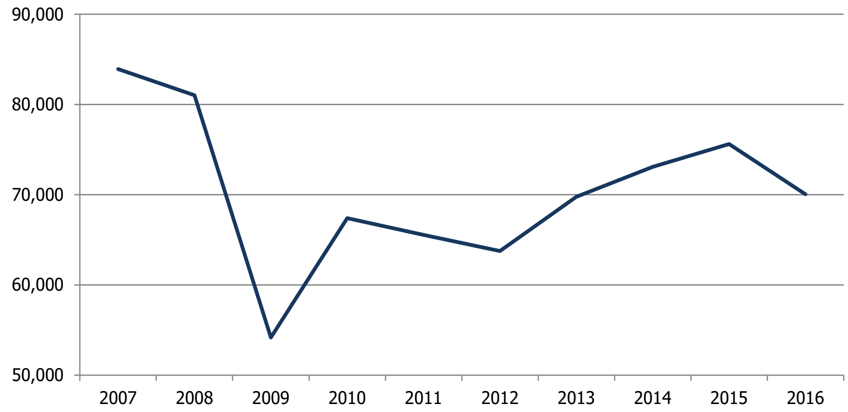
The company’s earnings are influenced by the value of exports shipped in marine containers (i.e., containerized exports), trade data, and the yen-dollar exchange rate. The value of containerized exports rose from 2H 2012 through 2H 2014, turned down in 1H 2016, and has been trending slightly higher since 2H 2016. In contrast, between 2H 2012 and 2H 2016 the export volume index stayed in a narrow range, never straying far from 90.0.

Since the export volume index has been flat since 2H 2012, the increase in the value of containerized exports from 2H 2012 to 2H 2014 was largely a result of the depreciation of the yen during this timeframe. We note that during 1H 2016, a period when the yen was high, the value of containerized exports began falling. In 2H 2016, amid the yen remaining high, the value began trending up again. From the recent upturn in the export volume index, we can conclude that the increase in export volume has been the primary driver of the recent upturn in the value of containerized exports.

Export shipments

According to Finance Ministry data, Japan’s exports totaled JPY70.0tn in 2016. Down 7.4% from 2015, this was the first decline in Japanese exports since 2012. Exports included automobiles (16.2% of total exports in 2016), electronics components such as semiconductors (5.2%), auto parts (49%), and steel (4.1%).

Total exports



Source: Shared Research based on Ministry of Finance

Total exports, and major export items

(JPYbn)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total exports	83,931	81,018	54,171	67,400	65,546	63,748	69,774	73,093	75,614	70,040
YoY	11.5%	-3.5%	-33.1%	24.4%	-2.7%	-2.7%	9.5%	4.8%	3.4%	-7.4%
Automobiles	14,317	13,736	6,693	9,174	8,204	9,225	10,413	10,919	12,046	11,333
YoY	16.4%	-4.1%	-51.3%	37.1%	-10.6%	12.4%	12.9%	4.9%	10.3%	-5.9%
Composition	17.1%	17.0%	12.4%	13.6%	12.5%	14.5%	14.9%	14.9%	15.9%	16.2%
Elec. Components, semiconductors	5,243	4,625	3,419	4,153	3,565	3,339	3,553	3,691	3,915	3,608
YoY	8.0%	-11.8%	-26.1%	21.5%	-14.2%	-6.3%	6.4%	3.9%	6.1%	-7.8%
Composition	6.2%	5.7%	6.3%	6.2%	5.4%	5.2%	5.1%	5.0%	5.2%	5.2%
Auto parts	3,356	3,066	2,309	3,083	2,997	3,205	3,476	3,475	3,483	3,461
YoY	11.0%	-8.6%	-24.7%	33.5%	-2.8%	6.9%	8.5%	0.0%	0.2%	-0.6%
Composition	4.0%	3.8%	4.3%	4.6%	4.6%	5.0%	5.0%	4.8%	4.6%	4.9%
Steel	4,042	4,574	2,906	3,675	3,709	3,496	3,793	3,958	3,668	2,843
YoY	16.0%	13.1%	-36.5%	26.5%	0.9%	-5.8%	8.5%	4.4%	-7.3%	-22.5%
Composition	4.8%	5.6%	5.4%	5.5%	5.7%	5.5%	5.4%	5.4%	4.9%	4.1%

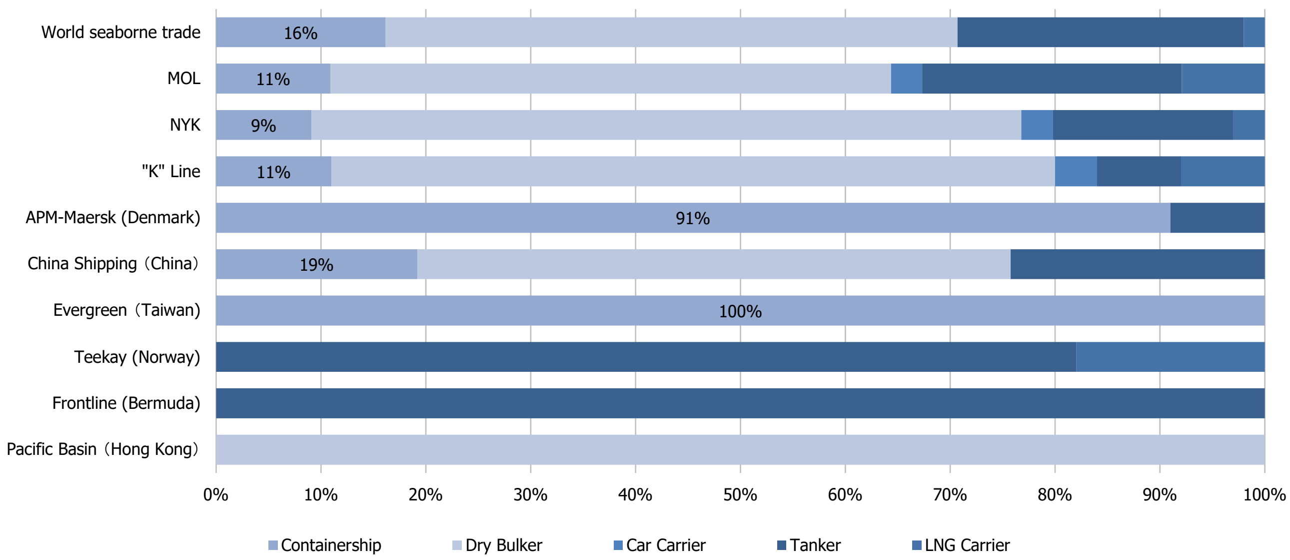
Source: Shared Research based on Ministry of Finance

Container ships

Container ships account for approximately 16% of the world seaborne trade.

