

# TOREX SEMICONDUCTOR | 6616

Sponsored Research  
August 26, 2024



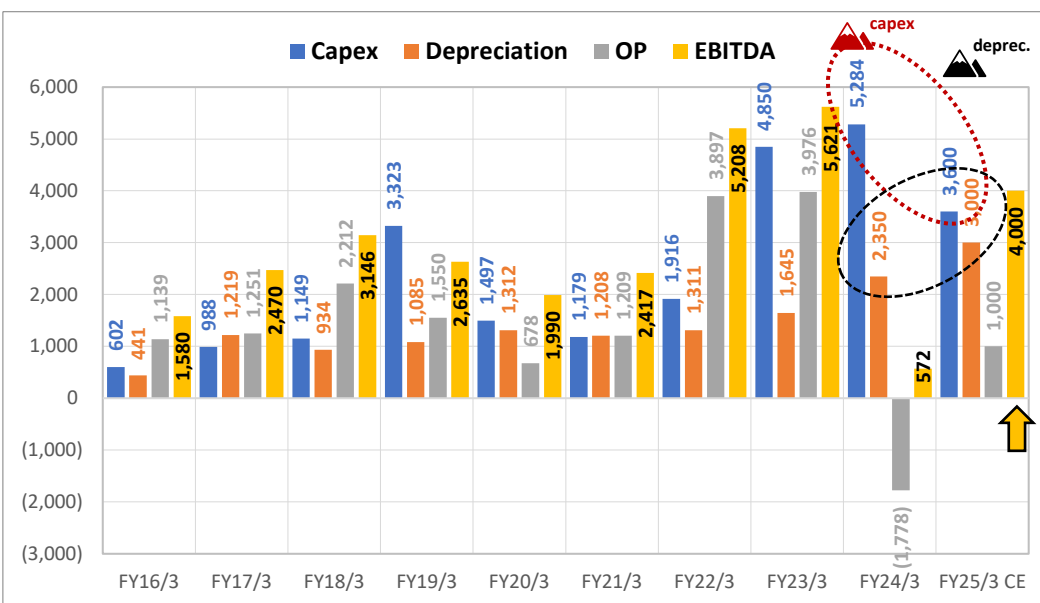
## 1Q FY25/3 confirmed the upcycle has started Profit recovery after large write-downs is off to a good start

### SUMMARY

▶ While TOREX Group 1Q FY25/3 consolidated net sales decreased -2.4% YoY, they increased sequentially QoQ +0.9% (see graph on P3), in part boosted by the weak yen, but also reflecting the beginning of a pick-up in China in applications such as general consumer electronics, suggesting the adjustment of distribution inventories has largely run its course. For reference, revenue of the Analog segment of Texas Instruments (US) for the Apr-Jun 2Q of FY24/12 declined -10.7% YoY, but increased sequentially QoQ +3.2%. According to the transcript of TI's conference call, on a QoQ sequential basis, industrial was down low single digits and automotive was down mid single digits, while personal electronics grew mid teens with broad-based growth, and communication equipment was up mid-single digits. **The key takeaways from TOREX Group 1Q results are 1) the upcycle has begun, which will be reflected in YoY numbers going forward, and 2) the profit recovery after large inventory write-downs is off to a good start.**

▶ TOREX expects a recovery in sales from the 2H of 2024, and the top priority for this term is strengthening groupwide sales expansion initiatives. Regarding the initial FY25/3 consolidated OP forecast, in addition to a contribution of ¥1,150mn from the +8.7% YoY increase in net sales, the decrease of ¥2,370mn in inventory write-downs in manufacturing cost of sales will drive a strong recovery in OP (see P5 for details). Although capex is set to decline -31.9% YoY to ¥3,600mn (mainly for equipment being installed in the new Phenitec Kagoshima Fab clean room), having peaked out last term, depreciation will increase +27.7% YoY to ¥3,000mn as the new clean room has started operations. **Note the sharp rise in EBITDA in the graph below, with EV/EBITDA of 5.6x now trading 34% below its 10-year historical average. Dividend yield of 3.29% is trading 35% above its historical average.**

### TOREX SEMICONDUCTOR Group Major Capex Peaked in FY24/3 (JPY mn)



Source: compiled by SIR from IR results briefing materials.

