

Company Report

August 22, 2025

Strategy Advisors Co., Ltd.
Akihiko Uchino



Q2 Results: Despite a Challenging Business Environment, Progress is Steady Compared to Company Forecasts, with H1 Operating Profit Reaching a Record High

NICCA CHEMICAL reported higher sales and profits in its 1H FY12/25 financial results (January-June), with sales +4.4% YoY to ¥27.18 billion and operating profit +19.0% to ¥1.94 billion. Both sales and operating profit reached record highs for H1. Progress against the company's full-year forecast was 47.7% for sales and 53.8% for operating profit. While sales were generally in line with the company's expectations, operating profit exceeded expectations. Given the sluggish operations of the entire textile industry due to the imposition of reciprocal tariffs by the United States, this is considered a strong performance. In Q2 (3-months), sales increased 1.2% YoY to ¥13.99 billion and operating profit increased 3.9% YoY to ¥1.08 billion.

In 1H, sales of the mainstay textile chemicals in the Chemicals business were strong until April, but since May overseas textile processing plants have shown signs of slowing down due to the impact of US tariffs. The sales ratio of EHD products steadily increased to 45.0% and progress was made in improving the product mix. In Cosmetics, the pace of recovery in demand for DEMI Cosmetics in Japan was somewhat slow, but this was offset by the strength of the domestic ODM business.

Based on the financial results, the company maintained its full-year forecast for FY12/25, which was sales of ¥57 billion and operating profit of ¥3.6 billion, but revised its exchange rate assumption from ¥150 to ¥147 to the dollar, resulting in a slight upward revision on an actual basis. Meanwhile, taking into account the occurrence of foreign exchange losses, the company revised its initial forecast for ordinary profit downward by ¥300 million and its initial forecast for net profit downward by ¥200 million.

In 1H, attention should be focused on the recovery in demand for textile chemicals in the Chemicals business, as well as further sales expansion for EHD products. In Cosmetics, the focus will be on sales expansion of new domestic products launched in 1H and the pace of recovery at DEMI Korea. However, given that the current business environment is stable and there is little risk of a sudden deterioration in fundamentals, the possibility of achieving the company's forecasts is considered quite high.

Stock Price & Trading Volumes (Past 1-Year)



Source: Strategy Advisors

Key Indicators

Stock Price (8/21/2025)	1,318
52-Week High (3/27/2025)	1,355
52-Week Low (1/16/2025)	1,093
All-Time High (12/28/2015)	1,539
All-Time Low (3/13/2020)	586
Number of Shares Issued (mn)	17.7
Market Capitalization	23.3
EV (¥bn)	25.4
Equity Ratio (FY12/24, %)	54.0
ROE (FY12/24 Actual, %)	8.6
PER (FY12/25 CoE, Times)	8.7
PBR (FY12/24 Actual, Times)	0.6
Yield (FY12/25 CoE, %)	4.6

Source: Strategy Advisors

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The PER based on the company's forecast for FY12/25 is 8.7x, while the PBR based on FY12/24 results is a low 0.6x. If the equity story proposed by Strategy Advisors—namely, "Major transformation of business structure and fundamental overhaul of financial and capital policies" (See [report published on July 16, 2025](#)), is realized, the chemical division will enhance its recognition as a specialty chemical company with EHD products, while the cosmetics division will improve its status as a cosmetics stock through increased market share. As a result, upside potential is expected for the stock price.

Japanese GAAP (Consolidated)

FY	Net Sales	YoY	Operating Profit		Ordinary Profit		Net Profit		EPS	DPS
	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(¥)	(¥)
12/25 H1	27,180	4.4	1,935	19.0	1,752	-12.7	997	-18.1	62.9	30.0
12/24 H2	26,044	7.1	1,626	275.8	2,007	161.8	1,217	327.0	77.0	25.0
12/21	48,474	17.7	2,453	73.2	2,706	64.5	2,595	148.6	164.8	22.0
12/22	50,627	4.4	2,628	7.1	3,132	15.7	2,114	-18.5	134.1	30.0
12/23	50,169	-0.9	2,039	-22.4	2,528	-19.3	1,691	-20.0	107.1	32.0
12/24	54,099	7.8	3,519	72.6	3,976	57.3	2,754	62.9	174.2	52.0
12/25 CoE	57,000	5.4	3,600	2.3	3,400	-14.5	2,400	-12.9	151.5	60.0

Source: Company Data. Compiled by Strategy Advisors.

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1. FY12/25 H1 and Q2 Financial Results Overview

H1 Results - YoY Increase in Revenues & Profit

NICCA CHEMICAL announced its FY12/25 1H financial results on July 31. Sales increased 4.4% YoY to ¥27.18 billion and operating profit increased 19.0% to ¥1.94 billion. Progress against the company's full-year forecast was 47.7% for sales and 53.8% for operating profit. Sales were generally in line with the company's expectations, while operating profit slightly exceeded expectations.

By segment, Chemicals saw sales increase 2.2% and profit increase 13.5%, driven by strong performance from EHD products and other factors contributing to an increase in the operating profit margin. Cosmetics also saw sales increase 9.4% and profit increase 21.2%, driven by strong performance in the ODM business. Overall, sales for both "Chemicals" and "Cosmetics" were roughly in line with the company's initial forecasts, but operating profit for both segments was slightly higher than expected. The company also recorded a one-off non-operating loss of ¥140 million for a syndicated loan arrangement fee.

Q2 (3 Months) - Increased Sales & Profits Both YoY and QoQ

In Q2 (3-months), sales increased 1.2% YoY to ¥13.99 billion and operating profit increased 3.9% YoY to ¥1.08 billion. Compared to Q1 (QoQ), sales increased 6.0% and operating profit increased 26.1%. By segment, there was no significant movement in "Chemicals," with sales increasing slightly and profits decreasing slightly; while "Cosmetics" saw significant increases in both sales and operating profit, driving the overall performance.

