

Softbank Corp Q4: Strong Q4; 2021 guidance ahead at revenues, and in line on profit

By [Chris Hoare](#) | May 11, 2021

Softbank Corp has reported a strong set of Q4 figures, with numbers beating guidance which itself was raised at Q3. Guidance for 2021 is well above forecasts at the top line, and in line at EBIT and net profit; which is positive given the history of beating guidance, with the only negative in guidance a flat dividend forecast at ¥86 whereas we expected an increase to ¥88. Enterprise revenues were strong again at +9.5% YoY (Q4 10.4%), driven by IoT and other services, and Enterprise EBIT more than doubled on a YoY basis. We think this is a key area where the upside is substantial in Japan. But most importantly, MSR inflected from -1.5% to +2.1% YoY, with no sign yet of either increased Rakuten customer adds or price cutting having any effect. The reason: 5G which also drove strong equipment sales (+22%). With strong equipment sales, margins were down 180bp on a YoY basis, and EBITDA growth slowed to 4.5% from 5.6%, but EBITDA was still 7% ahead of consensus. Operational guidance for 2021 is generally strong: revenue of ¥5.5trn compares to our forecast (and consensus) of ¥5.2trn, and implies top line growth of nearly 6%. EBIT of ¥975bn compares to our forecast of ¥955bn (consensus ¥990bn) and Net profit of ¥500bn compares to our ¥488bn (consensus ¥496bn). The stock has rallied over the last 6 months but remains below the IPO price yet operationally trends continue to be robust. SoftBank remains our top pick among Japanese telcos.

Key takeaways:

- **Q4 figures were good across the board.** ZHD had previously reported, but the new figures released today were strong on the top line in all areas: Mobile, Enterprise and Distribution. Margins deteriorated but this is probably a function of very strong equipment revenues, and in any event EBITDA was still 7% above consensus.
- **Enterprise revenues were very strong:** Enterprise revenues were +9.5% (Q4: +10.4%), and Enterprise EBIT more than doubled YoY (+124%). The company has previously said that Enterprise is entering a period of “explosive” growth. We think demand drivers for enterprise services such as cloud and IoT are strong in Japan, and this is a core reason for our more bullish view of the Japanese telcos (especially SB).
- **Consumer mobile trends also improved,** with MSR trends improving from -0.6% to +2.1%, driven by an improvement in ARPU from -6% to -1.9%. This is highly encouraging as the first quarter including new price plans, it suggests that neither price cuts nor improved Rakuten customer growth are having an impact on the mobile business. We think the reason is strong 5G take-up which acts to offset these twin pressures.
- **Net profit on a reported YoY basis** was up 57% on a YoY basis.
- **Guidance for FY21 is strong.** Revenue of ¥5.5trn compares to our forecast (and consensus) of ¥5.2trn, and implies top line growth of

nearly 6%, after growth of 7% in FY 20. EBIT of ¥975bn compares to our forecast of ¥955bn (consensus ¥990bn) and Net profit of ¥500bn compares to our ¥488bn (consensus ¥496bn). The only negative in guidance is a flat dividend forecast at ¥86 whereas we expected an increase to ¥88.

