Omega Investment

CHUGAI RO (TYO: 1964)

In 1Q FY3/2027, progress was in line with expectations toward the full-year plan, despite lower order intake.

◇ Highlights of 1Q FY3/2027 results: lower order intake, lower sales, and a narrower operating loss.

The 1Q FY3/2027 results announced by CHUGAI RO (hereinafter, the Company) on July 24, 2026, were broadly in line with expectations versus the full-year earnings forecast.

Order intake was 7.38 billion yen (down 37% YoY), order backlog was 38.98 billion yen (down 9% YoY), net sales were 6.12 billion yen (down 4% YoY), and operating loss was 210 million yen (loss narrowed YoY). Ordinary loss was 110 million yen (loss narrowed YoY). Quarterly net loss attributable to owners of parent was 70 million yen (turned to a loss YoY). The balance sheet showed no major changes.

The key points of these results are the following three.

First, the decline in order intake and order backlog was in line with expectations. Although order intake for the current fiscal year decreased significantly YoY, the Company says there are no signs that the order environment has deteriorated substantially. The decline was largely due to the reactionary impact of large orders received in the same period of the previous fiscal year. Both order intake and order backlog are progressing in line with expectations. Order contents included heat-treatment equipment for the chemical industry in Japan, heat-treatment furnaces for battery materials, hot-air generators, vacuum furnaces for automobiles and other applications, ladle preheating equipment for steel in Japan, and combustion equipment, all areas where the Company can demonstrate its strengths.

Second, operating loss and ordinary loss narrowed in the first quarter, and profit and loss are becoming more level.

Net sales decreased slightly, but the loss narrowed YoY due to appropriate pass-through of increases in labor and raw material prices and progress in business efficiency improvements. Because of the nature of the Company's business, profits tend to be heavily concentrated in the fourth quarter, but the Company is strengthening profit and loss management to level this as much as possible, which we view positively.

The large YoY decline in quarterly net income attributable to owners of parent was due to the absence of gains on sales of shares recorded in the same period of the previous fiscal year.

Third, there were multiple news releases related to business development.

· April 24, 2026: "Passing the Stage Gate for NEDO's Green Innovation Fund Project / Decarbonization of Thermal Processes in the Manufacturing Sector"

From April 1, 2026, as a NEDO-subsidized project, the Company started medium-scale demonstration development on technology development for combustion furnaces compatible with ammonia and hydrogen, as well as technology development related to minimizing and increasing the efficiency of the receiving capacity of electric furnaces, which is essential for conversion from combustion furnaces to electric furnaces.

· July 7, 2026: "Signing of a Memorandum of Understanding toward a Business Alliance with Ineeji Co., Ltd. of South Korea"

The aim is to combine the Company's equipment technologies, such as reheating furnaces and annealing furnaces for steel and nonferrous metals, with Ineeji's industry-specialized AI technologies, and thereby promote the joint development and global rollout of next-generation industrial furnace packages, or smart furnaces, that improve energy efficiency, stabilize product quality, and standardize and autonomize operations.

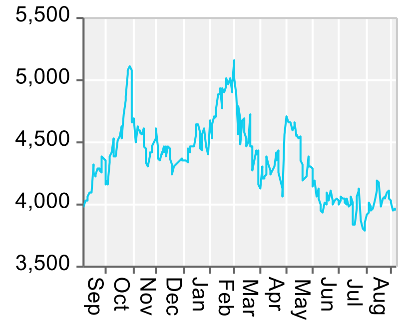
1Q update report

Construction industry

As of September 7, 2026

Share price (9/4)	**3,965 Yen**
52weeks high/low	¥5,220/3,755
Avg Vol (3 month)	39.5 thou shrs
Market Cap	¥30.93 Bn
Enterprise Value	¥24.88 bn
PER (3/27 CE)	11.2 X
PBR (3/26 act)	0.95 X
Dividend Yield (3/27 CE)	4.5 %
ROE (3/26)	15.7 %
Operating margin (3/26)	7.7 %
Beta (5Y Monthly)	0.44
Shares Outstanding	7.800 mn shrs
Listed market	TSE Prime section

Share price performance



Points of interest

CHUGAI RO is Japan's leading company in industrial furnaces and is known as a "department store of industrial furnaces." Achieving carbon neutrality for the 5,000–7,000 industrial furnaces the Company has been involved with is indispensable for Japan to meet its national decarbonization targets. The Company is promoting a Medium-Term Management Plan that treats this as a business opportunity, and the stock price has risen to a level corresponding to a PBR of around 1.0x, driven by business scale expansion and improved capital efficiency. The Company is currently formulating a new Medium-Term Management Plan that will start in FY3/2028, and attention is focused on its direction and the initiatives of the new president.

