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On **July 27, 2020**, Chori Co., Ltd. announced earnings results for Q1 FY03/21 and dividend forecasts.

Cumulative (JPYmn)	FY03/19				FY03/20				FY03/21	FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of Est.	FY Est.
Sales	82,457	173,171	261,956	356,537	83,187	164,370	249,440	329,360	49,004	24.5%	200,000
YoY	22.1%	19.4%	16.2%	14.4%	0.9%	-5.1%	-4.8%	-7.6%	-41.1%		-43.9%
Gross profit	6,929	14,084	21,274	28,585	7,178	14,416	21,446	28,310	6,066		
YoY	14.1%	9.7%	7.5%	8.3%	3.6%	2.4%	0.8%	-1.0%	-15.5%		
Gross profit margin	8.4%	8.1%	8.1%	8.0%	8.6%	8.8%	8.6%	8.6%	12.4%		
SG&A expenses	4,916	9,973	15,196	20,538	4,872	9,797	14,739	20,091	6,957		
YoY	6.9%	6.1%	7.1%	7.1%	-0.9%	-1.8%	-3.0%	-2.2%	42.8%		
SG&A ratio	6.0%	5.8%	5.8%	5.8%	5.9%	6.0%	5.9%	6.1%	14.2%		
Operating profit	2,012	4,110	6,077	8,047	2,305	4,618	6,707	8,219	-890	-21.2%	4,200
YoY	36.6%	19.7%	8.5%	11.4%	14.6%	12.4%	10.4%	2.1%	-		-47.8%
Operating profit margin	2.4%	2.4%	2.3%	2.3%	2.8%	2.8%	2.7%	2.5%	-		2.1%
Recurring profit	2,244	4,533	6,602	8,660	2,400	4,877	7,188	8,685	-695	-15.4%	4,500
YoY	38.9%	27.9%	13.6%	15.5%	7.0%	7.6%	8.9%	0.3%	-		-48.0%
Recurring profit margin	2.7%	2.6%	2.5%	2.4%	2.9%	3.0%	2.9%	2.6%	-		2.3%
Net income	1,469	2,961	4,327	5,630	1,629	3,236	4,740	6,101	-1,185	-56.4%	2,100
YoY	32.5%	26.8%	12.3%	19.0%	10.9%	9.3%	9.5%	8.4%	-		-62.7%
Net margin	1.8%	1.7%	1.7%	1.6%	2.0%	2.0%	1.9%	1.9%	-		1.1%

Quarterly (JPYmn)	FY03/19				FY03/20				FY03/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	82,457	90,714	88,785	94,581	83,187	81,183	85,070	79,920	49,004
YoY	22.1%	17.0%	10.4%	9.7%	0.9%	-10.5%	-4.2%	-15.5%	-41.1%
Gross profit	6,929	7,155	7,190	7,311	7,178	7,238	7,030	6,864	6,066
YoY	14.1%	5.7%	3.3%	10.7%	3.6%	1.2%	-2.2%	-6.1%	-15.5%
Gross profit margin	8.4%	7.9%	8.1%	7.7%	8.6%	8.9%	8.3%	8.6%	12.4%
SG&A expenses	4,916	5,057	5,223	5,342	4,872	4,925	4,942	5,352	6,957
YoY	6.9%	5.2%	9.0%	7.3%	-0.9%	-2.6%	-5.4%	0.2%	42.8%
SG&A ratio	6.0%	5.6%	5.9%	5.6%	5.9%	6.1%	5.8%	6.7%	14.2%
Operating profit	2,012	2,098	1,967	1,970	2,305	2,313	2,089	1,512	-890
YoY	36.6%	7.0%	-9.2%	21.2%	14.6%	10.2%	6.2%	-23.2%	-
Operating profit margin	2.4%	2.3%	2.2%	2.1%	2.8%	2.8%	2.5%	1.9%	-
Recurring profit	2,244	2,289	2,069	2,058	2,400	2,477	2,311	1,497	-695
YoY	38.9%	18.7%	-8.7%	21.8%	7.0%	8.2%	11.7%	-27.3%	-
Recurring profit margin	2.7%	2.5%	2.3%	2.2%	2.9%	3.1%	2.7%	1.9%	-
Net income	1,469	1,492	1,366	1,303	1,629	1,607	1,504	1,361	-1,185
YoY	32.5%	21.7%	-10.0%	48.6%	10.9%	7.7%	10.1%	4.5%	-
Net margin	1.8%	1.6%	1.5%	1.4%	2.0%	2.0%	1.8%	1.7%	-

