COMPANY RESEARCH AND ANALYSIS REPORT

SAKAI HEAVY INDUSTRIES, LTD.

6358

Tokyo Stock Exchange Prime Market

25-Dec.-2025

FISCO Ltd. Analyst
Noboru Terashima

FISCO Ltd.
https://www.fisco.co.jp

Contents

Summary

Operating profit decreased significantly in 1H FY3/26 but ended up exceeding the initial forecast

SAKAI HEAVY INDUSTRIES, LTD. <6358> (hereafter, also “the Company”) is a manufacturer specializing in road rollers for road paving and other road construction equipment. Its market share in Japan is 60% to 70%, and in recent years, it has been focusing on developing overseas markets, especially in North America and Southeast Asia.

1. Overview of 1H FY3/26 results

For the 1H FY3/26 consolidated results, net sales were ¥12,980mn (down 9.8% year on year [YoY]), operating profit was ¥684mn (down 44.4%), ordinary profit was ¥648mn (down 45.0%), and profit attributable to owners of parent was ¥431mn (down 66.9%). The extent of the decrease in profit attributable to owners of parent was significant due to the absence of the extraordinary profit (¥288mn gain on sale of investment securities) recorded in 1H of the previous fiscal year. By region, net sales decreased 4.8% in Japan as mainstay roller sales bottomed out but sales of road maintenance equipment slowed down. Sales also decreased 14.0% overseas. In North America, as high tariffs were introduced amid ongoing inventory adjustment at dealers, sales slowed, declining 17.6%. In Asian markets, net sales declined 9.9% as sales in Vietnam and Malaysia bottomed out but sales in Indonesia and China were sluggish. Along with the decrease in sales, the gross margin dropped 1.5 percentage points (pp) due to US tariffs and ongoing rises in purchasing costs. Operating profit also decreased significantly, but it was within the expected range and exceeded the initial forecast (operating profit of ¥550mn). Furthermore, given that it was at a high level in 1H FY3/25, this should not necessarily be considered a negative result.

2. FY3/26 forecasts

For the FY3/26 consolidated results, the Company forecasts net sales of ¥28,000mn (up 0.5% YoY), operating profit of ¥1,250mn (down 21.1%), ordinary profit of ¥1,250mn (down 16.4%), and profit attributable to owners of parent of ¥900mn (down 37.3%). Net sales were revised downward from the initial forecast (¥30,000mn), but the profit margin will improve due to factors such as the effects of earnings structure reforms and the initial profit forecast remains unchanged (assuming an exchange rate of ¥145 to US$1 and that US tariff costs are ¥200mn in 2H). The Company forecasts that the global construction equipment market will remain in an adjustment phase, but signs of bottoming out may be seen.

