MEC CO., LTD (4971 JP)

ANNOUNCED BUY BACK OF 2.65% OF SHARES OUTSTANDING TO SHOW MEC'S CONFIDENCE ON LONG-TERM GROWTH.

EXECUTIVE SUMMARY

- **FY25 Q1 Earnings Highlight:** MEC's (4971 JP) FY25 (Dec year-end) Q1 results were largely in line with guidance for OP to rise +3.8% YoY / +19.8% QoQ to ¥1,093mil on sales of ¥4,423mil (+1.6% YoY / -2.8% QoQ). Chemical segment sales rose +8.0% YoY / -4.5% QoQ to ¥4,237mil, thanks to 1) a steady increase in demand for chemicals used in high-end packages related to generative AI, and 2) a gradual recovery in demand associated with PCs, smartphones and general servers.
- **FY25 Outlook:** MEC is guiding for FY25 1H OP of ¥2,250mil (-4.8% YoY) on sales of ¥9,600mil (+8.1% YoY), and full-year OP of ¥5,000mil (+9.6% YoY) on sales of ¥20,000mil (+9.7% YoY). The main growth driver will be CZ-series chemicals, especially MEC's core product CZ-8101. A fully-fledged recovery in packages used in general servers will likely be seen in FY25 2H onwards, according to management.
- **Key messages from MEC's new medium-term plan [MTP] FY25~FY27:** Under the new MTP, MEC aims to achieve sales of ¥25,000mil and OPM of more than 20% in FY27, with sales of ¥23,500mil (3-year CAGR of +11.1%) from its existing core businesses, and the remainder from applications derived from those businesses. Having already generated an OPM of 25% in FY24, the target of 20% or more might appear rather conservative. However, the firm noted that it will endeavour to achieve an OPM of at least 20% or more, even under tough conditions.
- **Additional shareholder returns:** On 12 May, MEC announced a share buyback programme to repurchase a maximum of 500,000 shares / ¥1,500mil (2.65% of shares outstanding) in the market, and plans to cancel them all once completed. Management thinks the current share price underestimates the firm's medium to long-term growth potential, especially for the CZ series and adhesive enhancing chemicals whose demand likely surge on the back of increase in ultra high-density and ultra-high-frequency packages.
- **Capital allocation policy over the next three years?:** Plans are for (1) CAPEX of approx. ¥8,000mil of which approx. 50% will be spent on the Kita Kyushu plant and the remaining 50% on CAPEX for the future growth as well as for the maintenance and the expansion of existing capacities, (2) approx. 10% of consolidated sales on R&D, and (3) target at a 30% consolidated pay-out ratio. The firm will also repurchase shares promptly and proactively.

MEC (4971 JP) : Share Information						
Market Cap (¥mil)		52,700	Market Cap ($mil)			363
22-day Average Trading Volume (¥mil)		496	22-day Average Trading Volume ($mil)			3.4
Share performance (%)	4971	TOPIX	Earnings Summary (¥mil, %)	FY23	FY24	FY25CE
Share price (¥, 28 May 2025)	¥2,626	2,769.51	Sales	14,020	18,234	20,000
3mo (from 28 Feb 2025)	4.2	3.3	OP	2,492	4,562	5,000
6mo (from 28 Nov 2024)	-22.7	3.1	OPM (%)	17.8	25.0	25.0
YTD (from 6 Jan 2025)	-22.8	0.5	EPS	122.29	122.38	192.26
1yr	-40.5	0.0	EBITDA	3,265	5,378	5,885*
5yrs	25.8	77.1	Financial Leverage (X)	1.1	1.2	1.2*
Per-share and Valuations	4971	TOPIX	Net D/E Ratio (X)	-0.3	-0.4	-0.4*
EPS (¥, FY25 CE)	192.26	182.48	FCF	544	4,251	1,076*
DPS (¥, FY25 CE)	55.00	N/A	Shareholder Return Summary	FY23	FY24	FY25CE
BPS (¥, Dec 24)	1,436	1,875.16	Dividend (¥)	45.0	45.0	55.0
FCFPS (¥, FY25EST)	51.76*	N/A	Dividend Payout (%)	36.8	36.8	28.6
Forward PER	13.7	14.82	Dividend Yield (%)	N/A	N/A	2.1
PBR (x)	1.8	1.45	DOE (%)	3.5	3.3	4.2*
Forward PCFR (x)	50.7	N/A	Treasury Shares (%)	5.8	5.8	5.8*
EV/EBITDA (x)	4.4	N/A	ROE (%)	9.6	8.9	12.8