Source: Shared Research based on company data

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

Performance by segment

By segment (cumulative) (JPYmn)	FY03/19				FY03/20				FY03/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	82,457	173,171	261,956	356,537	83,187	164,370	249,440	329,360	49,004
YoY	22.1%	19.4%	16.2%	14.4%	0.9%	-5.1%	-4.8%	-7.6%	-41.1%
Fibers, Textiles, and Garments	26,654	57,118	89,339	120,240	26,400	55,552	83,627	114,520	20,033
YoY	13.5%	9.3%	10.3%	6.1%	-1.0%	-2.7%	-6.4%	-4.8%	-24.1%
Chemicals	42,727	85,989	128,928	176,525	40,374	77,501	117,251	150,634	28,449
YoY	32.0%	29.0%	22.2%	24.1%	-5.5%	-9.9%	-9.1%	-14.7%	-29.5%
Machinery	13,057	30,023	43,631	59,696	16,393	31,277	48,507	64,133	505
YoY	12.2%	14.7%	11.9%	6.6%	25.5%	4.2%	11.2%	7.4%	-96.9%
Recurring profit	2,244	4,533	6,602	8,660	2,400	4,877	6,707	8,219	-695
YoY	38.9%	27.9%	13.6%	15.5%	7.0%	7.6%	1.6%	-5.1%	-
Fibers, Textiles, and Garments	795	1,853	2,844	3,710	728	1,944	3,049	4,028	430
YoY	62.9%	17.9%	13.9%	6.6%	-8.4%	4.9%	7.2%	8.6%	-40.9%
Chemicals	1,088	1,985	2,867	3,890	1,234	2,194	3,078	3,515	-1,290
YoY	28.3%	28.4%	15.8%	24.2%	13.4%	10.5%	7.4%	-9.6%	-
Machinery	109	224	273	323	169	294	412	417	102
YoY	202.8%	72.3%	46.8%	91.1%	55.0%	31.3%	50.9%	29.1%	-39.6%

By segment (quarterly) (JPYmn)	FY03/19				FY03/20				FY03/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	82,457	90,714	88,785	94,581	83,187	81,183	85,070	79,920	49,004
YoY	22.1%	17.0%	10.4%	9.7%	0.9%	-10.5%	-4.2%	-15.5%	-41.1%
Fibers, Textiles, and Garments	26,654	30,464	32,221	30,901	26,400	29,152	28,075	30,893	20,033
YoY	13.5%	6.0%	12.1%	-4.5%	-1.0%	-4.3%	-12.9%	0.0%	-24.1%
Chemicals	42,727	43,262	42,939	47,597	40,374	37,127	39,750	33,383	28,449
YoY	32.0%	26.3%	10.6%	29.4%	-5.5%	-14.2%	-7.4%	-29.9%	-29.5%
Machinery	13,057	16,966	13,608	16,065	16,393	14,884	17,230	15,626	505
YoY	12.2%	16.8%	6.1%	-5.6%	25.5%	-12.3%	26.6%	-2.7%	-96.9%
Recurring profit	2,244	2,289	2,069	2,058	2,400	2,477	1,830	1,512	-695
YoY	38.9%	18.7%	-8.7%	21.8%	7.0%	8.2%	-11.6%	-26.5%	-
Fibers, Textiles, and Garments	795	1,058	991	866	728	1,216	1,105	979	430
YoY	62.9%	-2.4%	7.0%	-11.8%	-8.4%	14.9%	11.5%	13.0%	-40.9%
Chemicals	1,088	897	882	1,023	1,234	960	884	437	-1,290
YoY	28.3%	28.5%	-5.2%	55.9%	13.4%	7.0%	0.2%	-57.3%	-
Machinery	109	115	49	50	169	125	118	5	102
YoY	202.8%	22.3%	-12.5%	-	55.0%	8.7%	140.8%	-90.0%	-39.6%

Source: Shared Research based on company data

Q1 FY03/21 results

Summary

In Q1 FY03/21, the company recorded consolidated sales of JPY49.0bn (versus JPY83.2bn in Q1 FY03/20), operating loss of JPY890mn (versus operating profit of JPY2.3bn in Q1 FY03/20), recurring loss of JPY695mn (versus recurring profit of JPY2.4bn in Q1 FY03/20), and net loss attributable to owners of the parent of JPY1.2bn (versus net income of JPY1.6bn in Q1 FY03/20).

