

## MEC CO., LTD (4971 JP)

GENERATIVE AI RELATED DEMAND CONTINUES TO LEAD THE CORE CHEMICAL SALES.

### EXECUTIVE SUMMARY

- **FY25 1H Earnings Highlight:** While MEC's (4971 JP) FY25 (Dec year-end) 1H sales fell short of guidance by 2.2% to ¥9,387mil (+5.7% YoY), OP improved +3.3% YoY to ¥2,440mil, coming in 8.5% above the firm's guidance of ¥2,250mil. This was primarily due to less than expected SG&A spending – something the firm had flagged in an earlier release. Net profit [NP] was revised from ¥1,450mil (-23.2% YoY) to ¥1,893mil (+0.2% YoY), thanks to the receipt of a subsidy from the Ministry of Economy, Trade and Industry [METI] specifically for smaller sized companies to support growth investment.
- **FY25 Outlook:** MEC is guiding for FY25 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. Demand for packages for generative AI servers will likely remain solid. Those for other applications are expected to show signs of a recovery from FY25 2H onwards, according to management.
- **Key messages from MEC's ongoing medium-term plan [MTP] FY25~FY27:** Under the ongoing MTP, MEC is targeting sales of ¥25,000mil and an 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:** MEC completed a share buyback programme to repurchase a maximum of 500,000 shares in the market, which was announced on 12 May. The firm will cancel all the 500,000 shares, or 2.49% (based on number of shares outstanding prior to cancellation) on 29 August. Management commits to the prompt and proactive buyback of shares during the ongoing MTP.
- **Capital allocation policy over the next three years?:** Plans are for (1) CAPEX of approx. ¥8,000mil of which around 50% will be spent on the Kita Kyushu plant, with the remainder for future growth, maintenance and the expansion of existing capacities, (2) approx. 10% of consolidated sales on R&D, and (3) shareholder returns, aiming for a 30% consolidated pay-out ratio. As noted above, the firm will also repurchase shares promptly and proactively.

MEC (4971 JP) : Share Information						
Market Cap (¥mil)	60,400		Market Cap (\$mil)	411		
22-day Average Trading Volume (¥mil)	375		22-day Average Trading Volume (\$mil)	2.5		
Share performance (%)	4971	TOPIX	Earnings Summary (¥mil, %)	FY23	FY24	FY25CE
Share price (¥, 29 Aug 2025)	3,010	3,075.18	Sales	14,020	18,234	20,000
3mo (from 29 May 2025)	13.9	9.4	OP	2,492	4,562	5,000
6mo (from 28 Feb 2025)	19.4	14.7	OPM (%)	17.8	25.0	25.0
YTD (from 6 Jan 2025)	-11.5	11.6	EPS	122.29	122.38	192.26
1yr	-23.9	13.4	EBITDA	3,993	5,487	5,885*
5yrs	64.3	91.6	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)	55.0	N/A	Shareholder Returns Summary	FY23	FY24	FY25CE
BPS (¥, FY25EST*)	1,513.83	1,875.16	Dividend (¥)	45.0	45.0	55.0
FCFPS (¥, FY25EST*)	54.98	N/A	Dividend Payout (%)	36.8	36.8	28.6
Forward PER	15.7	16.9	Dividend Yield (%)	N/A	N/A	1.8
PBR (x)	2.0	1.6	DOE (%)	3.5	3.3	4.2*
PCFR (x)	54.7	N/A	Treasury Shares (%)	5.8	5.8	3.3
EV/EBITDA (x)	8.7	N/A	ROE (%)	9.6	8.9	12.8

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

## FY25 1H RESULTS SUMMARY

MEC's (4971 JP) FY25 (Dec year-end) 1H sales fell short of 1H guidance by 2.2% to ¥9,387mil (+5.7% YoY) with OP up +3.3% YoY to ¥2,440mil. As released prior to the results announcement, OP reached 8.5% above the firm's guidance of ¥2,250mil, due to lower-than-expected SG&A spending. Net profit [NP] was revised from ¥1,450mil (-23.2% YoY) to ¥1,893mil (+0.2% YoY), thanks to the receipt of a subsidy from the Ministry of Economy, Trade and Industry [METI] specifically for smaller sized companies. In Q2 alone, MEC reported OP of ¥1,347mil (+2.9% YoY / +23.2% QoQ) on sales of ¥4,963mil (+9.6% YoY / +12.2% QoQ).

