

### Focus on sales growth, concessions

## Pulling away from rivals by ending its dependence on contracting work

#### Investment stance: we reiterate Buy rating, hike forecasts on higher gross margin on building construction

Maeda performed well in 17/3 Q1, generating a gross margin of 9.9% on building construction projects and overall operating profit growth of 26% y-y. We raise our profit forecasts, having lifted our outlook for the gross margin on building construction projects. While some investors may be concerned that the gross margin on building construction projects is high in historical terms and offers only limited scope for improvement from 18/3 onwards, we note that the order book has been rising and that sales growth from 18/3 onwards is likely to lend further impetus to profit growth. Maeda has also established a subsidiary to operate a toll road concession in Aichi Prefecture, and it will be interesting to see how it contributes to earnings. We have raised our target price to reflect upward revisions to our profit forecasts and a rise in the benchmark P/E.

#### Maeda gains preferential negotiating rights for toll road concession in Aichi Prefecture

Maeda has been taking various steps to move away from being purely a contractor. Having won the concession to operate Sendai Airport, a consortium of which it is the leading participant gained preferential negotiating rights for the concession to operate toll roads in Aichi Prefecture on 24 June. As noted in its 17/3 Q1 earnings release, Maeda signed a basic agreement with Aichi Prefectural Road Public Corporation and established a subsidiary in which it has a 50% stake on 3 August. The subsidiary is scheduled to become operational in October 2016. Maeda has started to pull away from rivals by ending its dependence on contracting work. Whether this maintenance/management subsidiary is included in consolidated accounts will partly depend on the nature of contractual arrangements. Nevertheless, we will be focusing on how these concessions contribute to earnings.

#### Gross margin on building construction projects likely to remain high

While the strong gross margin on building construction projects in 17/3 Q1 partly reflected one-time factors such as upward revisions following negotiations on individual projects, it is likely to remain high in future as order books are strong throughout the sector and there have been no major changes in the competitive climate.

Cons	16/3		17/3E		18/3E		19/3E	
	Actual	Old	New	Co's	Old	New	Old	New
Currency: JPY								
<b>Sales (mn)</b>	441,723	415,000	420,000	410,000	434,000	439,000	439,000	444,000
<b>Ope profits (mn)</b>	18,703	19,000	21,000	17,300	20,500	22,500	21,000	23,000
<b>Adjusted EPS</b>	92.1	94.8	89.5	86.3	92.1	94.8	92.1	97.4
<b>Adjusted P/E (x)</b>	9.4	9.1	9.7	N/A	9.4	9.1	9.4	8.9
<b>EV/EBITDA (x)</b>	9.9	9.2	8.4	N/A	8.3	7.6	7.8	7.0
<b>P/B (x)</b>	1.0	0.9	0.9	N/A	0.8	0.8	0.8	0.7
<b>Dividend yield (%)</b>	1.3	1.3	1.3	N/A	1.3	1.3	1.3	1.3

Source: Company data, Nomura estimates (See the bottom of page 2 for further notes to this table.)

Key company data: See next page for company data and detailed price/index chart.

### Global Markets Research

26 August 2016

Rating Remains	<b>Buy</b>
Target Price Increased from 995	JPY 1,140
Closing price 25 August 2016	JPY 867
Potential upside	+31.5%

#### Anchor themes

Earnings from civil engineering are likely to be stable, partly owing to major orders taken on in the past. In building construction, we expect companies to benefit from recent falls in costs as well as the negative impact of prior low-margin projects dropping from the picture.

#### Catalyst

We note the risk of a further deterioration in earnings at an overseas project where works have run into difficulties. However, we think the negative impact will gradually recede, as the company has made provisions, works are progressing, and the project is nearing completion.