Fleet composition of major global carriers

Global major carriers' fleet composition

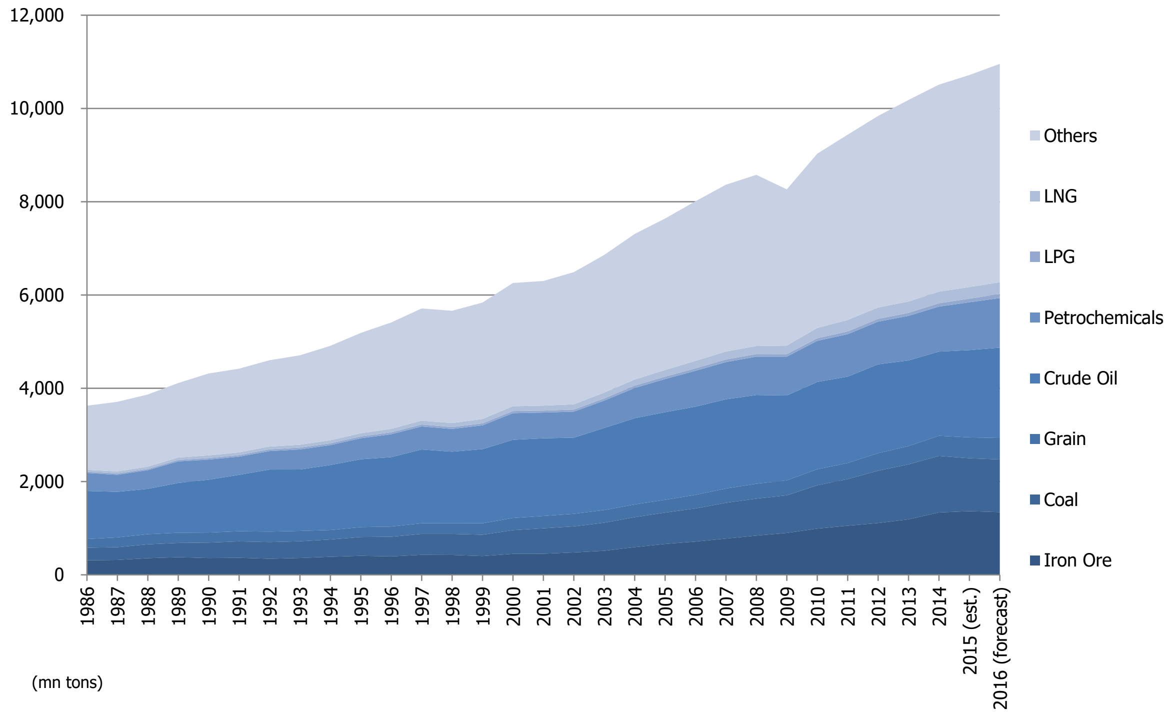


Source: Shared Research based on MOL data (January 2016)
Note: See Glossary for details of the ship types appearing in the chart above.

NTL thinks less-than-container-load (LCL) exports account for about 2% of all containers shipped from Japan. NTL commands approximately 20% of this LCL export market.

The world seaborne trade has gradually expanded. In the chart below, cargos that NTL handles are likely included in the "Others" category. It is clear that this category drove world seaborne trade growth in line with global economic expansion.

World seaborne trade



Source: Shared Research based on the Shipbuilder's Association of Japan

Container freight rates

Global container freight rates trended downward until the beginning of 2012 on the back of container ship oversupply and lower shipping volume due to European debt crises. From the spring of 2012, however, as shipping companies have reduced their fleet holdings, container freight rates have shown a temporary rise. Container rates declined in the summer of 2013 amid uncertainty of the economy, but increased toward the year-end. In 2014, container rates did not rise because of an oversupply, despite strong demand for shipping. In 2015 and also in 2016, a surplus of shipping capacity together with the introduction of very large ships (intended to improve the operating efficiency of shipping companies) increased the demand-supply gap and pushed container freight rates down.

Container rates are generally affected by seasonal factors (i.e., shipping volume fluctuations by season). Usually, container prices tend to be higher from summer to calendar year end because the shipping volume increases as European and US markets near the Christmas selling seasons. As container rates are directly linked to NTL's costs, the price fluctuations would be a short-term risk factor for NTL.

Trends in container freight rates since 2013 (Unit: USD/TEU)

Source: Shared Research, based on data from Japan Maritime Center's Planning and Research Department

Barriers to Entry

As forwarders do not own ships, barriers to entry are low. NTL is the industry leader with a roughly 20% share in Japan's LCL shipping market. The 20% share is not particularly high, meaning the market has many players. Considering most of these players are running small businesses, again, barriers to entry are low.

Competition

As mentioned above, NTL is the leader in the domestic LCL shipping market with a 20% share. Main competitors in the market are Seino Logix Co., Ltd. (unlisted), Yusen Logistics Co., Ltd. (TSE1: 9370), Transcontainer Ltd. (unlisted), and other large forwarders. The company also competes with many others that are all small in scale and offering reasonable services, such as Marine Star Corporation (unlisted) and TRI-NET (JAPAN) INC. (unlisted). Although not competing head to head, NTL is often compared with AIT Corporation (TSE1: 9381), as AIT's sales (JPY21.1bn in FY02/16) are roughly on par with NTL's. AIT's focus is on China, mainly importing garments and other goods. NTL aims to grow into an international comprehensive freight forwarder that can compete with Kintetsu World Express, Inc. (TSE1: 9375) and Yusen Logistics. In Asia especially, Australia-based Toll Holdings Limited (ASX: TOL) is expanding (Japan Post Holdings Co., Ltd. (TSE 6178 became a subsidiary in May 2015). Since its IPO in 1993, Toll has acquired more than 100 companies, and Toll's FY12/14 sales were roughly JPY350bn (based on forex rates at the time, at JPY80 yen/AUD).

Industry Positioning	NAIGAI Positioning	Competitors
Main Services	Port to Port	Door to Door
Attribute	Independent	Shipping Companies-Affiliates
Core Business	Exports	Imports
Regional Focus	Asia	Europe/US

Source: Shared Research based on company data

Strategy

The company's mainstay LCL export business accounted for approximately 22% of consolidated sales and 30% of gross profit in FY12/16. The company expects these figures to come down over the long term, though, as Japanese manufacturers (the company's customers) are expected to continue reducing domestic production for export and increasing the proportion of local procurement overseas.

NTL is looking to become a full-service international freight forwarder. In contrast to its old business model, in which parent company operations consisted largely of LCL/FCL export services and LCL/FCL import services, and focused mainly on handling the marine transport aspect of shipments (i.e., port-to-port services), the company aims to become a provider of comprehensive, door-to-door shipping services, including not only marine shipping but also land and air transport, as well as ancillary services such as warehousing, customs clearance, and packaging.

Operations strategy

NTL plans to strengthen the forwarding business division (to handle multimodal transport services including customs clearance, delivery, and machinery installation) aiming to grow into a comprehensive freight forwarder, not just a non-vessel operating common carrier (NVOCC). This is to be able to meet increasingly challenging needs of corporate clients by offering comprehensive (door-to-door) freight forwarding services on top of the port-to-port transport services.

