

ORIX (8591)

Turning point in alts investment cycle, 30% DPS hike guidance would lift above P/B 1x

Reiterate Rating: BUY | PO: 3,350 JPY | Price: 2,817 JPY

Raise price objective to ¥3,350; upside 19%

We raise our earnings estimates and price objective, in light of recent results and the stock's valuation. We value the stock using P/E and our FY3/24-26 average EPS estimate, as we think global alternative asset managers are the company's proper comparisons. We accordingly raise our price objective from ¥2,800 (ADR US\$106.10) to ¥3,350 (ADR \$113.64; our average EPS estimate of ¥319 times a multiple of 10.5x). We reiterate our Buy rating. Yuki Yaginuma takes over coverage from Shinichiro Nakamura starting with this report.

Turnaround in alternative investment environment

We expect management to announce downward revision to guidance along with the 3Q results, based on its recent postponement of investment gains. However, management will probably maintain its FY3/24 DPS forecast of ¥94, by raising the dividend payout ratio (from 33% to about 37%), and also maintain its FY3/25 NP guidance of ¥400bn. Strong profit growth is likely next fiscal year thanks to a turnaround in the alternative investment cycle. We expect a major increase in investment gains (by 2.1x YoY to ¥176.9bn) in FY3/25. In addition, base profits, which have suffered in FY3/24 from rising interest rates, should increase with help from the start of contributions from new investments already made (in Toshiba, overseas renewable energy projects, and aircraft).

30% dividend hike guidance leads to P/B of more than 1x

Assuming that management maintains its FY3/25 NP guidance of ¥400bn, we see room for management to significantly increase its DPS guidance to ¥120 (35% payout ratio; +28% YoY) in a bearish case or as high as ¥130 (37.5% payout ratio; +38% YoY) in a bullish case. As expectations for disclosure of such a dividend hike guidance are priced in, we think the stock, which has significantly underperformed other Japanese financials over the past two years, could be revalued.

Estimates (¥)	3/22A	3/23A	3/24E	3/25E	3/26E
Net Profit (bn)	316	293	292	401	411
EPS	263.4	245.7	250.2	344.0	357.2
EPS Change (YoY)	69.5%	-6.7%	1.9%	37.5%	3.8%
Dividend / Share	86	86	94	127	143
BPS	2,769	3,028	3,338	3,557	3,786
Valuation					
P/E	10.7x	11.5x	11.3x	8.2x	7.9x
Dividend Yield*	3.0%	3.0%	3.3%	4.5%	5.1%
PBR	1.0x	0.9x	0.8x	0.8x	0.7x

* For full definitions of *IQmethod*SM measures, see page 12.

01 February 2024

Equity

Key Changes

(¥)	Previous	Current
Price Obj.	2,800.00	3,350.00
2024E EPS	291.42	250.21
2025E EPS	383.70	344.03
2026E EPS	NA	357.21

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Stock Data

Price (Common / ADR)	2,817 JPY / 95.54 USD
Price Objective	3,350 JPY / 113.64 USD
Date Established	1-Feb-2024/ 1-Feb-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	2,107-2,991 JPY
Market Value (mn)	3,421,938 JPY
Market Value (\$mn)	23,410 USD
Shares Outstanding (mn)	1,215.0
Average Daily Value (\$mn)	63.0 USD
Free Float	89.7%
BofA Ticker / Exchange	ORXCF / TYO
BofA Ticker / Exchange	IX / NYS
Bloomberg / Reuters	8591 JP / 8591.T
ROE (2024E)	7.9%
Net Dbt to Eqty (Mar-2023A)	NA

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Refer to important disclosures on page 14 to 17. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.

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Timestamp: 01 February 2024 10:49AM EST

iQprofileSM ORIX (8591)

Key Income Statement Data	3/22A	3/23A	3/24E	3/25E	3/26E
(¥ Billion)					
Total Revenues	2,520	2,669	2,772	2,920	3,019
Direct financing leases	76	84	86	86	87
Operating leases	433	474	530	548	555
Interest on loans and investment securities	204	234	258	265	262
Brokerage commissions and net gains (losses) on investment securities	57	32	10	23	21
Life insurance premiums and related investment income	482	497	552	568	601
Real estate sales	95	74	82	97	108
Gains on sales of real estate under operating leases	17	25	28	33	37
Revenues from asset management and servicing	250	270	292	317	322
Operating Expenses	(2,218)	(2,327)	(2,427)	(2,545)	(2,616)
Interest expense	(68)	(128)	(164)	(165)	(155)
Costs of operating leases	(322)	(337)	(369)	(385)	(388)
Life insurance costs	(364)	(375)	(423)	(433)	(460)
Costs of real estate sales	(78)	(63)	(64)	(79)	(88)
Selling, general and administrative expenses	(523)	(559)	(624)	(650)	(667)
Provision for bad debt	(4)	(8)	(13)	(14)	(15)
Write-downs of long-lived assets	(36)	(2)	(2)	(2)	(2)
Write-downs of securities	(1)	(1)	(1)	(1)	(1)
Operating Earnings	306	341	344	376	404
Income before income taxes and discontinued operations	509	395	413	554	568
Provision for income taxes	(187)	(95)	(116)	(147)	(151)
Net Income	316	293	292	401	411

Key Balance Sheet Data	3/22A	3/23A	3/24E	3/25E	3/26E
Operating Assets	12,000	12,595	13,523	13,830	14,094
Investment in direct financing leases	1,058	1,088	1,182	1,215	1,246
Installment loans	3,863	3,878	3,950	3,969	3,981
Investment in operating leases	1,463	1,537	1,734	1,762	1,792
Investment in securities	2,852	2,941	3,187	3,187	3,182
Allowance for bad debt	69	65	78	93	108
Long/short-term debt	7,143	7,965	8,258	8,258	8,258
Deposits	2,276	2,246	2,271	2,316	2,363
Policy liabilities	1,964	2,065	2,142	2,207	2,274
Shareholder's equity	3,304	3,544	3,865	4,119	4,317
Total Assets	14,281	15,289	15,921	16,239	16,503
Assets under management (EUR bn)	327.9	299.7	283.6	289.3	295.1