#### Research analysts

##### Japan construction

##### Kentaro Maekawa - NSC

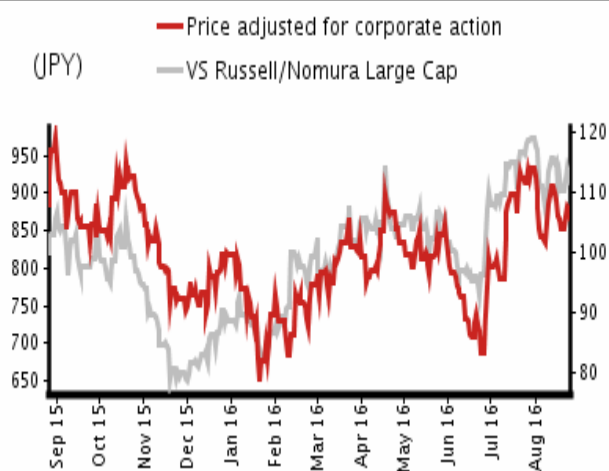
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# Key data on Maeda

## Rating

Stock	Buy
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## Relative performance chart



Source: ThomsonReuters, Nomura research

## Performance

(%)	1M	3M	12M
Absolute	-5.0	5.1	0.1
Relative to Russell/Nomura Large Cap	-3.9	7.6	9.6

## Stock price data

Current stock price (JPY)	867
Market capitalization (JPY bn)	160.6
52-week low stock price (JPY)	648
52-week high stock price (JPY)	987
Shares out (mn)	185.2

Source: ThomsonReuters, Nomura research

## Valuation and ratio analysis

(JPY)	16/3	17/3E	18/3E	19/3E
EPS	98.8	112.8	110.0	110.0
Adjusted EPS	92.1	89.5	94.8	97.4
BPS or NAV per share	886.4	987.8	1,087.1	1,186.4
DPS	11.0	11.0	11.0	11.0
ROE (%)	11.3	12.0	10.6	9.7

## Income statement

(JPY mn)	16/3	17/3E	18/3E	19/3E
Sales	441,723	420,000	439,000	444,000
Operating profits	18,703	21,000	22,500	23,000
EBITDA	24,478	26,000	27,500	28,000
Interest & dividend income	1,493	1,400	1,400	1,400
Interest expense	1,282	1,200	1,200	1,200
Recurring profits	22,991	26,000	27,500	28,000
Pretax profits	21,564	26,000	27,500	28,000
Minority interest	932	1,000	1,000	1,000
Profits attributable to owners of parent	17,505	20,000	19,500	19,500
(Equity in net income of affiliates)	4,641	5,000	5,000	5,000

## Balance sheet

(JPY mn)	16/3	17/3E	18/3E	19/3E
Current assets	248,700	248,200	261,200	275,200
Operating receivables	181,807	157,000	163,000	165,000
Inventories	14,671	32,000	32,000	32,000
Long-term assets	196,539	195,800	195,800	195,800
Total assets	445,239	444,000	457,000	471,000
Operating payables (Current)	82,951	86,000	89,000	90,000
Interest-bearing debt	107,875	90,000	85,000	85,000
Total liabilities	281,165	260,900	255,300	250,700
Net assets	164,074	183,100	201,700	220,300
Shareholders' equity	157,119	175,100	192,700	210,300

## Cash flow statement

(JPY mn)	16/3	17/3E	18/3E	19/3E
Operating cash flow	-11,310	32,200	18,900	18,900
Profits attributable to owners of parent	17,505	20,000	19,500	19,500
Depreciation	5,775	5,000	5,000	5,000
Change in working capital	-18,401	10,527	-3,000	-1,000
Investment cash flow	-3,035	-5,000	-5,000	-5,000
Capex	-4,561	-5,000	-5,000	-5,000
Free cash flow	-14,345	27,200	13,900	13,900
Financial cash flow	14,511	-19,800	-6,900	-1,900
Change in interest-bearing debt	26,533	-17,875	-5,000	0
Dividend payments	-1,595	-1,900	-1,900	-1,900
Change in cash & equivalents	-251	7,400	7,000	12,000

Source: Company data, Nomura estimates

Note: EPS forecasts for 17/3 onwards on front page table are fully diluted and assume a normal tax rate.