Chemical segment 1H sales rose +7.6% YoY to ¥9,025mil, 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, demand associated with PCs and servers used in general data centres, which has a greater impact on sales volume, is yet to see a full recovery. In Q2 alone, chemical sales reported record quarterly sales of 4,787mil (+7.3% YoY / +13.0% QoQ), thanks primarily to record quarterly sales of CZ-8101.

The overseas sales ratio improved to 66.4% (+5.0ppt YoY), which led to a FOREX gain of +¥9mil YoY in sales and a net operating loss of -¥70mil YoY. The major foreign currencies to which MEC's earnings are most sensitive are the Taiwanese dollar [NTD] and Chinese yuan [RMB]. In FY25 1H, a ¥0.1/NTD change boosted sales by +¥38mil and OP by +¥26mil and a ¥0.1/RMB change added +¥14mil to sales and +¥6mil to OP.

The 1H gross profit margin [GPM] improved +1.2ppt YoY to 61.8% thanks to 1) an increase in both sales (+7.6% YoY) and shipment volumes (+8.6% YoY) of chemical products, and 2) an improved product sales mix – CZ-8101 sales expanded +11.7% YoY to ¥3,197mil, while relatively lower margin SF's sales fell -31.8% YoY to ¥220mil. Consequently, the improvement in OP growth outpaced that of sales.

### MEC (4971 JP): Earnings Summary

(¥mil / Dec year-end)	FY23		FY24		FY25				
	1H	FY	1H	FY	1H	YoY (%)	1H CE	YoY (%)	1H vs 1H CE (%)
Sales	6,198	14,020	8,882	18,234	9,387	5.7	9,600	8.1	-2.2
incl. Chemicals	6,085	13,764	8,384	17,478	9,025	7.6	N/A	N/A	N/A
GP	3,646	8,316	5,383	11,101	5,804	7.8	N/A	N/A	N/A
GPM (%)	58.8	59.3	60.6	60.9	61.8	+1.2ppt	N/A	N/A	N/A
SG&A	2,807	5,824	3,020	6,539	3,363	11.4	N/A	N/A	N/A
SG&A/Sales (%)	45.3	41.5	34.0	35.9	35.8	+1.8ppt	N/A	N/A	N/A
OP	838	2,492	2,362	4,562	2,440	3.3	2,250	-4.8	8.5
OPM (%)	13.5	17.8	26.6	25.0	26.0	-0.6ppt	23.4	-3.2ppt	+2.6ppt
RP	1,003	2,683	2,641	4,682	2,493	-5.6	2,300	-12.9	8.4
RPM (%)	16.2	19.1	29.7	25.7	26.6	-3.1ppt	24.0	-5.7ppt	+2.6ppt
NP*	1,076	2,304	1,890	2,291	1,893	0.2	1,450	-23.3	30.6
EPS (¥)	56.79	122.29	100.97	122.38	101.47	0.5	77.44	23.3	31.0
DPS (¥)	20.00	45.00	20.00	45.00	25.00	25.0	25.00	25.0	0.0

