

On April 28, 2021, Hokkoku Bank, Ltd announced earnings results for full-year FY03/21; see the results section for details.

Cumulative (non-consolidated) (JPYmn)	FY03/20				FY03/21				FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	Rev. Est.
Gross profit (A)	12,645	23,963	37,546	47,538	11,718	21,316	31,711	38,727		
Core gross profit (A)-(B)	11,073	20,704	31,873	41,584	10,915	20,255	30,819	40,954		
YoY	-6.3%	-3.5%	-1.2%	0.2%	-1.4%	-2.2%	-3.3%	-1.5%		
Net interest income	9,524	17,550	27,027	34,876	9,337	17,163	26,305	34,259		
Net fees and commissions	1,347	2,771	4,263	5,938	1,432	2,829	4,195	5,737		
Net other operating income	1,773	3,642	6,255	6,723	948	1,322	1,210	-1,269		
Net bond-related gains (losses) (B)	1,572	3,259	5,673	5,952	803	1,061	892	-2,226		
General and administrative expenses (C)	7,183	14,386	21,955	29,422	7,287	14,532	21,850	29,175		
Net OP (before provision for general loan loss) (A)-(C)	5,461	9,577	15,591	18,116	4,431	6,783	9,860	9,551		
Core operating profit (A)-(B)-(C)	3,889	6,317	9,917	12,162	3,627	5,722	8,967	11,778		
YoY	-17.1%	-14.1%	-11.0%	-8.2%	-6.7%	-9.4%	-9.6%	-3.2%		
Core OP (ex. gains [losses] on trust cancellation)	3,724	6,075	9,568	11,813	3,627	5,699	8,776	11,587		
Provision for ordinary loan loss [1] (D)	-139	579	1,564	2,674	312	1,653	1,834	3,060		
Operating profit (A)-(C)-(D)	5,601	8,998	14,026	15,441	4,118	5,130	8,026	6,491		
Net bond-related gains (losses) (B)	1,572	3,259	5,673	5,952	803	1,061	892	-2,226		
Nonrecurrent gains (losses)	92	-658	-1,641	-3,464	2,825	3,149	6,255	4,792		
Net stock-related gains	3,125	3,541	4,192	3,975	3,400	8,317	12,249	13,239		
Nonperforming loan disposal [2]	3,338	4,298	5,746	7,103	1,409	5,515	6,150	8,335		
Reversal of provision for loan-loss [3]										
Gain on recovery of written-off claims [4]	2	10	12	17	2	4	68	72		
Ordinary profit	5,693	8,339	12,385	11,977	6,943	8,279	14,281	11,283	100.7%	11,200
YoY	16.1%	-0.5%	6.2%	-6.3%	22.0%	-0.7%	15.3%	-5.8%		-6.5%
Extraordinary income (losses)	-89	-195	-559	-1,154	-58	-637	-664	-897		
Profit before income taxes	5,603	8,143	11,825	10,823	6,885	7,642	13,617	10,385		
Income taxes	2,067	3,125	4,583	4,147	2,202	2,997	4,924	4,432		
Profit	3,537	5,018	7,242	6,676	4,682	4,645	8,693	5,954	100.9%	5,900
YoY	6.7%	-9.9%	-5.0%	-16.8%	32.4%	-7.4%	20.0%	-10.8%		-11.6%
Credit cost ([1]+[2]-[3]-[4])	3,196	4,867	7,298	9,759	1,720	7,164	7,916	11,322		
YoY	186.9%	371.2%	288.8%	205.4%	-46.2%	47.2%	8.5%	16.0%		
Securities-related gains (incl. stock and bonds)	4,697	6,800	9,865	9,927	4,203	9,378	13,141	11,013		
YoY	309.9%	241.0%	282.8%	270.3%	-10.5%	37.9%	33.2%	10.9%		
Quarterly (non-consolidated) (JPYmn)	FY03/20				FY03/21					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Gross profit (A)	12,645	11,318	13,583	9,992	11,718	9,598	10,395	7,016		
Core gross profit (A)-(B)	11,073	9,631	11,169	9,711	10,915	9,340	10,564	10,135		
Net interest income	9,524	8,026	9,477	7,849	9,337	7,826	9,142	7,954		
Net fees and commissions	1,347	1,424	1,492	1,675	1,432	1,397	1,366	1,542		
Net other operating income	1,773	1,869	2,613	468	948	374	-112	-2,479		
Net bond-related gains (losses) (B)	1,572	1,687	2,414	279	803	258	-169	-3,118		
General and administrative expenses (C)	7,183	7,203	7,569	7,467	7,287	7,245	7,318	7,325		
Net OP (before provision for general loan loss) (A)-(C)	5,461	4,116	6,014	2,525	4,431	2,352	3,077	-309		
Core operating profit (A)-(B)-(C)	3,889	2,428	3,600	2,245	3,627	2,095	3,245	2,811		
Core OP (ex. gains [losses] on trust cancellation)	3,724	2,351	3,493	2,245	3,627	2,072	3,077	2,811		
Provision for ordinary loan loss [1] (D)	-139	718	985	1,110	312	1,341	181	1,226		
Operating profit (A)-(C)-(D)	5,601	3,397	5,028	1,415	4,118	1,012	2,896	-1,535		
Net bond-related gains (losses) (B)	1,572	1,687	2,414	279	803	258	-169	-3,118		
Nonrecurrent gains (losses)	92	-750	-983	-1,823	2,825	324	3,106	-1,463		
Net stock-related gains	3,125	416	651	-217	3,400	4,917	3,932	990		
Nonperforming loan disposal [2]	3,338	960	1,448	1,357	1,409	4,106	635	2,185		
Reversal of provision for loan-loss [3]										
Gain on recovery of written-off claims [4]	2	8	2	5	2	2	64	4		
Ordinary profit	5,693	2,646	4,046	-408	6,943	1,336	6,002	-2,998		
YoY	16.1%	-23.9%	23.4%	-	22.0%	-49.5%	48.3%	-		
Extraordinary income (losses)	-89	-106	-364	-595	-58	-579	-27	-233		
Profit before income taxes	5,603	2,540	3,682	-1,002	6,885	757	5,975	-3,232		
Income taxes	2,067	1,058	1,458	-436	2,202	795	1,927	-492		
Profit	3,537	1,481	2,224	-566	4,682	-37	4,048	-2,739		
YoY	6.7%	-34.3%	8.2%	-	32.4%	-	82.0%	-		
Credit cost ([1]+[2]-[3]-[4])	3,196	1,671	2,431	2,461	1,720	5,444	752	3,406		
YoY	186.9%	-	188.0%	86.7%	-46.2%	225.8%	-69.1%	38.4%		
Securities-related gains (incl. stock and bonds)	4,697	2,103	3,065	62	4,203	5,175	3,763	-2,128		
YoY	309.9%	148.0%	425.7%	-40.4%	-10.5%	146.1%	22.8%	-		