*Source: Nippon-IBR based on data on Bloomberg and Toyo Keizai / *Nippon-IBR estimates*

FY25 Q1 RESULTS SUMMARY

MEC's (4971 JP) FY25 (Dec year-end) Q1 performance was largely in line with the firm's expectation with OP up +3.8% YoY / +19.8% QoQ to ¥1,093mil on sales of ¥4,423mil (+1.6% YoY / -2.8% QoQ).

Chemical segment sales rose +8.0% YoY / -4.5% QoQ to ¥4,237mil, thanks to 1) a steady increase in demand for chemicals used in high-end packages related to generative AI, and 2) a gradual recovery in demand associated with PCs, smartphones and general servers. However, a recovery, in demand associated with PCs and servers used in general data centres, which has a greater impact on MEC's earnings, is yet to see a full recovery.

The overseas sales ratio improved to 65.5% (+6.9ppt YoY), which led to FOREX gains of ¥32mil YoY in sales and a net gain of ¥12mil YoY in OP: The major foreign currencies to which MEC's earnings are most sensitive are the Taiwanese dollar [NTD] and Chinese yuan [RMB]. In FY25 Q1, a ¥0.1/NTD change boosted sales by +¥18mil and OP by +¥12mil and a ¥0.1/RMB change added +¥6mil to sales and +¥3mil to OP.

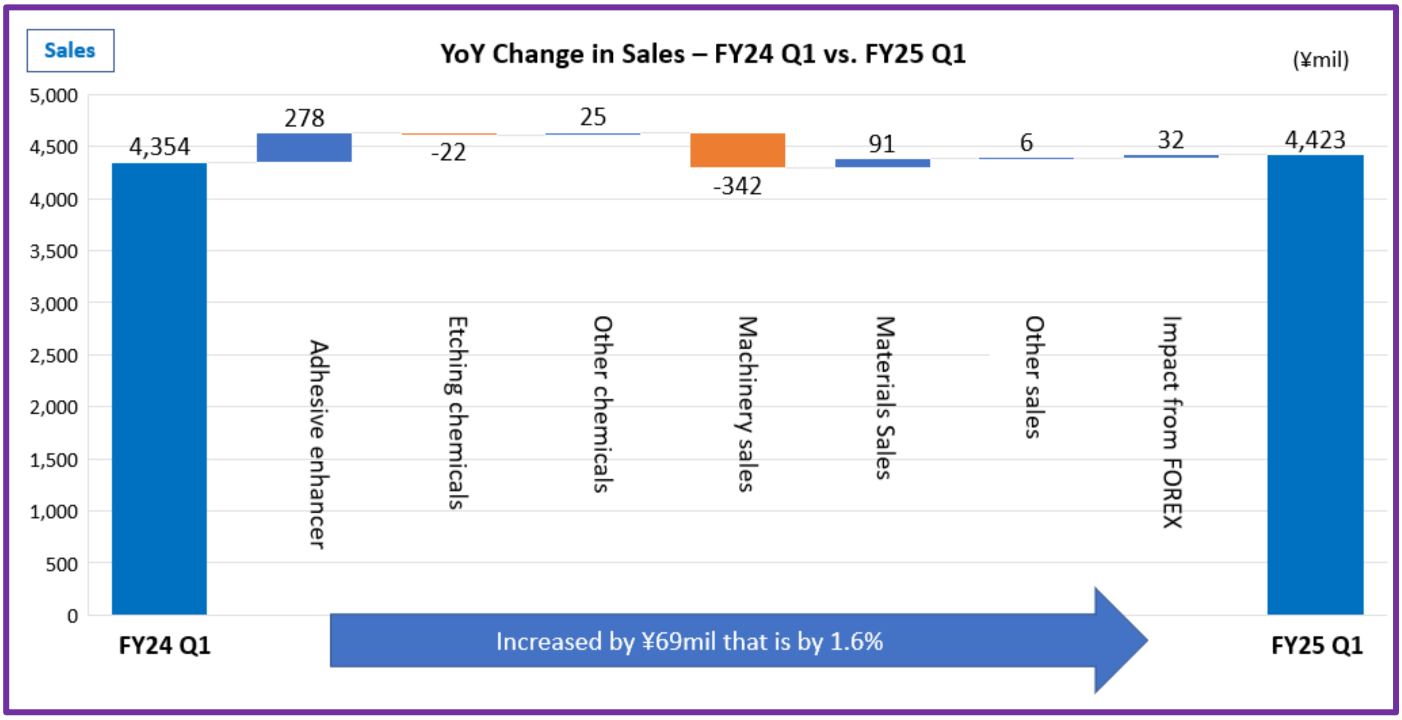
The Q1 gross profit margin [GPM] rose +3.6ppt YoY / +2.7ppt QoQ to 62.1% thanks to 1) an increase in both sales (+8.0% YoY) and shipment volumes (+4.0% YoY) of chemical products, and 2) an improved product sales mix – CZ-8101 sales expanded +4.6% YoY to ¥1,480mil and EXE sales rose +2.8% YoY to ¥316mil, while relatively lower margin SF's sales dropped -46.8% YoY to ¥75mil. Consequently, OP improved more than sales growth.