### 1Q Follow-up



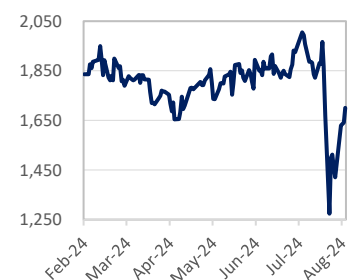
#### Focus Points:

Power management IC specialist with attractive growth profile from new applications driven by 5G/IoT, EV/ADAS and highly energy efficient next-gen power devices.

#### Key Indicators

Share price (8/23)	1,635
YH (24/7/17)	2,035
YL (24/8/5)	1,270
10YH (21/11/30)	3,960
10YL (15/8/25)	830
Shrs out. (mn shrs)	11.554
Mkt cap (¥ bn)	18.891
EV (¥ bn)	21.542
Equity ratio (6/30)	52.5%
25.3 P/E (CE)	25.70x
25.3 EV/EBITDA (CE)	6.4x
24.3 ROE (act)	-19.0%
24.3 P/B (act)	0.88x
25.3 DY (CE)	3.4%

#### 6M daily share price trend



#### Chris Schreiber CFA

Company Specialist

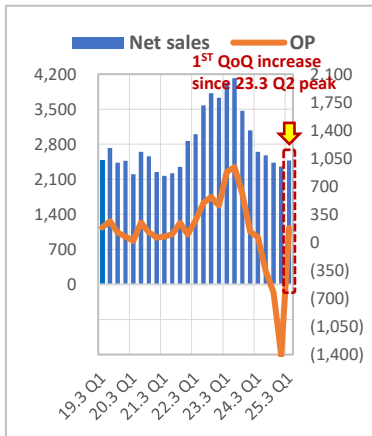
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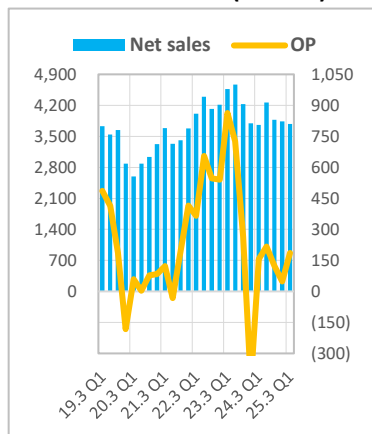
This report was prepared by Sessa Partners on behalf of TOREX SEMICONDUCTOR, LTD. Please refer to the legal disclaimer at the end for details.



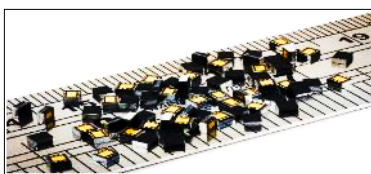
TOREX Parent (JPY mn)



Phenitec contrib. (JPY mn)



Source: compiled by SIR from IR results briefing materials.



**Powerfully small**

“Micro DC/DC” XCL Series  
Ultra small DC/DC converters that integrate a coil and a control IC. Simultaneously achieve **space-saving, high efficiency, low noise, high heat dissipation, low cost.**

## 1Q FY25/3 operating profit +64.1% YoY

### TOREX parent posts 1<sup>st</sup> QoQ increase since 2Q FY23/3 peak

#### RESULTS SUMMARY

▶ TOREX SEMICONDUCTOR announced 1Q FY25/3 consolidated financial results on Friday 8/9. Headline numbers were consolidated net sales -2.4% YoY, operating profit +64.1% YoY, and profit attributable to owners of parent +17.4% YoY. Note from the upper graph on the right, TOREX parent posted the first QoQ sequential increase in sales and profit since the peak in 2Q FY23/3 (first in 7 quarters). In the Japan segment, there was a reversal of inventory valuation losses (write back), and combined with the effect of the weak yen, TOREX parent OP increased by ¥113mn (+171.2% YoY), accounting for nearly 80% of the consolidated OP increase by ¥143mn (+64.1% YoY).