Fig. 1: Maeda [1824]: parent financial data

Parent orders				(#mn, except where noted)						
	14/3	15/3	16/3	New 17/3E	Old 17/3E	New 18/3E	Old 18/3E	New 19/3E	Old 19/3E	Co's 17/3E
Total orders	320,826	370,212	388,896	346,000	346,000	349,000	349,000	350,000	349,000	335,000
% y-y	3.6	15.4	5.0	-11.0	-11.0	0.9	0.9	0.3	0.0	-13.9
Civil engineering	135,001	138,422	134,568	132,000	132,000	135,000	135,000	136,000	135,000	130,000
% y-y	13.0	2.5	-2.8	-1.9	-1.9	2.3	2.3	0.7	0.0	-3.4
Japan	128,658	120,880	134,432	122,000	122,000	125,000	125,000	126,000	125,000	120,000
Overseas	6,341	17,542	136	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Building	181,764	229,335	235,188	212,000	212,000	212,000	212,000	212,000	212,000	205,000
% y-y	-3.4	26.2	2.6	-9.9	-9.9	0.0	0.0	0.0	0.0	-12.8
Japan	178,290	225,336	229,683	207,000	207,000	207,000	207,000	207,000	207,000	200,000
Overseas	3,474	3,999	5,505	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Development business	4,060	2,452	19,137	2,000	2,000	2,000	2,000	2,000	2,000	-
% y-y	101.4	-39.6	680.5	-89.5	-89.5	0.0	0.0	0.0	0.0	-
Parent financial data										
Sales	323,865	331,259	372,639	340,000	340,000	359,000	359,000	364,000	364,000	330,000
% y-y	7.5	2.3	12.5	-8.8	-8.8	5.6	5.6	1.4	1.4	-11.4
Value of completed projects	319,680	329,753	352,488	338,000	338,000	357,000	357,000	362,000	362,000	328,600
% y-y	6.9	3.2	6.9	-4.1	-4.1	5.6	5.6	1.4	1.4	-6.8
Civil engineering	126,086	123,508	145,602	132,000	132,000	142,000	142,000	142,000	142,000	130,000
% y-y	16.0	-2.0	17.9	-9.3	-9.3	7.6	7.6	0.0	0.0	-10.7
General building construction	193,594	206,245	206,886	206,000	206,000	215,000	215,000	220,000	220,000	198,600
% y-y	1.7	6.5	0.3	-0.4	-0.4	4.4	4.4	2.3	2.3	-4.0
Development business	4,183	1,504	20,151	2,000	2,000	2,000	2,000	2,000	2,000	1,400
% y-y	96.9	-64.0	1,239.8	-90.1	-90.1	0.0	0.0	0.0	0.0	-93.1
Gross profits	20,069	23,734	31,261	35,000	33,000	36,500	34,500	37,000	35,000	31,000
% y-y	211.5	18.3	31.7	12.0	5.6	4.3	4.5	1.4	1.4	-0.8
Margin (%)	6.2	7.2	8.4	10.3	9.7	10.2	9.6	10.2	9.6	9.4
Civil engineering	9,617	10,172	12,833	15,000	15,000	15,500	15,500	15,500	15,500	15,000
% y-y	1,224.7	5.8	26.2	16.9	16.9	3.3	3.3	0.0	0.0	16.9
Margin (%)	7.6	8.2	8.8	11.4	11.4	10.9	10.9	10.9	10.9	11.5
General building construction	9,361	13,994	17,386	19,500	17,500	20,500	18,500	21,000	19,000	15,400
% y-y	52.5	49.5	24.2	12.2	0.7	5.1	5.7	2.4	2.7	-11.4
Margin (%)	4.8	6.8	8.4	9.5	8.5	9.5	8.6	9.5	8.6	7.8
Operating profits	5,264	8,179	15,609	18,000	16,000	19,500	17,500	20,000	18,000	14,000
% y-y	-	55.4	90.8	15.3	2.5	8.3	9.4	2.6	2.9	-10.3
Margin (%)	1.6	2.5	4.2	5.3	4.7	5.4	4.9	5.5	4.9	4.2