MEC (4971 JP) : Earnings Summary

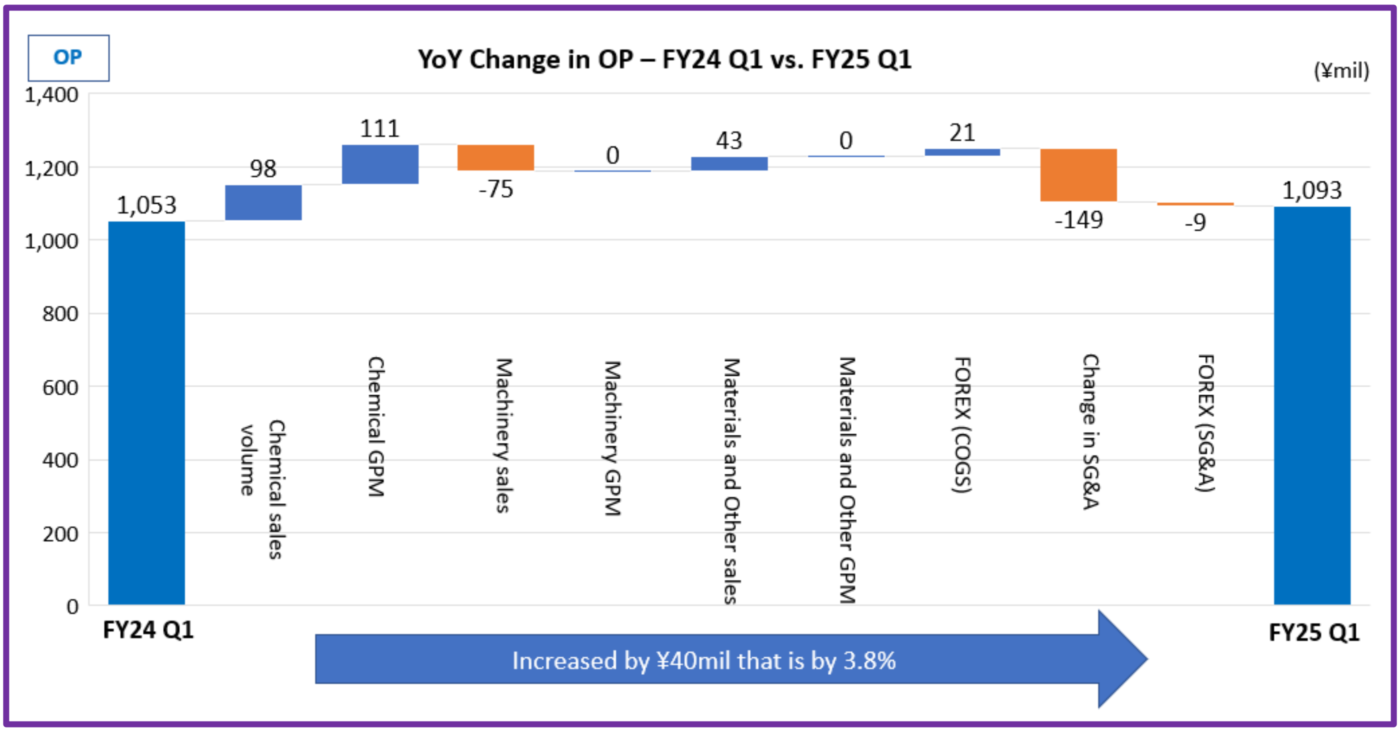
(¥mil / Dec year-end)	FY23			FY24			FY25		
	Q1	1H	FY	Q1	1H	FY	Q1	YoY (%)	QoQ (%)
Sales	2,765	6,198	14,020	4,354	8,882	18,234	4,423	1.6	-2.8
incl. Chemicals	2,712	6,085	13,764	3,924	8,384	17,478	4,237	8.0	-4.5
GP	1,583	3,646	8,316	2,549	5,383	11,101	2,748	7.8	1.6
GPM (%)	57.3	58.8	59.3	58.5	60.6	60.9	62.1	+3.6ppt	+2.7ppt
SG&A	1,414	2,807	5,824	1,496	3,020	6,539	1,655	10.6	-7.6
SG&A/Sales (%)	51.2	45.3	41.5	34.4	34.0	35.9	37.4	+3.0ppt	-2.0ppt
OP	168	838	2,492	1,053	2,362	4,562	1,093	3.8	19.8
OPM (%)	6.1	13.5	17.8	24.2	26.6	25.0	24.7	+0.5ppt	+4.6ppt
RP	223	1,003	2,683	1,132	2,641	4,682	1,059	-6.5	7.9
RPM (%)	8.1	16.2	19.1	26.0	29.7	25.7	24.0	-2.0ppt	+2.4ppt
NP*	82	1,076	2,304	779	1,890	2,291	476	-38.9	-241.8
EPS (¥)	4.32	56.79	122.29	41.62	100.97	122.38	25.44	-38.9	N/A
DPS (¥)	n/a	20.00	45.00	N/A	20.00	45.00	45.00	N/A	N/A