Efforts in this regard include the April 2012 acquisition of UCI Airfreight Japan, Inc. (unlisted). With this acquisition, the company entered the air forwarding business. In the mainstay LCL export business, the company aims to raise the load factor by introducing price settings that have a competitive advance. The company also aims to raise GPM, lowering CoGS through price negotiations with shipping companies.

Overseas strategy

In addition to expanding less-than-container-load (LCL) export sales, the company plans to build a comprehensive LCL import structure to offer door-to-door delivery. Using this structure, NTL aims to raise the import sales ratio (29% of parent sales in FY12/16) and double import revenues in the long run. To achieve that, the company began sales activities linking domestic offices and overseas subsidiaries.

The company established a new subsidiary, Flying Fish Inc., in February 2013, which then acquired the domestic business of Flying Fish Services Corporation in June 2013. Flying Fish Service Corp. has a strong international multimodal transport services with a strong customer base in providing foodstuff imports for large corporations. Consequently, Flying Fish aims at increasing imports and developing a comprehensive forwarding structure including door-to-door delivery services.

In January 2011, NTL acquired LOGISTICS PLUS INDIA PRIVATE LIMITED (international freight forwarder based in New Delhi, India; now NTL-INDIA). With the support of LPI, NTL aims to secure new routes from Southeast Asia to South Asia by utilizing its own warehouse in Singapore. In the long run, LPI will serve as a freight transfer center for container cargos bound for Europe. Another part of the NTL's strategy is to establish new business bases in Southeast Asia and Europe, expanding its reach to major countries and ports worldwide.

New businesses

NTL has started offering third-party logistics (3PL) services. NTL acknowledges that the 3PL business is new for the company, and it needs to acquire suitable personnel and warehouses. A 3PL operator often undertakes logistics operations outsourced by a shipper lacking its own logistics functions. Because of this, 3PL operators have to be familiar with the details of the logistics processes of their clients. As of April 2014, despite the lack of personnel with such expertise, NTL thinks that it could transport (export) clients' cargos to any part of the world in time.

NTL is also considering entering warehousing and other businesses that require physical assets. The company started warehousing operations at the Busan New Port in November 2016, focusing on storage, making shipping arrangements, and processing services for cargo going between Japan and South Korea.

Historical performance

1H FY12/17 results

- **Sales:** JPY10.5bn (+5.1% YoY)
- **Operating profit:** JPY719mn (+24.4% YoY)
- **Recurring profit:** JPY749mn (+46.9% YoY)
- **Net income:** JPY617mn (+75.1% YoY)

Net Income refers to net income attributable to parent company shareholders.

Sales were 48.9% of the company's full-year FY12/17 target (the corresponding figure for 1H FY12/16 was 50.1%), operating profit was 47.9% (44.2%), recurring profit 49.9% (38.2%), net income 56.1% (80.4%). Thus, the results were more or less in line with the target.

NTL wants to grow by generating more sales from import services, integrated transport solutions, import cargos, customs clearance services, and overseas operations as the market for LCL export services, the company' mainstay, continues to shrink on a long-term basis. In 1H FY12/17, with regard to Japan's trading volume, which has an impact on NTL's earnings, both exports and imports have been on an uptrend versus the previous year, with exports to China and other Asian countries in particular showing a pronounced recovery.

At the parent level, the company posted an increase in sales and profits thanks to a rise in handling volume and sales of mainstay LCL export services. Domestic subsidiaries UCI Airfreight Japan Inc. and Flying Fish Inc., and overseas subsidiary Naigai-Eunsan Logistics, which began its warehousing business in November 2016, posted better earnings than forecast.

Earnings by segment were as follows.

Japan

- **Sales:** JPY7.0bn (+3.5% YoY)
- **Operating profit:** JPY424mn (+25.3% YoY)

LCL export services, the parent's mainstay, saw an increase in sales and handling volume compared with 1H FY12/16, even though the business had been on the decline for an extended period of time. Two domestic subsidiaries also posted an increase in sales and profits.

The parent company posted sales of JPY5.1bn (+2.3% YoY). LCL export services, the company's mainstay, had an increase in handling volume, as did FCL services. An increase in unit prices and the effects of foreign exchange movements have further contributed to sales. Gross profit reached JPY1.5bn (+2.8% YoY) because a rise in handling volume and unit prices led to improved profits.

Among domestic consolidated subsidiaries, Flying Fish, which specializes in international multimodal transport operations, posted a sales gain. NTL in FY12/16 booked JPY460mn in goodwill amortization expenses related to Flying Fish, but such expenses were absent in FY12/17, another factor behind a profit increase.

UCI Airfreight Japan (international air and ocean freight) also recorded increased sales and profits.

Overseas

- **Sales:** JPY3.5bn (+8.4% YoY)
- **Operating profit:** JPY308mn (+21.8% YoY)

NTL has 10 consolidated subsidiaries in Asia and in the US. These units generate sales mainly from the handling of cargos from Japan.

The overseas units' earnings were generally unchanged from 1H FY12/16. However, the Overseas segment had an increase in sales and profits because of sales contributions from Naigai-Eunsan Logistics Co., Ltd., which has been providing warehousing services at Busan New Port in South Korea since November 2016. The unit posted sales and profits in 1H FY12/17 after its warehouse became operational.

Changes in assets, liabilities, and net assets

Total assets increased to JPY9.9bn (+JPY544 from end-FY12/16) mainly because of a JPY593mn rise in current assets.

Liabilities increased to JPY2.6bn (+JPY82mn from end-FY12/16) mainly because of a JPY76mn rise in accounts payable.

Net assets increased to JPY7.3bn (+JPY463mn from end-FY12/16) mainly because of a JPY472mn rise in retained earnings.

Q1 FY12/17 results

- **Sales:** JPY5.2bn (+1.8% YoY)
- **Operating profit:** JPY363mn (+34.8% YoY)
- **Recurring profit:** JPY389mn (+49.0% YoY)
- **Net income:** JPY378mn (+127.8% YoY)

Net Income refers to net income attributable to parent company shareholders.

Progress was generally in line with company forecasts for full-year FY12/17: sales at 24.1% (vs. 25.5% progress toward full-year actual results in Q1 FY12/16), operating profit at 24.2% (20.6%), recurring profit at 25.9% (19.6%), and net income at 34.3% (37.8%). The high progress rate for net income was due to the posting of a JPY102mn gain on sale of investment securities.

In Q1 FY12/17, with regard to Japan's trading volume, which has an impact on NTL's earnings, both exports and imports have been on an uptrend versus the previous year, with exports to China and other Asian countries in particular showing a recovery. In accordance with the basic policy outlined in its third medium-term plan (a newly created plan that spans from January 2017 to December 2019), NTL has been strengthening measures that target further growth as a comprehensive international freight forwarder.