This report (financial update) has been prepared at the request of CHUGAI RO. For details, please refer to the Disclaimer on the last page.

· August 5, 2026: "Our Products Were Selected as Advanced Equipment and Systems under the Energy-Saving and Non-Fossil Fuel Conversion Subsidy (Factory and Workplace Type) Program"

Under the subsidy program administered by the Sustainable Open Innovation Initiative, "FY2025 Supplementary Budget Energy-Saving and Non-Fossil Fuel Conversion Subsidy (Factory and Workplace Type)," four products continued to be selected as advanced equipment and systems eligible for subsidies: the HIFALCON™ mass-production-type vacuum carburizing furnace, the Compact Falcon™ small-lot vacuum carburizing equipment, the atmosphere regeneration system, and the tundish preheating equipment equipped with a diffusion-combustion oxygen burner. Two products were newly selected: the variable-flame-length high-efficiency regenerative reheating furnace and the burner combustion system equipped with EBC³™ (Easy & Eco Burner Control System Cube). This supports customers' introduction of these products.

◇ FY3/2027 earnings forecast: unchanged

The Company discloses only its full-year forecast, and this time it left it unchanged.

Net sales are forecast at 40.30 billion yen (up 8% YoY), operating profit at 3.62 billion yen (up 26% YoY), ordinary profit at 3.72 billion yen (up 20% YoY), and profit attributable to owners of parent at 2.52 billion yen (down 46% YoY). Net income per share of 361.31 yen and annual dividend per share of 180 yen also remain unchanged.

◇ Stock price trends and points of focus going forward

The Company's stock price broke above the 3,000 yen level, which had served as resistance since the 2010s, in 2024, and has maintained its medium-term upward trend since 2022. However, since February this year, the stock price has struggled to rise, and it has moved back and forth around the time of these results.

The stock price valuation shows no sign of overheating, with a forward PER of 11x, a PBR of 0.94x, and a forward dividend yield of 4.4%. Given the Company's improved ROE and proactive stance toward establishing a PBR above 1.0x, downside risk appears limited.

Although it is difficult to infer externally the probability of achieving the full-year plan based on the first-quarter results, order intake is progressing within expectations, and the full-year forecast has been left unchanged, so the stock price is waiting for catalysts to move higher.

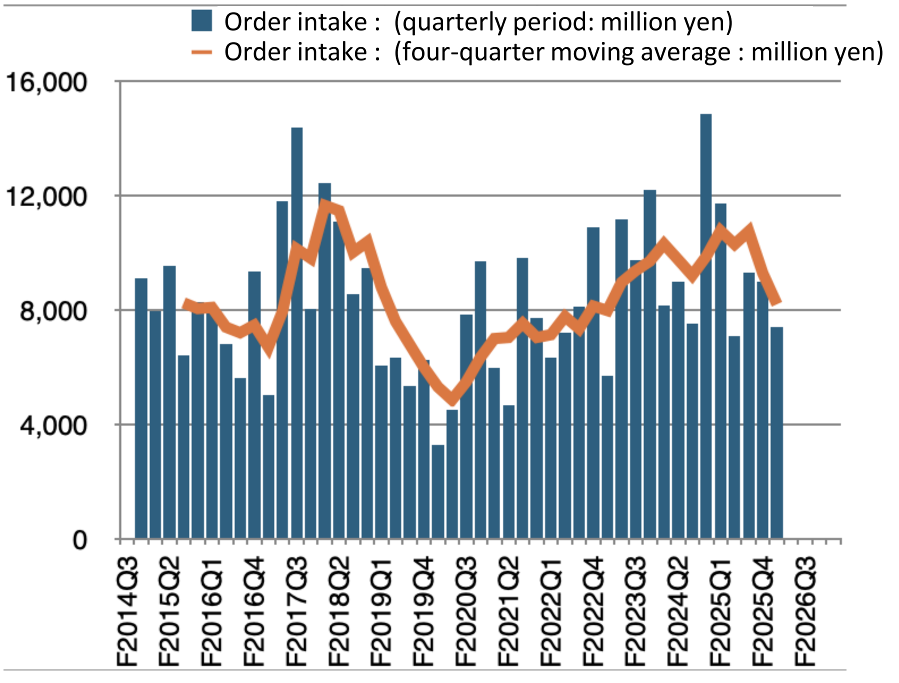
Based on the above, the key points to watch going forward are the following.