Source: Nippon-IBR based on MEC's earnings results materials

** NP attributed to the parent's shareholders*



Source: Nippon-IBR based on MEC's earnings results materials



Source: Nippon-IBR based on MEC's earnings results materials

PERFORMANCE BY PRODUCT SEGMENT

Adhesive Enhancers

FY25 Q1 Adhesive Enhancer sales increased +10.4% YoY / -4.2% QoQ to ¥3,177mil, and CZ series sales were up +9.0% YoY / -3.7% QoQ to ¥2,821mil.

MEC's core product in this product group, CZ-8101 – an adhesive-enhancing chemical used in packages primarily for PCs / smartphones / servers and chiplet packaging such as CoWoS – continued to report solid quarterly sales of ¥1,480mil (+4.6% YoY / -0.4% QoQ), thanks to solid demand from generative AI-related packaging and recovery in demand for packages used in PCs and smartphones. MEC noted that while there was solid package demand for AI servers, package demand for general server is slow to recover.

For Other CZ chemicals, which includes adhesive chemicals using pre- and post-adhesive processes, FY25 Q1 sales expanded +17.4% YoY / -9.2% QoQ to ¥1,017mil. Sales of the newer generation of CZ series products – CZ-8201 and CZ-8401 – used in conjunction with miniaturisation of wiring – are also included in this category. Although CZ-8101, whose sales are boosted by package demand for AI servers, is still the leading product in the CZ series, MEC's new factory in Kita Kyushu is designed to manufacture CZ series chemicals – not only 8101 but also 8201 and 8401 – more efficiently for more advanced packages

The CZ-8100 product was first launched in 1995 and is a stable revenue source. Current demand is supported by the steady rise in packages used in automobiles, including EVs and ADAS and a pickup in demand for simple packages used in various other devices. Q1 CZ-8100 sales were ¥324mil (+5.2% YoY / +0.6% QoQ).