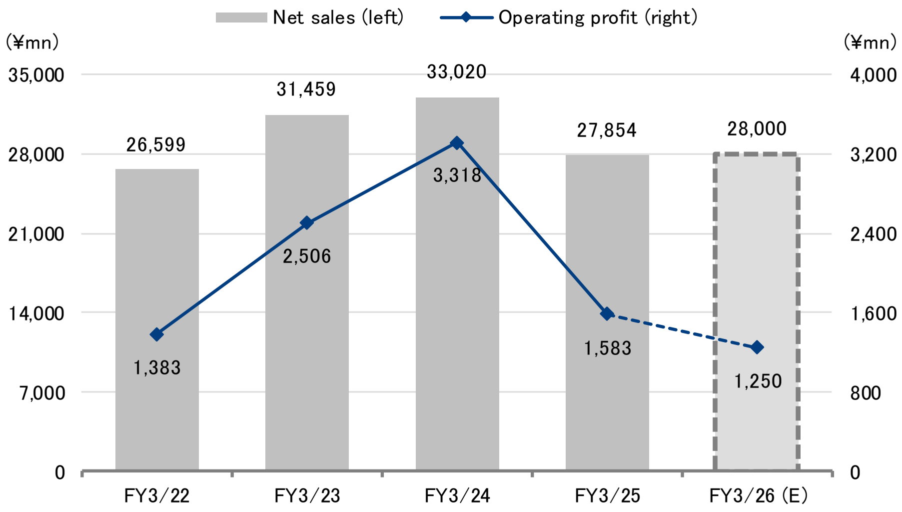
3. Medium-term growth strategy

The Company released its Medium-Term Management Policy which runs through FY3/26, in June 2021. In terms of ultimate targets, the Company stated that it aims to achieve net sales of ¥30.0bn, operating profit of ¥3.1bn, and return on equity (ROE) of 8.0% in FY3/26 and maintain a stable dividend payout ratio of 50%. While net sales and operating profit had already surpassed the targets in FY3/24, the Company forecasts decreased sales and profit in FY3/26, so at present, these numerical targets remain unchanged. Furthermore, due to sluggish performance in FY3/26, ROE is expected to decrease to 3.0%, and in accordance with its basic policy (returns with dividend on equity [DOE] of 3% if ROE is 3% to 6%), the Company plans to pay a full-year dividend of ¥105.0. While it is treading water in terms of results at the moment, the Company has announced a clear capital policy to improve ROE, and its commitment to conducting shareholder returns based on this is commendable.

Key Points

- Japan's leading manufacturer of road rollers with a long history. Domestic market share is 60% to 70%, and the Company aims to grow by expanding its overseas market share
- In 1H FY3/26, while operating profit decreased 44.4% YoY, it exceeded the initial forecast. For the full year, a 21.1% decline in operating profit is expected
- Plans to pay an annual dividend of ¥105.0 in FY3/26 in accordance with its medium-term management policy

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

A leading manufacturer of road rollers with a domestic market share of 60% to 70%

A specialized manufacturer of road construction equipment such as road rollers for paving roads, the Company is Japan's leading manufacturer with a domestic share of 60% to 70%. In 1970, the Company established a joint venture in Indonesia as part of the Company's effort to expand business overseas at an early stage, and as of the end of FY3/25, the Company has four domestic subsidiaries and four overseas subsidiaries (US, China, two in Indonesia). The Company listed its shares on the Second Section of the Tokyo Stock Exchange (TSE) in 1964, and its shares were reclassified to the First Section of TSE in 1981. In conjunction with the TSE's market recategorization in April 2022, it moved to the Prime Market.

Business overview

Will seek growth by offering high added value domestically and expanding overseas market share

1. Business description

The Company's main business is the manufacture and sale of road rollers used in road paving and other applications, and road roller-related net sales account for approximately 95% of all net sales. Also, the Company's corporate philosophy is to "Contribute to the social project of global land development through the road construction equipment business." In terms of net sales by region* in FY3/25, net sales in Japan were ¥12,000mn (43.1% of total net sales), net sales in North America were ¥7,574mn (27.2%), net sales in Asia were ¥7,021mn (25.2%), and net sales in other regions totaled ¥1,257mn (4.5%).

* Net sales by region classified by customer location, which differs from the reportable segment "Net Sales by Location" in the financial results.

2. Features and strengths

The Company's features and strengths are as follows.

(1) Long history as a specialized manufacturer

The Company's greatest strength is its long history as a specialized manufacturer of road rollers and other road construction equipment. In other words, by deploying a global niche strategy through selection and concentration, the Company has increased its level of expertise and accumulated its own unique technologies.

(2) Technological capabilities

When it comes to hardening and paving roads, the necessary pressure, torque, and other variables (compaction technology) differ depending on the specific land's quality, soil, and other conditions. Therefore, roadwork companies often have a need for different types of road rollers to match individual worksites (ground, etc.). Because the Company has been a specialized manufacturer of road construction equipment for many years, it boasts a high level of technological capabilities with respect to such compaction technology, and it is not easy for its competitors to catch up to it.

(3) Credibility

Credibility backed by extensive worksite experience and a track record is also a strength of the Company. The technology to ensure underground compaction quality is a black box and is not something that is easy for late-arriving manufacturers and non-specialized manufacturers to copy. For example, asphalt mixture brought in at high temperatures must be worked on within a limited time, and if the work is of poor quality, it must be redone which involves a large price. Also, work quality issues for roads and embankments are slow to emerge, and the compaction quality at the time of completion tends to be a black box. The expertise the Company has accumulated over many years due to its extensive worksite experience is a strength that has earned it the trust of many customers.