No Revisions to Full-Year Sales & Operating Profit Forecasts. But Changes to Exchange Rate Assumptions

Based on the financial results, the company maintained its full-year FY12/25 forecasts of sales of ¥57 billion and operating profit of ¥3.6 billion. However, due to a more stringent revision of its exchange rate assumption from ¥150 to ¥147 per dollar (1H actual: ¥149, 2H assumed: ¥145), this is seen as a slight upward revision on an actual basis. In other words, since operating profit in 1H slightly exceeded the company's forecast, it is inferred that the company has balanced out its 2H exchange rate assumption by revising it to a stronger yen in line with actual conditions. Meanwhile, taking into account an increase in foreign exchange losses, ordinary profit has been revised downward by ¥300 million from the initial forecast and net profit has also been revised downward by ¥200 million.

Bonded Warehouse Construction Resumes in Bangladesh

On 8th August, the company announced that it would resume a bonded warehouse construction project in Bangladesh, which had been postponed. The reason for this decision is that it has now been confirmed that there are no problems with incentives for foreign capital entry, which had been unclear due to political instability. The company sees this as an important step towards entering the local textile processing chemicals market. Construction is scheduled to begin in October 2025, with completion in July 2026 and operations scheduled to begin in January 2027.

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Figure 1. Summary of FY12/25H1 Financial Results (¥mn)

FY	12/23		Full-year	12/24		Full-year	12/25		Previous target	Revised target
	1H	2H		1H	2H		1H			
Net Sales	24,306	25,863	50,169	26,044	28,055	54,099	27,180		57,000	57,000
Cost of Sales	16,727	16,925	33,652	16,747	18,060	34,807	17,300			
Gross Profit	7,579	8,937	16,516	9,296	9,995	19,291	9,879			
Gross Profit Margin	31.2%	34.6%	32.9%	35.7%	35.6%	35.7%	36.3%			
SG&A Expenses	7,146	7,330	14,476	7,669	8,103	15,772	7,943			
Operating Profit	432	1,607	2,039	1,626	1,893	3,519	1,935		3,600	3,600
OP Margin	1.8%	6.2%	4.1%	6.2%	6.7%	6.5%	7.1%		6.3%	6.3%
Non-Operating Income	361	274	635	412	190	602	155			
Non-Operating Expenses	27	119	146	31	114	145	339			
Ordinary Profit	766	1,762	2,528	2,007	1,969	3,976	1,752		3,700	3,400
Ordinary Profit Margin	3.2%	6.8%	5.0%	7.7%	7.0%	7.3%	6.4%		6.5%	6.0%
Extraordinary Income	3	2	5	1	3	4	135			
Extraordinary Losses	1	8	9	1	75	76	3			
Profit before Income Taxes	768	1,757	2,525	2,007	1,897	3,904	1,884			
Income Taxes	417	231	648	644	231	875	726			
Tax Rate	54.3%	13.1%	25.7%	32.1%	12.2%	22.4%	38.5%			
Profit	350	1,526	1,876	1,362	1,667	3,029	1,158			
Profit (Loss) Attributable to Non-Controlling Interests	65	119	184	145	129	274	161			
Profit (Loss) Attributable to Owners of Parent	285	1,406	1,691	1,217	1,537	2,754	997		2,600	2,400
Net Profit Margin	1.2%	5.4%	3.4%	4.7%	5.5%	5.1%	3.7%		4.6%	4.2%

Source: Company Data. Compiled by Strategy Advisors.

Figure 2. Summary of FY12/25 Q2 Financial Results (¥mn)

FY	12/23				12/24				12/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales	11,520	12,786	13,147	12,716	12,228	13,816	13,432	14,623	13,195	13,985
Cost of Sales	7,922	8,805	8,693	8,232	7,959	8,788	8,610	9,450	8,413	8,887
Gross Profit	3,598	3,981	4,454	4,483	4,268	5,028	4,823	5,172	4,782	5,097
Gross Profit Margin	31.2%	31.1%	33.9%	35.3%	34.9%	36.4%	35.9%	35.4%	36.2%	36.4%
SG&A Expenses	3,418	3,728	3,557	3,773	3,680	3,989	3,941	4,162	3,926	4,017
Operating Profit	179	253	897	710	588	1,038	882	1,011	856	1,079
OP Margin	1.6%	2.0%	6.8%	5.6%	4.8%	7.5%	6.6%	6.9%	6.5%	7.7%
Non-Operating Income	138	223	161	113	192	220	-30	220	70	85
Non-Operating Expenses	36	-9	8	111	14	17	20	94	122	217
Ordinary Profit	281	485	1,050	712	766	1,241	832	1,137	804	948
Ordinary Profit Margin	2.4%	3.8%	8.0%	5.6%	6.3%	9.0%	6.2%	7.8%	6.1%	6.8%
Extraordinary Income	1	2	1	1	0	1	1	2	0	135
Extraordinary Losses	0	1	2	6	0	1	3	72	1	2
Profit before Income Taxes	281	487	1,049	708	766	1,241	830	1,067	803	1,081
Income Taxes	225	192	260	-29	376	268	125	106	425	0
Tax Rate	80.1%	39.4%	24.8%	-4.2%	49.1%	21.6%	15.1%	10.0%	52.9%	0.0%
Profit	56	294	789	737	390	972	705	962	378	780
Profit (Loss) Attributable to Non-Controlling Interests	29	36	56	63	71	74	74	55	85	-85
Profit (Loss) Attributable to Owners of Parent	27	258	733	673	318	899	631	906	292	-292
Net Profit Margin	0.2%	2.0%	5.6%	5.3%	2.6%	6.5%	4.7%	6.2%	2.2%	-2.1%

Source: Company Data. Compiled by Strategy Advisors.

2. Earning Trends by Segment

1) Chemicals

Segment Operating Profit Exceeded Expectations at ¥2.11 billion Due to Improved Profit Margins

In 1H results for Chemicals segment, sales increased 2.2% YoY to ¥19.6 billion and segment operating profit increased 13.5% YoY to ¥2.11 billion. EHD products accounted for 45.0% of sales (+0.4% YoY), contributing to improved profit margins. The negative impact of exchange rate fluctuations on sales was ¥460 million YoY. Sales were generally in line with the company's 1H forecast, but segment operating profit exceeded expectations due to strong performance in the highly profitable China-related business.