Key Metrics	3/22A	3/23A	3/24E	3/25E	3/26E
Number of Outstanding Shares (mn)	1,203	1,180	1,164	1,164	1,148
EPS (yen, diluted)	262.2	247.8	250.2	344.0	357.2
BPS (yen, diluted)	2,769	3,028	3,338	3,557	3,786
Dividend / Share (yen)	86	86	94	127	143
ROE	10.0%	8.6%	7.9%	10.0%	9.7%
ROA	2.3%	2.0%	1.9%	2.5%	2.5%
Shareholder's equity ratio	23.1%	23.2%	24.3%	25.4%	26.2%
Dividend ratio	32.5%	34.8%	37.5%	36.9%	40.0%

Company Sector

Other Financials

Company Description

ORIX is a unique global financial conglomerate. Its businesses include financial businesses (small business financing, retail banking, life insurance, asset financing of aircraft, ships, PE investment, and asset management) and other services (real estate, environment/energy, etc). 40% of total profits comes from overseas business. It is building profitable and diversified business portfolio with shifting to other services. It is a company moving forward with ESG initiatives in financial sector.

Investment Rationale

Buy: (1) the likelihood of a substantial rise in ORIX's FY3/25 investment gains thanks to a turnaround in global alternative investment cycle, (2) the likelihood of a major dividend hike because of an increase in the dividend payout ratio and profit growth guidance, and (3) the upside potential for the stock's valuation.

Key Changes

(US\$)	Previous	Current
Price Obj.	106.10	113.64
2024E EPS	9.97	8.56
2025E EPS	13.12	11.77
2026E EPS	NA	12.22

Turning point in alts investment cycle and 30% DPS hike would lift the P/B above 1x

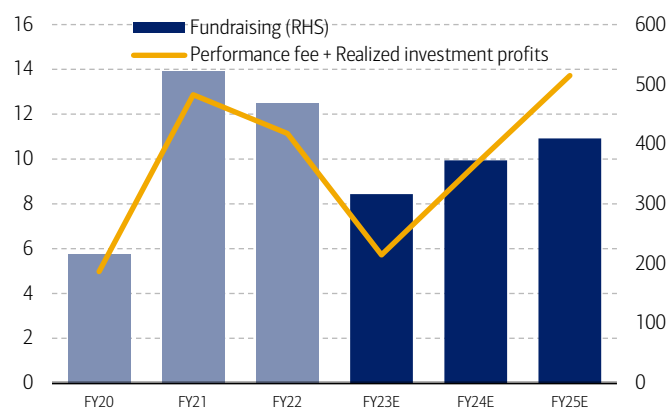
Outlook for global alternative investments; fundraising and exit gains would bottom out in 2024-25

Since interest rates started to rise worldwide, global alternative asset managers' fundraising and exit gains have continued to decline YoY (Exhibit 1). The Fed meeting in November 2023 led to consensus expectations for the start of a rate cut cycle in 2024. Our team covering global alternative asset managers expects fundraising and exit gains to clearly bottom out in 2024-25.

It accordingly expects these asset managers' 2024 ROEs to be much better than in 2022-23 (Exhibit 2). Also, investor sentiment on the private asset investment cycle is improving, based on the performance of global alternative asset management stocks since November 2023 (Exhibit 3).

Exhibit 1: Global alternative asset managers' fundraising and performance related profits (\$bn)

Our global alts AM analysts estimate a clear bottom out in fundraising and performance related profits over 2024-25

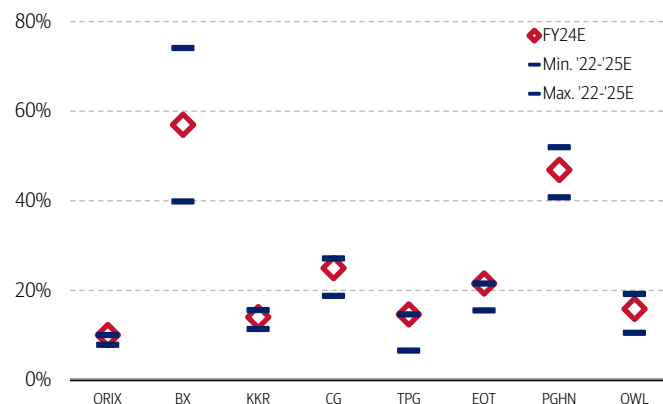


Source: Company disclosure, BofA Global Research estimates. Note: Total of Blackstone, KKR, The Carlyle Group, TPG, EQT, Partners Group, and Blue Owl

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Exhibit 2: ROE trends of ORIX and global alternative asset managers

Our global alts AM analysts expect ROE to improve significantly in 2024 vs. 2022-2023

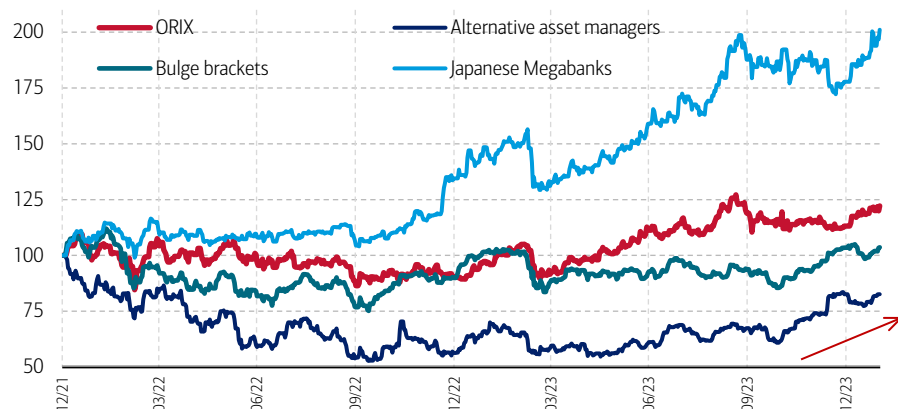


Source: BofA Global Research estimates. Note: BX; Blackstone, CG; The Carlyle Group, PGHN; Partners Group, OWL; Blue Owl

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Exhibit 3: Performance of ORIX, Megabanks, Bulge brackets, and Alternative asset managers (indexed to 100 = end-2021)

Global alts AM stocks' performance improving after FOMC in early November 2023



Source: Bloomberg, BofA Global Research. Note 1: 10%ile trimmed average includes alternative asset managers, and bulge brackets.