3. Market share and competitors

According to data from the Japan Construction Equipment Manufacturers Association, in FY2024 the total construction equipment shipment value including domestic and exports was approximately ¥3.39tn, and road roller and other road construction equipment (the Company's main products) account for about 2.6% of this amount. The Company has a 60% to 70% share of the road roller market, making it the leading manufacturer in Japan. Competitors include companies such as Hitachi Construction Machinery <6305>, but none of these companies are specialized manufacturers. Some overseas manufacturers have entered the market in Japan, but none have much of a presence. In Japan, the Company's earnings rise and fall along with the ups and downs of the market.

In the global market, although there are no accurate statistics, the Company's market share (on a units produced basis) is estimated to be in the 4-5% range. However, this is on a global basis, and if we limit the scope to the main markets that the Company operates in (Japan, ASEAN, North America), the Company's market share appears to be around 13%. The Company's main competitors in the global market include Caterpillar <CAT>, FAYAT SAS, HAMM AG, and Volvo Personvagnar AB, but none of these companies are manufacturers that specialize in road rollers.

Results trends

In 1H FY3/26, while operating profit decreased 44.4% YoY, it was within the expected range and ended up exceeding the initial forecast

1. Overview of 1H FY3/26 results

For the 1H FY3/26 consolidated results, net sales were ¥12,980mn (down 9.8% YoY), operating profit was ¥684mn (down 44.4%), ordinary profit was ¥648mn (down 45.0%), and profit attributable to owners of parent was ¥431mn (down 66.9%). Operating profit decreased significantly from its high level in 1H FY3/25, but it was within the expected range and exceeded the initial forecast (¥550mn). The Company forecasts that the global construction equipment market will remain in an adjustment phase, but signs of bottoming out may be seen.

The gross margin deteriorated 1.5pp YoY to 28.6% (vs. 30.1% in 1H FY3/25) due to the impact of US tariffs and ongoing rises in purchasing costs. Since sales decreased, gross profit was ¥3,715mn (down 14.2%). While SG&A expenses were reduced by 2.1%, operating profit fell 44.4% due to the impact of lower sales and other factors. Profit attributable to owners of parent decreased 66.9%, which was greater than the extent of the decrease in operating profit, but this was due to the absence of the extraordinary profit (¥288mn gain on sale of investment securities) recorded in 1H of the previous fiscal year.

Overview of 1H FY3/26 consolidated results

(¥mn)

	1H FY3/25		1H FY3/26		YoY	
	Results	vs. net sales	Results	vs. net sales	Change amount	% change
Net sales	14,385	100.0%	12,980	100.0%	-1,405	-9.8%
Gross profit	4,329	30.1%	3,715	28.6%	-613	-14.2%
SG&A expenses	3,097	21.5%	3,031	23.4%	-66	-2.1%
Operating profit	1,231	8.6%	684	5.3%	-547	-44.4%
Ordinary profit	1,178	8.2%	648	5.0%	-530	-45.0%
Profit attributable to owners of parent	1,302	9.1%	431	3.3%	-871	-66.9%

Source: Prepared by FISCO from the Company's financial results

2. Trends by region

By region, net sales were ¥6,307mn (down 4.8% YoY) in Japan as mainstay roller sales have bottomed out but sales of road maintenance equipment slowed down. Overseas net sales were ¥6,673mn (down 14.0%). In North America, as high tariffs were introduced amid ongoing inventory adjustment at dealers, sales slowed to ¥3,118mn (down 17.6%). Net sales in Asian markets were ¥3,108mn (down 9.9%) as sales in Vietnam and Malaysia bottomed out but sales in Indonesia and China were sluggish. Sales also trended downward in other markets, falling 14.9% to ¥446mn.