· The probability of achieving the full-year Company forecast for FY3/2027 increases each quarter.

· Orders and initiatives increase in markets of interest that will lead to the next Medium-Term Management Plan. Specifically, we would like to wait for an explanation of the path toward further improvement in ROE under the next Medium-Term Management Plan, through continuing to expand sales of new products and brush up existing products without becoming overly biased toward carbon-neutrality responses, increasing the Company's presence in areas such as production equipment for next-generation solar cells, all-solid-state batteries, and semiconductor manufacturing equipment, and accelerating expansion into North America, India, and other markets. We also expect improvements in labor productivity and asset efficiency.

· The Company becomes involved in new customer initiatives beyond carbon neutrality.

Order intake trend



(Source: Omega Investment from company materials)

Company profile

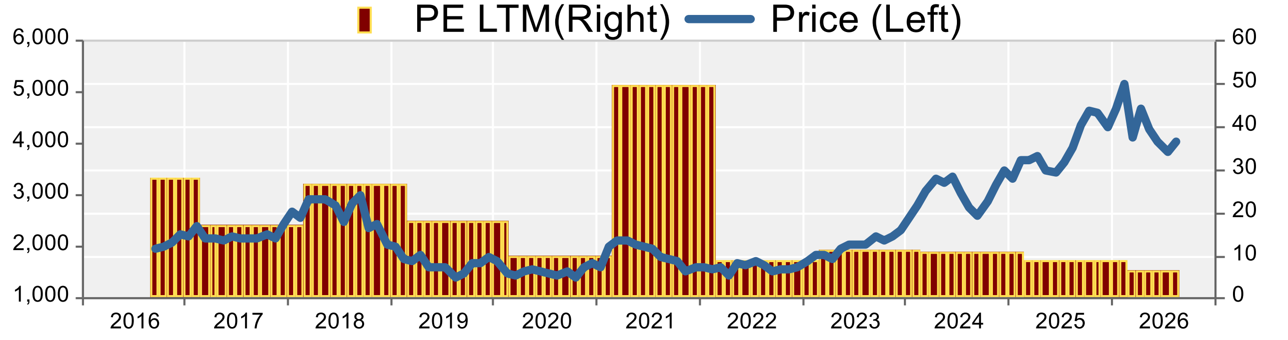
CHUGAI RO CO., LTD. is Japan's leading manufacturer of industrial furnaces and industrial burners, whose management philosophy is: "Chugai Ro creates new value through its core of thermal technology, thus contributing to society while realizing the prosperity of the company and the happiness of its employees." With a track record of developing over 100 types of industrial furnaces, the Company is known as a "department store of industrial furnaces." Under the slogan "Pioneering the future with thermal technology," and based on its foundational technologies in thermal technology, engineering capabilities, and advanced technology accumulated since its founding in 1945, the Company provides industrial furnaces and related equipment to the steel, automotive, and information and communications industries. Currently, based on Management Vision 2026, "Renovate ourselves to develop our future with the technology for carbon neutrality!", the Company is promoting its Medium-Term Management Plan (FY2022–FY2026). More recently, under Mamoru Sakata, who was appointed as the new president effective April 1, 2026, the Company is formulating a new Medium-Term Management Plan that will start in FY3/2028, and attention is focused on its direction.

Key financial data

Unit: million yen	2022/3	2023/3	2024/3	2025/3	2026/3	2027/3 CE
Sales	26,317	27,977	29,283	36,247	37,332	40,300
EBIT	1,264	1,310	1,479	2,737	2,879	3,620
Pretax Income	1,594	1,699	3,129	4,222	6,426	
Net Profit Attributable to Owner of Parent	1,360	1,231	2,197	2,998	4,668	2,516
Cash & Short-Term Investments	11,130	7,884	10,061	4,392	10,821	
Total assets	38,141	41,178	48,863	48,736	51,282	
Total Debt	3,988	3,988	7,288	5,507	4,445	
Net Debt	-7,142	-3,896	-2,773	1,115	-6,376	
Total liabilities	14,929	17,136	21,094	20,127	19,800	
Total Shareholders' Equity	23,068	23,860	27,570	28,328	31,200	
Net Operating Cash Flow	6,090	-2,500	-891	-3,696	6,259	
Capital Expenditure	216	244	1,355	723	1,318	
Net Investing Cash Flow	510	-63	550	654	2,684	
Net Financing Cash Flow	-2,508	-727	2,451	-2,701	-2,569	
Free Cash Flow	5,963	-2,688	-2,161	-4,419	5,413	
ROA (%)	3.55	3.10	4.88	6.14	9.33	
ROE (%)	6.08	5.25	8.54	10.73	15.68	
EPS (Yen)	177.2	162.0	293.8	407.6	643.7	361.31
BPS (Yen)	3,005.3	3,146.7	3,709.0	3,859.0	4,311.2	
Dividend per Share (Yen)	70.00	70.00	80.00	150.00	166.00	180.00
Shares Outstanding (Million shares)	7.80	7.80	7.80	7.80	7.80	