Note 2: Alternative asset managers includes Blackstone, The Carlyle Group, EQT, Partners Group, and Blue Owl. Bulge brackets includes Goldman Sachs, Morgan Stanley, JPMorgan, Citigroup, Deutsche Bank, Barclays, HSBC, and BNP Paribas.

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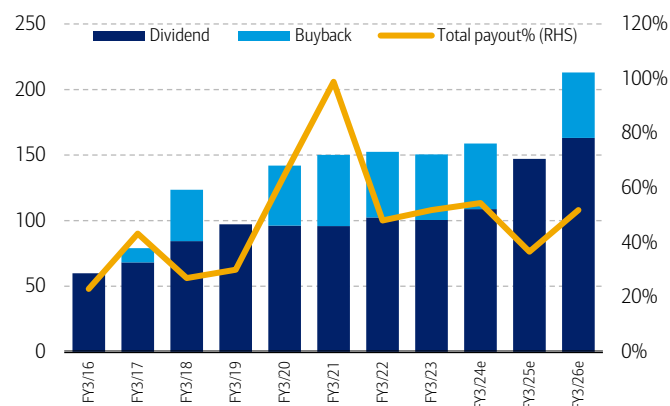
Catalysts: Strong profit growth/dividend hike in FY3/25 on base profit growth and postponement of investment gains

1H NP was only 39% of the full-year guidance because of the postponement of some investment gains. Management disclosed along with the 2Q results that ¥100-150bn of gains are in the pipeline to be realized, but the company has yet to gain the market's confidence. We expect FY3/24 NP to miss guidance (by 12%) and management to announce downward revision to guidance along with the 3Q results. But, management will probably maintain its FY3/24 DPS forecast of ¥94, by raising the dividend payout ratio (from 33% to about 37%), and also maintain its FY3/25 NP guidance of ¥400bn.

In other words, we see room for management to significantly increase its DPS guidance to ¥120 (35% payout ratio; +28% YoY) in a bearish case or as high as ¥130 (37.5% payout ratio; +38% YoY) in a bullish case (Exhibit 4). As expectations for disclosure of such a dividend hike guidance are priced in, we think the stock, which has significantly underperformed other Japanese financials over the past two years, could be revalued (Exhibit 5).

Exhibit 4: Total shareholder payouts and payout ratio (bnJPY)

We estimate a major dividend hike in FY3/25 and after, but buyback will not be announced until FY3/25

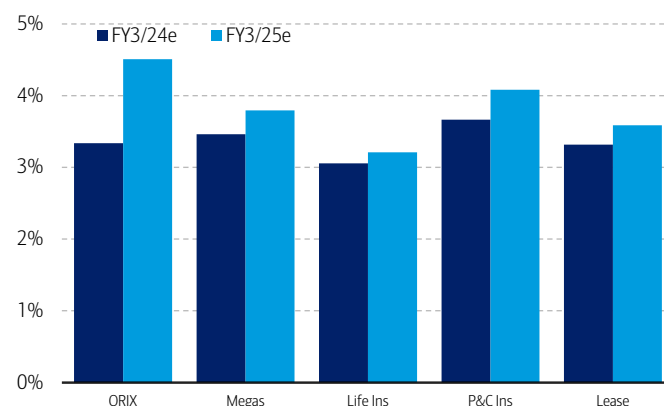


Source: Company disclosure, BofA Global Research estimates. Note: Buyback amount is on implemented basis.

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Exhibit 5: Dividend yield of ORIX and Japan's financial sub-sectors

We estimate ORIX' dividend yield to reach the highest level in the Japan's financial sector in FY3/25



Source: Bloomberg, BofA Global Research estimates. Note 1: ORIX and Megs are based on BofA estimates. Life Ins, P&C Ins, and Lease are based on Bloomberg consensus. Note 2: Megs includes MUFG SMFG, and Mizuho FG. Life Ins includes Dai-ichi Life HD, T&D HD, and Japan Post Insurance. P&C Ins includes Tokio Marine HD MS&AD HD, and SOMPO HD. Lease includes Mitsubishi HC Capital, and Tokyo Century.

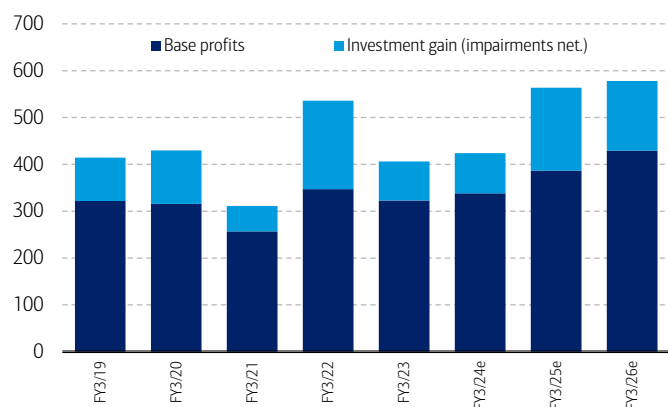
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Investors are currently focused most on the likelihood that FY3/25 NP will reach the target of ¥400bn. We expect investment gains in FY3/25 to be much higher than before, given the improved earnings outlook for global alternative asset managers noted above, ie, for ORIX, an improvement in investment cycle among potential asset buyers (Exhibit 6). In addition, base profits, which have suffered in FY3/24 from rising interest rates, should increase with help from the start of contributions from new investments made so far (in Toshiba, overseas renewable energy projects, and aircraft).