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Textile Chemicals

In the mainstay Textile Chemicals field, sales of EHD products remained strong, primarily for PFC-free durable water repellent and environmentally friendly process chemicals (including smart dyeing processes). This was due to factors such as factories of major overseas textile clients, particularly in China, continuing to operate at high capacity until April. However, since May, the textile industry as a whole has shown a slight slowdown due to the impact of the US's reciprocal tariff policy. Meanwhile, the Indian business, although small in scale, continues to grow rapidly.

Situation in the Electronic Materials Field

In the electronic materials-related field (including specialty chemicals), the water-based coolants for wafer processing developed (Ohtomo Chemical), one of the EHD products, continues to show a YoY recovery trend. In addition, new business outside of Japan (Taiwan, South Korea, etc.) is showing an upward trend.

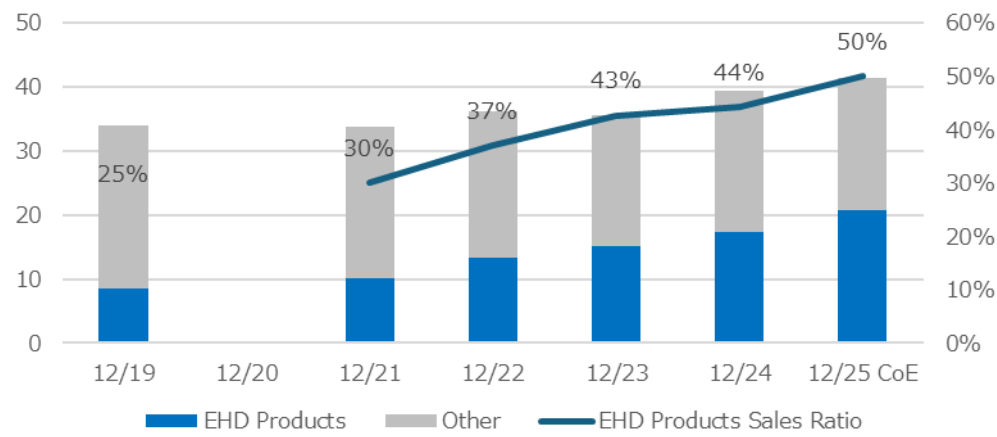
New Businesses Other Than Textiles Are Booming in China

In China, the textile industry, which continued to perform well until April, has slumped since May, but this has been offset by a boom in new businesses outside of textiles. Examples include cleaning agents for auto parts, rubber release agents, coolants for metal cutting and cleaning agents for semiconductors. 2H is also expected to make a further increase in its contribution.

Initiatives to Improve Profitability

As part of its efforts to improve profitability, the company is actively promoting partial price revisions and raw material substitution, etc. Furthermore, although labor costs are on the rise due to business expansion, they are being controlled in line with the company's plan.

Figure 3. EHD Products Sales Composition Ratio (¥bn)



Source: Company Data. Compiled by Strategy Advisors.

2) Cosmetics

Segment Operating Profit Was In line at ¥820 million

For 1H results for Cosmetics segment, sales increased 9.4% YoY to ¥7.34 billion and segment operating profit increased 21.2% YoY to ¥820 million. The negative impact of exchange rate fluctuations on sales was ¥0.09 billion YoY. Sales remained roughly in line with the company's forecast for 1H, with strong performance in the domestic ODM business (Yamada Pharmaceutical) offsetting other negative factors. Meanwhile, segment operating profit exceeded expectations due to increased sales in the ODM business as well as the impact of new products at DEMI Cosmetics in Japan.

Regional Situation

In Japan, DEMI Cosmetics is seeing strong sales of its key product, "FLOWDIA MORE". The company also launched a new summer-only brand, "SUMMER BAR" from February to April, and a new scalp care product, "DEMI DO ASSET" in July. While demand from domestic beauty salons for existing products has bottomed out, a full recovery has yet to be seen.

Yamada Pharmaceutical, which handles domestic ODM, saw a decrease in sales of some large-scale products, but overall sales were strong due to growth in new ODM customers (e-commerce specialized hair care products), leading the segment as a whole. Although South Korea (DEMI Korea) was hit by sluggish demand across the industry, sales of hair care products were strong, increasing by 22% YoY.

Progress of Measures

The company is currently increasing its sales staff and strengthening its activities to acquire new salons and expand its share of existing salon customers. These strategic cost increases are proceeding as planned. User awareness is also steadily increasing, starting with its owned media, "DEMI LABO." In June, DEMI Cosmetics discovered that a mixture of mekabu, hijiki extract and natto extract has the effect of suppressing scalp itching. The company aims to develop scalp and hair products by incorporating these ingredients.

Figure 4. Segment Trends (Half Year, ¥mn)

	12/23		12/24		12/25
	H1	H2	H1	H2	H1
Net Sales	24,306	25,863	26,044	28,055	27,180
Chemicals Business	17,160	18,445	19,186	20,192	19,602
Cosmetics Business	6,823	7,154	6,707	7,564	7,337
Others	322	264	150	299	240
Ordinary Profit	432	1,607	1,626	1,893	1,935
Chemicals Business	444	1,359	1,856	1,868	2,106
Cosmetics Business	850	1,194	675	1,147	818
Others	58	6	-9	67	39
Cancellation, etc.	-920	-951	-895	-1,190	-1,028
OP Margin (%)	1.8%	6.2%	6.2%	6.7%	7.1%
Chemicals Business	2.6%	7.4%	9.7%	9.3%	10.7%
Cosmetics Business	12.5%	16.7%	10.1%	15.2%	11.1%

Source: Company Data. Compiled by Strategy Advisors.