▶ Despite the strong increase in OP and decrease of foreign exchange losses of ¥199mn additionally boosting the increase in ordinary profit by ¥352mn (see table below, returning to profitability), the increase in profit attributable to owners of parent was limited to only ¥13mn due to higher tax expenses in income tax calculations. Despite high 1Q progress ratios of 36.5% versus full-year OP and 34.0% for ordinary profit, the Company left full-year forecasts unchanged.

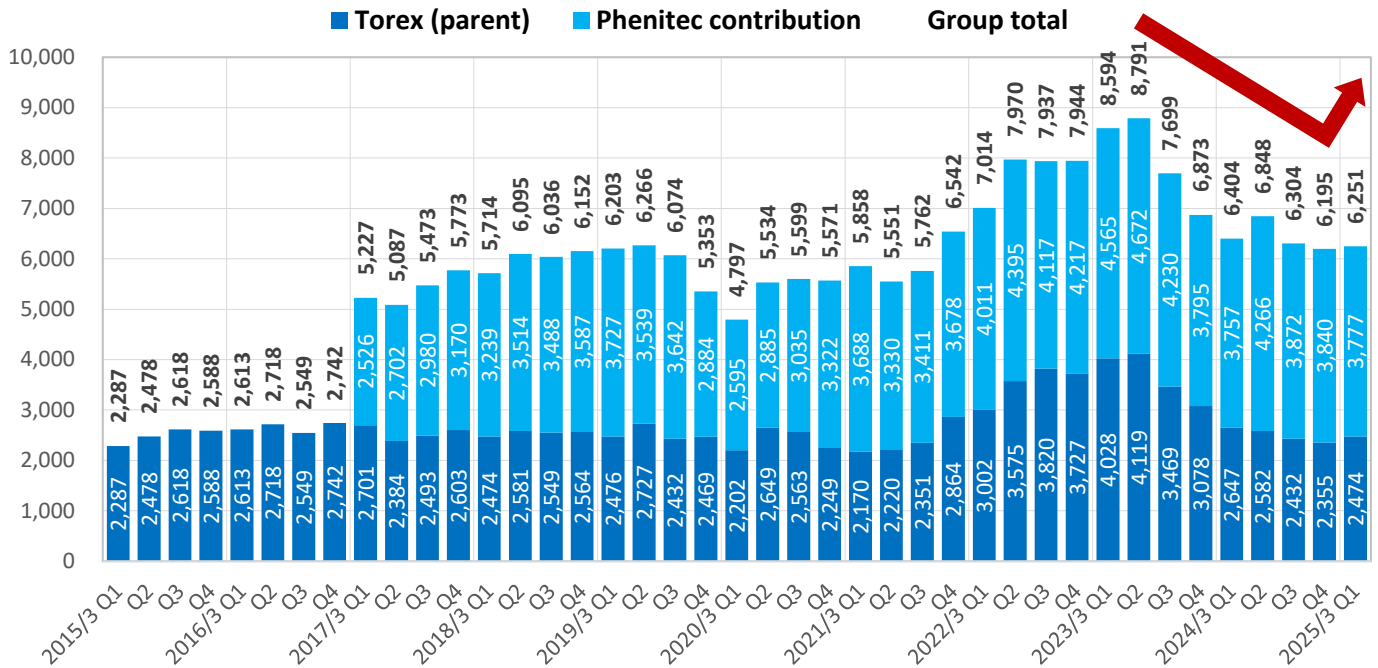
#### TOREX SEMICONDUCTOR 1Q FY25/3 Consolidated Financial Results Summary