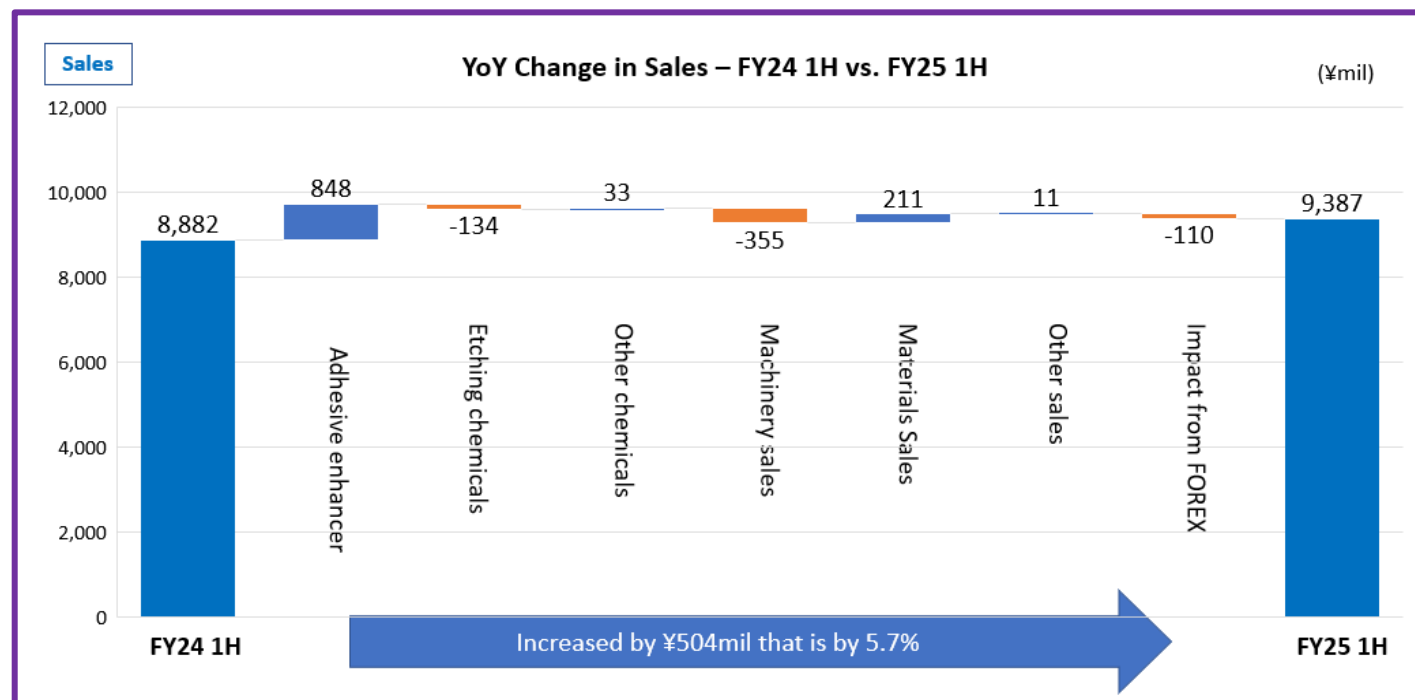
Source: Nippon-IBR based on MEC's earnings results materials