Net sales by region

(¥mn)

	1H FY3/25		1H FY3/26		YoY	
	Amount	% of total	Amount	% of total	Change amount	% change
Japan	6,628	46.1%	6,307	48.6%	-321	-4.8%
Overseas	7,757	53.9%	6,673	51.4%	-1,084	-14.0%
North America	3,782	26.3%	3,118	24.0%	-663	-17.6%
Asia	3,451	24.0%	3,108	24.0%	-342	-9.9%
Other regions	523	3.6%	446	3.4%	-77	-14.9%
Total	14,385	100.0%	12,980	100.0%	-1,405	-9.8%

Source: Prepared by FISCO from the Company's financial results

Robust financial foundation along with ample cash and deposits on hand of ¥7.5bn

3. Financial position

In terms of the Company's financial position as of the end of 1H FY3/26, current assets were ¥26,683mn (up ¥72mn from the end of the previous fiscal year). The main factors included a ¥137mn decrease in cash and deposits, an ¥858mn increase in notes and accounts receivable – trade (including electronically recorded monetary claims – operating), and a ¥395mn decrease in inventories. Non-current assets were ¥16,768mn (up ¥755mn), with the main factors including a ¥166mn decrease in property, plant and equipment, a ¥40mn increase in intangible assets, and an ¥881mn increase in investments and other assets (mainly a ¥1,044mn increase in investment securities). As a result, total assets were ¥43,452mn (up ¥827mn).

Total liabilities were ¥13,334mn (up ¥840mn from the end of the previous fiscal year). The main factors in current liabilities included a ¥339mn increase in trade payables (notes and accounts payable – trade and electronically recorded obligations – operating), a ¥103mn increase in short-term borrowings, and a ¥367mn increase in non-current liabilities. Total net assets stood at ¥30,117mn (down ¥12mn), with the main factors including an ¥84mn decrease in retained earnings, a ¥737mn increase in valuation difference on available-for-sale securities, and a ¥745mn decrease in foreign currency translation adjustment. As a result, the equity ratio as of the end of 1H FY3/26 was 69.1% (70.5% at the end of the previous fiscal year).

Net working capital (trade receivables + inventories – trade payables) at the end of 1H FY3/26 was ¥14,261mn (down ¥93mn YoY). The main factors were an ¥801mn decrease in trade receivables, a ¥656mn decrease in inventories, and a ¥1,364mn increase in trade payables. Since the construction machinery market remains in an adjustment phase, net sales / inventory turnover ratio decreased 0.22 times to 2.37 times per year.

Net working capital

(¥mn)

	1H FY3/25 Results	1H FY3/26 Results	YoY	
			Change amount	% change
Annualized consolidated net sales	30,621	26,449	-4,172	-13.6%
Trade receivables	7,735	6,934	-801	-10.4%
Inventories	11,798	11,142	-656	-5.6%
Trade payables	-5,179	-3,815	1,364	-26.3%
Net working capital	14,354	14,261	-93	-0.6%
Inventory turnover ratio (times)	2.60	2.37	-0.22	

Note: Annualized consolidated net sales = net sales in 2H of previous fiscal year + net sales in 1H of current fiscal year
Source: Prepared by FISCO from the Company's results briefing materials

Outlook

In FY3/26, expects operating profit to decrease by 21.1%, although there are signs of bottoming out in the global construction machinery market

● FY3/26 forecasts

For the FY3/26 consolidated results, the Company forecasts net sales of ¥28,000mn (up 0.5% YoY), operating profit of ¥1,250mn (down 21.1%), ordinary profit of ¥1,250mn (down 16.4%), and profit attributable to owners of parent of ¥900mn (down 37.3%). Net sales were revised downward from the initial forecast (¥30,000mn), but the profit margin will improve due to factors such as the effects of earnings structure reforms and the initial profit forecast remains unchanged (assuming an exchange rate of ¥145 to US$1 and that US tariff costs are ¥200mn in 2H). The Company forecasts that the global construction machinery market will remain in an adjustment phase, but signs of bottoming out may be seen.