Chart 1: Softbank financial summary by quarter

Income statement	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
Net revenue (¥bn)	879.9	914.5	982.3	969.6	1,164.9	1,208.2	1,244.9	1,243.3	1,172.6	1,255.8	1,378.6	1,398.5
Service revenue	605.7	611.9	621.0	626.6	635.3	639.1	639.4	616.6	628.3	656.6	647.7	638.7
Mobile	400.5	404.8	408.8	414.6	423.3	424.9	426.4	402.2	412.0	434.5	420.2	410.8
Telecom	400.0	403.6	408.8	414.6	423.3	424.9	426.4	402.2	412.0	434.5	420.2	410.8
Service (VAS)	65.2	65.5	67.6	69.9	67.8	70.3	67.9	69.0	71.9	76.3	78.9	78.4
Broadband	87.8	87.9	92.6	92.8	95.0	95.4	96.1	97.2	97.2	98.7	101.1	102.6
Fixed-line	52.2	53.7	52.0	49.4	49.1	48.5	48.9	48.1	47.3	47.1	47.5	46.9
Equipment	147.0	161.0	219.6	163.1	128.4	140.3	160.3	129.8	97.4	114.0	193.1	157.8
Other	205.7	208.3	212.2	212.0	212.0	214.2	212.9	214.4	216.4	222.1	227.5	227.9
Cost of products	207	218	289	294	209	241	249	233	185	209	305	292
Equipment margin	-41%	-36%	-31%	-80%	-62%	-72%	-55%	-79%	-90%	-84%	-58%	-85%
Sales commission fees	101	103	119	152	110	109	121	159	95	96	115	155
Fixed	3	2	2	2	2	2	2	2	2	2	2	2
Mobile	99	101	117	150	108	108	119	157	93	94	113	153
Sales promotional expense (FL)	1	2	8	27	1	3	6	12	2	2	6	11
% of service revenue	0.2%	0.3%	1.3%	4.3%	0.2%	0.5%	0.9%	1.9%	0.3%	0.4%	0.9%	1.7%
Telecom network charges	53	59	57	56	55	58	58	57	59	59	59	58
% of service revenue	8.8%	9.7%	9.1%	8.9%	8.7%	9.1%	9.0%	9.2%	9.4%	9.0%	9.2%	9.1%
Other	184	195	197	214	125	135	153	194	141	152	177	225
Other % of revenue	20.9%	21.3%	20.1%	22.1%	10.7%	11.2%	12.3%	15.6%	12.1%	12.1%	12.8%	16.1%
EBITDA	333	337	313	226	434	438	419	316	453	485	442	330
EBITDA margin	37.9%	36.9%	31.8%	23.3%	37.3%	36.2%	33.7%	25.4%	38.6%	38.6%	32.1%	23.6%
% change YoY	10.3%	9.1%	5.5%	-9.0%	30.2%	29.8%	34.0%	39.5%	4.4%	10.9%	5.6%	4.5%
Depreciation and amortisation	112	112	113	115	173	155	170	178	171	172	176	178
Operating income	220	223	192	85	269	283	243	117	280	310	252	129
Operating margin	25.0%	24.4%	19.5%	8.7%	23.1%	23.4%	19.5%	9.4%	23.9%	24.7%	18.3%	9.2%
Capex	126	131	108	89	108	116	102	106	109	140	116	115
Mobile	101	102	91	76	58	65	68	75	66	92	79	85
Fixed	25	29	17	12	25	29	17	12	25	29	17	12
Capex/service revenue	20.8%	21.5%	17.3%	14.1%	17.0%	18.2%	16.0%	17.1%	17.4%	21.3%	17.9%	17.9%
Mobile	25.3%	25.1%	22.2%	18.4%	13.6%	15.2%	15.9%	18.7%	16.1%	21.2%	18.8%	20.7%
Fixed	17.6%	20.8%	11.7%	8.8%	17.1%	20.5%	11.7%	8.6%	17.1%	20.2%	11.4%	8.3%
Operating free cash flow	208	206	205	138	326	322	317	210	344	345	326	215
Tax-adjusted FCF	77	215	82	135	198	326	194	204	74	459	215	209
Interest expense	(5)	(41)	(11)	(12)	(12)	(13)	(20)	(14)	(12)	(14)	(15)	(12)
Free cash flow	66	219	21	118	137	220	82	310	142	497	34	195

Source: New Street Research estimates

Chart 2: Softbank operational summary by quarter

KPIs	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
Mobile subscribers (000)	42,942	43,347	43,723	44,536	44,772	44,790	45,184	45,778	46,131	46,569	46,878	47,284
Net new subs	292	405	376	813	236	18	394	594	353	438	309	406
Churn Rate	1.03%	0.93%	1.03%	1.29%	1.03%	0.98%	0.86%	0.99%	0.73%	0.88%	0.96%	1.13%
Total ARPU	4,320	4,330	4,380	4,410	4,450	4,450	4,440	4,330	4,300	4,300	4,300	4,260
Telecom ARPU	3,998	3,995	3,997	4,008	4,046	4,014	3,984	3,702	3,743	3,907	3,746	3,632
Service ARPU	651	646	661	675	648	664	634	636	653	686	704	693
Broadband lines	7,219	7,385	7,523	7,643	7,705	7,757	7,779	7,846	7,988	8,094	8,120	8,138
Net new lines	179	166	138	120	62	52	22	67	142	106	26	18
ADSL (000)	963	926	876	833	794	757	717	673	624	595	567	530
FTTH lines	999	960	927	894	861	836	812	786	761	738	715	692
FTTH ARPU	1,740	1,740	1,740	1,740	1,710	1,690	1,690	1,690	1,660	1,680	1,670	1,660
Softbank Hikari (Fixed Mobile)	5,257	5,499	5,720	5,916	6,050	6,164	6,250	6,387	6,603	6,761	6,838	6,916
FM ARPU	4,590	4,530	4,650	4,510	4,510	4,490	4,480	4,490	4,420	4,370	4,410	4,440

Source: New Street Research estimates

Conclusion:

Figures were strong for SB KK, with strength in all business units. Most important are signs that mobile trends are (so far) unimpacted by either stronger Rakuten net adds or price cutting. We suspect this is because 5G upselling is offsetting these pressures. The market remains fundamentally bearish, we think, with most long only funds underweight. We think Softbank's long term business model which relies on a much broader business focus than other telcos is likely to lead to market share gains and creates resilience to pressure in mobile, and enable the company to grow the top line medium term. We remain Buyers, and constructive on Japanese mobile generally. Our price target is ¥1,975.

Full 12-month historical recommendation changes are available on request

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