JPY mn, yen per share, %	FY21.3	FY22.3	FY23.3	FY24.3	FY25.3	FY24.3	FY25.3	AMT
[J-GAAP]	act	act	act	act	init CE	1Q act	1Q act	CHG
Net sales	23,712	30,864	31,956	25,751	28,000	6,404	6,251	(153)
YoY	10.3	30.2	3.5	(19.4)	8.7	(25.5)	(2.4)	
Overseas sales ratio (%)*	70.5%	67.6%	70.0%	66.5%	-	68.0%	70.6%	
Average yen-dollar rate	¥106.2	¥112.9	¥134.9	¥144.4	¥150.0	¥138.1	¥156.5	
Operating Profit	1,209	3,897	3,976	(1,778)	1,000	222	365	143
YoY	78.3	222.3	2.0	-	-	(87.2)	64.1	
OPM (%)	5.1%	12.6%	12.4%	-	3.6%	3.5%	5.8%	
Ordinary profit	1,206	4,124	3,981	(2,452)	1,000	(12)	340	352
Profit ATOP	933	3,157	2,179	(4,297)	700	70	83	13
EPS (¥)	¥85.42	¥288.60	¥198.69	¥-390.73	¥63.63			
ROE (%)	4.9	14.9	9.2	-	-			
DPS (¥)	¥36.00	¥44.00	¥56.00	¥56.00	¥56.00			
Payout ratio (%)	42.1	15.2	28.2	-	88.0			
BPS (¥)	¥1,809	¥2,078	¥2,236	¥1,869	-			
Equity ratio (%)	62.8	65.4	66.4	56.1	-			
Depreciation	1,208	1,311	1,645	2,350	3,000	413	498	85
Capex	1,179	1,916	4,850	5,284	3,600	1,311	1,221	(90)
<b>Net sales by entity</b>								
TOREX parent	9,605	14,124	14,694	10,016	-	2,647	2,474	(173)
YoY	(0.6)	47.0	4.0	(31.8)	-	(34.3)	(6.5)	
Phenitec contribution	14,107	16,740	17,262	15,753	-	3,757	3,777	20
YoY	19.2	18.7	3.1	(8.7)	-	(17.7)	0.5	
<b>OP by entity</b>								
TOREX parent	516	1,789	2,567	(2,322)	-	66	179	113
YoY	13.9	246.7	43.5	-	-	(92.5)	171.2	
Phenitec contribution	693	2,108	1,409	544	-	156	186	30
YoY	208.0	204.2	(33.2)	(61.4)	-	(81.9)	19.2	