Downside risks are (i) the possibility of management disclosing conservative initial earnings guidance (eg, NP guidance in the range of ¥350-400bn), (ii) the possibility of asset prices being hurt by the steadily high interest rates worldwide, and (iii) the possibility of challenges in increasing shareholder payouts owing to a deterioration in credit rating agencies' sentiment on their ratings.

Exhibit 6: Segment profit (bnJPY)

Investment gain to increase significantly in light of the turnaround in global alternative investment cycle

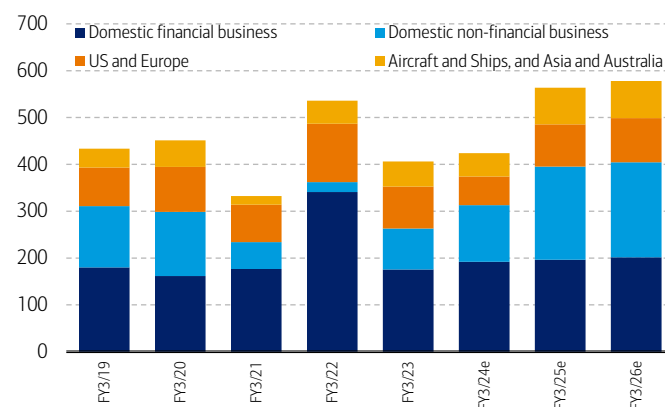


Source: Company disclosure, BofA Global Research estimates

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Exhibit 7: Segment profit (bnJPY)

Profit contributions from new investments made so far (in Toshiba, overseas renewable energy projects, and aircraft) should start



Source: Company disclosure, BofA Global Research estimates. Note: Domestic financial business includes Corporate financial services and maintenance leasing, Insurance, and Banking and Credit segments. Domestic non-financial business includes Real estate, PE investment and concession, and Environment and energy segments.

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FAQ: Why was the CreditWatch on ORIX lifted?

S&P Global removed its ORIX rating (A-; Outlook Negative) from CreditWatch on 21 September 2023. The move, which was a positive surprise, coming as it did immediately after ORIX announced an investment in Toshiba and a mezzanine loan deal, was the result of discussions with credit rating agencies on a solid asset sale pipeline, in our view.

The market's low confidence in ORIX's ability to realize investment gains, especially in FY3/25, weighs on ORIX's valuation, but the outcome of the discussions between ORIX and the rating agencies should be helpful for considering the outlook for the company's ability to manage its balance sheet.

ORIX's position in Japan's financial sector: likely to benefit from rotation

ORIX's P/B discount to TOPIX's, a factor we focus on, is currently 40% (Exhibit 8). By contrast, Japanese leasing stocks' discounts have been improving (from 45-50% around April 2023 to 30-35% recently, Exhibit 9).

We think ORIX's valuation will reach a turning point after the 3Q FY3/24 results announcement, and the stock will benefit more than other financials from rotation after the seasonal favoring of dividend yields winds down in mid-March. The impact of BoJ policy normalization on yen rates is likely to be minor unless the BoJ moves into a full-fledged rate hike cycle.

Exhibit 8: ORIX' P/B relative to TOPIX

The discount improved to -30% in 2022-2023, but is currently at -40%

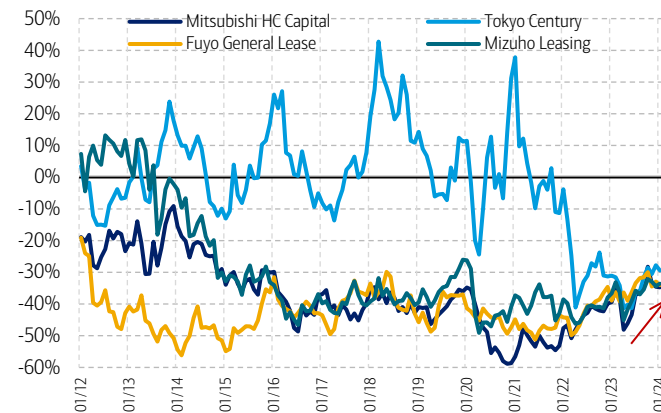


Source: Bloomberg, BofA Global Research

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Exhibit 9: Leasing industry stocks' P/B relative to TOPIX

Leasing stocks' relative valuation is improving in contrast to ORIX

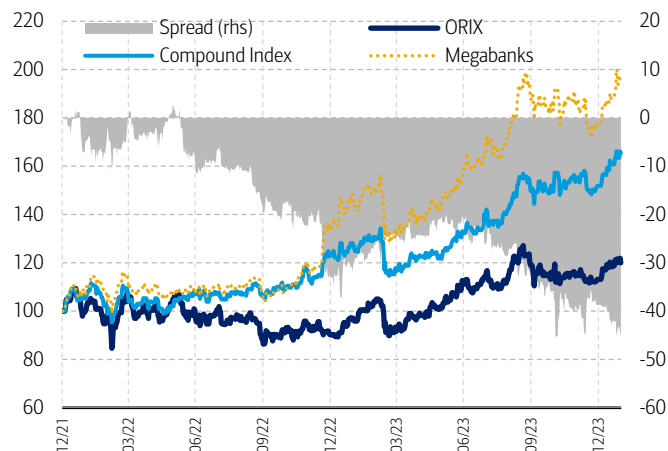


Source: Bloomberg, BofA Global Research

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Exhibit 10: ORIX' performance relative to financial sector (indexed to 100 = end-2021)

Worst performer in Japan's financial sector for the last two years



Source: Bloomberg, BofA Global Research. Note: Compound index is 10%ile trimmed average of Japanese financial names

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Valuation and investment rating