Figure 5. Trends by Segment (Quarterly, ¥mn)

	12/23				12/24				12/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales	11,520	12,786	13,147	12,716	12,228	13,816	13,432	14,623	13,195	13,985
Chemicals Business	8,310	8,850	9,195	9,250	9,043	10,143	9,897	10,295	9,730	9,872
Cosmetics Business	3,076	3,747	3,874	3,280	3,130	3,577	3,450	4,114	3,300	4,037
Others	133	189	78	186	53	97	85	214	163	77
Ordinary Profit	179	253	897	710	588	1,038	882	1,011	856	1,079
Chemicals Business	237	207	610	749	821	1,035	957	911	1,078	1,028
Cosmetics Business	386	464	723	471	239	436	478	669	262	556
Others	16	42	-8	14	-4	-5	4	63	8	31
Cancellation, etc.	-460	-460	-428	-523	-467	-428	-557	-633	-493	-535
OP Margin (%)	1.6%	2.0%	6.8%	5.6%	4.8%	7.5%	6.6%	6.9%	6.5%	7.7%
Chemicals Business	2.9%	2.3%	6.6%	8.1%	9.1%	10.2%	9.7%	8.8%	11.1%	10.4%
Cosmetics Business	12.5%	12.4%	18.7%	14.4%	7.6%	12.2%	13.9%	16.3%	7.9%	13.8%

Source: Company Data. Compiled by Strategy Advisors.

3. Business Outlook and Progress of Medium to Long-Term Growth Scenario

FY12/25 Company Forecast Slightly Revised Downward for Ordinary Profit and Below

The company's full-year forecast for FY12/25 remains unchanged at sales of ¥57 billion and operating profit of ¥3.6 billion, with slight downward revisions to ordinary profit and below. To achieve the forecast, sales in 2H must exceed ¥19.82 billion, an increase of ¥2.64 billion from the previous year, and operating profit must exceed ¥1.66 billion, a decrease of ¥270 million from the previous year. Considering the current business environment, these figures are considered to be fully achievable.

Chemicals 2H Outlook

In the "Chemicals" segment, although customer factory operations in the textile chemicals segment have been sluggish since May, there are currently no signs of further decline in demand. Therefore, the focus will be on when excessive concerns about the impact of the US reciprocal tariff policy will subside and demand will recover. However, the comment made at the earnings briefing that signs of recovery have been seen since July is reassuring. EHD Products is likely to continue growing steadily, and we will be paying attention to the contribution of water-based polyurethane resins, in addition to the strong performance of PFC-free durable water repellents and environmentally friendly process chemicals (including smart dyeing processes).

Cosmetics 2H Outlook

In Cosmetics, the effect of new product launches at the domestic DEMI Cosmetics is expected to fully contribute in 2H. A gradual recovery is also expected for existing products. Domestic ODM (Yamada Pharmaceutical) saw some demand brought forward in 1H, so there is a possibility of a temporary slowdown in 2H. However, there is not expected to be a major change in the trend of demand growth. In South Korea (DEMI Korea), demand across the industry was sluggish in 1H due to unstable political conditions, but it is likely to show a gradual recovery in 2H.

Update on "Measures to Achieve Management That Takes Capital Costs & Stock Prices into Consideration"

On the same day as the financial results announcement, the company released an "Update on Measures to Achieve Management Aware of Capital Costs and Stock Prices". This is an updated version of the press release explaining the "2035 Medium to Long-Term Group Scenario" formulated in July 2024. The contents consist of "The Company's Vision for 2035 (Figure 6)" and "Basic Policy for Initiatives to Improve Low PBR". The latter basic policy further lists the following 3-measures: (1) business profitability reform, (2) review of financial and capital policies and (3) strengthening SR&IR. The current progress on each measure is listed below. The next medium-term management plan is scheduled to be announced in February 2026.

Figure 6. Medium to Long-Term Outlook (FY2035)

	Medium-Term Business Plan (Announced in February 2023)			Medium- to Long-term (2030) Business Structure			Aiming to Achieve
	FY12/2025			FY12/2030			FY12/2035
(¥bn)	Corporate	Chemicals	Cosmetics	Corporate	Chemicals	Cosmetics	Corporate
Net Sales	57.0	40.0	17.0	70.0	45.0	25.0	75.0
(Composition Ratio)	-	70%	30%	-	64%	36%	-
Operating Profit	4.0	2.0	2.0	7.0	3.5	3.5	-
(Composition Ratio)	-	50%	50%	-	50%	50%	-
OP Margin	7.0%	5.0%	11.8%	10.0%	8.0%	14.0%	More than 10.0%
ROE	8.0%	-	-	-	-	-	More than 10.0%
ROIC	7.0%	5.0%	12.0%	-	-	-	More than 8.0%
PBR	-	-	-	-	-	-	More than 1.0x

Source: Company Data. Compiled by Strategy Advisors.

(1) Business Profitability Reform – Highlight is the New “Cosmetics” Factory

In Chemicals, the company is promoting a strategy of focusing on EHD products, and the sales ratio of EHD products in 1H of FY12/25 was 45%, steadily expanding toward the target (75% in FY12/30). In Cosmetics, construction of a new factory (tentatively named Fukui Smart Factory) began in April 2013, with full-scale operation scheduled for 2027. The factory is located in Inatsu-cho, Fukui City (0.5 km from the Fukui Interchange on the Hokuriku Expressway), on a site of 39,772 m² with a total floor area of approximately 23,000 m². Production capacity is expected to triple from the current level. Automation will be introduced to reduce labor and energy consumption, and filling, packaging and raw material receiving will also be automated. The company envisions a smart factory that will achieve 1.5x the labor productivity and reduce inventory turnover by more than half compared to the previous model.

(2) Financial/Capital Policy – Review Based on Fundraising for New Factory

In order to make growth investments that utilize financial leverage, the company announced in May that it had arranged a syndicated loan of ¥14 billion out of the capital investment of approximately ¥19.5 billion (maximum subsidy amount: ¥4,999,910,000) for the new Cosmetics factory. Additionally, as part of its efforts to reduce unnecessary assets, it sold land of NICCA USA in Q2 (April-June) (receiving a sales gain of ¥130 million as extraordinary income).