Source: Omega Investment from company materials

Share price



Financial data (quarterly basis)

Unit: million yen	2025/3				2026/3				2027/3
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
(Income Statement)									
Sales	5,280	9,441	7,498	14,028	6,347	8,422	9,015	13,548	6,119
Year-on-year	11.4%	20.0%	28.5%	29.4%	20.2%	-10.8%	20.2%	-3.4%	-3.6%
Cost of Goods Sold (COGS)	4,759	7,521	6,138	10,238	5,464	6,658	7,203	9,893	5,010
Gross Income	521	1,919	1,360	3,790	883	1,763	1,813	3,655	1,108
Gross Income Margin	9.9%	20.3%	18.1%	27.0%	13.9%	20.9%	20.1%	27.0%	18.1%
SG&A Expense	1,203	1,160	1,163	1,328	1,254	1,229	1,356	1,396	1,317
EBIT	-682	760	197	2,462	-371	535	456	2,259	-208
Year-on-year	-%	-%	-%	28.4%	-%	-29.6%	131.5%	-8.2%	-%
Operating Income Margin	-12.9%	8.0%	2.6%	17.6%	-5.8%	6.4%	5.1%	16.7%	-3.4%
EBITDA	-551	902	334	2,604	-253	661	605	2,409	-79
Pretax Income	50	775	704	2,693	1,032	514	1,915	2,965	-108
Consolidated Net Income	-9	544	504	2,033	673	333	1,319	2,328	-88
Minority Interest	2	15	16	41	-31	-17	40	-6	-13
Net Income ATOP	-12	530	487	1,993	704	351	1,278	2,335	-74
Year-on-year	-%	-%	359.4%	48.3%	-%	-33.8%	162.4%	17.2%	-%
Net Income Margin	-0.2%	5.6%	6.5%	14.2%	11.1%	4.2%	14.2%	17.2%	-1.2%
(Balance Sheet)									
Cash & Short-Term Investments	6,097	5,567	3,855	4,392	6,071	5,853	6,726	10,821	7,674
Total assets	43,463	45,170	43,667	48,736	46,023	47,656	46,788	51,282	46,830
Total Debt	6,209	7,180	6,687	5,507	6,397	5,240	5,074	4,445	4,836
Net Debt	112	1,613	2,832	1,115	326	-613	-1,652	-6,376	-2,838
Total liabilities	17,081	18,798	17,117	20,127	18,879	19,322	17,646	19,800	17,416
Total Shareholders' Equity	26,178	26,142	26,320	28,328	26,908	28,117	28,875	31,200	29,158
(Profitability %)									
ROA	5.61	4.23	5.22	6.14	8.30	7.61	9.56	9.33	8.37
ROE	9.82	7.76	9.24	10.73	13.99	13.03	15.67	15.68	13.87
(Per-share) Unit: JPY									
EPS	-1.6	71.9	66.3	271.5	96.6	48.5	176.6	322.6	-10.4
BPS	3,565.6	3,561.1	3,585.4	3,859.0	3,717.8	3,884.9	3,989.7	4,311.2	4,176.6
Dividend per Share	0.00	0.00	0.00	150.00	0.00	0.00	0.00	166.00	0.00
Shares Outstanding (million shares)	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80

Source: Omega Investment from company materials

Financial data (full-year basis)

