

RELIA, INC. (4708 JP)

FY21 Q1 RESULTS WERE IN LINE WITH EXPECTATION. ALREADY ACQUIRED NEARLY HALF OF THE PLANNED SHARE BUY-BACK

FY21 Q1 RESULTS SUMMARY

Relia, Inc. (4708 JP) reported FY21 Q1 results that were largely in line with the firm's expectation, with quarterly operating profit [OP] coming in at ¥1.6bil (-35.0% YoY) on sales of ¥29.4bil (-6.3% YoY). The Field Operations Business was transferred in February 2021 and removed from Relia's consolidated earnings. Additionally, there was a change in the revenue recognition method which resulted in a decline of ¥0.1bil in sales and a fall of ¥0.1bil OP. Excluding those two changes, the adjusted YoY change to Q1 sales and OP would have been -3.0% and -29.0%, respectively.

As of FY21 Q1, the firm has achieved 24.5% and 18.7% of its full-year sales and OP guidance, respectively. The full-year guidance remained unchanged as decline in revenues from recurring businesses and increase in SG&A had already been factored in this year's earnings forecast.

By SegmentContact Centre Business

FY21 Q1 segment OP fell 27.0% YoY to ¥1.2bil on sales of ¥25.5bil (-2.2% YoY). Spot business revenues remained flat YoY. The YoY decline in Q1 Recurring business revenue was as expected because several projects were terminated during FY20 Q4. The larger decline in OP vs sales was due to a rise in SG&A (parent basis) costs for enhanced service quality controls and IT-related security measures.

On the other hand, the overseas business enjoyed approx. 20% YoY sales growth in Q1 alone, thanks to a recovery in recurring business with existing US clients. With the company's implementation of its Work-from-Home operation, the staff utilisation rate remained stable. As a result, the overseas OP returned to profitability in FY21 Q1.

Back Office Business

The segment earned FY21 Q1 OP of ¥0.3bil (-48.3% YoY) on sales of ¥3.8bil (-9.3% YoY) as part of the recurring business with government agencies was terminated.

EXECUTIVE SUMMARY

- Relia, Inc. (4708 JP) reported FY21 Q1 results that were largely in line with expectations. Excluding one-off factors such as the removal of the Field Operation Business and a change in the revenue recognition method, Q1 sales would be down 3.0% YoY and OP down 29.0% YoY.
- In Japan, revenue from the recurring businesses (both in the Contact Centre Business and the Back Office Business) fell YoY due to the termination of several projects during FY20 Q4. Higher SG&A costs for quality control and IT-related security measures led to FY21 Q1 OP falling more than the decline in sales.
- The overseas business moved into the black with FY21 Q1 sales up over 20% YoY thanks to an increase in business with existing US clients. With the implementation of the Work-from-Home operation, the staff utilisation rate remained stable.
- There was no change in the full-year FY21 guidance for OP of ¥8.4bil (-13.2% YoY) on sales of ¥120.0bil (-6.0% YoY). The decline is on the back of 1) further falls in spot business, 2) the transfer of Field Operations which was excluded from the firm's business portfolio, 3) a fall in the recurring business as several projects were terminated, and 4) higher SG&A for investment in systems and human resources.
- In FY21, Relia plans to pay ¥42/share dividend (no change YoY). As of the end of July, the firm had repurchased 912,300 shares at a total cost of approx. ¥1.2bil (vs. the planned 2.1mil shares or ¥2.5bil) to be completed from 17 May 2021 until 31 October 2021.

Sales & OP by Segment (Quarterly)												
(¥mil)		FY19				FY20				FY21		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
Contact Centre Business	Sales	25,111	25,871	27,138	28,589	26,130	25,197	25,963	28,512	25,545	-2.2	-10.4
	OP	1,777	1,686	2,649	2,987	1,693	1,008	1,270	2,308	1,235	-27.0	-46.5
	OPM (%)	7.1	6.5	9.8	10.4	6.5	4.0	4.9	8.1	4.8	-1.7pp	-3.3pp
Back Office Business	Sales	3,512	4,106	4,085	5,238	4,215	4,609	4,054	5,062	3,825	-9.3	-24.4
	OP	218	510	474	1,071	644	840	514	896	333	-48.3	-62.8
	OPM (%)	6.2	12.4	11.6	20.4	15.3	18.2	12.7	17.7	8.7	-6.6pp	-9.0pp
Field Operation Business / Others ¹	Sales	1,261	1,270	1,348	1,201	1,007	989	1,058	804	7	-99.2	-99.1
	OP	49	39	98	49	77	61	167	192	0	n/a	n/a
	OPM (%)	3.9	3.1	7.3	4.1	7.6	6.2	15.8	23.9	n/a	n/a	n/a
Total	Sales	29,885	31,246	32,572	35,028	31,354	30,794	31,075	34,379	29,378	-6.3	-14.5
	OP	2,043	2,236	3,222	4,107	2,415	1,909	1,951	3,397	1,569	-35.0	-53.8
	OPM (%)	6.8	7.2	9.9	11.7	7.7	6.2	6.3	9.9	5.3	-2.4pp	-4.6pp

Source: Nippon-IBR based on Relia, Inc.'s FY20 and FY21 Q1 earnings presentation material

FY21 OUTLOOK

Relia is guiding for FY21 OP of ¥8.4bil (-13.2% YoY) on sales of ¥120.0bil (-6.0% YoY). The firm assumes that the impact of slow-down of sales activities during FY20 will likely continue throughout 1H but that new businesses will come on board from 2H.

Regional Performance

Relia is forecasting a 26.9% YoY decline in OP to ¥7.6bil on sales of ¥105.0bil (-6.8% YoY) in Japan and reflects the transfer of the Field Operations Business. Excluding the impact of the Field Operations Business, the estimated fall in FY21 sales and OP is likely to be -3.5% YoY and -23.2% YoY, respectively. In addition to this one-off impact, the firm assumes:

- A ¥1.2bil decline in FY21 sales and a ¥0.8bil decline in OP from a fall in spot business.
- Recurring revenue to fall by ¥2.5bil due to the termination of some projects and costs related to the restructuring of its business portfolio, therefore reducing OP by ¥0.3bil.
- A ¥1.1bil increase in SG&A to invest in human resources for quality control and systems for IT security. The firm has established a new Quality Control Department at HQ and plans to centrally supervise the quality control of each centre.

As a result, the OPM in Japan will likely drop to 7.2% in FY21, down from 9.2% reported in FY20.

Relia is guiding for FY21 earnings of the overseas business with OP of ¥0.8bil (vs. a loss of ¥0.7bil in FY20) on sales of ¥15.0bil (+0.6% YoY). Although the impact of COVID will likely be an ongoing issue, management expects a more stable operating environment and that higher utilisation rates can be maintained as staff are now able to work remotely from home. COVID-related cost will also be reduced, assuming that there is not any restrictive policy implemented in the Philippines.

Relia, Inc. (4708 JP): FY21 Guidance			
(¥mil)	FY20	FY21CE	YoY (%)
Net Sales	127,603	120,000	-6.0
Domestic	112,600	105,000	-6.8
Overseas	14,900	15,000	0.6
Operating Profit	9,672	8,400	-13.2
Domestic	10,400	7,600	-26.9
OPM (%)	9.2	7.2	-2.0pp
Overseas	-700	800	n/a
OPM (%)	n/a	5.3	n/a

Source: Nippon-IBR based on Relia, Inc.'s FY20 earnings presentation material

¹ Field Operations Business was removed from Relia's business portfolio from FY21

SHAREHOLDER RETURN

In FY21, Relia plans to pay a dividend of ¥42/share (unchanged from FY20) or an estimated total dividend payment of ¥2.8bil on Net Profit [NP] of ¥5.6bil (-27.8% YoY), which brings the dividend pay-out ratio to 50.1%. Relia's principal shareholder return policy is a total pay-out ratio of more than 50%. Dividend payments will be in line with profit growth achieved through the recurring business during the same fiscal year.

Separately, Relia implements share buy-backs in conjunction with levels of growth investment, capital efficiency and the previous year's annual earnings. The firm has already announced up to ¥2.5bil (or 2.1mil shares, some 3.14% of total shares outstanding) in a new share buy-back programme from 17 May 2021 until 31 October 2021. As of the 31st of July, the firm had already acquired 912,300 shares at a cost of around ¥1.2bil.

THE MEDIUM-TERM MANAGEMENT PLAN

FY21 marks the first year of Relia's new three-year growth strategy. The details of the plan are discussed in our previous report published on 20 July, which can be accessed via <https://www.relia-group.com/english/ir/news/>.

