

ORIX (8591)

3Q Results: In line, wait for FY3/24 results to confirm dividend payout ratio hike

Maintain Rating: BUY | PO: 3,350 JPY | Price: 2,877 JPY

Results announcement: Wed 7 Feb, 15:00; conf call: 16:30 In line

FY3/24 1Q-3Q results: Segment profit was ¥319.2bn (+9% YoY, vs. our estimate ¥295.4bn; 65% of FY3/24 guidance) and consolidated NP ¥219.2bn (+3%, vs. IFIS consensus of ¥219.0bn, our estimate of ¥197.7bn; 66%). Investment gains in the Oct-Dec quarter of ¥26.9bn beat our estimate of over ¥10.0bn and base profit (¥101.4bn; up ¥16.1bn QoQ) also beat market expectations. Progress toward full-year guidance is still behind, but management left guidance for both NP (¥330.0bn) and DPS (¥94) unchanged.

During the conference call, ORIX said it would raise the dividend payout ratio (and also consider dividend yield in response to the start of new NISA), but a specific update will have to be waited until it announces FY3/25 NP guidance (which we expect to be ¥400.0bn) and an increased shareholder payout (which we expect to be raising the dividend payout ratio from 33% to 37%). We do not believe today's results will significantly change the market's valuation of ORIX, and view them as in line. We still expect guidance for strong profit growth and a dividend hike when it announces FY3/24 results, however, and maintain our Buy rating.

Profit trend in its key segments are as follows. (1) Domestic finance (segment profit of ¥139.5bn; 73% of FY3/24 guidance): we think continued strength in the insurance business and reversals of allowance for doubtful accounts in Banking and Credit business are possible in Jan-Mar, and think it is likely to meet full-year targets. (2) Domestic non-financial (¥84.4bn; 84%): given the contribution from investment gains in Real Estate business and expectations of QoQ growth in profits from PE Investment and Concessions business, we expect it to surpass full-year targets by about ¥20.0bn. (3) Overseas OCU/OCE (¥48.6bn; 51%): we think the business environment is unlikely to turn around anytime soon, and expect it to fall short of guidance by about ¥35.0bn. (4) Overseas (Environment and Energy / Aircraft and Ships / Asia and Australia; ¥46.6bn; 44%): given that it did not complete the sale of Elawan assets by end-December 2023, we do not think it can meet FY3/24 guidance unless it sells its stake in the overseas renewable energy business. It also newly disclosed the assets in Asia and Australia business, and we see the risk in Jan-Mar of it taking a proactive impairment loss or booking a loss on sale of Hong Kong credit assets (¥141.2bn) and equity investments in Greater China (¥167.7bn).

Capital policies: It left full-year DPS guidance unchanged at ¥94, as we expected. It has completed the share buybacks it has already announced (up to ¥50.0bn, about 3.4% of total outstanding shares). Employed capital ratio was 94% (flat QoQ), still above ORIX's target of about 90%.

07 February 2024

Equity

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Stock Data

Price (Common / ADR)	2,877 JPY / 96.37 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)	3,495,443 JPY
Market Value (\$mn)	23,606 USD
Shares Outstanding (mn)	1,215.0
Average Daily Value (\$mn)	63.3 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 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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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.

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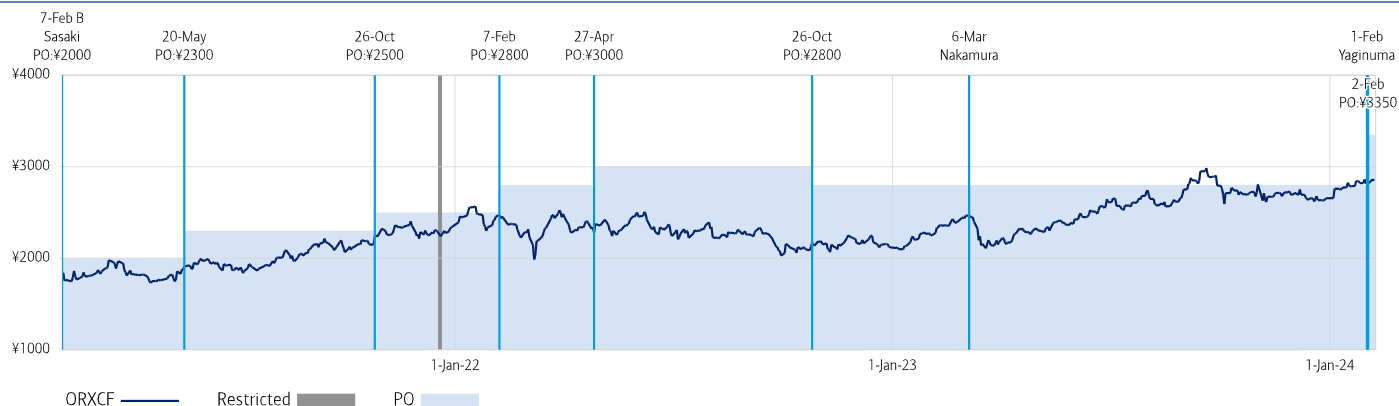
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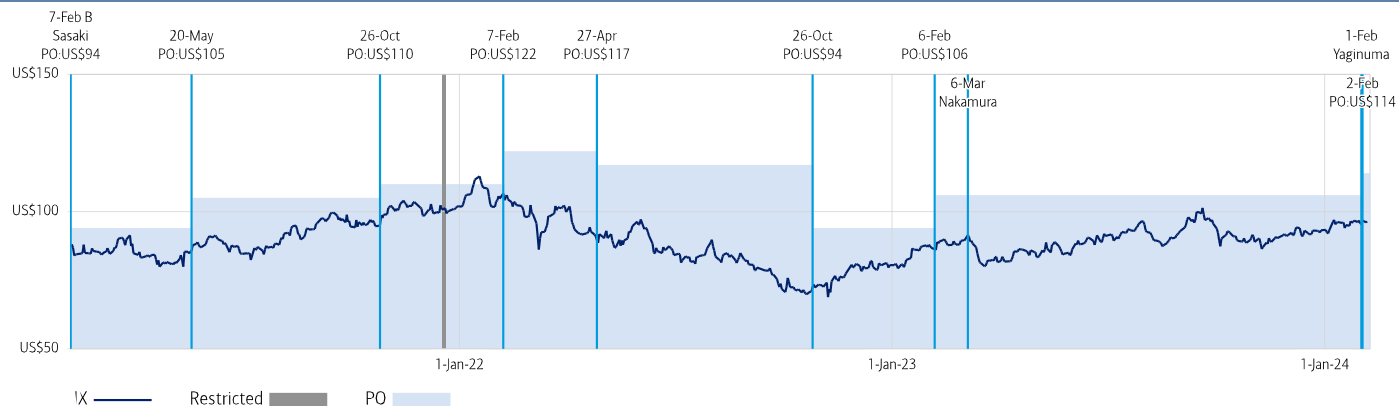
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ORIX (ORXCF) Price Chart



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ORIX (IX) Price Chart



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Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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