Unit: million yen	17/3	18/3	19/3	20/3	21/3	22/3	23/3	24/3	25/3	26/3
(Income Statement)										
Sales	31,146	30,830	37,090	38,090	24,718	26,317	27,977	29,283	36,247	37,332
Year-on-year	-5.0%	-1.0%	20.3%	2.7%	-35.1%	6.5%	6.3%	4.7%	23.8%	3.0%
Cost of Goods Sold	26,575	25,600	31,898	31,787	20,048	20,759	22,285	23,166	28,656	29,218
Gross Income	4,571	5,229	5,191	6,302	4,670	5,558	5,691	6,117	7,590	8,114
Gross Income Margin	14.7%	16.3%	13.3%	15.9%	17.9%	20.2%	19.6%	19.9%	19.9%	21.7%
SG&A Expense	3,797	4,048	4,204	4,591	4,280	4,294	4,382	4,639	4,854	5,235
EBIT	774	1,181	987	1,712	389	1,264	1,310	1,479	2,737	2,879
Year-on-year	14.3%	52.6%	-16.4%	73.5%	-77.3%	224.9%	3.6%	12.9%	85.1%	5.2%
Operating Income Margin	2.5%	3.8%	2.7%	4.5%	1.6%	4.8%	4.7%	5.1%	7.6%	7.7%
EBITDA	1,112	1,527	1,378	2,080	749	1,676	1,710	1,953	3,289	3,422
Pretax Income	967	1,294	1,177	1,701	527	1,594	1,699	3,129	4,222	6,426
Consolidated Net Income	1,000	905	781	1,158	364	1,429	1,295	2,216	3,072	4,653
Minority Interest	21	40	26	37	35	69	64	19	74	-14
Net Income ATOP	978	864	754	1,120	329	1,360	1,231	2,197	2,998	4,668
Year-on-year	79.4%	-11.7%	-12.7%	48.5%	-70.6%	313.4%	-9.5%	78.5%	36.5%	55.7%
Net Income Margin	3.1%	2.8%	2.0%	2.9%	1.3%	5.2%	4.4%	7.5%	8.3%	12.5%
(Balance Sheet)										
Cash & Short-Term Investments	7,833	6,858	5,169	8,658	7,121	11,130	7,884	10,061	4,392	10,821
Total assets	38,502	41,368	42,731	46,696	38,577	38,141	41,178	48,863	48,736	51,282
Total Debt	3,988	4,010	4,995	9,988	5,988	3,988	3,988	7,288	5,507	4,445
Net Debt	-3,845	-2,848	-174	1,330	-1,133	-7,142	-3,896	-2,773	1,115	-6,376
Total liabilities	18,131	20,131	21,775	26,008	16,785	14,929	17,136	21,094	20,127	19,800
Total Shareholders' Equity	20,295	21,138	20,874	20,589	21,680	23,068	23,860	27,570	28,328	31,200
(Cash Flow)										
Net Operating Cash Flow	1,033	377	-1,348	-580	3,300	6,090	-2,500	-891	-3,696	6,259
Capital Expenditure	145	512	380	305	449	216	244	1,355	723	1,318
Net Investing Cash Flow	402	-837	-478	-442	-551	510	-63	550	654	2,684
Net Financing Cash Flow	-484	-468	279	4,510	-4,481	-2,508	-727	2,451	-2,701	-2,569
Free Cash Flow	933	2	-1,725	-775	3,036	5,963	-2,688	-2,161	-4,419	5,413
(Profitability)										
ROA (%)	2.50	2.17	1.80	2.51	0.77	3.55	3.10	4.88	6.14	9.33
ROE (%)	4.95	4.18	3.59	5.41	1.56	6.08	5.25	8.54	10.73	15.68
Net Margin (%)	3.14	2.81	2.04	2.94	1.33	5.17	4.40	7.50	8.27	12.50
Asset Turn	0.80	0.77	0.88	0.85	0.58	0.69	0.71	0.65	0.74	0.75
Assets/Equity	1.97	1.93	2.00	2.16	2.02	1.71	1.69	1.75	1.75	1.68
(Per-share) Unit: JPY										
EPS	125.7	111.0	97.2	145.9	42.9	177.2	162.0	293.8	407.6	643.7
BPS	2,607.8	2,716.9	2,718.6	2,681.5	2,824.1	3,005.3	3,146.7	3,709.0	3,859.0	4,311.2
Dividend per Share	60.00	60.00	60.00	60.00	60.00	70.00	70.00	80.00	150.00	166.00
Shares Outstanding (million shares)	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80

Source: Omega Investment from company materials

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Omega Investment Co., Ltd.
E-mail: info@omegainv.com
KS Floor, Risona kudan building 5F, 1-5-6, kudan-minami, chiyoda-ku,
Tokyo, Japan