(3) Strengthening SR&IR

The company's shareholder return policy is based on stable and progressive dividends. It will introduce a DOE target of 3% within the next two to three years and will consider continuously increasing it thereafter. Based on this policy, the company's forecast for FY12/25 also calls for maintaining an annual dividend of ¥60 per share. In addition to actively holding information sessions for individual investors, the company is also working to strengthen dialogue with institutional investors.

4. Valuation and Stock Price Outlook

Current Stock Price Level

NICCA CHEMICAL's stock price has been on an upward trend since the announcement of its full-year financial results on February 14, 2025, hitting a year-to-date high of ¥1,394 in intraday trading on March 28. Since April, the stock price has fallen due to uncertainty over bilateral tariff negotiations with the Trump administration, briefly falling below ¥1,200. However, the announcement of Q1 financial results on May 1 confirmed solid performance, and the stock price has since hovered around ¥1,300. From late June to early July, the stock price weakened slightly to around ¥1,250 but gradually recovered and has remained around ¥1,300 since the announcement of Q2 financial results. However, the issue of the company's low valuation remains unresolved. While there is growing recognition that the company's performance is progressing favorably against its FY12/25 forecast, the realization of its equity story appears not to have been fully reflected in the stock price rise.

Two Major Challenges Are Currently Underway to Realize the Equity Story

Below we reiterate Strategy Advisors' view of the company's equity story, which was included in [the report published on July 16, 2025](#). We believe that an equity story is made up of a "realizable and precise business strategy" and an "exciting dream". Furthermore, an equity story must make the most of the difficulty of imitation cultivated based on the company's DNA. Currently, NICCA CHEMICAL is taking on two major challenges, and is expected to meet both a) and b) simultaneously. We define NICCA CHEMICAL's equity story as "Major Transformation of Business Structure and Fundamental Overhaul of Financial and Capital Policies."

First - "Major Transformation of Business Structure"

First, let me explain the "major transformation of our business structure." In Chemicals, NICCA plans to focus on EHD Products and transition to a growth-oriented, high-value-added business. EHD Products is a collective term (as defined by NICCA CHEMICAL) for products for the environment, health, and digital fields. Demand for high-value-added products, such as PFC-free durable water repellents, environmentally friendly process chemicals, and water-based polyurethane resins, is particularly strong in the environment field. NICCA CHEMICAL, with its high technological potential in new fields, is enjoying favorable conditions.

The company plans to increase the proportion of EHD Products in Chemicals sales from 44% in FY12/24 to 75% by FY12/30. If they can introduce high-value-added EHD Products and capture a large share in niche markets where demand is expected to rapidly expand, they will be able to expand their recognition as a specialty chemicals company in the broader sense. In cosmetics (hair care products, colorants, etc.), they plan to increase its current market share, which remains low in Japan, its main battlefield, by expanding production capacity. It also aims to further develop overseas markets and expand its business.

Since it has already been able to differentiate its products for professionals (beauty salons), if the bottlenecks that come with increased capacity are eliminated and more aggressive sales promotion activities become possible, it is expected that growth will inevitably increase.

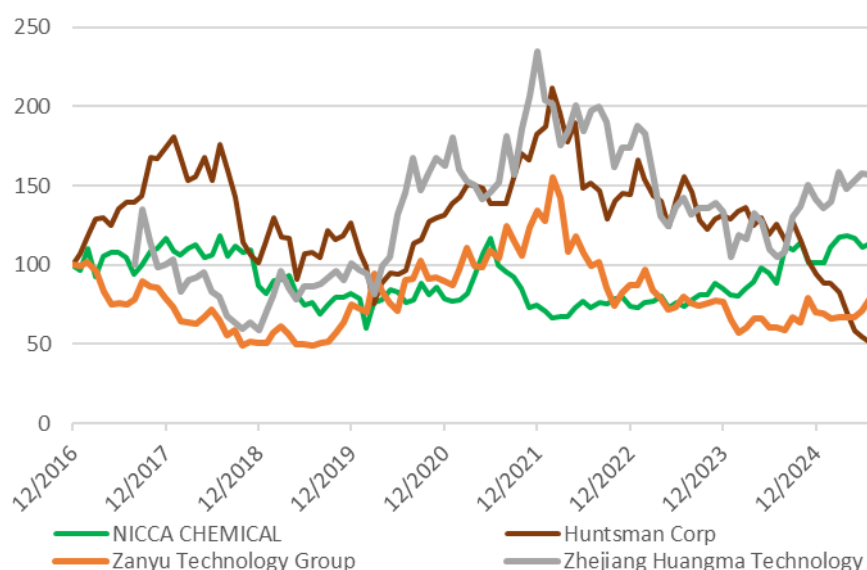
Second - Fundamental Shift in Financial and Capital Policies

Second, there has been a fundamental shift in financial and capital policies. NICCA CHEMICAL's stock valuation is low, both in terms of PER and PBR. As mentioned in the previous chapter, the company's basic policies for improving its low PBR are (1) business profitability reform, (2) review of financial and capital policies and (3) strengthening SR&IR. Its financial and capital strategies target a ROE of 10% or higher. It also places emphasis on WACC (currently estimated at 6% by the company) and aims to improve ROIC while utilizing financial leverage. The company's shareholder return policy has also undergone significant changes. Dividends per share increased from ¥10 in FY12/20 to ¥52 in FY12/24. The company forecasts an increase to ¥60 in FY12/25 (a dividend payout ratio of 39.6%).

Comparison Among Global Surfactant Companies

We compare the company's stock price trends with those of global surfactant companies. Competitor Huntsman, a US company, performed well from 2017 to 2018 due to favorable results, but its performance has rapidly deteriorated due to recent poor performance, including an operating loss in FY12/24. The performance of the two Chinese companies (Zanyu Technology Group and Zhejiang Huangma Technology) is highly volatile, but Zhejiang has a slight advantage. Both companies' performance has been somewhat sluggish since the beginning of 2022. While it is difficult to evaluate the company's performance relative to competitors in Japan, it appears that expectations for improved profitability due to the increase in the proportion of EHD products have not been fully factored in. Meanwhile, earnings growth has stabilized since FY12/24 and the company's performance has been relatively strong recently.