\* NP attributed to the parent's shareholders

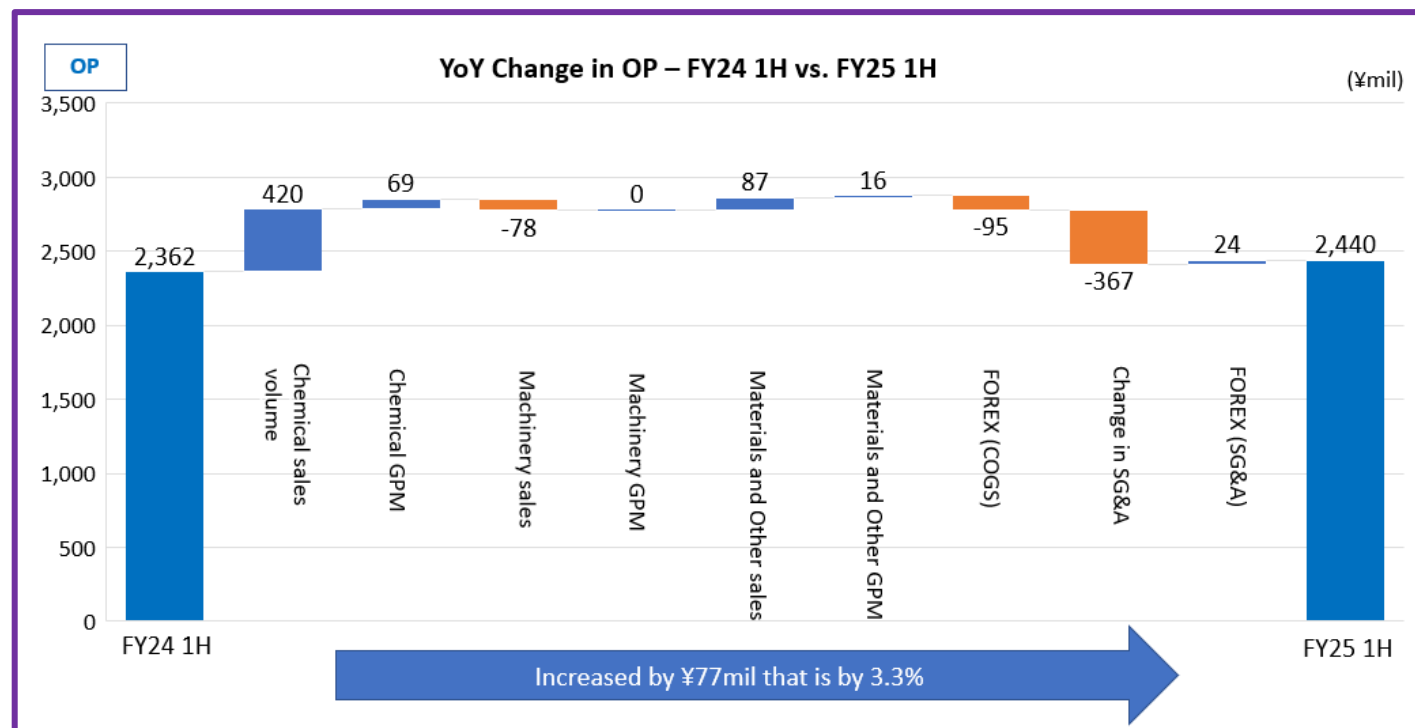
### MEC (4971 JP): Chemicals shipment volume vs sales trend

(ton, ¥mil)	FY23				FY24				FY25		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY(%)
Vol (CUM)	7,498	16,055	25,439	35,398	9,850	20,251	31,434	42,075	10,247	21,985	8.6
Sales (CUM)	2,712	6,085	9,834	13,764	3,924	8,384	13,041	17,478	4,237	9,025	7.6
Vol (QTR)	7,498	8,557	9,384	9,959	9,850	10,401	11,183	10,641	10,247	11,738	12.9
Sales (QTR)	2,712	3,372	3,749	3,929	3,924	4,460	4,657	4,437	4,237	4,788	7.4

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



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 1H Adhesive Enhancer sales increased +12.7% YoY to ¥6,778mil, and CZ series sales were up +11.4% YoY to ¥6,021mil. In Q2 alone, sales of adhesive enhancer chemicals rose +14.9% YoY / +13.3% QoQ to ¥3,601mil. CZ chemicals sales achieved record quarterly sales of ¥3,200mil (+13.6% YoY / +13.4% QoQ).

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 1H sales of ¥3,197mil (+11.7% YoY), thanks to (1) steady demand from generative AI-related packaging and (2) a recovery in demand for PCs and smartphones. MEC noted that while there was solid package demand for AI servers, package demand for general

server is slow to recover. In Q2 alone, CZ-8101 sales hit a record level for quarterly sales of ¥1,717mil (+18.7% YoY / +16.0% QoQ).

For Other CZ chemicals, which includes adhesive chemicals using pre- and post-adhesive processes, FY25 1H sales expanded +14.1% YoY to ¥2,166mil. 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. In Q2 alone, other CZ chemicals continued to be solid with sales of ¥1,149mil (+11.3% YoY / +13.0% QoQ).

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. 1H CZ-8100 sales were ¥658mil (+1.5% YoY). In Q2 alone, sales came in at ¥334mil (-1.8% YoY / +3.1% QoQ).

V-Bond, another adhesive-enhancing chemical used in multilayer substrates for autos, smartphones, and lately growing satellite communication substrates, reported 1H sales of ¥400mil (-0.2% YoY). In Q2 alone, sales of V-Bond was ¥197mil (-4.4% YoY / -3.0% QoQ).