Source: Company data, Nomura estimates

Fig. 2: Maeda [1824]: parent and consolidated financial data (quarterly)

	14/3				15/3				16/3				17/3
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Parent orders													
Total orders	75,116	104,578	44,649	96,483	96,658	69,702	135,358	68,494	57,509	145,156	77,834	108,397	102,510
% y-y	85.7	16.3	-33.9	-13.7	28.7	-33.3	203.2	-29.0	-40.5	108.3	-42.5	58.3	78.3
Civil engineering	26,533	25,285	24,500	58,683	42,157	32,450	27,705	36,110	24,961	28,175	18,704	62,728	43,766
% y-y	179.9	-14.9	-24.6	22.9	58.9	28.3	13.1	-38.5	-40.8	-13.2	-32.5	73.7	75.3
Japan	23,947	24,876	20,812	59,023	40,850	21,781	20,703	37,546	21,356	30,450	18,978	63,648	43,848
Overseas	2,584	409	3,688	-340	1,306	10,670	7,002	-1,436	3,504	-2,174	-274	-920	-82
Building	48,159	78,896	20,969	33,740	54,500	36,574	107,304	30,957	32,548	113,849	58,776	30,015	58,743
% y-y	58.1	32.0	-39.3	-46.8	13.2	-53.6	411.7	-8.2	-40.3	211.3	-45.2	-3.0	80.5
Japan	47,504	78,528	18,297	33,961	53,071	36,564	105,303	30,398	29,441	116,340	54,693	29,209	58,369
Overseas	653	370	1,332	1,119	1,012	427	2,001	559	449	167	4,083	806	-45
Development business	424	396	518	2,722	416	259	351	1,426	2,756	372	356	15,653	419
% y-y	-15.0	-15.4	3.2	397.6	-1.9	-34.6	-32.2	-47.6	562.5	43.6	1.4	997.7	-84.8
Parent financial data													
Sales	76,200	75,599	84,277	87,789	70,137	87,033	83,055	91,034	86,917	84,729	87,331	113,662	79,488
% y-y	39.9	-3.4	9.4	-4.0	-8.0	15.1	-1.4	3.7	23.9	-2.6	5.1	24.9	-8.5
Value of completed projects	75,698	75,114	83,814	85,054	69,719	86,667	82,712	90,655	84,301	84,381	85,798	98,008	79,126
% y-y	40.4	-3.4	9.5	-6.4	-7.9	15.4	-1.3	6.6	20.9	-2.6	3.7	8.1	-6.1
Development business	502	483	463	2,735	417	366	344	377	2,616	347	1,533	15,655	361
% y-y	-11.8	-5.7	-8.1	407.4	-16.9	-24.2	-25.7	-86.2	527.3	-5.2	345.6	4,052.5	-86.2