Figure 7. NICCA CHEMICAL and Global Surfactant Companies' Stock Price Comparisons (December 2016 End = 100)

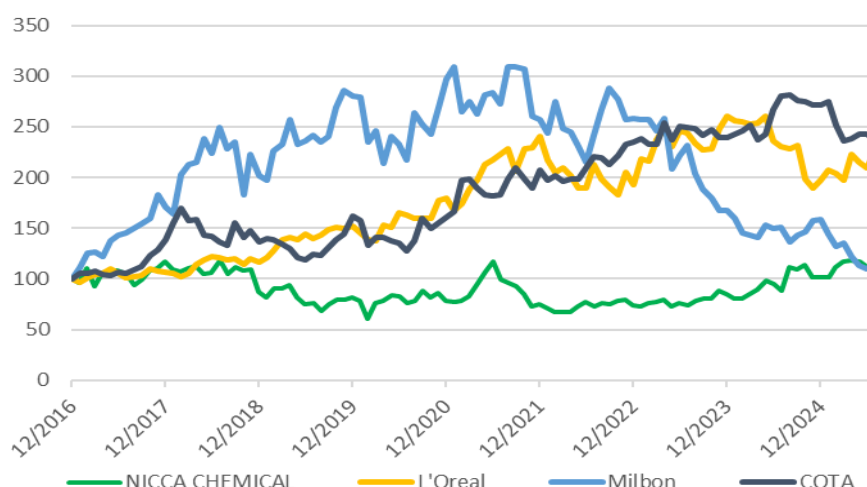


Source: Company Data. Compiled by Strategy Advisors.

Comparison Within Professional Cosmetics Companies

Next, we will compare the company's stock price trends with those of professional cosmetics companies. France's L'Oreal is a major company that handles cosmetics not only for professionals but also for a wide range of other products, and is showing strong performance thanks to stable growth in its earnings. Milbon, the leading domestic cosmetics company, boasts a high market share and a stable corporate structure, and performed favorably until 2018, when the domestic market as a whole was robust. However, its performance has stagnated since 2020 and has shown signs of slowing down in recent years. COTA is a smaller company than the company's "Cosmetics" segment, but has demonstrated stable, high profit growth over the past 10 years. The company's "Cosmetics" segment's operating profit margin has been declining due to the upcoming start-up of a new factory and its low recognition as a cosmetics company has not yet been resolved. However, its earnings growth has stabilized since FY12/24 and its recent relative performance has shown signs of recovery.

Figure 8. NICCA CHEMICAL and Professional Cosmetics Companies' Stock Price Comparisons (December 2016 End = 100)



Source: Company Data. Compiled by Strategy Advisors.

NICCA CHEMICAL's PER

The company's PER has generally remained in the range of 7-12x, except for FY12/20, when the company's EPS forecast was low due to the spread of COVID-19. However, since 2024, it has remained below 10x and currently remains in the range of around 8.5-9.0x.

NICCA CHEMICAL's PBR

Meanwhile, PBR has remained below 1.0x since 2019. Currently, there are signs of slight improvement in PBR, but this has not led to a full-scale increase. Incidentally, ROE improved from 11.3% in FY12/21 to 8.0% in FY12/22, 5.8% in FY12/23 and 8.6% in FY12/24, but fell to 6.0% in FY12/25 1H due to a decrease in net income caused by non-operating foreign exchange losses.

Profitability Comparison

Next, we will compare the company's profitability and valuation with those of its competitors. Compared to global surfactant competitors, the company's ROE (based on FY12/24 results) of 8.6% is lower than that of Zhejiang Huangma Technology, but higher than Huntsman and Zanyu Technology Group. Meanwhile, compared to competitors in professional cosmetics, the company lags behind L'Oreal, Milbon, and COTA. However, because the company's ROE in "Chemicals" is relatively low, it is assumed that the company is not significantly lower than domestic competitors in the "Cosmetics" category.

Stock Valuation Comparison

In terms of stock price valuation, when comparing PBR with global surfactant competitors, the company's 0.6x is the same as Huntsman, while the two Chinese companies are both above 1.0x, putting it at a disadvantage. Furthermore, when comparing P/E with competitors in professional cosmetics, Milbon has a 15.8x and COTA has a 28.1x, significantly higher than the company. PBR comparison also shows the company lagging far behind, with L'Oreal at 6.8x, COTA at 3.4x, and Milbon at 1.7x. In order to escape from its low valuation situation, the key point going forward will be improving ROE over the medium to long term.

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Figure 9. Profitability Comparison with Competitors

Company	Code	FY	OP Margin	ROE	ROIC (Invested Capital)	EBITDA Margin	Equity Ratio	Net D/E Ratio
			%	%	%	%	%	
NICCA CHEMICAL	4463	24/12	6.5%	8.6	6.0	10.6	54.0	-0.02
Huntsman Corp	HUN	24/12	1.2%	-6.1	-0.4	5.5	41.6	0.64
Zanyu Technology Group	002637	24/12	3.1%	3.6	3.2	5.1	47.5	0.55
Zhejiang Huangma Technology	603181	24/12	17.7%	13.6	11.7	24.4	80.3	-0.04
L'Oreal	OR	24/12	20.0%	20.6	16.8	24.2	58.8	0.13
Milbon	4919	24/12	13.3%	10.6	10.3	17.8	82.9	-0.28
COTA	4923	25/3	19.5%	11.7	11.7	23.5	75.3	-0.46
Average			11.6%	9.0	8.5	15.9	62.9	0.07

Source: Company Data. Compiled by Strategy Advisors.