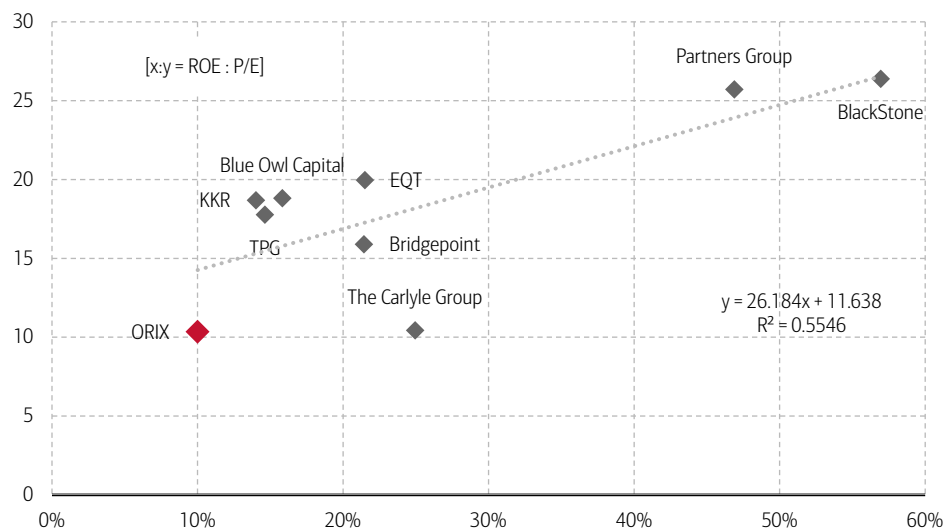
We now value ORIX based on our average EPS estimate and P/E multiple. We raise price objective from ¥2,800 (ADR US\$106.10; NAV per share of ¥3,103 times a multiple of 0.92x) to ¥3,350 (ADR \$113.64; our average EPS estimate of ¥319 times P/E multiple of 10.5x).

We see ORIX as a global alternative asset manager that leverages its own balance sheet and thus consider alternative asset managers in the US and Europe to be appropriate comparisons. The theoretical P/E is based on a P/E-ROE matrix (Exhibit 11), so as to reflect differences in asset managers' balance sheet strategies (ORIX uses its own capital, whereas many European and US alternative asset managers use outside capital also). For the P/E for our price objective, we use a premium/discount to the theoretical P/E, based on factors such as ORIX's profit structure (eg, dependence on investment gains) and ORIX's positioning within Japan's financial sector (eg, expected changes in the BoJ's policies).

The P/E of 10.5x that we use is at a 20% discount to the theoretical P/E of 12.7x implied by the P/E-ROE matrix for global alternative asset managers and our FY3/25 estimate of ORIX's ROE of 10%. The reasons for the discount are the increased reliance on investment gains (from 20% in FY3/24 to our estimate of 31% in FY3/25) and the market's lack of conviction in shareholder payout increases (we estimate FY3/25 DPS of ¥127, up ¥33 or 35% YoY). Our FY3/24-26 weighted average EPS estimate using weightings of 30% for FY3/24, 50% for FY3/25, and 20% for FY3/26.

Exhibit 11: P/E-ROE matrix for ORIX and global alternative asset managers (FY24e)

The P/E of 10.5x that we use is at a 20% discount to the theoretical P/E of 12.7x implied by the P/E-ROE matrix for global alternative asset managers



Source: BofA Global Research estimates

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Investment rating: Buy

Our Buy rating is premised on (i) the likelihood that ORIX's FY3/25 investment gains will be much higher than before thanks to a turnaround in global alternative investment cycle, (ii) the likelihood of a major dividend hike because of an increase in the dividend payout ratio and profit growth guidance, and (iii) lingering valuation upside potential for the stock, which has significantly underperformed other Japanese financials over the past two years.



Alts investment cycle turnaround leads to earnings bottom out and major DPS hike

ORIX has been one of the worst performers in Japan's financial sector (-45.4ppt relative to the financial sector average) for the past two years (Exhibit 12) and has continued to underperform year to date. We think the reasons are the risk of asset price declines and postponed investment gains during the global rate hike cycle and delayed improvement in the stock's valuation amid expectations for BoJ policy normalization.

However, ORIX's investment gains in 2024 could be much higher than before thanks to a turnaround in global alternative investment cycle. In addition, we still see room for ORIX's valuation to improve relative to other sectors' and think the stock will outperform as market confidence in ORIX's ability to realize investment gains improves and expectations for a major dividend hike rise based on strong earnings growth next fiscal year.

We raise our price objective from ¥2,800 (ADR US\$106.10; NAV per share of ¥3,103 times a multiple of 0.92x) to ¥3,350 (ADR \$113.64; our average EPS estimate of ¥319 times a multiple of 10.5x), based on changes to our earnings estimates and valuation approach. We reiterate our Buy rating in light of (i) the likelihood of a substantial rise in ORIX's FY3/25 investment gains thanks to a turnaround in global alternative investment cycle, (ii) the likelihood of a major dividend hike because of an increase in the dividend payout ratio and profit growth guidance, and (iii) the upside potential for the stock's valuation.

FY3/24-26 earnings estimates

We expect FY3/24 segment profit of ¥424.1bn (+4% YoY) and consolidated NP of ¥296.1bn (flat YoY) and an announcement of downward revision to guidance along with the 3Q results. Earnings are likely to decline in FY3/24, as the domestic business has been the driver of earnings, and the overseas business may not be able to offset the negative impact of the high-rate environment. We expect investment gains of ¥86bn (+3% YoY), thanks mainly to the real estate and domestic private equity businesses, but postponements of asset sales in the overseas renewable energy business and shortfalls in the different overseas businesses.