At the parent level, while both handling volume and sales slightly declined for mainstay LCL services, the company saw lower sales and higher profits owing to a decline in purchasing costs. Consolidated sales and profits increased owing to sales and profit contributions from Naigai-Eunsan Logistics, which is a consolidated subsidiary that has operated a warehousing business since November 2016, and an improved profit structure at Flying Fish Inc.

Overall sales rose as although sales at the parent level fell slightly due to yen appreciation, contributions from higher sales at consolidated subsidiaries Flying Fish and Naigai-Eunsan Logistics offset the drop.

Gross profit increased 4.9% YoY to JPY1.5bn, while GPM rose 0.8pp to 28.2%. The expanded application of Bill of Lading documentation fees for LCL exports and lower freight-in prices contributed to the increase in GPM. The company says that freight-in prices may increase from Q2 due to a rise in cargo movements.

SG&A expenses fell 2.3% YoY to JPY1.1bn.

As a result, operating profit, recurring profit, and net income increased YoY.

Earnings by segment were as follows.

Japan

- **Sales:** JPY3.5bn (+0.2% YoY)
- **Operating profit:** JPY221mn (+43.2% YoY)

At the parent level, while LCL and FCL export services both booked a slight decline in sales YoY, segment operating profit increased as Flying Fish booked a significant rise in sales YoY.

Sales at the parent level fell due to a drop in volume for mainstay LCL and FCL export services. Import sales also decreased YoY due to lower volume. As profits which do not involve higher expenses increased, due to a drop in cost of sales on lower container freight rates, and the expanded application of Bill of Lading documentation fees for LCL exports, the company saw a decrease in sales and an increase in profits.

Among domestic consolidated subsidiaries, Flying Fish, which specializes in international multimodal transport operations, saw an increase in sales. An increase in profits was due to there not being any goodwill amortization expenses in FY12/17, as the company posted a JPY460mn loss on goodwill impairment for Flying Fish in FY12/16.

Overseas

- **Sales:** JPY1.7bn (+5.1% YoY)
- **Operating profit:** JPY148mn (+22.3% YoY)

NTL has ten consolidated subsidiaries in Asia and the US, which mostly generate sales by shipping cargo from Japan. Sales and profits increased due to sales and profit contributions from Naigai-Eunsan Logistics. The US subsidiary also saw an improvement in results. Naigai-Eunsan Logistics started a warehouse logistics business at Busan New Port, South Korea from November 2016. The company says that, as of May 2017, with South Korean companies as its main customers, the business has been running smoothly.

FY12/16 results

- **Sales:** JPY20.0bn (-11.8% YoY)
- **Operating profit:** JPY1.3bn (-17.0% YoY)
- **Recurring profit:** JPY1.3bn (-15.0% YoY)
- **Net income:** JPY439mn (-56.4% YoY)

Net Income refers to net income attributable to parent company shareholders.

The higher rate of decline in net income attributable to parent company shareholders compared to the decline in recurring profit reflects an extraordinary loss of JPY460mn stemming from the write-off of the goodwill associated with consolidated subsidiary Flying Fish.

For Japanese trading, dropping crude oil prices caused the import value to drop YoY, and there was a YoY drop in the export value to China, a major importer, and other Asian countries.

In September 2016, NTL finished constructing a distribution warehouse in Busan New Port, Korea and began operations in November 2016. In addition to using the warehouse in its mainstay marine LCL cargo business, the company plans to offer a variety of services and expand the business. The LCL export service sales value and volume dropped YoY, and FCL export and air freight sales were also down YoY.

Earnings by segment were as follows.

Japan

- **Sales:** JPY13.6bn (-11.1% YoY)
- **Operating profit:** JPY827mn (-2.7% YoY)

At the parent level, LCL and FCL export services both struggled; sales from import services also finished the year down. At the parent level, sales declined 8.9% YoY to JPY9.9bn. Of the JPY973mn decline in parent sales, JPY236mn was attributed to lower volumes, JPY324mn to lower unit prices, and JPY410mn to swings in foreign exchange rates. (The company's average exchange rate in FY12/16 was JPY108.8 /USD versus JPY121.1/USD in FY12/15.)

At the parent level, sales from mainstay LCL exports fell 10.0% YoY, to JPY4.5bn, on a 1.8% decline in LCL export volume while sales from FCL export services fell 18.8%, to JPY1.9bn, on a 4.8% decline in volume. Total sales for import services (LTL, FTL, and other services) declined 1.9% to JPY2.8bn.

Segment operating profit at the parent finished the year down 2.1%, at JPY728mn. Sales and operating profit at domestic subsidiaries were also down.

Overseas

- **Sales:** JPY6.3bn (-13.2% YoY)
- **Operating profit:** JPY507mn (-32.7% YoY)

NTL has ten consolidated subsidiaries in Asia and the US, which mostly generate sales by shipping cargo from Japan.
Sales and profits were sluggish at all subsidiaries on a decline in freight from Japan.

Changes in assets, liabilities, and net assets

The company's balance sheet showed total assets of JPY9.4bn, an increase of JPY530mn over the end of FY12/15. The bulk of the increase came from an expansion of tangible fixed assets, which increased by JPY1.208bn. Of this, JPY1.206bn stemmed from buildings and structures, due to the construction of a new warehouse at Busan New Port (South Korea). This increase was offset in part by a JPY553mn decline in intangible fixed assets, mainly due to the write-off of the goodwill associated with consolidated subsidiary Flying Fish.

Liabilities increased by JPY460mn, to JPY2.5bn, mainly due to a JPY500mn increase in long-term borrowings.

Net assets at the end of FY12/16 came to JPY6.9bn, a JPY70mn increase over the end of FY12/15. The increase largely reflected a JPY196mn increase in retained earnings.

FY12/15 results

- **Sales:** JPY22.7bn (+12.8% YoY)
- **Operating profit:** JPY1.6bn (+37.8% YoY)
- **Recurring profit:** JPY1.6bn (+29.9% YoY)
- **Net income:** JPY1.0bn (+365.1% YoY).

Net income refers to net income attributable to parent company shareholders.

At the parent level, sales were JPY10.9bn (+7.4%YoY). Sales rose slightly in less-than-container-load (LCL) export services, continuing from FY12/14, while sales increased in full-container-load (FCL) export and air freight services. However, operating profit fell to JPY744mn (-7.7% YoY) due to an increase in CoGS and SG&A expenses.

Both domestic and overseas consolidated subsidiaries saw strong results, leading to a large boost in sales and profits. Net income also saw an improvement as the company did not book extraordinary losses as it had in FY12/14 (when it booked JPY303mn from provisions for doubtful accounts at a local subsidiary in India).

Japan

- **Sales:** JPY15.3bn (+7.4% YoY)
- **Operating profit:** JPY850mn (+0.5% YoY).

Although sales increased and operating profit decreased at the parent level, the Japan segment had increases in both sales and operating profit due to the results of domestic subsidiaries.

