NOMURA

Kandenko 1942.T 1942 JP

EQUITY: JAPAN CONSTRUCTION

Guidance revisions, transmission line fire

First Look

Global Markets Research

13 October 2016

Rating Remains	**Neutral**
Target Price Remains	JPY 940
Closing price 13 October 2016	JPY 978

Company raises profit guidance

Kandenko announced upward revisions to its profit projections for 17/3 H1 and the full year after the close of markets on 13 October. We attribute this to an improvement in margins on electrical engineering work and solid orders for power line engineering. As was the case with the upward revisions announced alongside Q1 results, these revisions are less than the 30% threshold for mandatory revision disclosures. The company also hiked its full-year DPS forecast from ¥16 to ¥18.

Implications of transmission line fire

On 12 October a fire broke out on power transmission lines owned by Tokyo Electric Power Holdings [9501] and installed 35 years ago. Because power transmission lines and other facilities are inspected regularly for performance and safety, it is not unusual to find facilities that are more than 30 years old. While we will have to wait for the investigation into the causes of the fire and a re-inspection of the facilities, we could see moves to deal with aging infrastructure. The facilities in question do not appear to have been installed by Kandenko itself, and instead look to have been subcontracted to an unlisted specialist engineering company.

Research analysts

Japan construction

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Appendix A-1

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Kandenko	1942 JP	JPY 978	13-Oct-2016	Neutral	N/A	A4,A5,A6,A7,A11

A4 The Nomura Group had an investment banking services client relationship with the issuer during the past 12 months.

A5 The Nomura Group has received compensation for investment banking services from the issuer in the past 12 months.

A6 The Nomura Group expects to receive or intends to seek compensation for investment banking services from the issuer in the next three months.

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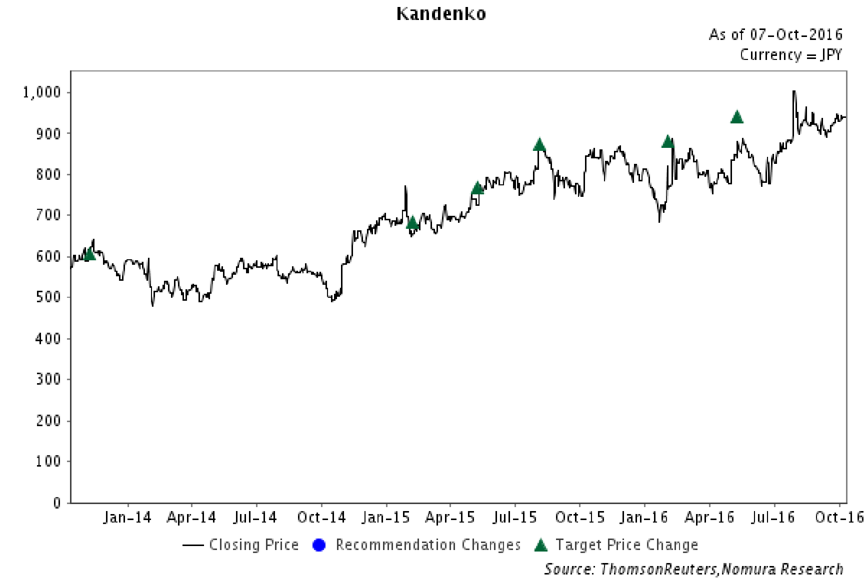
Kandenko (1942 JP) **JPY 978 (13-Oct-2016)** Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
09-May-16		940	842
02-Feb-16		880	773
05-Aug-15		872	862
08-May-15		767	725
06-Feb-15		683	656
07-Nov-13		605	600

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

Valuation Methodology We obtain our target price of ¥940 by multiplying our 17/3 EPS forecast of ¥58.7 by a target P/E of 16x. We use a fair-value P/E slightly higher than the 15x average for the Russell/Nomura Large Cap index (ex financials), as our 18% operating profit CAGR forecast through 18/3 is higher than the equivalent average of 6%.

Risks that may impede the achievement of the target price Among factors that could cause the share price to substantially undershoot our target price, we highlight greater-than-expected cuts in power distribution line engineering orders and a substantial decline in profitability on electrical engineering work, expected to be a main source of earnings in future, owing to fiercer price competition. Conversely, the stock could move substantially above our target price if profits are buoyed by improved conditions in the electric power sector or the environment for electrical engineering work improves further.

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As at 30 September 2016.
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STOCKS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

STOCKS

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