- ▷ Sales: In addition to a JPY11.2bn negative impact on the adoption of Revised Accounting Standard for Revenue Recognition, sales in Q1 FY03/21 were adversely affected by the global economic slump brought on by the COVID-19 pandemic and reached just JPY49.0bn, down from JPY83.2bn in Q1 FY03/20.
- ▷ Operating loss: Reflecting the booking under SG&A expenses of provision of allowance for doubtful accounts in line with delays on the collection of Chinese partner receivables, Chori recorded Q1 FY03/21 operating loss of JPY890mn (versus operating profit of JPY2.3bn in Q1 FY03/20).
- ▷ Provision of allowance for doubtful accounts: Due to delays in the collection of JPY4.9bn in receivables at consolidated subsidiary Tohcho Co., Limited from a partner chemicals manufacturing group in China, the company in Q1 FY03/21 booked JPY2.5bn in provision of allowance for doubtful accounts, equal to about half the accounts receivable amount, as part of SG&A expenses.

Segment results

Fibers, Textiles, and Garments

The spread of COVID-19 contributed to a slump in consumer sentiment in the domestic market, as well as reduced sales opportunities as stores and outlets voluntarily shut down operations. Domestic apparel sales were weak, though sales in hygienic

materials were firm. Moreover, overseas operations were impacted by the slowdown in global logistics. Amid such an environment, sales in the segment as a whole dipped from JPY26.4bn in Q1 FY03/20 to JPY20.0bn in Q1 FY03/21, while segment profit (recurring profit) fell 40.9% YoY to JPY430mn. The adoption of Revised Accounting Standard for Revenue Recognition reduced the amount of sales booked by JPY1.5bn.

Chemicals

Despite strength in the life science and fine chemicals departments, the COVID-19 pandemic resulted in a slump in the electronic materials and chemical materials bulk product markets. As a result, Chemicals business sales fell from JPY40.4bn in Q1 FY03/20 to JPY28.4bn in Q1 FY03/21. After recording segment profit (recurring profit) of JPY1.2bn in Q1 FY03/20, the company saw segment loss (recurring loss) of JPY1.3bn in Q1 FY03/21, due in part to the booking of JPY2.5bn in provision of allowance for doubtful accounts amid delays on the collection of Chinese partner receivables. The adoption of Revised Accounting Standard for Revenue Recognition reduced the amount of segment sales booked by JPY430mn.

Machinery

The Machinery business in Q1 FY03/21 booked sales of JPY505mn, down from JPY16.4bn one year ago on a slump in the market due to restrictions of sales activities in the global automotive market as a result of the COVID-19 pandemic. Segment profit (recurring profit) was JPY102mn (-39.7% YoY). The adoption of Revised Accounting Standard for Revenue Recognition reduced the amount of segment sales booked by JPY9.3bn.

For details on previous results, please refer to the Historical financial statements section.

Full-year company forecast for FY03/21

(JPYmn)	FY03/19			FY03/20			FY03/21
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	FY Est.
Sales	173,171	183,366	356,537	164,370	164,990	329,360	200,000
Cost of sales	159,086	168,865	327,951	149,954	151,096	301,050	
Gross profit	14,084	14,501	28,585	14,416	13,894	28,310	
Gross profit margin	8.1%	7.9%	8.0%	8.8%	8.4%	8.6%	
SG&A expenses	9,973	10,565	20,538	9,797	10,294	20,091	
SG&A ratio	5.8%	5.8%	5.8%	6.0%	6.2%	6.1%	
Operating profit	4,110	3,937	8,047	4,618	3,601	8,219	4,200
Operating profit margin	2.4%	2.1%	2.3%	2.8%	2.2%	2.5%	2.1%
Recurring profit	4,533	4,127	8,660	4,877	3,808	8,685	4,500
Recurring profit margin	2.6%	2.3%	2.4%	3.0%	2.3%	2.6%	2.3%
Net income	2,961	2,669	5,630	3,236	2,865	6,101	2,100
Net margin	1.7%	1.5%	1.6%	2.0%	1.7%	1.9%	1.1%

Source: Shared Research based on company data

For FY03/21, the company is forecasting full-year consolidated sales of JPY200.0bn (-39.3% YoY)*, operating profit of JPY4.2bn (-48.9% YoY), recurring profit of JPY4.5bn (-48.2% YoY), and net income attributable to owners of the parent of JPY2.1bn (-65.6% YoY).