At the parent level, volume of LCL exports, a key service, rose 0.5% YoY. However, sales were JPY4.8bn (+1.5% YoY) due to the lower yen compared to the previous year. The volume and sales of FCL exports increased to 12.3% YoY and JPY2.3bn (+15.1% YoY), respectively. The figures include customers previously using LCL export services who shifted to FCL exports due to lower FCL prices. Total sales for import services (LCL, FCL, and other services) were JPY2.9bn (+4.9% YoY).

Gross profit was JPY3.1bn (+0.3% YoY) and the gross profit margin fell 2.0pp to 28.0% on the parent level. The drop was due to a decrease in the composition of LCL exports, which has a relatively high profit margin, lower gross profit margin in LCL exports on a fall in selling prices and increases in procurement costs.

Considering domestic subsidiaries, UCI Airfreight Japan (international air and ocean freight) recorded increased sales and profits due to ongoing favorable demand for air freight, caused by strikes at ports on the US West Coast, and the contribution of customs clearance services at Kansai and Narita Airports. Improved earnings at Flying Fish also led to the Japan segment booking an increase in both sales and profits.

Overseas

- **Sales:** JPY7.3bn (+26.0% YoY)
- **Operating profit:** JPY754mn (+117.8% YoY)

NTL has nine consolidated subsidiaries in Asia and one consolidated subsidiary in the US, which mostly generate sales by shipping cargo from Japan. Two of these subsidiaries were established in FY12/15, and will commence business operations from FY12/16 or later. Despite the economic slowdown in China and sluggish growth in emerging markets in Asia, sales efforts from local subsidiaries resulted in solid sales in the Overseas segment, which mainly includes countries in Asia.

NTL-LOGISTICS (INDIA) PRIVATE LIMITED, a consolidated subsidiary in India, booked a loan-loss provision of JPY324mn in the previous period due to delays collecting accounts receivable, but the current period showed increased profit since this type of expense did not recur. According to the company, subsidiaries in China, Korea, and Singapore contributed to increased revenue and profit in the overseas segment.

FY12/14 results

Sales grew to JPY20.1bn (+19.6% YoY). Overall sales were up as mainstay less-than-container-load (LCL) export sales began to increase, after trending downward in recent years. Domestic and overseas subsidiaries also continued focusing on sales.

Gross profit totaled JPY5.7bn (+16.9% YoY). However, gross profit margin fell 0.6pp YoY to 28.2% after Flying Fish Inc.'s earnings were added for the entire fiscal year. (Flying Fish, which has a lower profit margin, was consolidated for seven months in FY12/13.)

Owing to rising SG&A expenses and extraordinary losses, operating profit was JPY1.1bn (+0.3% YoY), recurring profit was JPY1.2bn (+0.3% YoY), and net income was JPY216mn (-70.4% YoY).

SG&A expenses rise due to provisions for doubtful accounts

The company reported provisions for doubtful accounts of JPY324mn, due to delays to collections of accounts receivable at consolidated subsidiary NTL-LOGISTICS PLUS INDIA PRIVATE LIMITED.

Extraordinary losses

- Goodwill amortization at NTL-INDIA: JPY303mn, following deliberation over the possibility of collecting goodwill at NTL-INDIA, in light of the above provisions for doubtful accounts;
- System development fee-refund lawsuit: an allowance for doubtful accounts of JPY84mn and settlement costs of JPY20mn;
- Valuation losses on investment securities: JPY102mn.

Japan

Sales were JPY14.3bn (+20.8% YoY); segment operating profit was JPY845mn (+34.1% YoY).

At the parent level, cargo handling volume rose 0.8% from a year earlier. Sales totaled JPY10.2bn (+7.0% YoY), and operating profit JPY806mn (+20.0% YoY).

At the parent, mainstay LCL export sales volume increased by 2.0% YoY; sales (amount) grew by 3.2% YoY, marking a recovery after a sluggish period. Due to the weak yen, FCL sales volume was up 5.3% YoY, and sales were up 18.4% YoY.

Parent-only gross profit was JPY3.0bn (+9.4% YoY), with gross profit margin rising 0.7pp to 30%. Gross profit of the less-than-container-load (LCL) export operations, which involve separate individual shipments in one loading, was JPY2.0bn (+6.0% YoY). The parent company comprised 64.6% of the group's gross profit (66.6% a year earlier) and 41.8% of the group gross profit margin (+1.7pp YoY). Profitability improved due to negotiations for lower shipping and warehouse fees. The company also sought to make container shipments more efficient and began to charge additional fees for some items. NTL has been implementing these and other measures since FY12/13.

Overall sales and profits increased on the back of higher earnings, both at the parent and at domestic subsidiaries. Flying Fish's international transport operations, which began in June 2013, contributed to group earnings for the entire fiscal year. Sales at UCI Airfreight Japan increase mainly because of the start of customs operations at Kansai International Airport. Global Maritime also reported better earnings.

Overseas

Sales were JPY5.8bn (+16.8% YoY); segment operating profit was JPY345mn (-39.5% YoY).

NTL reported robust sales from overseas operations, particularly in Asia, even as growth slowed in China and various other Asian countries. The weak yen also contributed to YoY growth in sales. Profits, however, fell YoY owing to provisions for doubtful accounts booked at NTL-INDIA.

Income statement

Income statement (JPYmn)	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.
Total sales	**8,735**	**11,444**	**12,538**	**13,405**	**16,797**	**20,095**	**22,658**	**19,979**
YoY	-26.7%	31.0%	9.6%	6.9%	25.3%	19.6%	12.8%	-11.8%
CoGS	5,524	7,734	8,557	9,290	11,954	14,432	16,473	14,234
Gross profit	**3,211**	**3,710**	**3,981**	**4,115**	**4,843**	**5,663**	**6,185**	**5,745**
YoY	-19.1%	15.5%	7.3%	3.4%	17.7%	16.9%	9.2%	-7.1%
GPM	36.8%	32.4%	31.8%	30.7%	28.8%	28.2%	27.3%	28.8%
SG&A expenses	2,575	2,678	2,903	3,206	3,700	4,518	4,607	4,435
SG&A-to-sales ratio	29.5%	23.4%	23.2%	23.9%	22.0%	22.5%	20.3%	22.2%
Operating profit	**636**	**1,031**	**1,079**	**908**	**1,142**	**1,145**	**1,578**	**1,309**
YoY	-42.3%	62.1%	4.7%	-15.8%	25.8%	0.3%	37.8%	-17.0%
OPM	7.3%	9.0%	8.6%	6.8%	6.8%	5.7%	7.0%	6.6%
Non-operating income	201	76	62	98	99	115	84	69
Non-operating expenses	28	71	95	31	37	52	93	45
Recurring profit	**809**	**1,036**	**1,046**	**975**	**1,205**	**1,208**	**1,569**	**1,333**
YoY	-26.3%	28.1%	1.0%	-6.8%	23.6%	0.3%	29.9%	-15.0%
RPM	9.3%	9.1%	8.3%	7.3%	7.2%	6.0%	6.9%	6.7%
Extraordinary gains	7	6	0	4	3	15	23	0
Extraordinary losses	98	3	130	106	32	517	2	466
Tax charges	316	385	343	407	425	471	564	428
Implied tax rate	44.0%	37.1%	37.4%	46.6%	36.1%	66.7%	35.5%	49.4%
Minority interests	5	3	5	7	21	19	20	1
Net income	**396**	**652**	**568**	**459**	**730**	**216**	**1,006**	**439**
YoY	-36.5%	64.6%	-12.9%	-19.2%	59.0%	-70.4%	365.1%	-56.4%
Net margin	4.5%	5.7%	4.5%	3.4%	4.3%	1.1%	4.4%	2.2%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Balance sheet

Balance sheet (JPYmn)	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.
ASSETS								
Cash and deposits	2,862	3,565	3,595	3,459	3,753	4,714	4,694	4,497
Marketable securities	299	395	300	498	280	200	-	-
Accounts receivable	374	494	557	849	1,701	1,535	1,605	1,671
Other current assets	137	132	121	182	404	543	447	448
Total current assets	**3,672**	**4,586**	**4,573**	**4,988**	**6,138**	**6,993**	**6,746**	**6,615**
Buildings and structures (net)	25	27	149	160	167	163	164	1,370
Equipment and vehicles (net)	16	15	28	36	30	51	58	74
Land	351	351	370	383	378	376	375	374
Other fixed assets	55	35	65	54	56	49	104	91
Total tangible fixed assets	**447**	**428**	**612**	**633**	**631**	**639**	**702**	**1,909**
Investment securities	501	219	276	297	433	216	157	168
Guarantee deposits	193	186	185	197	235	260	247	247
Insurance funds	120	127	108	115	122	127	127	127
Other	183	169	146	322	157	84	129	124
Total other fixed assets	**997**	**701**	**715**	**931**	**947**	**687**	**660**	**666**
Goodwill	-	132	355	504	1,175	774	688	142
Software	85	71	58	43	33	24	33	38
Other	19	15	12	11	56	50	35	24
Total intangible fixed assets	**104**	**218**	**425**	**558**	**1,264**	**848**	**757**	**203**
Total fixed assets	**1,548**	**1,348**	**1,753**	**2,122**	**2,842**	**2,174**	**2,118**	**2,779**
Total assets	**5,220**	**5,934**	**6,326**	**7,110**	**8,980**	**9,167**	**8,864**	**9,394**
LIABILITIES								
Accounts payable	503	604	620	762	1,197	1,117	1,040	985
Short-term debt	-	-	87	49	256	29	-	24
Other current liabilities	362	453	322	421	574	691	658	630
Total current liabilities	**865**	**1,057**	**1,030**	**1,232**	**2,026**	**1,836**	**1,698**	**1,640**
Long-term debt	-	-	42	27	0	-	-	500
Other fixed liabilities	149	153	214	241	329	353	380	398
Total fixed liabilities	**149**	**153**	**256**	**268**	**329**	**353**	**380**	**898**
Total Interest-Bearing Debt	-	-	129	75	256	**29**	**-**	**524**
Total liabilities	**1,014**	**1,210**	**1,285**	**1,499**	**2,355**	**2,189**	**2,078**	**2,538**
NET ASSETS								
Capital stock	157	215	223	228	244	244	244	244
Capital surplus	147	205	213	218	234	234	234	234
Retained earnings	4,014	4,520	4,945	5,260	5,845	5,885	6,623	6,819
Valuation differences	-138	-239	-381	-142	243	526	362	166
Share subscription rights	8	-	-	-	-	-	-	-
Treasury shares	-	-0	-0	-0	0	-0	-1,020	-1,021
Non-controlling interests	20	22	42	48	60	89	344	414
Total net assets	**4,206**	**4,723**	**5,041**	**5,611**	**6,625**	**6,978**	**6,786**	**6,856**
Working capital	-121	-103	-57	93	509	423	571	691
Total interest-bearing debt	-	-	129	75	256	29	-	524
Net cash	2,862	3,565	3,466	3,384	3,497	4,686	4,694	3,973

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Other information

Shareholder returns

The company's policy is to provide a stable, continuous dividend based on a combination of operating performance, the financial situation, and other factors. In FY12/16, it paid an interim dividend of JPY15 and plans on a year-end dividend payment of JPY15. The company plans to pay an annual dividend of JPY32 in FY12/17, paying an interim dividend of JPY15 and year-end dividend of JPY17.

History

May 1980	Founded under the name of NAIGAI SHIPPING CO., LTD. in Higashi-Ku (currently Chuo-Ku), Osaka as ocean shipping broker
Dec 1986	Altered trade name to NAIGAI TRANS LINE LIMITED
Dec 1991	"Class I Consigned Freight Forwarding Business Operator" license approved by the Ministry of Transport (currently the Ministry of Land, Infrastructure, Transport and Tourism)
April 1997	Established NTL NAIGAI TRANS LINE (S) PTE LTD. in Singapore
June 2000	Established NTL NAIGAI TRANS LINE (T) CO., LTD. in Bangkok
April 2001	Established PT. NTL NAIGAI TRANS LINE INDONESIA in Jakarta
Jan 2003	Established joint venture Shanghai NTL-ADC TRANS LINE LTD. in Shanghai
Aug 2003	Acquired JVL AMERICA INC. from Japan Van Lines Co., Ltd. and established NTL NAIGAI TRANS LINE (USA) INC., in Los Angeles (90% stake)
Sept 2003	Established NTL NAIGAI TRANS LINE (KOREA) CO., LTD. in Seoul and opened Busan Branch
Feb 2006	Established NTL-LOGISTICS (HK) LIMITED in Hong Kong
Dec 2006	Acquired Shanghai NTL-ADC TRANS LINE LTD.
Nov 2008	Listed on the Second Section of the Tokyo Stock Exchange
July 2010	Acquired New York-based Cargo One Inc. (Consolidation Services)
Jan 2011	Acquired an 80% stake in LOGISTICS PLUS INDIA PRIVATE LIMITED (international freight forwarder based in New Delhi, India)
April 2012	Acquired Osaka-based UCI Airfreight Japan, Inc. (international transportation and logistics operator)
Oct 2012	NTL Naigai Trans Line (USA) Inc. acquired Cargo One Inc. Established a UCI Airfreight Japan Narita Branch in Narita, Chiba Prefecture
Nov 2012	Established Shanghai NTL-Logistics Limited Qingdao Branch in Qingdao, China
Feb 2013	Established Flying Fish Inc., a consolidated subsidiary in Tokyo
Jun 2013	Flying Fish Inc. acquired the international transportation operations of Flying Fish Service Corp.
Oct 2013	Established a Chicago branch of NTL NAIGAI TRANS LINE (USA) INC.
Dec 2013	Acquired NTL LOGISTICS PLUS INDIA PRIVATE LIMITED
Jan 2014	Changed the name of NTL LOGISTICS PLUS INDIA PRIVATE LIMITED to NTL-LOGISTICS (INDIA) PRIVATE LIMITED
Mar 2014	Established a UCI Airfreight Japan office in Kansai International Airport, Osaka
Mar 2015	Listed shares on the TSE First Section
Jun 2015	Naigai-Eunsan Logistics Co., Ltd joint subsidiary in Busan Korea
Nov 2015	Established NTL-Shenzhen as a subsidiary of NTL Logistics (HK)
Jan 2016	Closed Moji and Hiroshima offices
April 2016	Absorption-type merger of Global Maritime Co., Ltd. Opened NTL-Logistics (Shenzhen) Limited Guangzhou Branch to take over operations from Shanghai NTL-Logistics Limited Guangzhou Branch
Nov 2016	Naigai-Eunsan Logistics begins operation of warehouse in Busan, South Korea
July 2017	Acquired GTC-ASIA's Japan business
Aug 2017	Acquired GTC-ASIA (Myanmar) Co. Ltd. from GTC-ASIA and made it a subsidiary.

News and topics

July 2017

On **July 28, 2017**, the company announced the acquisition of shares in GTC-ASIA (Myanmar) Co. Ltd. to turn it into a subsidiary.

NTL announced that it would acquire all shares in GTC-ASIA (Myanmar) Co. Ltd., which operates an international freight forwarder business in Myanmar, as part of a plan to enter new business areas and to expand into the ASEAN region. The share acquisition is tentatively scheduled for August 1, 2017. NTL wants to complete the deal by late September.

Under current law in Myanmar, for some sectors foreign investment is required to be through joint ventures with local partners. However, GTC-ASIA was established as a company wholly owned by a single entity before the nation revised the law. Therefore, GTC-ASIA will be allowed to operate as a wholly owned unit of NTL after the share purchase. NTL expects that the acquisition will not only allow the company to provide transport services within Myanmar and between Myanmar and Japan but also help it strengthen its global presence in cooperation with GTC-ASIA's overseas subsidiaries. After the share transfer, GTC-ASIA will be renamed NTL Naigai Trans Line (Myanmar) Co. Ltd.

Overview of GTC-ASIA

▷ Name: GTC-ASIA (Myanmar) Co. Ltd.
▷ Location: Yangon, Myanmar
▷ Business: International freight forwarder services
▷ Capitalization: USD50,000
▷ Establishment: September 2012

GTC-ASIA's earnings and financials for the past two years

(USD)	FY03/16	FY03/17
Net assets	-14,210	-21,255
Total assets	1,338	1,876
Sales	6,000	6,210
Operating profit	-1,374	-5,818

January 2017

On **January 17, 2017**, the company announced that it had revised its FY12/16 earnings forecasts.

FY12/16 forecasts

▷ **Sales:** JPY20.0bn (previous forecast: JPY20.6bn)
▷ **Operating profit:** JPY1.3bn (previous forecast: JPY1.2bn)
▷ **Recurring profit:** JPY1.3bn (previous forecast: JPY1.1bn)
▷ **Net income:** JPY400mn (previous forecast: JPY800mn)

Reasons for the revision

Flying Fish Inc., the company's consolidated subsidiary, has achieved a certain level of success in its international multimodal transport operations after NTL acquired the business in June 2013. NTL has been seeking to expand and solidify the subsidiary's business foundation. However, the company has determined that it would not be able to recover the goodwill related to Flying Fish as initially planned. NTL has booked an impairment charge of JPY460mn and revised its consolidated earnings forecast for FY12/16, which was announced on September 30, 2016. NTL has not revised its dividend forecast.

July 2016

On **July 25, 2016**, the company announced revisions to its cumulative 1H FY12/16 earnings forecast.

1H FY12/16 earnings forecast revision (previous forecasts in parentheses)

- **Sales:** JPY10.0bn (JPY11.6bn)
- **Operating profit:** JPY570mn (JPY790mn)
- **Recurring profit:** JPY510mn (JPY790mn)
- **Net income:** JPY350mn (JPY490mn)

Reasons for the revision

Sales and profits for 1H FY12/16 were trending below the same period in the previous year, due to the slowdown in the economy in China and other Asian markets, and lower Japanese trade volume due to the strong yen since the beginning of 2016.

At the parent, sales from the company's mainstay LCL export services were lower by about 10% YoY, and sales from import services also fell. Outside Japan, sales at overseas local subsidiaries were lower on a yen basis due to yen appreciation. Operating profit trended lower, as improvements in the CoGS-to-sales ratio and reductions in SG&A expenses were not enough to offset the sales decline. The booking of foreign exchange losses drove recurring profit down.

The company maintains its previous full-year earnings forecast.

February 2016

On **February 10, 2016**, the company announced the decision to conduct an absorption-type merger of consolidated subsidiary Global Maritime.

Global Maritime Co., Ltd. (GMC) was established in October 2009 as a shipping agency business, and has been conducting shipping agency activities, such as working with companies such as the Japan branch of the Pakistan National Shipping Corporation. In order to more effectively use management resources and improve the efficiency of business operations, the company has decided to conduct an absorption-type merger of GMC (simplified and short-form merger), effective from April 1, 2016.

December 2015

On **December 22, 2015**, the company announced the beginning of operations at its subsidiary in Shenzhen, China, and also that its Korea-based subsidiary had started construction of a logistics warehouse.

In line with its announcement on July 30, 2015, NTL-Logistics (Shenzhen) Ltd. (NTL-Shenzhen) will begin operations from January 1, 2016.

The company's joint subsidiary Naigai-Eunsan Logistics Co., Ltd., jointly owned by Korean company Eunsan Shipping & Aircargo Co., Ltd., was established on June 1, 2015. It has since been making preparations for the construction of a warehouse, which began on December 22, 2015 following a groundbreaking ceremony.

Major shareholders

Top shareholders	Amount held
AST G.K.	19.83%
NAIGAI TRANS LINE LTD.	9.36%
The Master Trust Bank of Japan, Ltd. (Trust account)	5.86%
NAIGAI TRANS LINE Employee Shareholding Association	3.59%
Toru Toda	2.94%
Mizuho Bank, Ltd.	2.62%
Tokiwasoba Co., Ltd.	2.34%
Japan Trustee Services Bank, Ltd. (Trust account)	2.27%
Nissho Transportation Co., Ltd.	2.17%
Trancom Co., Ltd.	2.06%

Source: Shared Research based on company data
(As of June 30, 2017)

Mr. Toda owns 2.94% of NTL directly and 19.83% through a family-owned business called AST YK. Thus, Toda directly and indirectly controls 22.78% of NTL.

