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On **May 21, 2020**, Fujita Kanko Inc. announced results for Q1 FY12/20.

Cumulative (JPYmn)	FY12/19				FY12/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	15,896	33,605	50,035	68,960	10,634			
YoY	0.6%	0.0%	0.4%	-0.5%	-33.1%			
Gross profit	465	2,040	2,590	4,733	-3,269			
YoY	-16.8%	-10.1%	-15.1%	-17.6%	-			
GPM	2.9%	6.1%	5.2%	6.9%	-			
SG&A expenses	1,118	2,193	3,311	4,452	1,048			
YoY	-6.3%	-6.1%	-6.1%	-4.2%	-6.3%			
SG&A ratio	7.0%	6.5%	6.6%	6.5%	9.9%			
Operating profit	-653	-153	-720	280	-4,318			
YoY	-	-	-	-74.5%	-			
OPM	-	-	-	0.4%	-			
Recurring profit	-769	-64	-593	401	-4,549			
YoY	-	-	-	-63.7%	-			
RPM	-	-	-	0.6%	-			
Net income	-595	-131	-421	-285	-6,074			
YoY	-	-	-	-	-			
Net margin	-	-	-	-	-			

Quarterly (JPYmn)	FY12/19				FY12/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	15,896	17,709	16,430	18,925	10,634			
YoY	0.6%	-0.4%	1.2%	-2.8%	-33.1%			
Gross profit	465	1,575	550	2,143	-3,269			
YoY	-16.8%	-7.9%	-29.6%	-20.4%	-803.0%			
GPM	2.9%	8.9%	3.3%	11.3%	-			
SG&A expenses	1,118	1,075	1,118	1,141	1,048			
YoY	-6.3%	-5.9%	-6.1%	1.9%	-6.3%			
SG&A ratio	7.0%	6.1%	6.8%	6.0%	9.9%			
Operating profit	-653	500	-567	1,000	-4,318			
YoY	-	-12.1%	-	-36.4%	-			
OPM	-	2.8%	-	5.3%	-			
Recurring profit	-769	705	-529	994	-4,549			
YoY	-	-7.8%	-	-31.7%	-			
RPM	-	4.0%	-	5.3%	-			
Net income	-595	464	-290	136	-6,074			
YoY	-	-10.9%	-	-85.4%	-			
Net margin	-	2.6%	-	0.7%	-			

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

Quarterly fluctuation in business performance: Seasonal effects on consolidated results are diminishing, owing to the high profit composition of the WHG segment and change in its business structure. In the Resort and Luxury & Banquet segments, further progress with the change in business structures is expected to yield smoother distribution of results.

Performance by segment

Cumulative (JPYmn)	FY12/19 Q1	FY12/20 Q1
Sales	15,896	10,634
YoY	0.6%	-33.1%
WHG	8,941	5,377
YoY	-	-39.9%
L&B	4,884	3,523
YoY	-	-27.9%
Resort	1,337	1,017
YoY	-	-23.9%
Other	1,392	1,260
Adjustments	-659	-544
Operating profit	-653	-4,318
YoY	-	-
WHG	342	-2,400
YoY	-	-
Segment profit margin	3.8%	-
L&B	-496	-1,182
YoY	-	-
Segment profit margin	-	-
Resort	-323	-444
YoY	-	-
Segment profit margin	-	-
Other	-165	-282
Company-wide, eliminations	-11	-9

Source: Shared Research, based on company data

Notes: Figures may differ from company data due to differences in rounding methods.

In Q1 FY12/20, in accordance with structural changes, the company made partial adjustments to segments that include business facilities. FY12/19 results have been altered to reflect post-adjustment segment classifications.

Luxury & Banquet segment: sales, earnings, and key operating performance indicators

Cumulative (JPYmn)	FY12/19 Q1	FY12/20 Q1
Sales	4,884	3,523
YoY	-	-27.9%
Accommodation	519	311
YoY	-	-40.1%
Wedding	1,922	1,463
YoY	-	-23.9%
Other	2,443	1,749
YoY	-	-28.4%
Banquet	1,271	821
YoY	-	-35.4%
Operating profit	-496	-1,182
YoY	-	-

Source: Shared Research, based on company data

Notes: Figures may differ from company data due to differences in rounding methods.

In Q1 FY12/20, in accordance with structural changes, the company made partial adjustments to segments that include business facilities. FY12/19 results have been altered to reflect post-adjustment segment classifications.

Resort segment earnings

Cumulative (JPYmn)	FY12/19 Q1	FY12/20 Q1
Sales	1,337	1,017
YoY	-	-23.9%
Accommodation	971	732
YoY	-	-24.6%
Leisure	285	241
YoY	-	-15.4%
Operating profit	-323	-444
YoY	-	-

Source: Shared Research, based on company data

Note: Figures may differ from company data due to differences in rounding methods.

In Q1 FY12/20, in accordance with structural changes, the company made partial adjustments to segments that include business facilities. FY12/19 results have been altered to reflect post-adjustment segment classifications.