V-Bond, another adhesive-enhancing chemical used in multilayer substrates for autos, smartphones and lately growing satellite communication substrates, reported Q1 sales of ¥203mil (+4.6% YoY / -1.9% QoQ).

Etching Chemicals

Etching Chemicals produced FY25 Q1 sales of ¥857mil (-1.6% YoY / -8.3% QoQ). Performance by the two main products of the segment is as follows:

1. EXE sales were solid at ¥316mil (+2.8% YoY / +7.5% QoQ) in Q1, as demand for chemicals for chip-on-film [COF] continues to improve on the back of TV stockpiling post-production adjustments that began in FY22, in addition to support from the ongoing stimulus policies in China that has triggered demand for large-size and energy saving TVs. However, MEC speculates that it is unclear if the current favourable trend will continue.

2. The larger-than-expected decline in SF sales – a key material used in touch panels – were due to weak demand related to a tablet PC. Consequently, Q1 sales deteriorated to ¥75mil (-46.8% YoY / -37.5% QoQ).

Higher EXE sales and sales decline in SF contributed to the improvement in sales mix.

MEC (4971 JP): Chemical Sales by Products (Quarterly)

(¥mil / Dec year-end)	FY23				FY24				FY25		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
Copper surface treatment chemicals	2,564	3,150	3,536	3,736	3,748	4,250	4,449	4,252	4,034	7.6	-5.1
Adhesive enhancer (CZ,V-Bond etc.)	1,870	2,335	2,608	2,915	2,877	3,135	3,370	3,317	3,177	10.4	-4.2
CZ Series Total	1,638	2,071	2,311	2,609	2,589	2,818	2,970	2,928	2,821	9.0	-3.7
CZ-8100	250	276	283	317	308	340	337	322	324	5.2	0.6
CZ-8101	883	1,080	1,229	1,350	1,415	1,446	1,469	1,486	1,480	4.6	-0.4
Other CZ chemicals	505	715	799	942	866	1,032	1,164	1,120	1,017	17.4	-9.2
V-Bond	181	178	198	187	194	206	225	207	203	4.6	-1.9
Etching chemicals (EXE, SF etc.)	694	814	928	821	871	1,115	1,079	935	857	-1.6	-8.3
SF	130	112	184	118	141	181	210	120	75	-46.8	-37.5
EXE	224	319	312	259	307	442	323	294	316	2.8	7.5
Other surface treatment chemicals	148	222	213	193	175	209	206	182	202	15.4	11.0
Chemical Sales Total	2,712	3,372	3,749	3,929	3,924	4,460	4,657	4,436	4,237	8.0	-4.5

Source: Nippon-IBR based on MEC's earnings results materials

FY25 OUTLOOK

MEC is guiding for FY25 1H OP of ¥2,250mil (-4.8% YoY) on sales of ¥9,600mil (+8.1% YoY), and full-year OP of ¥5,000mil (+9.6% YoY) on sales of ¥20,000mil (+9.7% YoY), based on the following assumptions:

1. Recovery in demand for packaging used in PCs and general servers will likely boost sales of CZ-8101. Additionally, demand for packages for generative AI servers will continue to grow with CZ-series to rise around +10% YoY. Management expects continuous growth of CZ-8101 but also anticipates sales growth for CZ-8201 and CZ-8401.
2. V-Bond sales growth will be led by a recovery related to auto and smartphones, and a steady increase in demand for packages for communication satellite.
3. EXE demand for chemicals for chip-on-film [COF] continues to remain solid on the back of TV stockpiling post-production adjustments as well as demand in China boosted by the Chinese government stimulus policy on large-size TVs in the short-term, however, it is unclear if these trends will last. MEC assumes FY25 EXE sales growth to show a slight gain YoY.
4. SF sales growth is assumed to be flattish, as it is sensitive to tablet PC sales.