Consolidated forecasts for FY3/26

(¥mn)

	FY3/25		FY3/26 (E)		YoY	
	Results	vs. net sales	Forecast	vs. net sales	Change amount	% change
Net sales	27,854	100.0%	28,000	100.0%	146	0.5%
Operating profit	1,583	5.7%	1,250	4.5%	-333	-21.1%
Ordinary profit	1,494	5.4%	1,250	4.5%	-244	-16.4%
Profit attributable to owners of parent	1,435	5.2%	900	3.2%	-535	-37.3%

Source: Prepared by FISCO from the Company's financial results

Medium-term growth strategy

Key strategies are business growth strategy and efficient capital strategy

In June 2021, the Company released its Medium-Term Management Policy which runs through FY3/26. The ultimate goal is to increase corporate value and shareholder value, and in order to achieve this, the Company promotes a business growth strategy and an efficient capital strategy. As quantitative targets, the Company had set net sales of ¥30.0bn, operating profit of ¥3.1bn, and ROE of 8.0% by FY3/26, but it already surpassed the net sales and operating profit targets in FY3/24. Subsequently, however, sales and profit declined in FY3/25, and it also forecasts decreased sales and profit in FY3/26. At present, these numerical targets therefore remain unchanged. Meanwhile, the Company is making steady progress in implementing the following strategies.

1. Business strategy

(1) Domestic market: Create added value through stabilization and developing next-generation businesses

The domestic market for road rollers is already in its mature phase and the Company's market share is large. Therefore, the Company will aim to grow by adding new value to existing products (high-performance, etc.), in other words, by developing next-generation businesses.

(2) Overseas markets: Increase market share and expand business domains

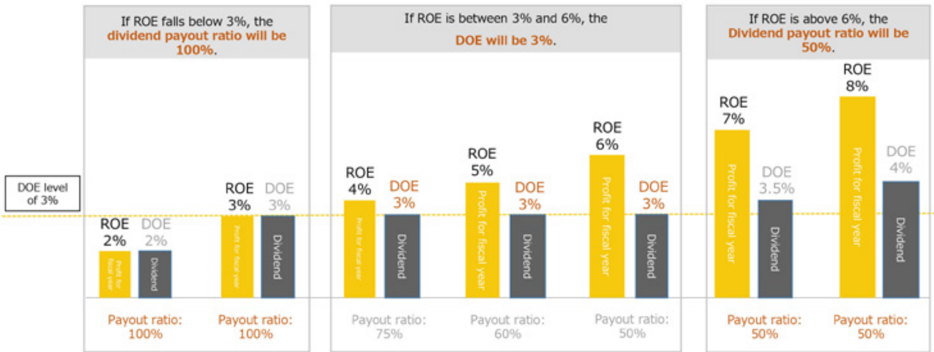
In overseas markets, there are many regions (countries) where demand is increasing, and there is significant room for growth given the Company's low market shares. Therefore, the Company will seek growth through the two strategies of more fully cultivating existing markets and expanding its business domains.

2. Capital strategy

As its basic policy for capital strategy, the Company targets an ROE of 8.0%. To achieve this, it will increase shareholder value (improve capital efficiency) by returning profits to shareholders.

Generally, two things need to be improved in order to increase ROE. One is of course increasing profit attributable to owners of parent, while the other is suppressing shareholders' equity (not increasing shareholders' equity more than necessary, or decreasing it). In order to increase operating profit, the Company is promoting the business strategies discussed above, but at the same time, in order to keep from increasing shareholders' equity more than needed, the Company is executing a dividend policy in which, if ROE falls below 3%, the dividend payout ratio will be 100%, if ROE is between 3% and 6%, the DOE will be 3%, and if ROE is above 6%, the dividend payout ratio will be 50%.

Basic policy of capital management



Source: The Company's Medium-Term Management Policy

In terms of share buybacks, through FY3/26 the Company will consider flexible share buybacks with an upper limit of ¥0.5bn to ¥2.0bn (conducted a ¥340mn share buyback in FY3/22). With respect to investment securities, the Company will review investment securities from the perspective of business strategy. Also, concerning growth investment, the Company will consider utilizing leverage with an emphasis on return on invested capital (ROIC).

3. Creation of new medium-term management policy

As discussed above, the Company had already achieved the targets in its current medium-term management policy in FY3/24, but it expects that results will fall short of the targets in FY3/26, which is the policy's final year. At present, the Company is creating a new medium-term management policy for FY3/27 and beyond, and attention should be given to its contents.

4. ESG initiatives

The Company is proactively working on ESG initiatives, and is advancing a variety of measures. Currently, it is focusing in particular on the following measures.