Source: Shared Research based on bank data

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

FY03/21 results

Summary

- Ordinary income (consolidated): JPY79.1bn (+5.8% YoY)
- Core gross profit (non-consolidated): JPY41.0bn (-1.5% YoY)
- Core operating profit (non-consolidated): JPY11.8bn (-3.2% YoY)
- Ordinary profit (consolidated): JPY12.9bn (-2.2% YoY) (100.7% of the revised full-year target)

- Profit (consolidated): JPY6.8bn (-7.6% YoY) (100.8% of the revised full-year target)

Key points (non-consolidated)

Ordinary profit declined JPY694mn YoY to JPY11.3bn. Gross profit was down JPY8.8bn, because, although core gross profit only declined JPY630mn YoY, the bank recorded a net bond-related loss in Q4. Despite a JPY247mn decline in general and administrative expenses, net operating profit fell JPY9.0bn and operating profit (after the provision of allowance for general loan losses) declined JPY8.9bn. Net stock-related gains rose JPY9.3bn YoY, but the NPL disposal amount increased JPY1.2bn YoY, resulting in lower ordinary profit.

Gains on securities (net stock-related gains and net bond-related gains) increased JPY1.1bn YoY to JPY11.0bn, and the cost of credit rose JPY1.6bn to JPY11.3bn. As a result, the cost credit rate on loans outstanding was 43bp, up 6bp YoY.

Compared with the three months of Q3, the bank recorded a JPY3.0bn ordinary loss in Q4. Ordinary profit was down JPY2.6bn because of a JPY3.4bn decrease in net bond-related gains (ordinary loss of JPY3.1bn).

At the same time as announcing results, the bank also announced a schedule for transitioning to a holding company structure and medium- to long-term strategy with a five- and ten-year span.

Non-consolidated profit/losses

Core gross profit

Core gross profit fell JPY630mn YoY to JPY41.0bn. Net interest income was down JPY617mn YoY, and net fees and commissions also decreased JPY201mn YoY. Net other operating income was down JPY8.0bn YoY. Regarding the yield on loans, yield on domestic loans declined by 4bp to 0.95%. The gross deposit-lending margin was 0.07%, down 4bp.

General and administrative expenses

General and administrative expenses decreased JPY247mn YoY to JPY29.2bn. Non-personnel expenses increased JPY87mn YoY, but personnel expenses were down JPY303mn YoY. OHR was 71.2%, up 0.4pp from 70.8% in FY03/20. The bank initially projected full-year FY03/21 OHR of 71.0–72.0%.

Core operating profit

Core operating profit declined JPY384mn YoY to JPY11.8bn.