Top management

Toru Toda (born 1942), chairman and representative director

Toda worked for Yokohama Eisen K.K. and several other companies, and founded NAIGAI SHIPPING CO., LTD. (predecessor of NTL) in 1980. The company changed its name to NAIGAI TRANS LINE LIMITED in 1986. He gained the current post in 2013.

Akira Tsuneda (born 1953), president and representative director

After working for Nippon Express Co., Ltd., Tsuneda joined NTL in 1999. From 2003, Tsuneda served as the president of Chinese subsidiary SHANGHAI NTL-LOGISTICS LIMITED. He became vice president and representative director in 2012 and gained the current post in 2013.

By the way

Glossary

Car Carrier

As Japan accelerated automobile production in the 1960s, shipping companies increasingly backed away from the business of shipping cars that needed damage-free loading and shipping. This led to the conception of a vessel specifically designed for shipping cars. In 1970, Kawasaki Kisen Kaisha Ltd. (“K” LINE, TSE1: 9107) introduced Japan’s first pure car carrier (PCC), Toyota Maru No. 10.

Container ships

Container ships are the fastest among all carrier types, designed to ship various items, including garments, electronic appliances, and hazardous items. These items are put in internationally standard containers and transported.

Dry Bulker

These are vessels to carry such raw materials as coal, iron ore and grain (e.g., wheat, soybean, corn) as well as paper-making materials.

Freight Forwarder

A business that does not own its own vessels but acts as an agent on behalf of the shipper. A freight forwarder primarily conducts door-to-door multimodal transport through the use of other parties’ transport systems (e.g., ships, airplanes, railcars, trucks).

Although being sub-divided further according to transportation mode used and geographical region of operation, freight forwarders, in general, undertake international freight forwarding.

Full-Container-Load (FCL)
The quantity of freight which is equivalent to that required for the application of a container load rate.

Less-than-Container-Load (LCL)
The quantity of freight which is less than that required for the application of a container load rate. Also known as Loose Freight.

LNG Carrier
An ocean-going ship specially constructed to carry LNG in tanks. Mainly composed of methane, LNG maintains its liquid state below minus 161.5 degrees C. Due to this, LNG carriers are equipped with pressurized tanks and thermal insulations. An LNG tank occupies a large portion of a carrier's total hull volume, resulting in the bigger silhouette of an LNG carrier above the waterline.

Load Factor
Capacity used as against capacity available and expressed as a percentage.

Non-Vessel Operating Common Carrier (NVOCC)
An NVOCC does not own vessels. It buys space from a carrier and sub-sells it to smaller shippers.

Oil Tanker
Oil tankers can be sub-divided into dirty tankers (for heavy oil) and clean tankers (for gasoline, naphtha, kerosene and light oil).

Shipper
The person or company who is usually the supplier or owner of commodities shipped. Also called Consignor.

Third-Party Logistics (3PL)
3PL refers to comprehensive logistics outsourcing services provided to shippers. A 3PL operator helps shippers formulate logistics strategies, gives proposals for logistics system development and undertakes actual logistics operations.

Company profile

Company Name	Head Office
NAIGAI TRANS LINE LTD.	Midosuji Azuchi-Machi Bldg. 5-12, 3-chome Azuchi-Machi Chuo-ku Osaka, Japan 541-0052
Phone	**Listed On**
+81-6-6260-4710	Tokyo Stock Exchange 1st Section
Established	**Exchange Listing**
May 1, 1980	November 5, 2008
Website	**Fiscal Year-End**
http://www.ntl-naigai.co.jp/guest/index.do	December
IR Contact	**IR Web**
-	http://ir.ntl-naigai.co.jp/ja/index.html
IR Mail	**IR Phone**
-	+81-6-6260-4800

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at http://www.sharedresearch.jp.

Current Client Coverage of Shared Research Inc.

Accordia Golf Trust
Accretive Co., Ltd.
Adastria Co., Ltd.
ADJUVANT COSME JAPAN CO., LTD.
Aeon Delight Co., Ltd.
Ai Holdings Corporation
AnGes Inc.
Anicom Holdings, Inc.
Anritsu Corporation
Apamanshop Holdings Co., Ltd.
Arealink Co.,Ltd.
Artspark Holdings Inc.
AS ONE CORPORATION
Ateam Inc.
Aucfan Co., Ltd.
Axell Corporation
Azbil Corporation
Bell-Park Co., Ltd.
Benefit One Inc.
Canon Marketing Japan Inc.
Carna Biosciences, Inc.
CERES INC.
Chiyoda Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiseki Co., Ltd.
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
Don Quijote Holdings Co., Ltd.
Dream Incubator Inc.
EARTH CHEMICAL CO., LTD.
Elecom Co., Ltd.
Emergency Assistance Japan Co., Ltd.
en-Japan Inc.
euglena Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
FreeBit Co., Ltd.
FRONTEO, Inc.
Fujita Kanko Inc.
FURYU CORPORATION
Gamecard-Joyco Holdings, Inc.
GCA Corporation
Grandy House Corporation
Hakuto Co., Ltd.
Happinet Corporation
Harmonic Drive Systems Inc.
Hearts United Group Co., Ltd.
IDOM Inc.
IGNIS LTD.
Inabata & Co., Ltd.
Infomart Corporation
Intelligent Wave, Inc.
istyle Inc.
Itochu Enex Co., Ltd.
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS Inc.
KAMEDA SEIKA CO., LTD.
Kenedix, Inc.
KFC Holdings Japan, Ltd.
LAC Co., Ltd.
Lasertec Corporation
MATSUI SECURITIES CO., LTD.
MEDINET Co., Ltd.
Milbon Co., Ltd.
MIRAIT Holdings Corporation
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
NTT URBAN DEVELOPMENT CORPORATION
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
RACCOON CO., LTD.
RESORTTRUST, INC.
ROUND ONE Corporation
RVH Inc.
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
Seria Co.,Ltd.
SHIP HEALTHCARE HOLDINGS, INC.
SMS Co., Ltd.
Snow Peak, Inc.
Solasia Pharma K.K.
SOURCENEXT Corporation
Star Mica Co., Ltd.
SymBio Pharmaceuticals Limited
TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
Takihyo Co., Ltd.
TAMAGAWA HOLDINGS CO., LTD.
TEAR Corporation
3-D Matrix, Ltd.
TKC Corporation
TOKAI Holdings Corporation
Tri-Stage Inc.
VISION INC.
VISIONARY HOLDINGS CO., LTD.
VOYAGE GROUP, INC.
WirelessGate, Inc.
YELLOW HAT LTD.
YUMESHIN HOLDINGS CO., LTD.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

Disclaimer

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer

The report has been prepared by Shared Research under a contract with the company described in this report ("the company"). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion by us that could influence investment decisions in the company, such opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.

Contact Details

Shared Research Inc.
3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
http://www.sharedresearch.jp
Phone: +81 (0)3 5834-8787
Email: info@sharedresearch.jp