Main Points

- As we wrote in the Jan 12 edition of *PSA Today*, we were "confident Fanuc will come in with very strong FY17 Q3 and Q4 earnings, helped by Robodrill demand and Fanuc's newfound expanded FA supply capacity."
- Q3 OP ¥61.8bn (+86% YoY; +9% QoQ) was exemplary; Robodrill sales did not drop as some feared, and President Inaba stated that the only one of the company's three business divisions not facing capacity constraints or delayed delivery times was FA.
- Fanuc has almost no component bottlenecks for production and President Inaba believes supply chain output is running at much higher levels in recent months.
- Fanuc sees all current orders to be a real reflection of actual demand and no longer advance purchases. China 2025 is a tailwind for Fanuc rather than an impediment (eg, the possibility of Buy China Only), as it will raise Chinese manufacturers to the level where they will want to, and need to, purchase the quality level of equipment which Fanuc produces.
- Robot demand is voracious for autos particularly in N. America and China, while Europe is growing on non-auto applications. FA demand for semiconductors and for infrastructure in China is buoyant.
- IT demand for all products normally declines in Q3 and Q4 but this will not be the case this year. IT demand will likely be strong at least through H1 FY18.
- Our FY17 OP forecast was 30% above guidance back in June but we raise our numbers for FY17 and FY18.

William Nestuk, Auto Parts and Machinery Analyst
will@pelhamsmithers.com Tel: +81 80 6707 0080

Year End March * (¥bil)	FY16a	FY17 CE Oct	FY17 CE Jan	FY17e	FY18e
Sales	536.9	693.0	716.0	723.0	775.0
Operating Profit	153.2	209.1	224.9	230.0	257.0
OP YoY % Change	-28.9%	+36.5%	+46.8%	+50.1%	+20.1%
OPM	28.5%	30.2%	31.4%	31.8%	33.2%
Net Income	127.7	164.9	180.2	184.0	203.0
EPS (¥)	658.6	850.7	929.6	949.2	1,059.7
DPS (¥)	395.2	NA	NA	569.5	635.8
Ebitda	182.4	NA	NA	267.0	298.0

Source: Company data, PSA Estimates

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Fanuc (6954JP)
FY17 Q3 Results
Raising our FY17 and FY18 Estimates

30 January 2017

Stock Price Chart

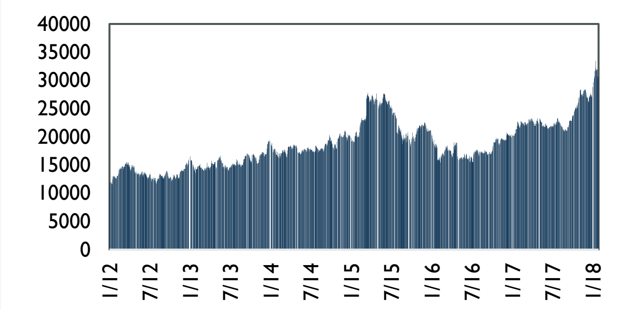

Chart Source: Bloomberg

Key Data (Year End: March)

Price:	¥29,670	Mkt Cap (¥bil)	6,054.4
(US)	$273.28	Mkt Cap ($bil)	55.8
Vol. (mil)	1.1	Val Trd ($mil)	32.4
Foreign (%)	54.2	Free Float (%)	94.3
EV (¥bil)	5,047.0	Shldr Eq (¥bil)	1,369.5

Valuations (x) / Yields (%)	FY16a	FY17e	FY18e
Price/Earnings (X)	45.0	31.1	28.0
EV/OP (X)t	32.5	21.9	18.9
Price/Book (X)	4.0	3.9	3.8
Dividend Yield	1.3%	1.9%	2.1%
RoE	9.4%	12.1%	13.7%

Source: Company data, PSA Estimates

Favourably Positions for FY18

We have argued for some time that Fanuc was completely correct in both the timing and scale of its massive capacity augmentation – though even we were caught by commentary that expansion will remain on the same level for at least another year or two.

The only Japanese FA provider coming close to the ¥90~¥100bn annual capex being spent by Fanuc since FY15 is **Mitsubishi Electric (6503 JP)**, which spent ¥75bn in FY15 and FY16 and only decided to raise that amount to at least ¥88bn in FY17, sometime over this past summer. Yet Mitsubishi Electric still finds itself lacking capacity to avoid order backlogs at least for another 6~9 months.

Competition Keeps a Tight Rein on Pricing

Analysts often ask if Fanuc will be raising prices given that it alone seems to have the capacity to supply customers with virtually no bottle-necks. President Inaba dryly repeated his stance at the results meeting, saying that competition is too fierce to raise prices. Yet our impression is that orders could be prioritized based on profitability, or that higher prices are possible. Moreover, rivals may lose out to Fanuc for certain products if Fanuc becomes known for its ability to delivery in this tight supply / demand environment.

High Operating Rates Support High OPMs

Despite a sharp rise in depreciation starting from Q3 (no figures disclosed, but we estimate a 25~30% YoY jump) and various personnel / logistics cost upswings, OPM improved over Q2 by over a full percentage point from 31.75% to 32.83%.

High operating rates are the main profit driver, according to Fanuc, and with some rivals unable to meet demand, Fanuc may well gain market share and maintain high operating rates even as capacity doubles in a number of areas (Robotics, FA).

The high Q3 OPM of 32.8% also suggests we may be underestimating OPMs for Robodrills following Fanuc's slimming of the business last year.

Currency Exposure Limited

Fanuc produces mainly in Japan and denominates most product in JPY, so forex exposure is less compared to its peers. We noted in our Jan 24 FY17 Q3 results update on **Yaskawa (6506 JP)** that it may be hurt by a weak USD given Trump's stance. Fanuc, by contrast, describes much of its N. America business as "long-term" and that China and Europe, where Q3 sales rose 143% YoY and 28% YoY respectively, are expected to drive new business.

Raising our Forecasts

Our FY17 OP forecast back in June was 30% above company guidance. We have lifted our FY17 and FY18 numbers.

PSA Forecasts Old / New

¥bn	FY17 Old	FY17 New
Sales	710.0	723.0
YoY % Change	+32.2%	+34.7%
Operating Profit	214.0	230.0
YoY % Change	+39.7%	+50.1%
OPM	30.1%	31.8%
¥bn	**FY18 Old**	**FY18 New**
Sales	736.0	775.0
YoY % Change	+3.7%	+7.2%
Operating Profit	221.0	257.0
YoY % Change	+3.3%	+11.7%
OPM	30.0%	33.2%

Source: PSA

Fanuc (6954 JP)
FY17 Q3 Results

30 January 2018

Fanuc (6954 JP)
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Research Team:

Pelham Smithers: Electronics, Telecoms, Pharma
+44 (0)20 3740 5501
pelham@pelhamsmithers.com

Julie Boote: Autos
+44 (0)136 340159
julie@pelhamsmithers.com

Joel Scheiman: Materials
+813 5701 3041
joel@pelhamsmithers.com

Thao Nguyen: Internet
+44 (0)20 3740 5507
thao@pelhamsmithers.com

William Nestuk: Auto Parts, Machinery
+81 80 6707 0080
will@pelhamsmithers.com

Sales Team:

James Ford
+44 (0)15 4885 7358
james@pelhamsmithers.com

Cindy Baker
+44 (0)20 3740 5505
cindy@pelhamsmithers.com

Debby Guthrie
+44 (0)20 3740 5504
debby@pelhamsmithers.com

Robert Jameson
+81 90 6508 1853
robert@pelhamsmithers.com