### Etching Chemicals

Etching Chemicals produced FY25 1H sales of ¥1,831mil (-7.8% YoY). The performance of the segment's two main products is as follows:

1. EXE sales declined -16.4% YoY to ¥626mil on difficult comps to FY24 1H – when demand for chip-on-film [COF] remained solid after inventory adjustments and China's stimulus policies were offered. In Q2 alone, sales were ¥310mil (-29.9% YoY / -1.9% QoQ). Although subsidies in China are still in place, MEC speculates that it is unclear if the current favourable trend will continue.
2. The lower-than-expected SF sales – a key material used in touch panels – were due to weak demand related to a specific tablet PC. Consequently, 1H sales deteriorated -31.8% YoY to ¥220mil. In Q2 alone, SF sales improved -19.9% YoY / +93.3% QoQ to ¥145mil.

MEC (4971 JP): Chemical Sales by Products (Cumulative)											
(¥mil / Dec year-end)	FY23				FY24				FY25		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)
Copper surface treatment chemicals	2,564	5,714	9,250	12,986	3,748	7,998	12,447	16,699	4,034	8,609	7.6
Adhesive enhancer (CZ,V-Bond etc)	1,870	4,205	6,813	9,728	2,877	6,012	9,382	12,699	3,177	6,778	12.7
CZ Series Total	1,638	3,709	6,020	8,629	2,589	5,407	8,377	11,305	2,821	6,021	11.4
CZ-8100	250	526	809	1,126	308	648	985	1,307	324	658	1.5
CZ-8101	883	1,963	3,192	4,542	1,415	2,861	4,330	5,816	1,480	3,197	11.7
Other CZ chemicals	505	1,220	2,019	2,961	866	1,898	3,062	4,182	1,017	2,166	14.1
V-Bond	181	359	557	744	194	400	625	832	203	400	-0.2
Etching chemicals (EXE, SF etc.)	694	1,508	2,436	3,257	871	1,986	3,065	4,000	857	1,831	-7.8
SF	130	242	426	544	141	322	532	652	75	220	-31.8
EXE	224	543	855	1,114	307	749	1,072	1,366	316	626	-16.4
Other surface treatment chemicals	148	370	583	776	175	384	590	772	202	413	7.6
Chemical Sales Total	2,712	6,085	9,834	13,764	3,924	8,384	13,041	17,478	4,237	9,025	7.6
Source: Nippon-IBR based on MEC's earnings results materials											

MEC (4971 JP): Chemical Sales by Products (Quarterly)												
(¥mil / Dec year-end)	FY23				FY24				FY25			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)	QoQ (%)
Copper surface treatment chemicals	2,564	3,150	3,536	3,736	3,748	4,250	4,449	4,252	4,034	4,575	7.6	13.4
Adhesive enhancer (CZ,V-Bond etc.)	1,870	2,335	2,608	2,915	2,877	3,135	3,370	3,317	3,177	3,601	14.9	13.3
CZ Series Total	1,638	2,071	2,311	2,609	2,589	2,818	2,970	2,928	2,821	3,200	13.6	13.4
CZ-8100	250	276	283	317	308	340	337	322	324	334	-1.8	3.1
CZ-8101	883	1,080	1,229	1,350	1,415	1,446	1,469	1,486	1,480	1,717	18.7	16.0
Other CZ chemicals	505	715	799	942	866	1,032	1,164	1,120	1,017	1,149	11.3	13.0
V-Bond	181	178	198	187	194	206	225	207	203	197	-4.4	-3.0
Etching chemicals (EXE, SF etc.)	694	814	928	821	871	1,115	1,079	935	857	974	-12.6	13.7
SF	130	112	184	118	141	181	210	120	75	145	-19.9	93.3
EXE	224	319	312	259	307	442	323	294	316	310	-29.9	-1.9
Other surface treatment chemicals	148	222	213	193	175	209	206	182	202	211	1.0	4.5
Chemical Sales Total	2,712	3,372	3,749	3,929	3,924	4,460	4,657	4,436	4,237	4,787	7.3	13.0
Source: Nippon-IBR based on MEC's earnings results materials												