*Consolidated sales of JPY200.0bn (-39.3% YoY): The substantial 39.3% YoY decline in sales forecast by the company is largely a result of a change in accounting standards. The company applied the "Revised Accounting Standard for Revenue Recognition" (Account Standards Board of Japan (ASBJ) Guidance No. 29 [March 30, 2018]) early, at the outset of FY03/21. The consolidated sales forecast thus represents the amount after these new standards were applied. Correcting for the effect of the change in accounting methodology, the company expects an actual decline in sales of around 20% in FY03/21.

Downward revisions (out July 27, 2020)

Chori announced revisions to its full-year FY03/21 earnings forecasts on July 27, 2020. The company retained its sales forecast of JPY200.0bn, but lowered its forecast for operating profit from JPY6.7bn to JPY4.2bn, for recurring profit from JPY7.0bn to JPY4.5bn, for net income attributable to owners of the parent from JPY4.6bn to JPY2.1bn, and for EPS from JPY187.33 per share to JPY85.52 per share.

The company revised its dividend forecast from JPY57 per share to "to be determined," citing as the reason the time it would need to accurately assess when accounts receivable could be collected (discussed below).

Reasons for the downward revisions

The main reason for the downward revisions was the company making provision of allowance for doubtful accounts. Due to delays in the collection of JPY4.9bn in receivables at consolidated subsidiary Tohcho Co., Limited from a partner chemicals manufacturing group in China, the company in Q1 FY03/21 booked JPY2.5bn in provision of allowance for doubtful accounts, equal to about half the accounts receivable amount, as part of SG&A expenses.

Tohcho sells a variety of chemical raw materials to this partner. However, the global spread of COVID-19 resulted in a complete shutdown of economic activity in China for a short period of time, which resulted in stagnation in that company's mainstay petrochemicals business and growing instability in its financial position. Amid these conditions, the partner found it necessary to delay payment on raw material purchases to Tohcho.

Chori and Tohcho are currently engaged in negotiations with the Chinese business partner for the collection of receivables, while also taking legal action, including filing a suit for payment (including the exercise of chattel mortgage over collective property that have already been obtained). However, in light of the outlook for progress in legal proceedings and the potential for the collection of these receivables, the company booked provision of allowance for doubtful accounts equal to about half the accounts receivable amount.

Forecast for YoY change in earnings

Domestic apparel sales have slowed as a result of the spread of COVID-19. With the lifting of domestic and overseas restrictions in place during April–May 2020, the increase in those again venturing outside is expected to contribute to a recovery in domestic and overseas spending. On the other hand, it also appears there has been a renewed increase in domestic and overseas COVID-19 infections, and the potential for the renewed imposition of restrictions around the world makes it difficult to predict the pace of economic recovery in 2H.

Considering this unpredictability, Chori assumed a conservative stance, including in its accounting practices, forecasting a drastic 39.3% YoY decrease in sales and a 48.2% YoY decline in recurring profit.

Future trends in domestic clothing consumption and the situation of automobile and TV sales around the world will affect Chori's sales of apparel, industrial materials, electronic components, and automobiles. Therefore, trends in those areas factored into the company's FY03/21 forecasts.

In the apparel business, the company plans to mitigate the decline in sales as much as possible by increasing its ability to supply highly competitive brands. Meanwhile, the pharmaceutical ingredients and intermediates business, which is a stable, relatively non-cyclical industry, and the foods business (e.g., vitamins) appear to be doing well.

In terms of expenses, amortization of goodwill associated with the acquisition of Miyako Kagaku Co., Ltd. has been completed, and Chori expects depreciation expenses to decrease by approximately JPY900mn YoY. However, the company expects FY03/21 expenses to increase due to the booking of JPY2.5bn in provision of allowance for doubtful accounts in Q1.

Dividend forecast

At a meeting on May 19, 2020, the company's board of directors approved an increase in its dividend payout ratio to a minimum of 30% of net income. However, the company has revised its dividend forecast to "to be determined," citing as the reason the time it would require to accurately assess when the aforementioned accounts receivable could be collected.

This note is the most recent addition to the [full report](#).

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