Figure 1 Comparison with Competitors

Company	Code	FY	Stock Price (Aug 21)	Mkt Cap.	PER CoE	PBR Actual	EV/EBIT DA	Dividend Yield CoE	Payout Ratio CoE	ROE CoE
			(¥)	(¥bn)	(x)	(x)	(x)	%	%	%
NICCA CHEMICAL	4463	24/12	1,318	23.3	8.7	0.6	4.4	4.6	40	7.1
Huntsman Corp	HUN	24/12	1,529	263.2	NM	0.6	NM	NM	NM	NA
Zanyu Technology Group	002637	24/12	227	100.4	NM	1.2	NM	NM	NM	NA
Zhejiang Huangma Technology	603181	24/12	314	185.1	NM	2.7	NM	NM	NM	NA
L'Oreal	OR	24/12	69,912	37,354.7	NM	6.8	NM	NM	NM	NA
Milbon	4919	24/12	2,528	83.7	15.8	1.7	7.5	3.5	55	10.7
COTA	4923	25/3	1,385	45.6	28.1	3.4	17.7	1.4	41	12.2
Average					17.5	2.4	9.9	3.2	45	10.0

Note: ROE (company forecast) is calculated by multiplying the company's forecast net profit for the current period by the equity at the end of the most recent quarter. EBITDA for EV/EBITDA is calculated by adding the company's forecast operating profit to the most recent actual depreciation and amortization expense.

Source: Company Data. Compiled by Strategy Advisors.

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Figure 11. Consolidated Income Statement (¥mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25 CoE
Net Sales	48,493	50,188	46,191	41,179	48,474	50,627	50,169	54,099	57,000
Cost of Sales	32,870	33,856	30,990	27,410	32,431	34,456	33,652	34,807	
Gross Profit	15,622	16,332	15,201	13,768	16,043	16,171	16,516	19,291	
Gross Profit Margin	32.2%	32.5%	32.9%	33.4%	33.1%	31.9%	32.9%	35.7%	
SG&A Expenses	13,506	14,030	13,805	12,352	13,589	13,543	14,476	15,772	
Operating Profit	2,116	2,301	1,395	1,416	2,453	2,628	2,039	3,519	3,600
OP Margin	4.4%	4.6%	3.0%	3.4%	5.1%	5.2%	4.1%	6.5%	6.3%
Non-Operating Income	394	376	381	535	485	614	635	602	
Non-Operating Expenses	338	248	442	305	232	110	146	145	
Ordinary Profit	2,171	2,430	1,334	1,645	2,706	3,132	2,528	3,976	3,400
Ordinary Profit Margin	4.5%	4.8%	2.9%	4.0%	5.6%	6.2%	5.0%	7.3%	6.0%
Extraordinary Income	184	3,904	357	150	816	147	5	4	
Extraordinary Losses	69	183	89	25	61	11	9	76	
Profit Before Income Taxes	2,287	6,151	1,602	1,770	3,461	3,269	2,525	3,904	
Income Taxes	695	2,377	502	600	738	1,007	648	875	
Tax Rate	30.4%	38.6%	31.3%	33.9%	21.3%	30.8%	25.7%	22.4%	
Profit	1,592	3,774	1,099	1,170	2,723	2,262	1,876	3,029	
Profit (Loss) Attributable to Non-Controlling Interests	203	1,315	199	125	127	147	184	274	
Profit (Loss) Attributable to Owners of Parent	1,388	2,458	900	1,044	2,595	2,114	1,691	2,754	2,400
Net Profit Margin	2.9%	4.9%	1.9%	2.5%	5.4%	4.2%	3.4%	5.1%	4.2%
EPS (¥)	88.5	156.7	57.3	66.4	164.8	134.1	107.1	174.2	151.5

Source: Company Data. Compiled by Strategy Advisors.

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Figure 12. Consolidated Balance Sheet (¥mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
Current Assets	28,333	29,947	26,258	25,977	27,562	29,855	31,077	34,221
Cash & Deposits	7,987	9,234	6,311	7,962	7,659	7,052	8,344	10,726
Notes & accounts Receivable	10,774	10,363	9,831	9,026	9,618	10,435	11,029	11,996
Inventories	7,235	8,827	8,975	8,025	9,330	11,405	10,875	10,504
Allowance for Doubtful Accounts	-13	-6	-4	-2	0	-1	-10	-13
Others	2,350	1,529	1,145	966	955	964	839	1,008
Non-current Assets	26,761	26,649	28,795	27,197	26,970	26,266	25,841	28,144
Tangible Assets	22,758	23,762	25,208	23,726	23,277	22,411	21,889	24,002
Intangible Assets	546	468	351	304	298	399	498	510
Investment & Other Assets	3,456	2,418	3,234	3,166	3,394	3,455	3,452	3,631
Investment Securities	1,855	1,521	1,499	1,457	1,706	1,716	1,771	1,966
Deferred Tax Assets	976	262	1,022	951	980	1,022	957	936
Others	625	635	713	758	708	717	724	729
Total Assets	55,094	56,597	55,053	53,175	54,533	56,122	56,918	62,366
Current Liabilities	28,102	20,986	19,184	17,361	16,702	15,987	15,776	17,143
Notes & Accounts Payable	6,110	6,548	4,996	5,325	6,619	6,544	5,895	6,181
Interest-Bearing Debt	17,680	9,826	10,315	8,033	5,662	5,168	5,618	5,668
Other	4,312	4,612	3,873	4,003	4,421	4,275	4,263	5,294
Non-current liabilities	5,377	12,046	13,455	12,647	10,506	9,742	8,320	8,668
Interest-Bearing Debt	1,495	8,055	9,215	8,267	6,038	5,170	3,652	4,234
Deferred Tax Liabilities	0	0	0	0	0	0	0	15
Others	3,882	3,991	4,240	4,380	4,468	4,572	4,668	4,419
Net Assets	21,614	23,565	22,414	23,166	27,323	30,392	32,822	36,553
Total Shareholders' Equity	17,711	19,921	20,404	21,271	23,667	25,407	26,566	28,703
Share Capital	2,898	2,898	2,898	2,898	2,898	2,898	2,898	2,898
Capital Surplus	3,054	3,054	2,928	2,928	2,928	2,951	2,951	2,960
Retained Earnings	13,237	15,445	16,058	16,909	19,284	21,006	22,145	24,251
Total Accumulated Other Comprehensive Income	1,211	213	-223	-251	1,383	2,553	3,567	4,946
Non-Controlling Interests	2,691	3,429	2,233	2,146	2,272	2,432	2,689	2,903
Total Liabilities and Net Assets	55,094	56,597	55,053	53,175	54,533	56,122	56,918	62,366
Interest-Bearing Debt	19,175	17,882	19,530	16,301	11,700	10,338	9,270	9,902
Equity Ratio	34.3%	35.6%	36.7%	39.5%	45.9%	49.8%	52.9%	54.0%
D/E Ratio	1.1	0.9	1.0	0.8	0.5	0.4	0.3	0.3

Source: Company Data. Compiled by Strategy Advisors.