Gross profits	4,797	4,273	5,484	5,515	6,513	6,480	5,529	5,212	6,960	6,208	9,050	9,043	8,619
% y-y	84.7	-18.4	-	31.5	35.8	51.6	0.8	-5.5	6.9	-4.2	63.7	73.5	23.8
Margin (%)	6.3	5.7	6.5	6.3	9.3	7.4	6.7	5.7	8.0	7.3	10.4	8.0	10.8
Civil engineering	2,478	1,877	3,158	2,104	3,405	3,383	2,737	647	3,423	3,160	3,090	3,160	3,523
% y-y	167.0	-26.6	-	-3.5	37.4	80.2	-13.3	-69.2	0.5	-6.6	12.9	388.4	2.9
Margin (%)	8.4	6.1	9.7	6.3	12.9	10.1	9.0	1.9	9.2	8.5	9.3	8.4	11.8
General building construction	2,119	2,214	2,152	2,876	2,947	2,979	2,670	5,398	3,325	2,886	5,686	5,489	4,908
% y-y	42.3	-11.0	564.2	56.4	39.1	34.6	24.1	87.7	12.8	-3.1	113.0	1.7	47.6
Margin (%)	4.6	5.0	4.2	5.6	6.8	5.6	5.1	9.4	7.1	6.1	10.8	9.1	9.9
Operating profits	804	817	1,795	1,848	2,594	2,613	1,566	1,406	2,580	2,190	6,308	4,531	4,353
% y-y	-	-53.8	-	423.5	222.6	219.8	-12.8	-23.9	-0.5	-16.2	302.8	222.3	68.7
Margin (%)	1.1	1.1	2.1	2.1	3.7	3.0	1.9	1.5	3.0	2.6	7.2	4.0	5.5
Consolidated income statement													
Sales	90,425	92,818	103,100	109,229	85,929	104,583	103,987	110,877	95,877	98,187	110,572	137,087	94,903
% y-y	39.0	2.6	-2.2	1.0	-5.0	12.7	0.9	1.5	11.6	-6.1	6.3	23.6	-1.0
Operating profits	1,079	1,617	2,675	2,482	3,065	3,215	2,472	2,226	3,851	2,414	6,631	5,807	4,867
% y-y	-	-6.4	-	553.2	184.1	98.8	-7.6	-10.3	25.6	-24.9	168.2	160.9	26.4
Margin (%)	1.2	1.7	2.6	2.3	3.6	3.1	2.4	2.0	4.0	2.5	6.0	4.2	5.1
Recurring profits	1,656	2,168	4,015	3,443	3,583	4,378	4,039	3,277	5,025	3,373	8,176	6,417	5,551
% y-y	-	7.6	-	101.2	116.4	101.9	0.6	-4.8	40.2	-23.0	102.4	95.8	10.5
Margin (%)	1.8	2.3	3.9	3.2	4.2	4.2	3.9	3.0	5.2	3.4	7.4	4.7	5.8
Profits attributable to owners of parent	1,333	4,448	3,278	206	2,868	3,704	3,082	3,949	4,509	3,325	6,388	3,283	4,811
% y-y	-	164.9	-	-84.8	115.2	-16.7	-6.0	1,817.0	57.2	-10.2	107.3	-16.9	6.7
Margin (%)	1.5	4.8	3.2	0.2	3.3	3.5	3.0	3.6	4.7	3.4	5.8	2.4	5.1