FINANCIAL SUMMARY

P&L Summary										
(¥mil / March yr-end)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21CE
Accounting Standard (Japan)	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol
Sales	100,484	79,209	74,235	81,500	96,188	109,800	115,750	128,731	127,603	120,000
YoY (%)	2.4	-21.2	-6.3	9.7	18.0	14.1	5.4	11.2	-0.9	-6.0
COGS	79,482	66,507	63,593	69,359	82,810	93,625	98,679	106,473	106,783	
Gross Profit (GP)	21,002	12,701	10,641	12,141	13,377	16,175	17,071	22,257	20,819	
GPM (%)	20.9	16.0	14.3	14.9	13.9	14.7	14.7	17.3	16.3	
SG&A	7,756	7,253	6,972	7,519	9,005	10,884	11,544	10,650	11,147	
Operating Profit (OP)	13,245	5,448	3,669	4,621	4,371	5,290	5,526	11,607	9,672	8,400
YoY (%)	46.6	-58.9	-32.7	25.9	-5.5	21.0	4.4	110.0	-16.7	-13.2
OPM (%)	13.1	6.8	4.9	5.6	4.5	4.8	4.7	9.0	7.6	7.0
Recurring Profit (RP)	13,387	5,605	3,862	4,685	4,371	5,343	5,595	11,772	9,811	8,400
YoY (%)	45.2	-58.2	-31.1	21.3	-6.8	22.2	4.7	110.4	-16.7	-14.4
RPM (%)	13.3	7.1	5.2	5.7	4.5	4.9	4.8	9.1	7.7	7.0
Pre-tax Profit	13,354	5,580	3,888	4,711	4,777	5,647	-5,670	11,591	10,905	
Tax costs	5,503	2,179	1,452	1,620	1,513	2,240	1,621	3,573	3,146	
Minority shareholder interest	14	50	42	10	0	0	8	0	0	
Net Profit (NP)	7,865	3,452	2,479	3,101	3,264	3,407	-7,283	8,017	7,759	5,600
YoY (%)	54.6	-56.2	-28.2	25.0	5.2	4.3	n/a	n/a	-3.2	-27.8
Comprehensive Profit	7,886	3,510	2,502	3,622	5,537	2,776	-7,686	7,776	7,397	

Source: Nippon-IBR based on Relia's presentation materials, YUHOs and Toyo Keizai estimate

Balance Sheet Summary										
(¥mil / March yr-end)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	
Accounting Standard (Japan)	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol
Current Asset	45,265	39,858	43,030	43,693	34,847	37,630	38,214	47,791	50,690	
Fixed Asset	10,690	10,651	10,289	13,051	31,222	29,492	17,541	18,176	16,437	
Tangible	2,209	2,018	1,590	2,210	3,752	3,787	4,654	6,248	6,233	
Intangible	643	792	646	672	18,274	15,946	3,898	3,544	3,011	
Investment and others	7,837	7,840	8,053	10,167	9,195	9,759	8,988	8,383	7,191	
Total Asset	55,956	50,510	53,320	56,744	66,069	67,123	55,755	65,968	67,127	
Current Liability	13,539	7,598	9,757	11,301	17,115	17,567	16,346	20,324	18,793	
Fixed Liability	845	868	865	1,242	1,211	1,307	1,595	2,788	3,058	
Net Asset	41,571	42,043	42,697	44,201	47,742	48,248	37,814	42,855	45,275	
Capital	998	998	998	998	998	998	998	998	998	
Capital Surplus	1,202	1,202	1,202	1,112	1,112	1,112	1,112	1,112	1,112	
Retained Earnings	39,977	40,397	41,032	42,135	43,401	44,528	34,497	39,779	41,968	
Treasury Shares	-592	-592	-592	-592	-592	-592	-592	-592	0	
Minority Interest	104	86	40	0	1	11	2	3	2	
Shareholders' Equity	41,466	41,956	42,657	44,201	47,740	48,236	37,811	42,852	45,272	
Shareholders' Equity Ratio (%)	74.1	83.0	80.0	77.8	72.2	71.8	67.8	64.9	67.4	
Interest-bearing Debt	0	0	0	0	3,500	2,530	500	0	0	

Source: Nippon-IBR based on Relia's presentation materials, YUHOs and Toyo Keizai estimate

Cash Flow Summary									
(¥mil / March yr-end)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Accounting Standard (Japan)	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol
Operating Cash Flow	11,885	-1,605	6,714	590	4,489	7,296	7,595	11,083	7,914
Depreciation	1,231	984	814	879	1,109	1,652	1,679	2,371	2,437
Goodwill Amortisation	77	98	48	37	434	1,737	1,705	393	385
Change in Sales Receivables	1,781	-238	-354	-3,816	-693	-550	1,087	-4,510	-242
Change in inventories	1,364	227	53	-66	46	-81	-153	-179	72
Change in Accounts Payable	-1,112	-223	132	584	368	100	-224	305	-441
Investment Cash Flow	-2,696	-2,678	1,109	-7,323	-4,172	-1,968	-3,020	-1,264	372
Free Cash Flow	9,189	-4,283	7,823	-6,733	317	5,328	4,575	9,819	8,286
Finance Cash Flow	-3,519	-3,065	-1,999	-2,108	1,501	-3,349	-4,248	-3,502	-5,423
Cash and Cash Equivalent	22,711	15,361	21,184	12,343	14,286	16,270	16,659	22,934	25,658

Source: Nippon-IBR based on Relia's presentation materials, YUHOs and Toyo Keizai estimate

Per-share indicators										
(¥ / March yr-end)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21CE
EPS	114.12	50.09	35.97	45.01	47.36	49.44	-105.68	116.33	115.49	83.81
BPS	601.66	608.77	618.93	641.34	692.68	699.89	548.62	621.77	677.52	
Dividend	58.00	29.00	29.00	29.00	29.00	36.00	36.00	39.00	42.00	42.00

Source: Nippon-IBR based on Relia's presentation materials, YUHOs and Toyo Keizai estimate

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