Figure 13. Consolidated Cash Flow Statement (¥mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
Cash Flows from Operating Activities								
Income Before Income Taxes	2,287	6,151	1,602	1,770	3,461	3,269	2,525	3,904
Depreciation	1,860	1,982	2,234	2,768	2,500	2,417	2,269	2,224
Decrease (Increase) in Trade Receivables	411	130	570	759	-115	-494	-308	-603
Decrease (Increase) in Inventories	691	-1,790	-175	905	-977	-1,732	827	637
Increase (Decrease) in Trade Payables	758	564	-1549	357	998	-279	-808	68
Others	-1,028	-4,311	-1,578	-80	-1,145	-864	-419	-197
Total	4,979	2,726	1,104	6,479	4,722	2,317	4,086	6,033
Cash Flows from Investing Activities								
Purchase of Property, Plant & Equipment	-4,554	-3,948	-3,801	-1,334	-1,443	-1,347	-1,148	-3,626
Proceeds from Sale of Property, Plant & Equipment	287	4,330	64	81	818	69	37	31
Purchase of Investment Securities	-174	-20	-19	-21	-17	-115	-15	-17
Proceeds from Sale of Investment Securities	137	18	13	21	212	2	4	0
Others	119	-1,692	1,604	-296	-564	506	246	-1,525
Total	-4,185	-1,312	-2,139	-1,549	-994	-885	-876	-5,137
Cash Flows from Financing Activities								
Net Increase/Decrease in Short-Term Interest-Bearing Debt	2,198	-9,785	490	-2,169	-2,118	770	-200	200
Net Increase/Decrease in Short-Term Interest-Bearing Debt	-590	8,560	1,135	-1,053	-2,458	-2,168	-868	432
Proceeds from the Issuance of Shares	0	3	151	16	21	201	20	0
Payments for Purchase of Treasury Shares	-1	0	-131	0	0	-183	0	0
Dividends Paid	-484	-690	-1,031	-325	-418	-534	-646	-849
Others	-18	-16	-843	-95	-51	-48	-46	-111
Total	1,105	-1,928	-229	-3,626	-5,024	-1,962	-1,740	-328
Effect of Exchange Rate Change on Cash and Cash Equivalents	253	-267	-9	-45	479	419	245	335
Net Increase (Decrease) in Cash & Cash Equivalents	2,152	-781	-1,274	1,258	-816	-110	1,714	903
Cash and Cash Equivalents at Beginning of Period	5,834	7,987	7,206	5,931	7,190	6,373	6,263	7,977
Cash and Cash Equivalents at End of Period	7,987	7,206	5,931	7,190	6,373	6,263	7,977	8,881
Free Cash Flow	794	1,414	-1,035	4,930	3,728	1,432	3,210	896

Source: Company Data. Compiled by Strategy Advisors.

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Figure 14. Key Indicators

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
EPS (¥)	88.5	156.7	57.3	66.4	164.8	134.1	107.1	174.2
BPS (¥)	1,206.1	1,283.0	1,283.9	1,335.6	1,589.4	1,771.7	1,906.6	2,125.6
DPS (¥)	16.0	18.0	16.0	10.0	22.0	30.0	32.0	52.0
Dividend Payout Ratio	18.1%	11.5%	27.9%	15.1%	13.3%	22.4%	29.9%	29.9%
# of Shares Outstanding at the End of the Period ('000)	17,710.0	17,710.0	17,710.0	17,710.0	17,710.0	17,710.0	17,710.0	17,710.0
# of Treasury Shares ('000)	2,020.1	2,016.1	1,991.3	1,972.3	1,948.4	1,928.4	1,905.0	1,879.1
# of Shares of Treasury Stock ('000)	15,689.9	15,693.9	15,718.7	15,737.7	15,761.6	15,781.6	15,805.0	15,830.9
Average # of Shares Outstanding During the Period ('000)	15,690.7	15,691.1	15,709.8	15,729.2	15,749.9	15,772.8	15,795.2	15,817.6
Equity Ratio	34.3%	35.6%	36.7%	39.5%	45.9%	49.8%	52.9%	54.0%
Interest-Bearing Debt (¥mn)	19,175	17,882	19,530	16,301	11,700	10,338	9,270	9,902
Net Interest-Bearing Debt (¥mn)	11,188	8,648	13,219	8,339	4,041	3,286	926	-824
D/E Ratio	1.08	0.90	0.96	0.77	0.49	0.41	0.35	0.34
Net D/E Ratio	0.59	0.43	0.66	0.40	0.16	0.12	0.03	-0.02
OP Margin	4.4%	4.6%	3.0%	3.4%	5.1%	5.2%	4.1%	6.5%
EBITDA (¥mn)	4,056	4,292	3,635	4,187	4,953	5,046	4,308	5,743
EBITDA Margin	8.2%	8.5%	7.9%	10.2%	10.2%	10.0%	8.6%	10.6%
ROE	7.8%	12.6%	4.5%	5.1%	11.3%	8.0%	5.8%	8.6%
ROIC (Invested Capital)	3.7%	-0.2%	2.1%	2.0%	4.4%	4.1%	3.4%	6.0%
# of Employees (People)	1,472	1,479	1,496	1,500	1,454	1,472	1,500	1,531

Source: Company Data. Compiled by Strategy Advisors.

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Strategy Advisors

Address: Central Building 703, 1-27-8 Ginza, Chuo-Ku, Tokyo 104-0061



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