Source: Company data, Nomura estimates

Fig. 3: Maeda [1824]: consolidated financial data 1

				¥mn, except where noted)						
Consolidated income statement	14/3	15/3	16/3	New 17/3E	Old 17/3E	New 18/3E	Old 18/3E	New 19/3E	Old 19/3E	Co's 17/3E
Sales	395,572	405,376	441,723	420,000	415,000	439,000	434,000	444,000	439,000	410,000
% y-y	7.2	2.5	9.0	-4.9	-6.0	4.5	4.6	1.1	1.2	-7.2
Value of completed projects	354,869	370,161	384,992	383,000	378,000	402,000	397,000	407,000	402,000	372,400
% y-y	8.2	4.3	4.0	-0.5	-1.8	5.0	5.0	1.2	1.3	-3.3
Development business	40,702	35,215	56,731	37,000	37,000	37,000	37,000	37,000	37,000	37,600
% y-y	-1.2	-13.5	61.1	-34.8	-34.8	0.0	0.0	0.0	0.0	-33.7
Gross profits	29,614	33,277	41,211	45,500	43,500	47,000	45,000	47,500	45,500	41,600
% y-y	94.3	12.4	23.8	10.4	5.6	3.3	3.4	1.1	1.1	0.9
Margin (%)	7.5	8.2	9.3	10.8	10.5	10.7	10.4	10.7	10.4	10.1
Gross profits on completed projects	22,145	27,767	33,992	38,700	36,700	40,200	38,200	40,700	38,700	34,700
% y-y	145.1	25.4	22.4	13.9	8.0	3.9	4.1	1.2	1.3	2.1
Margin (%)	6.2	7.5	8.8	10.1	9.7	10.0	9.6	10.0	9.6	9.3
Development business gross profits	7,468	5,509	7,218	6,800	6,800	6,800	6,800	6,800	6,800	6,900
% y-y	20.3	-26.2	31.0	-5.8	-5.8	0.0	0.0	0.0	0.0	-4.4
Margin (%)	18.3	15.6	12.7	18.4	18.4	18.4	18.4	18.4	18.4	18.4
Operating profits	7,853	10,978	18,703	21,000	19,000	22,500	20,500	23,000	21,000	17,300
% y-y	-	39.8	70.4	12.3	1.6	7.1	7.9	2.2	2.4	-7.5
Margin (%)	2.0	2.7	4.2	5.0	4.6	5.1	4.7	5.2	4.8	4.2
Recurring profits	11,282	15,277	22,991	26,000	24,000	27,500	25,500	28,000	26,000	20,700
% y-y	-	35.4	50.5	13.1	4.4	5.8	6.3	1.8	2.0	-10.0
Margin (%)	2.9	3.8	5.2	6.2	5.8	6.3	5.9	6.3	5.9	5.0
Profits attributable to owners of parent	9,265	13,603	17,505	20,000	18,000	19,500	17,500	19,500	17,500	16,400
% y-y	-	46.8	28.7	14.3	2.8	-2.5	-2.8	0.0	0.0	-6.3
Margin (%)	2.3	3.4	4.0	4.8	4.3	4.4	4.0	4.4	4.0	4.0
DPS (¥)	7	9	11	11	11	11	11	11	11	11
H1-end (¥)	0	0	0	0	0	0	0	0	0	0
FY-end (¥)	7	9	11	11	11	11	11	11	11	11
Consolidated balance sheet										
Cash & equivalents	21,990	26,396	25,839	33,200	31,200	40,200	36,200	52,200	46,200	
Accounts receivable	154,089	143,993	181,807	157,000	157,000	163,000	163,000	165,000	165,000	
Inventory assets	24,677	37,344	14,671	32,000	32,000	32,000	32,000	32,000	32,000	
Spending on uncompleted projects	15,289	24,278	10,443	20,000	20,000	20,000	20,000	20,000	20,000	
PPE/intangible long-term assets	67,329	56,270	63,839	63,800	63,800	63,800	63,800	63,800	63,800	
Other assets	143,311	164,226	159,083	158,000	158,000	158,000	158,000	158,000	158,000	
Total assets	411,396	428,229	445,239	444,000	442,000	457,000	453,000	471,000	465,000	
Accounts payable	80,941	86,211	82,951	86,000	86,000	89,000	89,000	90,000	90,000	
Advances on uncompleted projects	36,396	34,720	19,998	20,000	20,000	20,000	20,000	20,000	20,000	
Interest-bearing debt	94,113	81,342	107,875	90,000	90,000	85,000	85,000	85,000	85,000	
Other liabilities	71,041	67,478	70,341	64,900	64,900	61,300	61,300	55,700	55,700	
Shareholders' equity	124,348	152,792	157,119	175,100	173,100	192,700	188,700	210,300	204,300	
Minority interests	4,557	5,686	6,955	8,000	8,000	9,000	9,000	10,000	10,000	
Total liabilities and net assets	411,396	428,229	445,239	444,000	442,000	457,000	453,000	471,000	465,000	
Turnover period (months)										
Cash & equivalents	0.7	0.8	0.7	0.9	0.9	1.1	1.0	1.4	1.3	
Accounts receivable	4.7	4.3	4.9	4.5	4.5	4.5	4.5	4.5	4.5	
Inventory assets	0.7	1.1	0.4	0.9	0.9	0.9	0.9	0.9	0.9	
Accounts payable	2.5	2.6	2.3	2.5	2.5	2.4	2.5	2.4	2.5	