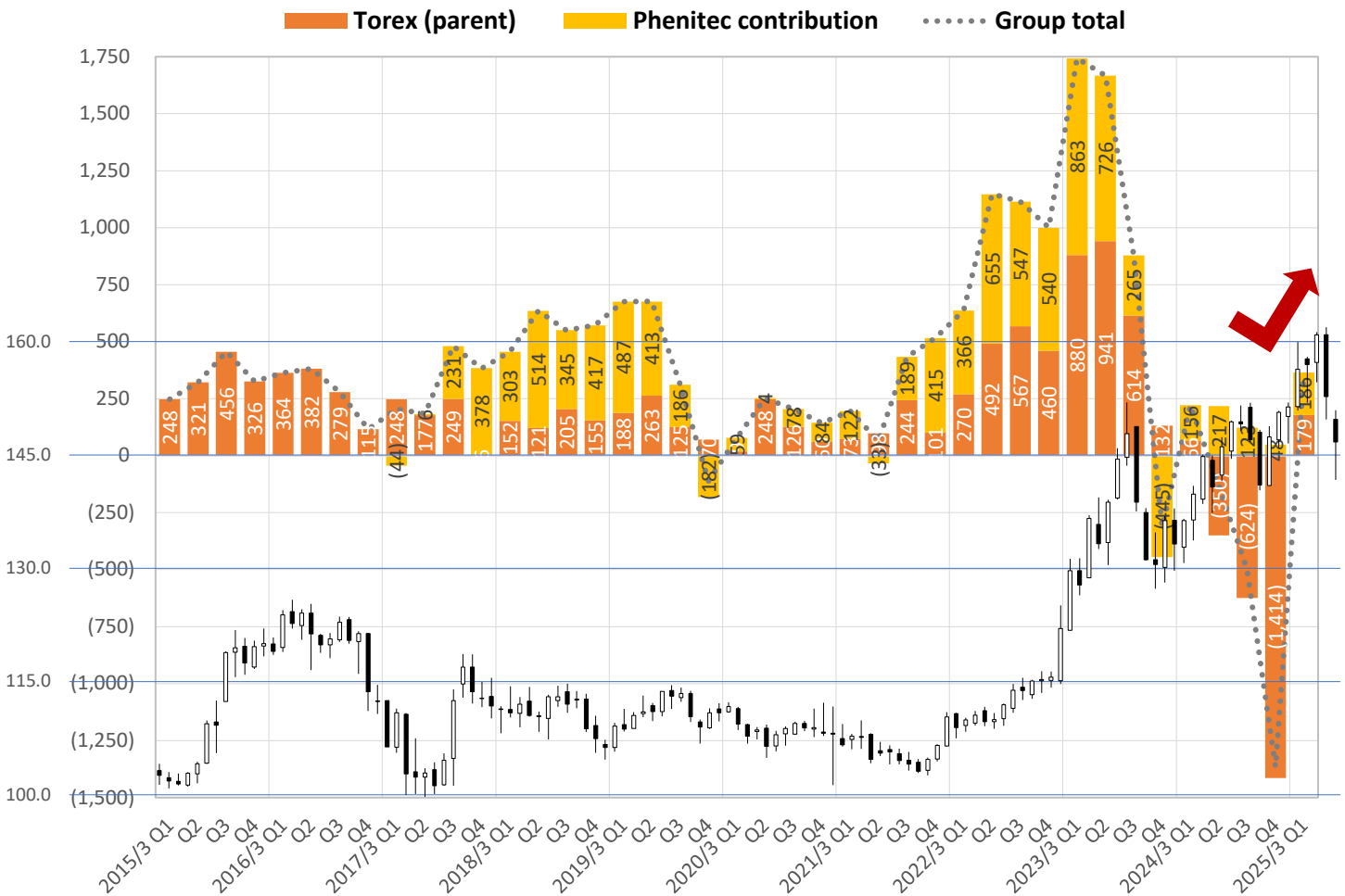
Source: compiled by SIR from TANSWIN financial results summaries and IR results briefing materials.

\*Note: overseas sales ratio: ratio of sales denominated in foreign currencies.