We reflect in our FY3/25 earnings estimates a major increase in investment gains (2.1x YoY to ¥176.9bn), assuming progress on investment gains with an upturn in the global alternative investment cycle. We also assume greater investment gains than before in the real estate, domestic private equity, ORIX USA, and Asia-Australia segments and also insurance proceeds for Russia-related aircraft (US\$70mn). In addition, base profits, which have suffered in FY3/24 from rising interest rates, should increase with help from the start of contributions from new investments already made (in Toshiba, overseas renewable energy projects, and aircraft). We accordingly expect FY3/25 segment profit of ¥563.7bn (+33% YoY) and consolidated NP of ¥400.9bn (+37%).

For FY3/26, we expect a decline in investment gains (-16% or ¥28.5bn YoY) to be offset by growth in base profits (+11% or ¥42.7bn) but only modest increases of 3% YoY for segment profit (to ¥577.9bn) and 2% for consolidated NP (to ¥410.8bn).

1-3Q FY3/24 earnings estimates: We estimate segment profit of ¥104.4bn (-14% YoY) and consolidated NP of ¥69.6bn (-22%). We assume investment gains, which contributed to profit of ¥34bn in the previous 3Q, were flat or lower QoQ (¥10-15bn). We expect management to announce, along with the 3Q results, downward revision to guidance (including for NP from ¥330bn to ¥300bn) but no change to its FY3/24 DPS forecast of ¥94, by raising dividend payout ratio (from 33% to about 37%).

Capital policies

We expect management to revise its FY3/24 guidance downward and yet maintain its DPS forecast by raising its payout ratio. We think management could significantly increase its FY3/25 DPS guidance to ¥120 (35% payout ratio; +28% YoY) in a bearish case or as high as ¥130 (37.5% payout ratio; +38% YoY) in a bullish case. For our FY3/26 DPS estimate, we assume management raises its dividend payout ratio again in FY3/26, to 40%, on par with that of the Japanese megabanks. However, we think management will not announce a share buyback until the FY3/25 results announcement (in May 2025) because the company needs to confirm progress on asset recycling first.

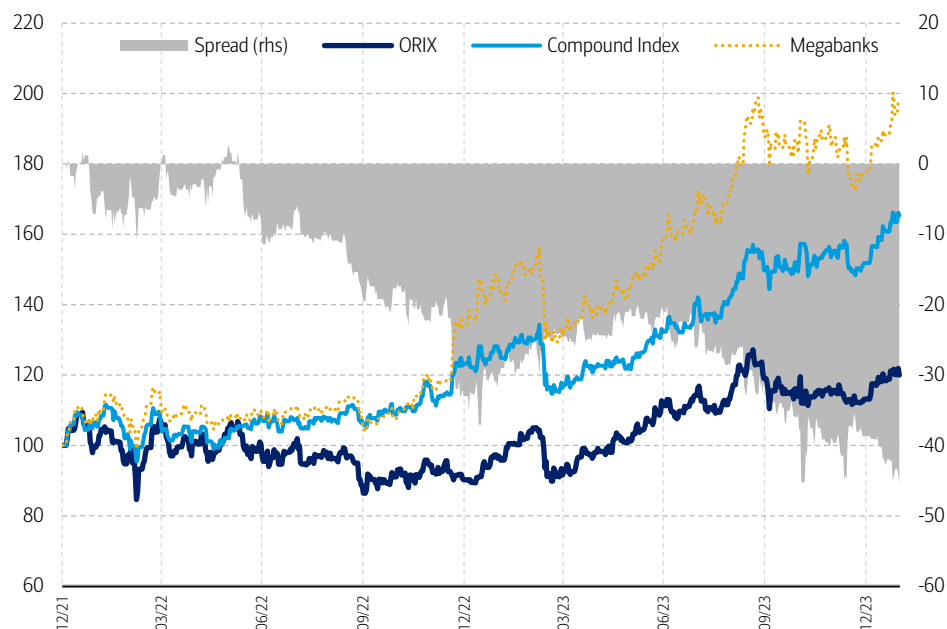
We thus reflect in our earnings estimates for FY3/24 a DPS of ¥94 (payout ratio 37.5%) and share buyback (already completed), for FY3/25 a DPS of ¥127 (payout ratio 36.9%) and no share buyback, and for FY3/26 a DPS of ¥143 (payout ratio 40.0%) and a ¥50bn share buyback (announcement in May 2025). Our forecast of share buyback amounts are based on the assumptions of total payout ratio of 50%.

Valuation

PO of ¥3,350 (ADR \$113.64; our average EPS estimate of ¥319 times a multiple of 10.5x). The P/E of 10.5x that we use is at a 20% discount to the theoretical P/E of 12.7x implied by the P/E-ROE matrix for global alternative asset managers and our FY3/25 estimate of ORIX's ROE of 10%. The reasons for the discount are the increased reliance on investment gains (from 20% in FY3/24 to our estimate of 31% in FY3/25) and the market's lack of conviction in shareholder payout increases (we estimate FY3/25 DPS of ¥127, up ¥33 or 35% YoY). Our FY3/24-26 weighted average EPS estimate using weightings of 30% for FY3/24, 50% for FY3/25, and 20% for FY3/26.

Exhibit 12: ORIX' performance relative to financial sector (indexed to 100 = end-2021)

Worst performer in Japan's financial sector for the last two years



Source: Bloomberg, BofA Global Research. Note: Compound index is 10%ile trimmed average of Japanese financial names

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Tear sheet

Exhibit 13: ORIX (8591) Earnings estimates

ORIX's investment gains in 2024 could be much higher than before thanks to a turnaround in global alternative investment cycle