Source: Company data, Nomura estimates

**Fig. 4: Maeda [1824]: consolidated financial data 2**

				(¥mn, except where noted)					
	14/3	15/3	16/3	New 17/3E	Old 17/3E	New 18/3E	Old 18/3E	New 19/3E	Old 19/3E
Consolidated cash flow									
Profits attributable to owners of parent	9,265	13,603	17,505	20,000	18,000	19,500	17,500	19,500	17,500
Depreciation	4,168	4,513	5,775	5,000	5,000	5,000	5,000	5,000	5,000
Change in working capital	-20,382	1,130	-35,117	10,500	10,500	-3,000	-3,000	-1,000	-1,000
Other	-3,339	-4,880	527	-3,300	-3,300	-2,600	-2,600	-4,600	-4,600
Operating cash flow	-10,288	14,366	-11,310	32,200	30,200	18,900	16,900	18,900	16,900
Acquisition or sale of PPE	-3,988	-7,599	-4,561	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000
Other	2,719	12,727	1,526	0	0	0	0	0	0
Investment cash flow	-1,269	5,128	-3,035	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000
Change in borrowings	-1,619	-13,351	16,291	-17,900	-17,900	-5,000	-5,000	0	0
Dividend payments	-1,240	-1,240	-1,595	-1,900	-1,900	-1,900	-1,900	-1,900	-1,900
Other	-219	-291	-185	0	0	0	0	0	0
Financial cash flow	-3,078	-14,882	14,511	-19,800	-19,800	-6,900	-6,900	-1,900	-1,900
Consolidated indicators									
Free cash flow	-11,557	19,494	-14,345	27,200	25,200	13,900	11,900	13,900	11,900
EBITDA	12,021	15,491	24,478	26,000	24,000	27,500	25,500	28,000	26,000
Shares out (FY-end, mn)	185	185	185	185	185	185	185	185	185
Treasury stock (FY-end, mn)	8	8	8	8	8	8	8	8	8
EPS (¥)	52.3	76.7	98.8	112.8	101.5	110.0	98.7	110.0	98.7
EPS fully diluted (¥)	-	71.6	92.1	105.3	94.8	102.6	92.1	102.6	92.1
CFPS (¥)	75.8	102.2	131.3	141.0	129.7	138.2	126.9	138.2	126.9
BPS (¥)	701.5	861.9	886.4	987.8	976.5	1,087.1	1,064.5	1,186.4	1,152.5
ROE (%)	7.7	9.8	11.3	12.0	10.9	10.6	9.7	9.7	8.9
ROA (%)	2.3	3.2	4.0	4.5	4.1	4.3	3.9	4.2	3.8
Total asset turnover ratio (months)	12.5	12.7	12.1	12.7	12.8	12.5	12.5	12.7	12.7
D/E ratio (x)	0.8	0.5	0.7	0.5	0.5	0.4	0.5	0.4	0.4
Shareholders' equity to total assets (%)	30.2	35.7	35.3	39.4	39.2	42.2	41.7	44.6	43.9

Source: Company data, Nomura estimates

# Appendix A-1

## Analyst Certification

I, Kentaro Maekawa, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Maeda	1824 JP	JPY 867	25-Aug-2016	Buy	N/A	A6,A11