**TOREX Group Quarterly Trend of Consolidated Net Sales by Entity (JPY mn)**

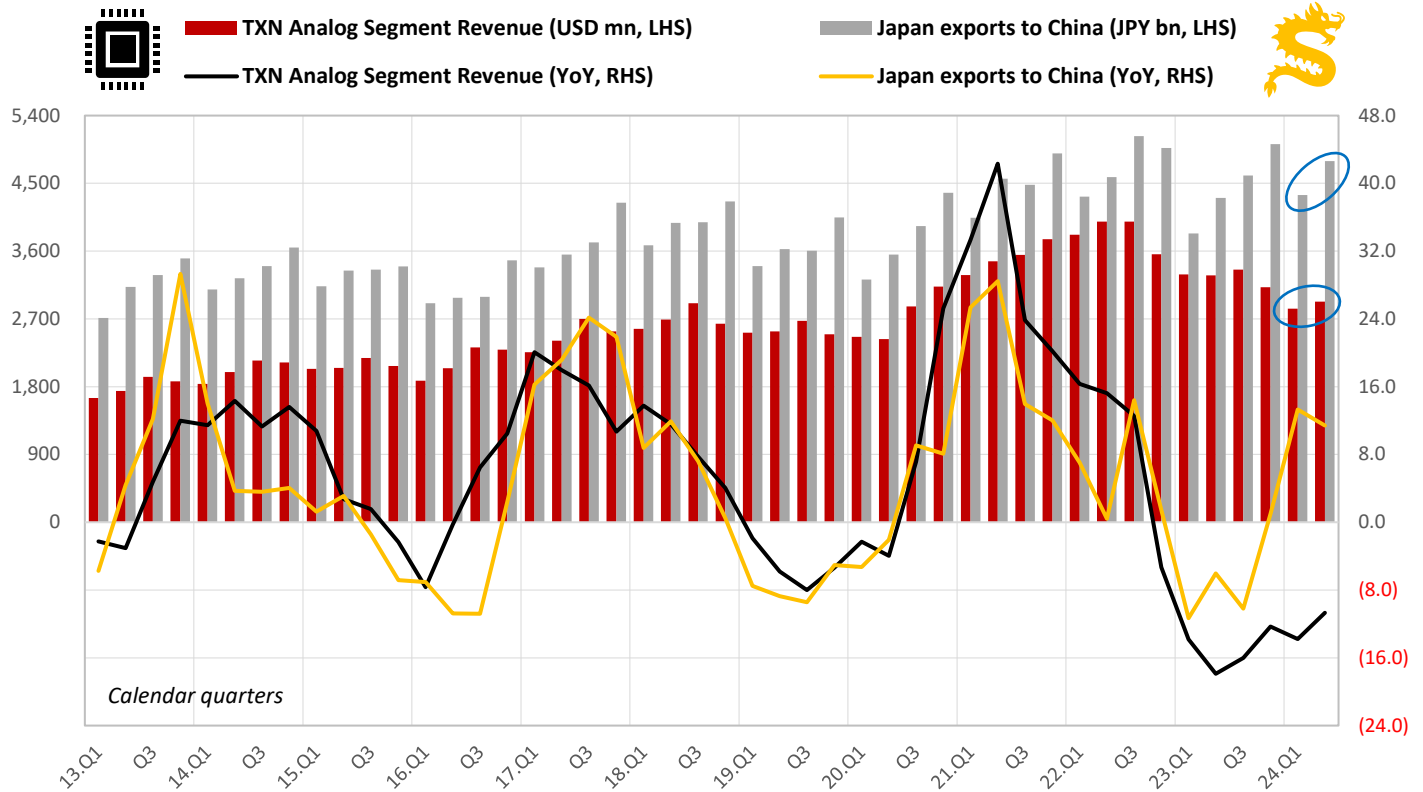


**TOREX Group Quarterly Trend of Consolidated Operating Profit/Loss by Entity (JPY mn); Monthly Yen-Dollar**



Source: compiled by SIR from IR results briefing materials. Forex overlay chart compiled by SIR from Yahoo Finance historical price data.

★ Key indicators tracked by SIR for the TOREX Group business environment point to a 2H 2024 recovery



Source: Customs and Tariff Bureau, Ministry of Finance, Texas Instruments (NASDAQ: TXN) historical financial statements, quarterly segment revenue.

