

## Guidance revisions, transmission line fire First Look

### 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.

### Global Markets Research

13 October 2016

**Rating**  
Remains **Neutral**

**Target Price**  
Remains **JPY 940**

**Closing price**  
13 October 2016 **JPY 978**

### Research analysts

#### Japan construction

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# Appendix A-1

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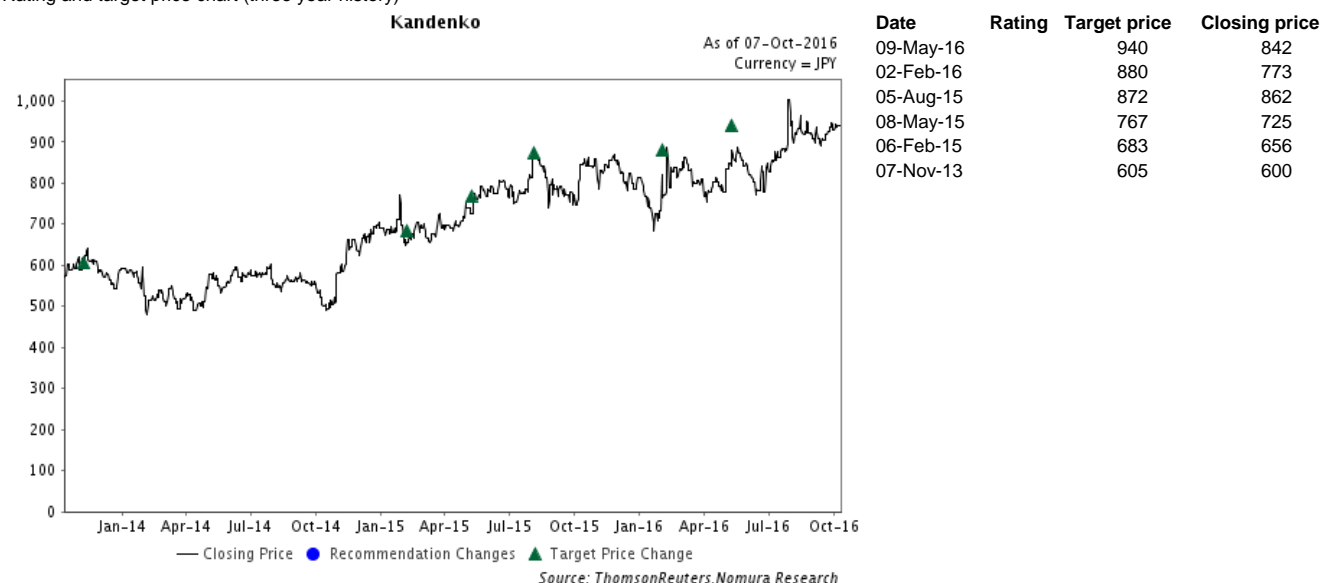
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Kandenko	1942 JP	JPY 978	13-Oct-2016	Neutral	N/A	A4,A5,A6,A7,A11

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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)



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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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.

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