Non-recurring gains/losses

Non-recurring gains increased JPY8.3bn YoY, primarily owing to a YoY increase of JPY9.3bn in net stock-related gains.

Cost of credit

Cost of credit increased JPY1.6bn YoY to JPY11.3bn. The provision of allowance for general loan losses increased JPY386mn, and the NPL disposal amount increased JPY1.2bn.

Full-year bank forecast

Numerical targets

For FY03/22, the bank forecasts consolidated ordinary profit of JPY12.5bn (-3.0% YoY) and profit of JPY5.5bn (-18.5% YoY). On a non-consolidated basis, it forecasts ordinary profit of JPY11.5bn (+1.9% YoY) and profit of JPY5.0bn (-16.0% YoY). The forecast assumes that the impact of COVID-19 on the overall economy will continue to some extent.

Earnings forecast

(JPYmn)	FY03/20			FY03/21			FY03/22			YoY
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.	FY Est.
Consolidated ordinary income	39,483	35,257	74,740	42,451	36,647	79,098				
Consolidated ordinary profit	8,746	4,435	13,181	9,049	3,841	12,890	9,000	3,500	12,500	-3.0%
Consolidated profit	5,229	2,081	7,310	5,054	1,698	6,752	5,000	500	5,500	-18.5%
Core gross profit (non-cons.)	20,704	20,880	41,584	20,255	20,699	40,954				
Core operating profit (non-cons.)	6,317	5,845	12,162	5,722	6,056	11,778				
Ordinary profit (non-con.)	8,339	3,638	11,977	8,279	3,004	11,283	8,500	3,000	11,500	1.9%
Profit (non-cons.)	5,018	1,658	6,676	4,645	1,309	5,954	4,800	200	5,000	-16.0%

Source: Shared Research based on bank data

Medium-term business plan

Numerical targets

On April 28, 2021, the bank announced its medium- to long-term strategy. The bank announced as its current medium-term business plan "Communication x Collaboration x Innovation 2024" in November 2019. However, it has changed to a format of visualizing five- and ten-year targets and updating annually its strategies and implementation policies to attain them.

Medium-term target levels:

Profit and other numerical targets for five and ten years ahead are as follows.

(JPYmn)	FY03/21		FY03/26		FY03/31		CAGR (FY03/21–FY03/26)	CAGR (FY03/21–FY03/31)	CAGR (FY03/26–FY03/31)
	Act.	Five years ahead	Five years ahead	Ten years ahead	Ten years ahead				
Recurring profit (cons.)	12,800	16,000	16,000	21,000	21,000	4.6%	5.1%	5.6%	
Net interest income	34,600	33,500	33,500	33,000	33,000	-0.6%	-0.5%	-0.3%	
Net fees and commissions	8,100	12,000	12,000	15,500	15,500	8.2%	6.7%	5.3%	
Bank cards	1,500	3,400	3,400	4,000	4,000	17.8%	10.3%	3.3%	
Leasing	1,800	1,900	1,900	2,500	2,500	1.1%	3.3%	5.6%	
Consultation	600	2,000	2,000	4,000	4,000	27.2%	20.9%	14.9%	
Other new businesses	0	200	200	500	500	-	-	20.1%	
Personnel expenses	14,500	13,500	13,500	13,000	13,000	-1.4%	-1.1%	-0.8%	
Non-personnel expenses	13,400	14,000	14,000	13,000	13,000	0.9%	-0.3%	-1.5%	
Core system costs	5,800	6,300	6,300	4,800	4,800	1.7%	-1.9%	-5.3%	
Profit (cons.)	6,700	10,000	10,000	13,000	13,000	8.3%	6.9%	5.4%	
Income from new businesses (cons.)	3,900	7,500	7,500	11,000	11,000	14.0%	10.9%	8.0%	
Overhead ratio (core gross profit-based; cons.)	70.7%	65.0%	65.0%	55–60%	55–60%				
ROE (cons.)	2.5%	3.5%	3.5%	4.5%	4.5%				

Net interest income includes investment income from an investment company that the bank plans to establish.

Income from new businesses (consolidated) is income from new businesses including bank card, leasing, and consulting.

Other new businesses include business income from a planned investment advisory company, e-commerce mall, etc.

Source: Shared Research based on bank data

Strategy outline:

- ▶ Expand business bases (augment business bases/areas through new businesses and expand customer base of existing businesses through evolution process)
- ▶ Make credit risk management and support system more sophisticated (management improvement support by understanding business feasibility and strengthening consulting functions)
- ▶ Maximize group synergies
- ▶ Train people able to contribute toward improving regional quality (increase mobility of group personnel and train next-generation management team)

About Shared Research Inc.

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 <https://sharedresearch.jp>.

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CanBas	IDOM	Nippon Parking Development	TOKAI Holdings
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Carna Biosciences	INFOCOM	Nisso Corporation	Toyo Ink SC Holdings
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