Monthly Trend of Japan Exports to China for Selected Categories

JPY bn, %	Exports to PRC (total)	YoY	General Machinery	YoY	Electrical / Electronics	YoY	Semicon / Components	YoY	ICs	YoY	Autos	YoY
2022.07	1,783	12.8	373	8.7	410	15.6	137	21.2	100	28.6	126	18.2
2022.08	1,612	13.4	332	8.7	340	7.9	90	(13.8)	59	(20.6)	92	55.2
2022.09	1,731	17.0	370	14.8	405	16.5	137	20.1	103	26.8	112	336.8
2022.10	1,720	7.7	357	(3.0)	396	9.6	133	8.5	98	13.3	82	71.8
2022.11	1,632	3.5	350	(3.2)	355	2.7	118	2.2	85	2.2	93	11.3
2022.12	1,618	(6.2)	351	(7.7)	376	(2.4)	132	3.9	99	10.9	57	(50.2)
2023.01	968	(17.1)	208	(16.2)	241	(16.0)	100	(2.5)	80	7.9	29	(52.1)
2023.02	1,316	(10.9)	301	(11.8)	279	(12.1)	100	1.6	75	9.5	51	(34.2)
2023.03	1,552	(7.7)	387	2.0	335	(11.3)	120	14.9	89	33.3	32	(62.7)
2023.04	1,446	(2.9)	323	9.4	302	(10.8)	94	2.5	63	12.5	64	(27.3)
2023.05	1,341	(3.4)	285	(3.0)	291	(3.2)	109	14.3	83	28.4	66	50.5
2023.06	1,519	(10.9)	372	1.2	339	(11.7)	119	(12.8)	87	(10.9)	74	(7.6)
2023.07	1,543	(13.4)	362	(2.8)	325	(20.6)	114	(16.8)	80	(19.4)	97	(23.5)
2023.08	1,435	(11.0)	304	(8.6)	322	(5.1)	113	25.5	82	39.4	90	(2.3)
2023.09	1,624	(6.2)	375	1.4	344	(15.1)	106	(22.9)	75	(27.2)	121	7.6
2023.10	1,651	(4.0)	373	4.4	343	(13.5)	102	(23.3)	71	(27.8)	109	31.8
2023.11	1,596	(2.2)	371	6.1	320	(9.8)	99	(15.9)	67	(21.9)	110	18.2
2023.12	1,771	9.5	470	33.8	349	(7.1)	103	(22.0)	70	(29.2)	101	78.7
2024.01p	1,250	29.2	279	34.1	264	9.7	93	(6.7)	66	(17.2)	62	11.4
2024.02	1,349	2.5	353	17.4	279	0.0	96	(4.3)	70	(7.0)	62	22.5
2024.03	1,747	12.6	465	20.0	355	6.0	118	(1.6)	83	(6.7)	71	120.6
2024.04	1,587	9.6	390	20.5	325	7.4	110	17.1	77	22.0	87	36.0
2024.05	1,581	17.8	393	37.7	308	5.9	112	3.0	85	1.9	82	23.4
2024.06	1,627	7.2	391	5.2	336	(0.8)	113	(4.6)	82	(5.5)	92	25.1
2024.07p	1,655	7.2	376	3.8	356	9.6	119	4.0	87	8.8	106	10.2

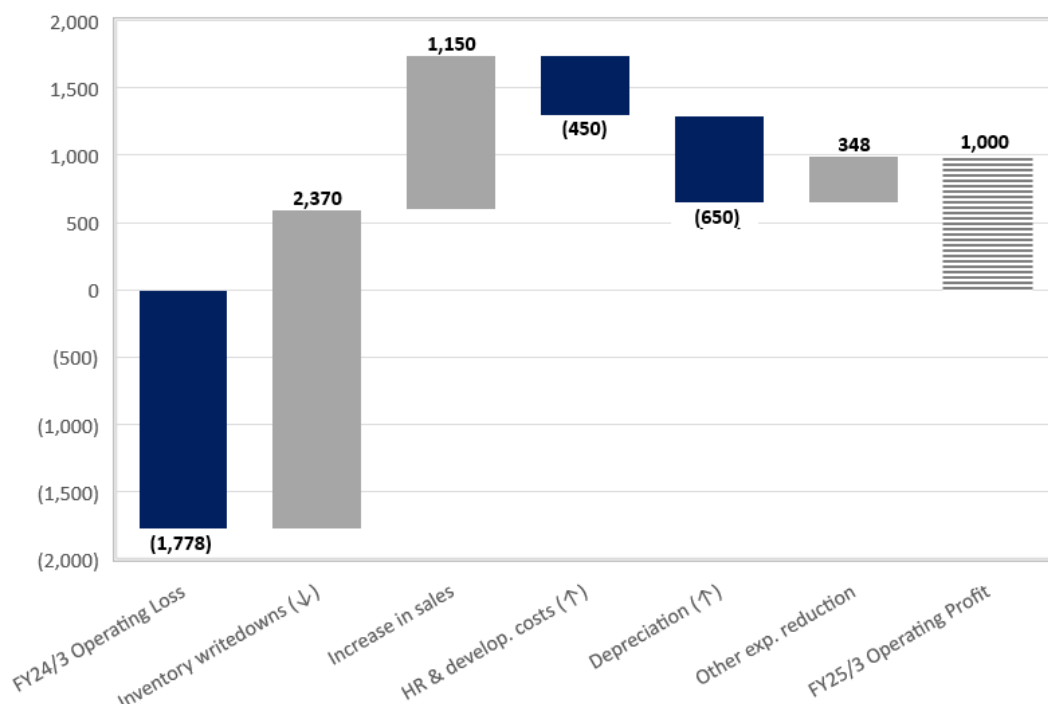
Source: compiled by SIR from monthly Trade Statistics of Japan, Customs and Tariff Bureau, Ministry of Finance. \*p = provisional.