## FY25 OUTLOOK

MEC has kept its FY25 full-year guidance for OP of ¥5,000mil (+9.6% YoY) on sales of ¥20,000mil (+9.7% YoY). The following assumptions are still mostly valid except for one – for SF:

1. Demand for packaging used in PCs and general servers is expected to recover, likely further boosting 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 in autos and smartphones, and a steady increase in demand for packages for communication satellite.
3. EXE demand for chemicals for chip-on-film [COF] remains 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, therefore, MEC is guiding for FY25 EXE sales growth to show a slight gain YoY.
4. SF sales growth was initially assumed to be flat, as it is sensitive to tablet PC sales, however, FY-to-date, they have been weaker than expected.

MEC (4971 JP): Earnings Summary								
(¥mil / Dec year-end)	FY23		FY24		FY25			
	1H	FY	1H	FY	1H	YoY (%)	FY CE	YoY (%)
Sales	6,198	14,020	8,882	18,234	9,387	5.7	20,000	9.7
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GP	3,646	8,316	5,383	11,101	5,804	7.8	N/A	N/A
GPM (%)	58.8	59.3	60.6	60.9	61.8	+1.2ppt	N/A	N/A
SG&A	2,807	5,824	3,020	6,539	3,363	11.4	N/A	N/A
SG&A/Sales (%)	45.3	41.5	34.0	35.9	35.8	+1.8ppt	N/A	N/A
OP	838	2,492	2,362	4,562	2,440	3.3	5,000	9.6
OPM (%)	13.5	17.8	26.6	25.0	26.0	-0.6ppt	25.0	-0.0
RP	1,003	2,683	2,641	4,682	2,493	-5.6	5,100	8.9
RPM (%)	16.2	19.1	29.7	25.7	26.6	-3.1ppt	25.5	-0.2ppt
NP*	1,076	2,304	1,890	2,291	1,893	0.2	3,600	57.1
EPS (¥)	56.79	122.29	100.97	122.38	101.47	0.5	192.26	N/A
DPS (¥)	20.00	45.00	20.00	45.00	25.00	25.0	55.00	22.2
Source: Nippon-IBR based on MEC's earnings results materials								
* NP attributed to the parent's shareholders								

**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 MTP that ended in FY24, management was aiming for a consolidated dividend pay-out ratio of 30%.

MEC completed a share buyback programme to repurchase a maximum of 500,000 shares in the market, which was announced on 12 May. The firm will cancel all the 500,000 shares, or 2.49% (based on of shares outstanding prior to cancellation) on 29 August. Management commits to the prompt and proactive buyback of shares during the ongoing MTP.

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## THE “2030 VISION” – PHASE2 MEDIUM-TERM PLAN FY25~FY27

During the Phase 2 of the 2030 Vision, which started in FY25 and completes in FY27, MEC is targeting sales of ¥25,000mil and an 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. While the firm's core products CZ-series are currently used in packages, MEC is aiming to develop the new no-roughening surface treatment chemical, AP series, which can be deployed for PCB substrate and used in data centres etc.

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## CAPITAL ALLOCATION POLICY

The three major areas on which MEC allocates capital (operating cash flow plus debt finance) are as follows:

1. Growth investment, which includes
  - R&D, approx. 10% of consolidated sales,
  - M&A,
  - Enhancing the global supply network, and
  - Expanding technological support marketing
2. Reinforcing business foundation, which includes
  - Investment on personnel,
  - CAPEX in total of approx. ¥8,000mil over the three years, allocating 50% to be spent on the Kita Kyushu plant, with the remaining 50% on CAPEX for the future growth and for the maintenance of existing capacities,
  - ESG management so as to reduce both Scope 1 and Scope 2 emissions by 50% in real terms by 2030
3. Shareholders returns:
  - Aim to pay an annual dividend at pay-out ratio of 30% and at least the same as the previous year if not more, and
  - Prompt and proactive share buyback.



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