(bnJPY)	FY3/22	FY3/23	FY3/24E	FY3/25E	FY3/26E
Profit before tax	536.1	406.2	424.1	563.7	577.9
Base profits	347.1	322.8	338.0	386.8	429.5
Investment gain (impairments net.)	189.0	83.5	86.0	176.9	148.3
Domestic	362.2	263.0	313.0	395.3	404.3
Financial business	340.8	175.6	191.9	196.3	201.6
Non-financial business	21.4	87.4	121.2	198.9	202.8
Overseas	173.9	143.2	111.0	168.4	173.6
US and Europe	124.6	89.7	61.0	90.2	94.3
Other	49.3	53.5	50.0	78.2	79.2
NP	317.4	290.3	291.6	400.9	410.8
EPS	263.7	246.0	250.6	344.6	357.8
Diluted EPS	263.4	245.7	250.2	344.0	357.2
Total assets	14,281	15,289	15,921	16,239	16,503
Net investment in leases	1,058	1,088	1,166	1,166	1,166
Installment loans	3,863	3,878	3,947	3,947	3,947
Investment in operating leases	1,463	1,537	1,723	1,723	1,723
Investment in securities	2,852	2,941	3,188	3,188	3,188
Others	5,045	5,846	10,024	10,024	10,024
Total liabilities	10,867	11,674	11,972	12,037	12,104
Borrowings and Deposits	7,143	7,965	8,258	8,258	8,258
Insurance policy liabilities	1,913	1,832	1,804	1,869	1,935
Others	1,811	1,877	1,910	1,910	1,910
Total equity	3,414	3,614	3,948	4,202	4,400
ORIX shareholders' equity	3,304	3,544	3,865	4,119	4,317
Non-controlling interests	110	72	83	83	83
ROE	10.1%	8.4%	7.8%	10.0%	9.7%
DPS	85.6	85.6	94.0	127.0	143.0
Buyback amount	50.0	50.0	0.0	50.0	50.0
Dividend yield	3.5%	3.9%	3.3%	4.4%	5.0%
TSR yield	5.2%	5.9%	3.3%	5.9%	6.5%

Source: Company disclosure, BofA Global Research estimates. Note: Domestic financial business includes Corporate financial services and maintenance leasing, Insurance, and Banking and Credit segments. Domestic non-financial business includes Real estate, PE investment and concession, and Environment and energy. Other overseas business includes Aircraft and ships, Asia and Australia (excl. environment and energy) segments.

BofA GLOBAL RESEARCH

Price objective basis & risk

ORIX (8591 / ORXCF / IX)

PO of ¥3,350 (ADR \$113.64, our average EPS estimate of ¥319 times a multiple of 10.5x). The P/E of 10.5x that we use is at a 20% discount to the theoretical P/E of 12.7x implied by the P/E-ROE matrix for global alternative asset managers and our FY3/25 estimate of ORIX's ROE of 10%. The reasons for the discount are the increased reliance on investment gains (from 20% in FY3/24 to our estimate of 31% in FY3/25) and the market's lack of conviction in shareholder payout increases (we estimate FY3/25 DPS of ¥127, up ¥33 or 35% YoY). Our FY3/24-26 weighted average EPS estimate using weightings of 30% for FY3/24, 50% for FY3/25, and 20% for FY3/26.

Downside risks are (i) the possibility of management disclosing conservative initial earnings guidance (eg, NP guidance in the range of ¥350-400bn), (ii) the possibility of asset prices being hurt by the steadily high interest rates worldwide, and (iii) the possibility of challenges in increasing shareholder payouts owing to a deterioration in credit rating agencies' sentiment on their ratings.

Analyst Certification

I, Yuki Yaginuma, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Japan - Financials and Property Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AEON Financial Service	AEOJF	8570 JP	Yuki Yaginuma
	Concordia Financial Group	CCRDF	7186 JP	Shinichiro Nakamura
	Daiwa House Industry	DWAHF	1925 JP	Takumi Kasai
	Fukuoka Financial Group	FKKFF	8354 JP	Shinichiro Nakamura
	Integral Corporation	XIAQF	5842 JP	Yuki Yaginuma
	Japan Post Bank	JPSTF	7182 JP	Shinichiro Nakamura
	Japan Post HD	JPHLF	6178 JP	Shinichiro Nakamura
	Japan Post Insurance	JPPIF	7181 JP	Shinichiro Nakamura
	Kajima Corporation	KAJMF	1812 JP	Takumi Kasai
	Katitas	KTITF	8919 JP	Takumi Kasai
	LIFENET INSURANCE	LIFNF	7157 JP	Shinichiro Nakamura
	Mitsubishi UFJ Financial Group	MUFG	MUFG US	Shinichiro Nakamura
	Mitsubishi UFJ Financial Group	MBFJF	8306 JP	Shinichiro Nakamura
	Mitsui Fudosan	MTSFF	8801 JP	Takumi Kasai
	Mizuho Financial Group	MZHOF	8411 JP	Shinichiro Nakamura
	Mizuho Financial Group	MFG	MFG US	Shinichiro Nakamura
	Money Forward	MNYFF	3994 JP	Yuki Kaneko
	MS&AD Holdings	MSADF	8725 JP	Shinichiro Nakamura
	Nihon M&A Center	NHMAF	2127 JP	Yuki Yaginuma
	Nomura Holdings	NRSCF	8604 JP	Yuki Yaginuma
	Nomura Holdings	NMR	NMR US	Yuki Yaginuma
	ORIX	ORXCF	8591 JP	Yuki Yaginuma
	ORIX	IX	IX US	Yuki Yaginuma
	SBI Sumishin Net Bank	XHRFF	7163 JP	Shinichiro Nakamura
	Sompo Holdings	NHOLF	8630 JP	Shinichiro Nakamura