**FY25/3 Management Policy and Key Initiatives to Strengthen Sales Expansion**

- ▶▶ In his first time hosting the TOREX SEMICONDUCTOR Group’s results briefing as newly appointed President from April 1, Takeshi Kimura noted that while there is a sense the overall semiconductor market has bottomed, current underlying demand has yet to show signs of a strong recovery. However, progress has been made in inventory adjustments in the distribution supply chain, and TOREX expects a recovery in sales from the 2H of 2024, and the top priority for this term is strengthening sales expansion initiatives. As can be seen from the graph below showing a factor analysis for the initial FY25/3 consolidated OP forecast, in addition to a contribution of ¥1,150mn from the +8.7% YoY increase in net sales, the decrease of ¥2,370mn in inventory write-downs in manufacturing cost of sales will drive a strong recovery in OP. Although capex is set to decline -31.9% YoY to ¥3,600mn (mainly for equipment being installed in the new Phenitec Kagoshima Fab clean room), having peaked out last term, depreciation will increase +27.7% YoY to ¥3,000mn as the new clean room has started operations.
- ▶▶ Regarding management policy for FY25/3, the three pillars of sustainability for sustainable development of the Group include: 1) **Environmental Protection** – providing environmentally friendly products and services such as highly energy efficient and power conservation DC/DC, XCL series and power devices, etc., 2) **Social Development** – establishing a work environment where employees and the organization can grow and work with satisfaction, and 3) **Economic Development** – constantly focusing on innovation and strengthening the Group’s competitive edge to enhance corporate value and market presence. Specifically, the TOREX SEMICONDUCTOR Group will promote the following initiatives to increase its presence in the semiconductor market.
  - **TOREX: Early commercialization of medium- and high-voltage products** → High-performance, high-quality products for industrial equipment and automotive equipment applications → micro DC/DC converters, XCL Series DC/DC converters with built-in inductor coils, etc.
  - **Phenitec: Promotion of power device business** → Development of original technologies → SiC devices, Si (power MOSFETs, IGBTs), gallium oxide, etc.

**FY25/3 Consolidated Operating Profit Forecast Factor Analysis (JPY million)**



Source: compiled by SIR from IR results briefing materials.



Performance and Valuations:  
SESSA Smart Charts

- ✓ The current P/B of 0.90x and DY of 3.29% are trading 18% below and 35% above historical averages, respectively.
- ✓ Initial OP guidance for FY25/3 OP of ¥1,000mn puts EV/EBITDA on 5.6x, 34% below its historical average.
- ✓ Structural growth drivers for TOREX include 5G rollout/IoT device proliferation, EV/hybrid ramp, and demand for next-gen power devices to combat climate change.



Analyst's view

10-Year Monthly Share Price, 6M/12M/24M MA, Volume and Valuations Trend



Source: compiled by SIR from SPEEDA historical earnings and price data. Valuations calculated based on LTM and CE.

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