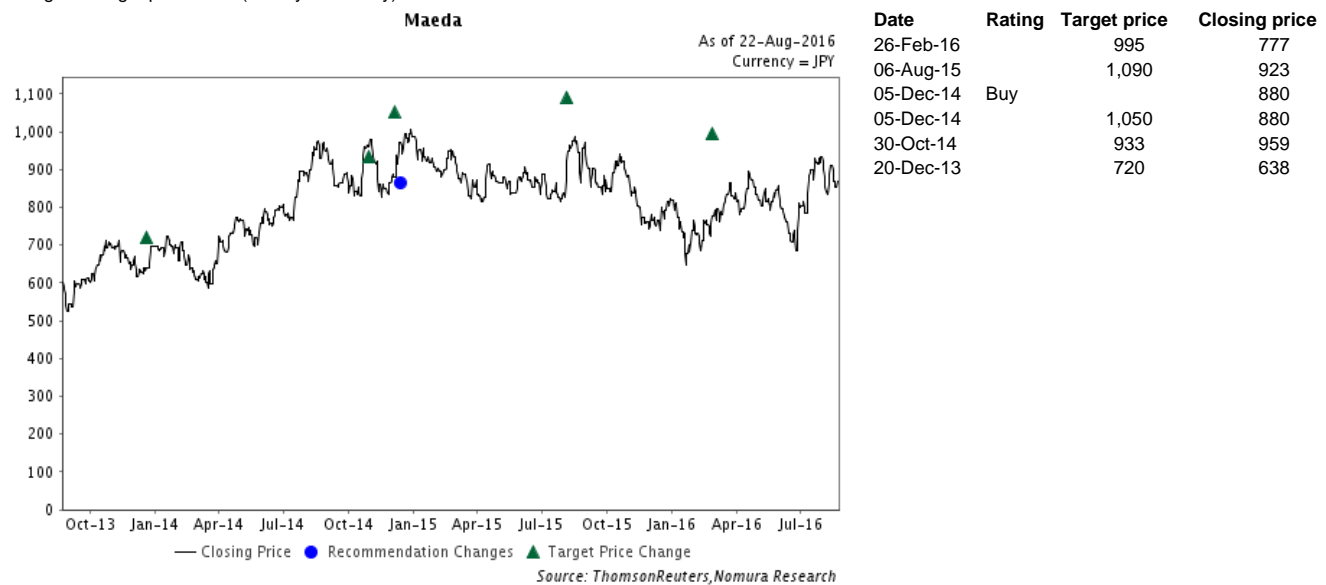
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### Maeda (1824 JP)

JPY 867 (25-Aug-2016) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We calculate our target price of ¥1,140 by multiplying our 18/3 adjusted EPS forecast (fully diluted and assuming a normal tax rate) of ¥94.8 by a P/E of around 12x (fully diluted but not assuming a normal tax rate, our 18/3 adjusted EPS forecast is ¥102.6). This is lower than the Russell/Nomura Large Cap (ex financials) average of 14x as our operating profit CAGR forecast for 18/3–19.3 of 4.7% is lower than the equivalent average of 8.4%.

**Risks that may impede the achievement of the target price** Factors that could cause the share price to substantially undershoot our target price include a sharp increase in costs on private-sector building construction projects, fiercer competition, and a further deterioration in overseas earnings.

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#### STOCKS

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the transaction amount and at least ¥300,000 is required. With margin transactions, an amount up to roughly 3.3x the margin may be traded. Margin transactions therefore carry the risk of losses in excess of the margin owing to share price fluctuations. For details, please thoroughly read the written materials provided, such as listed securities documents or documents delivered before making a contract.

Transactions involving convertible bonds are subject to a sales commission of up to 1.08% of the transaction amount (or a commission of ¥4,320 if this would be less than ¥4,320). When convertible bonds are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Convertible bonds carry the risk of losses owing to factors such as interest rate fluctuations and price fluctuations in the underlying stock. In addition, convertible bonds denominated in foreign currencies also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When bonds are purchased via public offerings, secondary distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. Bond prices may also fall below the invested principal as a result of such factors as changes in the management and financial circumstances of the issuer, or changes in third-party valuations of the bond in question. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used. When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For J17 and subsequent issues, the maturity value shall not undercut the face amount. Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.4% of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.4% (annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors. No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,800 per issue transferred depending on volume.

## **Nomura Securities Co., Ltd.**

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