MEC (4971 JP): Earnings Trend and FY25 Guidance

(¥mil / Dec year-end)	FY23		FY24			FY25 CE			
	1H	FY	1H	FY	YoY (%)	1H CE	YoY (%)	FYCE	YoY (%)
Sales	6,198	14,020	8,882	18,234	30.1	9,600	8.1	20,000	9.7
Operating Profit [OP]	838	2,492	2,362	4,562	83.0	2,250	-4.8	5,000	9.6
OP Margin [OPM] (%)	13.5	17.8	26.6	25.0	+7.2ppt	23.4	-3.2ppt	25.0	flat
Recurring Profit [RP]	1,003	2,683	2,641	4,682	74.5	2,300	-12.9	5,100	8.9
NP for the parent's s/holders	1,076	2,304	1,890	2,291	-0.6	1,450	-23.3	3,600	57.1
EPS (¥)	56.79	122.29	100.97	122.38	0.1	77.4	-23.3	192.26	57.1

Source: Nippon-IBR based on MEC's earnings presentation materials

Shareholder Returns: MEC plans to pay a dividend of ¥55.00/share, which will generate a consolidated pay-out ratio of 28.6%. Excluding the extra tax payments made for the transfer of MEC ZHUHAI, normalised FY24 EPS would have been approx. ¥180, which would have produced a pay-out ratio of approx. 25%. Under the medium-term management plan [MTP] that completed in FY24, management was aiming for a consolidated dividend pay-out ratio of 30%.

On 12 May, MEC announced share buyback programme to repurchase up to 500,000 shares / ¥1,500mil (2.65% of shares outstanding) in the market. The firm also plans to cancel all the repurchased shares acquired through the current buyback programme. Management notes that the current share price underestimates the firm's medium to long-term growth potential, especially growth in CZ series and adhesive enhancing chemicals whose demand likely surges on the back of increase in ultra-high-density and ultra-high-frequency packages.

THE "2030 VISION" – PHASE2 MEDIUM-TERM PLAN FY25~FY27

During the Phase2 of the 2030 Vision which started in FY25 and completes in FY27, MEC plans to achieve sales of ¥25,000mil and OPM of more than 20% in FY27, comprising sales from existing core businesses of ¥23,500mil (3-year CAGR of +11.1%) and the remainder (¥1,500mil) from application and expansion of existing technologies. Given the firm has already generated an OPM of 25% in FY24, the OPM of 20% or more might appear rather conservative. Management noted that the firm is committed to a minimum OPM target of 20% or more even if earnings decline.

Over the next three years, MEC plans to further invest on building businesses by applying existing technologies, expecting its core markets, such as semiconductor and packaging, to likely continue to expand given the growth opportunities of end applications, such as 5G / 6G in next generation communication network, IoT, diversified AI technologies and next generation mobility.

For those end applications to be launched, technologies such as high-speed information processing, low energy consumption, miniaturisation, less signalling noise, and higher density will be required. MEC will be able to provide ultra-fining and no surface roughening technologies to realise faster signal speed and higher density. Currently, MEC's core products CZ-series are used in packages. The firm is aiming to develop the new no-roughening surface treatment chemical, AP series, which can be deployed for PCB substrate, which are used in data centres etc.

CAPITAL ALLOCATION POLICY

MEC allocates capital (operating cash flow plus debt finance) on three major areas below:

- Growth investment, which includes

1. R&D,
2. M&A,
3. Enhancing the global supply network, and
4. Expanding technological support marketing

- Reinforcing business foundation, which includes

1. Investment on personnel, and
2. Focusing on the ESG management,

- Shareholders returns:

1. Dividend and
2. Prompt and proactive share buyback.

Core items for capital allocations during the tenure of Phase2 (FY25~FY27) are:

CAPEX: MEC plans to invest total of approx. ¥8,000mil allocating 50% to be spent on the Kita Kyushu plant and the remaining 50% on CAPEX for the future growth as well as for the maintenance of existing capacities.

R&D: Spending approx. 10% of consolidated sales

Shareholders return: Target a 30% consolidated pay-out ratio. The firm also will repurchase shares promptly and proactively, depending on circumstances.

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