Japan - Financials and Property Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Sumitomo Mitsui Trust Holdings	CMTDF	8309 JP	Shinichiro Nakamura
	T&D Holdings	TDHOF	8795 JP	Shinichiro Nakamura
	Tokyu Fudosan Holdings	TTUUF	3289 JP	Takumi Kasai
NEUTRAL				
	Chiba Bank	CHBAF	8331 JP	Shinichiro Nakamura
	Dai-ichi Life Holdings	DCNSF	8750 JP	Shinichiro Nakamura
	Daiwa Securities Group	DSECF	8601 JP	Yuki Yaginuma
	GMO Payment Gateway	GMYTF	3769 JP	Yuki Yaginuma
	Haseko Corporation	HSKCF	1808 JP	Takumi Kasai
	Kyoto Financial Group	XIDPF	5844 JP	Shinichiro Nakamura
	Mitsubishi Estate	MITEF	8802 JP	Takumi Kasai
	Rakuten Bank	XHRUF	5838 JP	Shinichiro Nakamura
	Resona Holdings	RSNHF	8308 JP	Shinichiro Nakamura
	Sekisui House	SKHSF	1928 JP	Takumi Kasai
	Shizuoka Financial Group	SFGIF	5831 JP	Shinichiro Nakamura
	Strike Company Limited	XVSEF	6196 JP	Yuki Yaginuma
	Sumitomo Mitsui Financial Group	SMFNF	8316 JP	Shinichiro Nakamura
	Sumitomo Mitsui Financial Group	SMFG	SMFG US	Shinichiro Nakamura
	Sumitomo Realty & Development	SURDF	8830 JP	Takumi Kasai
	Tokyo Tatemono	TYTMF	8804 JP	Takumi Kasai
UNDERPERFORM				
	Aozora Bank	AOZOF	8304 JP	Shinichiro Nakamura
	Credit Saison	CSASF	8253 JP	Yuki Yaginuma
	Daito Trust Construction	DITTF	1878 JP	Takumi Kasai
	M&A Capital Partners	MNACF	6080 JP	Yuki Yaginuma
	Obayashi Corporation	OBYCF	1802 JP	Takumi Kasai
	Seven Bank	SEBNF	8410 JP	Shinichiro Nakamura
	Shimizu Corporation	SHMUF	1803 JP	Takumi Kasai
	Suruga Bank	SRGBF	8358 JP	Shinichiro Nakamura
	Taisei Corporation	TISCF	1801 JP	Takumi Kasai
	Tokio Marine Holdings	TKOMF	8766 JP	Shinichiro Nakamura
	Tokio Marine Holdings	TKOMY	TKOMY US	Shinichiro Nakamura
RSTR				
	Digital Garage	DLGEF	4819 JP	Yuki Yaginuma

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales
EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization
Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

Valuation Toolkit

Numerator

Denominator

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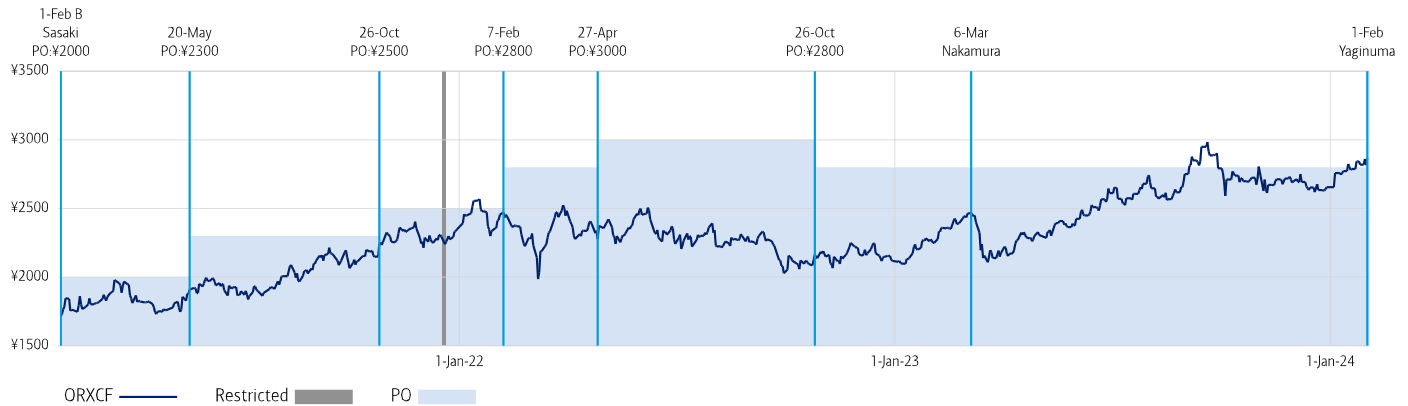
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Important Disclosures

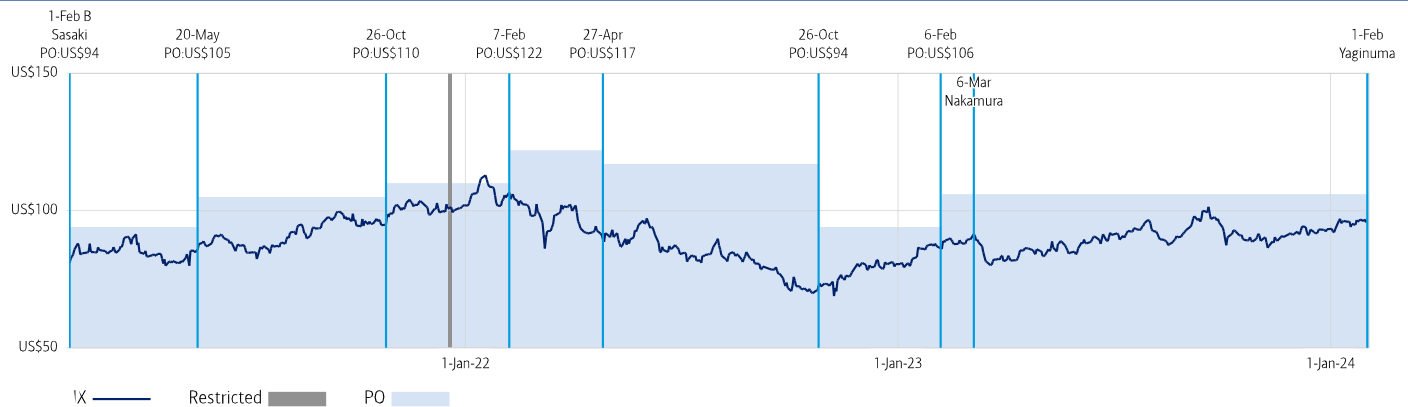
ORIX (ORXCF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

ORIX (IX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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