(1) Reduce CO_2 emissions from construction equipment

For the Ken-O Expressway construction project in Chiba Prefecture, the Company decided to rent electric combined rollers and electric walk-behind rollers for the first time. To promote the commercialization of electric rollers, it is currently working on obtaining GX Construction Machinery certification (eligible for Ministry of the Environment subsidies) from the Ministry of Land, Infrastructure, Transport and Tourism. The Company aims to both engage in carbon neutral initiatives and provide added value through new technologies.

Electric combined roller and electric walk-behind roller

Source: The Company's results briefing materials

(2) Contribution to road infrastructure improvement in Africa and expansion of the scope of overseas business

The Company attended the Ninth Tokyo International Conference on African Development (TICAD 9), which was held in Yokohama in August 2025. Since TICAD 6, held in Kenya in 2016, the Company has attended every edition of the conference. Leveraging its CAE method road repair technology, the Company aims to contribute to the improvement of transportation infrastructure in various African countries as well as expanding sales of road maintenance equipment stabilizers that use this method.

Attendance at TICAD 9 and road maintenance equipment stabilizers

Source: The Company's results briefing materials

(3) Efforts to strengthen human capital

The Company's biggest strength is its highly experienced personnel with expertise in the road equipment field. They play an indispensable role in passing on the technologies it has continued to refine during its history spanning over 100 years. To ensure its technologies are passed on to future employees, the Company is pursuing efforts to strengthen human capital aimed at stabilizing employment and increasing the number of skilled workers in the field.

Efforts to strengthen human capital

Personnel system reform	• Introduction of talent management system	Promoting data-based optimization of personnel management and deployment
	• Introduction of internal recruitment and career self-declaration system	Supporting self-directed career development by employees and reducing turnover rate
	• Introduction of alumni recruitment	Promoting acquisition of diverse personnel and improving engagement
Improvement of workplace environment	• Installing air-conditioning equipment and powder rooms for female employees at main plant in Japan	Strengthening field capabilities by offering a workplace environment that facilitates work for skilled workers in the field

Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Plans to pay an annual dividend of ¥105.0 for FY3/26 (99.4% dividend payout ratio)

The Company works to secure a stable management base over the long term and also places importance on the continuation of stable dividends. Its basic policy is to distribute results that are supported by business performance and a sound financial structure, and based on this, the Company decides dividends and conducts share buybacks. As discussed above, in terms of the Company's medium-term shareholder return policy, it provides returns as follows: if ROE falls below 3%, the dividend payout ratio will be 100%, if ROE is between 3% and 6%, the DOE will be 3%, and if ROE is above 6%, the dividend payout ratio will be 50%. Furthermore, the Company will consider flexible share buybacks with an upper limit of ¥0.5bn to ¥2.0bn by FY3/26.

Based on this dividend policy, the Company paid an annual dividend* of ¥100.0 in FY3/23 (dividend payout ratio of 49.9%), ¥142.5 in FY3/24 (49.6%), and ¥103.0 in FY3/25 (61.1%). In FY3/26, it expects the ROE to be 3.0% due to decreased profit. Therefore, in accordance with the basic policy (returns with DOE of 3% if ROE is 3% to 6%), it plans to pay an annual dividend of ¥105.0 for the full year.

> * On October 1, 2024, the Company conducted a two-for-one stock split of its common shares. Prior dividends have been retrospectively adjusted to reflect this stock split.

With regard to the share buybacks, it conducted a buyback of 130,000 shares (¥340mn) in FY3/22, but currently has no plans to conduct buybacks going forward. The Company has announced a clear capital policy to improve ROE, and its commitment to conducting shareholder returns based on this is commendable.

Disclaimer

FISCO Ltd. ("FISCO") offers stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc.

This report is provided solely for the purpose of offering information and is not a solicitation of investment nor any other act or action.

FISCO has prepared and published this report based on information it deems reliable. However, FISCO does not warrant the accuracy, completeness, certainty, nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs, and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report was prepared at the request of the subject company, with information provided by the company through telephone interviews and other means, and with compensation from the company. Hypotheses, conclusions and all other content contained in this report are based on FISCO's analysis. The contents of this report are current as of the date of preparation and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers, and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report with an understanding and acceptance of the above points.

■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp