Nomura Co., Ltd.

November 13, 2025

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Overview

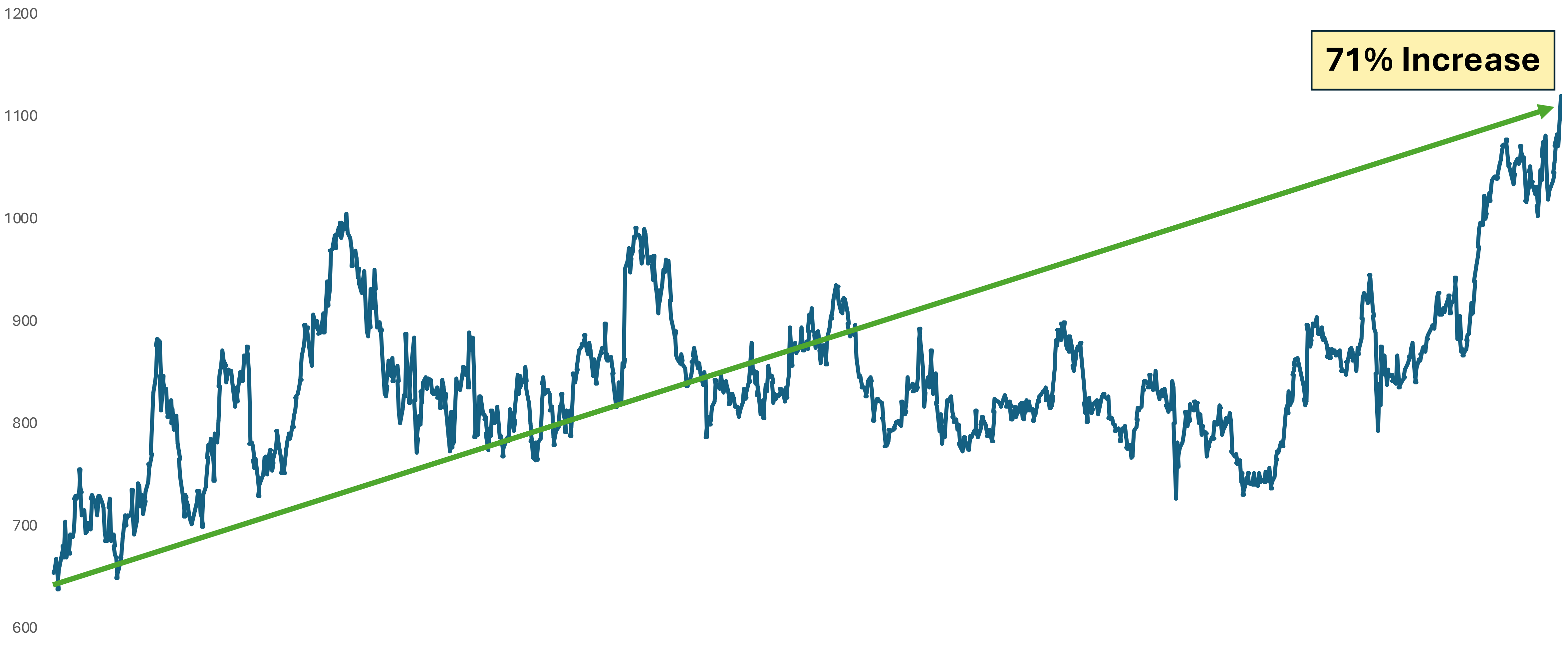
Ticker: 9716

Stock Price:

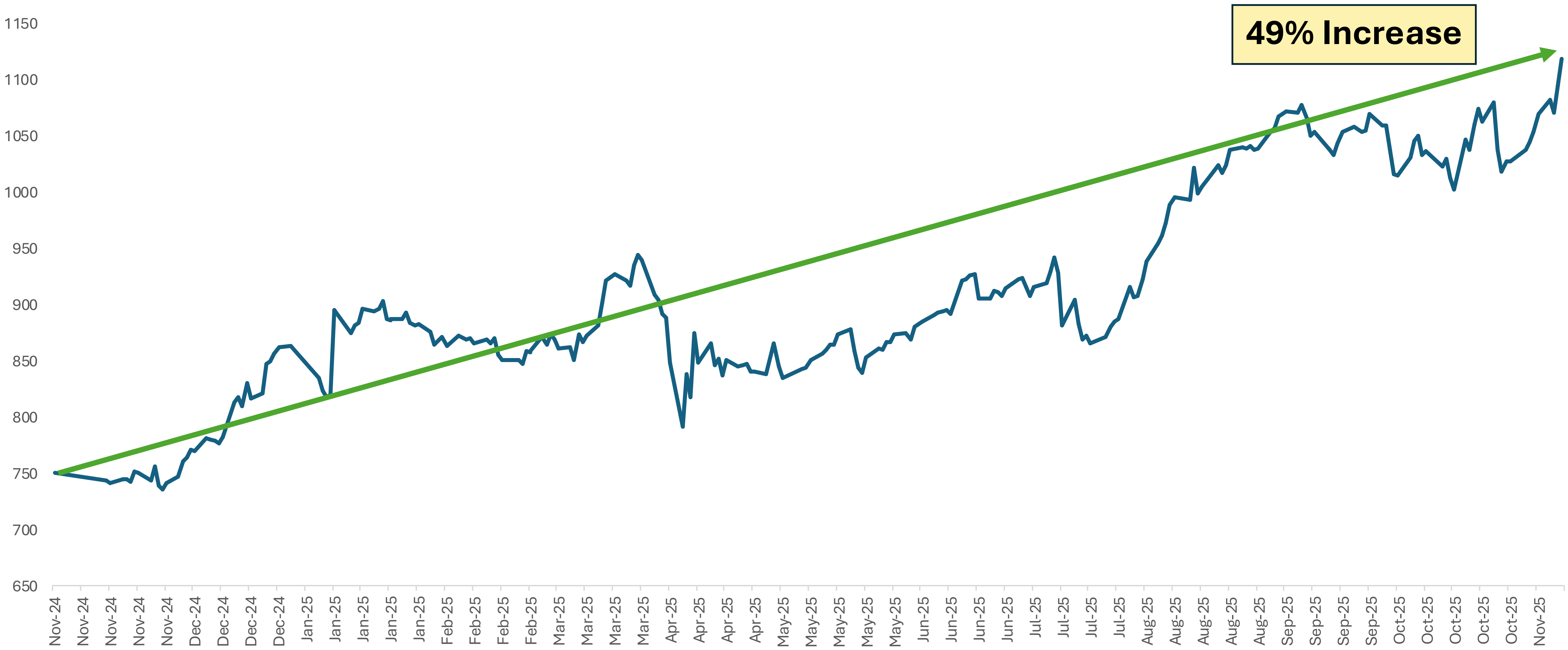
¥1119

- Engineering and construction company
- ~$961 million in revenue in FY2024/25
- Market capitalization of ~$828 million
- CEO Kiyotaka Okumoto took the role in March 2023

5 Year Stock Performance (since Nov. 2020)



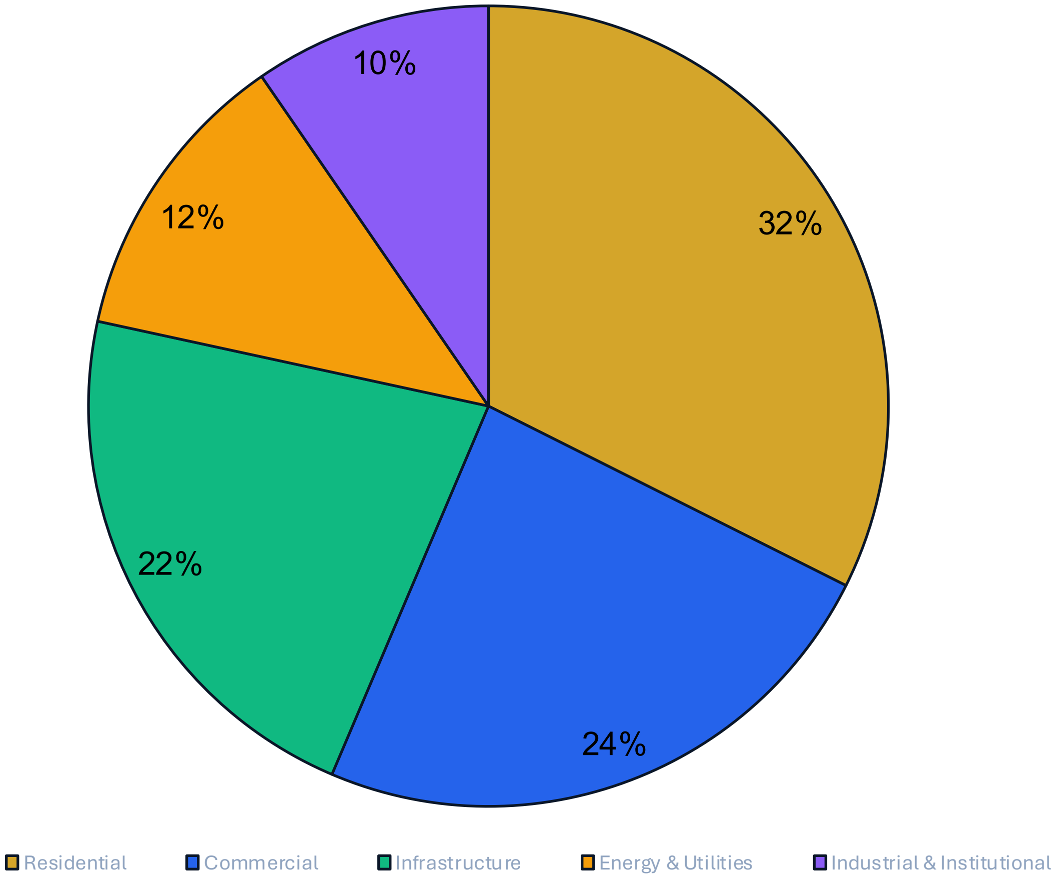
1 Year Stock Performance (since Nov. 2024)



Industry Overview

- Market size of ~$528 billion USD (¥32.4 trillion)
- 2030 forecast of $622 billion (3.31% CAGR)
- Post-Olympics recovery momentum
- Tokyo metro area leads demand
- 3rd most expensive globally for construction

Market Segmentation by Sector



Residential	32.4%
Fastest growing: 4.6% CAGR. Tokyo metro focus, prefab apartments.	
Commercial	24.0%
E-commerce logistics hubs, hybrid workspaces, mixed-use developments.	
Infrastructure	22.0%
Rail, roads, disaster mitigation. Government-backed resilience spending.	
Energy & Utilities	12.0%
Offshore wind (10GW target), solar, battery storage (30GW by 2040).	
Industrial & Institutional	9.6%
Semiconductor fabs, manufacturing reshoring, hospitals, schools.	

Industry Risks

- Severe labor shortage (4.6x job-to-applicant ratio)
  - Constrains capacity and pushes wage costs up
- Aging workforce (35% over 55 years old)
  - Raises retirement-driven attrition
- Rising material costs (yen weakness)
  - Lifts input costs (especially imported/FX-linked materials), squeezing margins unless contracts have escalation clauses or pass-through is timely
- Construction cost inflation: 5.6% (2025)
  - Supports higher nominal revenues but creates bid/contract risk and working-capital strain

Industry State

- BOJ raised rates to 0.75% (highest in 30 years)
- Inflation ~2.5-3%
- Fiscal policy remains expansionary with record ¥115T budget for FY25/26
- Output growing modestly at ~1-2% annually
- Construction orders up ~9-10% YoY
- Prices not yet inflating or reinforcing speculative cycles
- ¥20T National Resilience Plan for disaster mitigation
- ¥9.1T semiconductor/AI subsidies through 2030
- Renewable energy infrastructure push

Industry Outlook

- Industry is busy but under some pressure. Moderate growth driven by policy support, constrained by labor shortages and rising costs
- Post-Expo redevelopment, maglev progress, semiconductor fabs ramping
- Residential likely to remain weak
- Consistent, policy-backed progress rather than volatility. Public sector compensates for private sector dips. No boom expected (structural constraints), no bust likely (government floor).

Competitive Standing

- Nomura is a top-tier, scaled space-production player in Japan (planning → design → production/construction → operations/management) spanning specialty stores, shopping centers, PR/sales promotion, museums, leisure, and expositions/events
- Most direct competitors are Tanseisha and Space
- Nomura has the advantage in scale / breadth
- Profitability / execution edge: currently Tanseisha but Nomura improving

Competitive Advantage

- Positive pricing power with improving gross margin and backlog economics
- Strength is concentrated in specialty areas (specialty stores, PR/sales promotion, redevelopment with solid demand)
- Wins large, complex projects (e.g., Expo-related) that smaller/less specialized players struggle to execute
- Improving order economics
  - Order backlog profit margin up YoY
- Main issue is project-cycle economics
  - Profit timing dependent on large-project mix and lag effects

Narrow Sensitivity to Extrinsic Factors

- High sensitivity to labor costs due to skilled-worker shortages and rising wages
  - Selective on orders to prioritize profitability; helps defend margins
- COGS exposed to commodity/materials but ordering stages limit late price impacts
  - Prices for major materials have declined since the second half of 2022
  - Recent rises have not had material impact on completed projects so far
  - Explicitly prioritizing order profitability
- Zero interest-bearing debt limits direct exposure to interest rates
  - Customer capex is rate-sensitive but demand remains strong
  - Net-cash like balance sheet provides resilience
- Low sensitivity to currency exchange rates because demand is Japan-based
- Not currently seeing effects of US tariffs on investment

Financial Position

- Low debt levels
  - Net debt negative (net cash position)
  - Structurally insulated from refinancing/interest-burden risk
- Low reinvestment needs
  - Capex only ~0.3-0.9% of sales (asset-light) model
  - Depreciation ~0.8-1.2% of sales
  - Positive operating and free cash flow in periods shown

Upcoming Catalysts

- Margin expansion post-Expo
  - After Expo projects end in F2/26, gross profit margins should widen from F2/27 on shift toward higher margin projects with profitability coming in better than assumed
- Record earnings
  - Consecutive record operating profit expected from F2/26, supported by strong demand across specialty stores, PR/promotions, leisure (hotels), offices, and stronger backlog margins.
- Large project pipeline
  - Focus projects include international Horticultural Expo and Osaka IR, supporting sustained order momentum and positive market narrative
- Company considering strengthening shareholder return policy in next mid-term plan, with targets frame around DOE and payout ratio

Management

- Management captured growth where demand was strongest (inbound brands, urban redevelopment, PR/showrooms, office renovations) while executing profitability improvement measures
- Demonstrated operating leverage despite growth investments.
- COVD Demand Shock (FY2022)
  - Pivoted to cost/margin control. Sept 2021: interim profit upgraded. Jan 2022: full-year upgraded again. Sold policy shareholdings.
- Re-Emergency Period (FY2021)
  - Adequate transparency. Structural fix came in FY2022
- Margin Pressure (FY2023)
  - Clear on problem identification. Light on an operational playbook in disclosures

Management

- Aborted Malaysia Tie-Up
  - Pivoted to project-by-project collaboration. No equity investment has been made
  - Good risk containment and fast stop-loss; disciplined capital allocation
- 3 years consecutive Sales/OP growth. Captured demand in strongest segments. Record revenue and profits
  - However, policy-shareholding sales contributed to profit improvement (non-operating) -> worth monitoring
- Overall solid management
  - Key watch: sustaining margins post SG&A step-up and navigating project timing risk

Valuation

- Revenue: ¥155-160 bn
- Operating profit: ¥11-12 bn
- Net income: ¥7.7-8.9 bn
- EPS: ¥69–80
- Apply 18.5-21x P/E
- Target range: ¥1276-1680
    - ~14-50% upside

Risks

- Demand slows across markets and gross profit margin improvement disappoints; post-Expo skepticism persists in markets
  - If the economy softens, customers cut capex and competitors chase fewer projects more aggressively
- Persistent shortage of skilled workers drives wage inflation, subcontractor pricing power, staffing constraints, and execution bottlenecks.
  - This is a multi-year structural condition
- Even if orders are healthy, profit recognition and margin uplift can lag
  - Project businesses almost always have timing variance

Nomura Co., Ltd: Summary Investment Thesis

✓ Scaled, top-tier space-production player with breadth that supports large, complex projects

✓ Policy-backed demand and secular tailwinds underpin steady order flow

✓ Backlog economics improving; post-Expo project mix should drive gross margin expansion and support consecutive record operating profit expectations

✓ Net-cash balance sheet and asset-light model (low capex) provide resilience; management prioritizes order profitability to defend margins amid labor shortages

✓ Multiple catalysts

✓ Strong recent performance

Nomura is a good business, in a good industry, with good management, at a good price.