Q1 FY12/20 results (out May 21, 2020)

Consolidated results for the three-month period ending March 31, 2020

- ▷ Sales: JPY10.6bn (-33.1% YoY)
- ▷ Operating loss: JPY4.3bn (versus loss of JPY653mn in Q1 FY12/19)
- ▷ Recurring loss: JPY4.5bn (versus loss of JPY769mn in Q1 FY12/19)
- ▷ Net loss*: JPY6.1bn (versus net income of JPY595mn in Q1 FY12/19)
- ▷ EBITDA: -JPY3.1bn (versus JPY537mn in Q1 FY12/19)

*Net loss attributable to owners of the parent

- ▷ Japan's tourism industry was hurt by the COVID-19 pandemic, with the number of overseas visitors coming to Japan during the January–March 2020 quarter falling 51.1% YoY with the number coming in March down 93% YoY, according to statistics from the Japan National Tourism Organization. Further, demand from both domestic and overseas tourists was down in the wake of the government's request encouraging people and groups to voluntarily cancel events and stay at home.
- ▷ As a result of the drop in inbound tourist traffic, in Q1 Fujita Kanko saw overnight guests from overseas decline 48.9% YoY (to some 229,000) even as it put in place measures at its facilities designed to prevent the spread of the novel coronavirus. At the same time, the company's banquet and wedding businesses saw numerous cancellations and postponements.

In Q1 FY12/20, in accordance with structural changes, the company made partial adjustments to segments that include business facilities. Figures indicating YoY change have been altered to reflect post-adjustment segment classifications.

WHG segment

- ▷ Sales: JPY5.4bn (-39.9% YoY)
- ▷ Segment loss: JPY2.4bn (versus profit of JPY342mn in Q1 FY12/19)

In Q1, the WHG segment reported a 28.1pp YoY decline in its average occupancy rate and a 15.1% YoY decline in ADR. The company's hotels in the metropolitan Tokyo area saw a 31.0pp YoY decline in their average occupancy rate and a 15.5% YoY decline in ADR, while its hotels in regional cities saw their average occupancy rate fall 23.4pp YoY and ADR fall 13.1% YoY.

The sharp decline in hotel occupancy rates reflected the ongoing decline in the number of overnight guests coming from South Korea that started in FY12/19, on top of which came the punishing drop in all inbound tourist traffic as the novel coronavirus spread around the world. Adding to this was the drop in domestic tourism-related demand precipitated by the Japanese government's stay-at-home advisory, which drove down domestic tourism even further in the month of March, especially in and around Tokyo.

Luxury & Banquet (L&B) segment

- ▷ Sales: JPY3.5bn (-27.9% YoY)
- ▷ Segment loss: JPY1.2bn (versus loss of JPY496mn in Q1 FY12/19)

The accommodation division reported Q1 sales of JPY311mn (-40.1% YoY), with the Hotel Chinzanso Tokyo reporting a 6.2% YoY increase in ADR and a 28.7pp YoY decline in its average occupancy rate.

The banquet division reported Q1 sales of JPY821mn (-35.4% YoY), with the Hotel Chinzanso Tokyo reporting a 5.4% YoY increase in its average billing per banquet guest and a 42.6% YoY decline in the number of banquet guests, and the Taiko-en reporting a 9.1% YoY increase in its average billing per banquet guest and a 27.1% YoY decline in the number of banquet guests.

The Hotel Chinzanso Tokyo saw a steady stream of cancellations of banquet events of all kinds, including cherry blossom viewing and other annual events, graduation parties, thank-you parties, and employee welcoming and retirement parties.

The wedding division reported Q1 sales of JPY1.5bn (-23.9% YoY), with the Hotel Chinzanso Tokyo reporting a 9.6% YoY increase in its average billing per wedding guest and a 40.5% YoY decline in the number of wedding guests, and the Taiko-en reporting a 2.2% YoY increase in its average billing per banquet guest and a 10.3% YoY decline in the number of banquet guests. The division saw a steady stream of cancellations and postponements of weddings following the issuance of the government's advisory notice, which among other things advised people to avoid enclosed spaces, avoid crowds, and avoid close contact with other people.

Resort segment

- ▷ Sales: JPY1.0bn (-23.9% YoY)
- ▷ Segment loss: JPY444mn (versus loss of JPY323mn in Q1 FY12/19)

The accommodation division reported Q1 sales of JPY732mn (-24.6% YoY), with the Hakone Kowaki-en Ten-yu reporting a 3.3% YoY decline in its ADR and a 16.2pp YoY decline in its average occupancy rate. Ongoing efforts to improve guest satisfaction helped the company exceed its target for quality ratings by travel websites. However, additional measures such as a switch from a breakfast buffet to a fixed breakfast menu and added sanitation measures to prevent the spread of the novel coronavirus could not stop occupancy rates from declining as inbound tourist traffic to Japan plummeted and domestic tourist traffic also tumbled in the wake of the government's stay-at-home advisory.

The leisure division reported Q1 sales of JPY241mn (-15.7% YoY), with its Hakone Kowaki-en Yunessun hot springs theme park keeping admission prices unchanged YoY while the number of visitors (day-trippers) declined 20.8% YoY. Despite efforts to attract more visitors by holding various events (such as its co-sponsoring of an *Evangelion*-themed event), the hot spring theme park saw its visitor count drop sharply in the month of March.

Financial position at end-Q1 FY12/20

At end-Q1 FY12/20, the company's consolidated balance sheet showed net assets of JPY16.2bn, representing a decline of JPY10.2bn versus end-FY12/19 and leaving the company's shareholders equity ratio at 16.4% (-9.0pp versus end-FY12/19). The JPY10.2bn decline in net assets reflected a combination of JPY3.8bn in valuation differences on available-for-sale securities and a JPY6.4 decline in retained earnings resulting from the booking of a net loss and dividend payments.

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