

TESS Holdings (TSE Code:5074)

Multiple Large Orders Confirmed for Storage Battery EPC Business

GIR View

A Promising Company in Renewable Energy

TESS Holdings' stock price has been sluggish due to repeated downward revisions, including in relation to derivative gains/losses from forward exchange contracts for business fuel and delays in the sale of development sites and rights. However, GIR considers the company to be one of the promising companies in the renewable energy sector, noting its extensive technologies and expertise in this field.

Orders for the Battery Business Ramping Up

The key focus of the current third-quarter financial results is that, as announced in the company's Mid-Term Management Plan, it has secured multiple large-scale orders related to storage batteries, expanding its order backlog from 12.6 billion yen as of March 31, 2024, and from 13.5 billion yen as of December 31, 2024, to 22.1 billion yen as of March 31, 2025.

Multiple widespread power outages have been occurring in Spain and other countries that have been actively adopting renewable energy on a large scale. While the exact causes remain unclear at this stage, it has long been pointed out that the expansion of renewable energy requires the introduction of battery energy storage systems (BESS) and other technologies to ensure the stability of frequency and voltage. Against this backdrop, many countries, including Japan, are planning and implementing the introduction of BESS. In Japan, incentives have been established to encourage FIT power generation companies to transition to the FIP system. However, recently, leasing companies and subsidiaries of non-FIT power generation companies have also begun to pursue

KEY STATISTICS



Key Stock Statistics

Recent Price (6/16/2025)	¥326
52-week High/Low	¥446/¥249
Shares Outstanding	70,644,130 shares
Market Cap	¥23,030 million
PER	32.90 times
PSR	0.61 times
Dividend (Dividend Yield)	¥7.66 (2.35%)

Sector Overview

Sector	Construction
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Financials (FY06/2025 forecast)

Net sales	¥38,000 million
Operating profit margin (%)	7.1%
EBITDA margin (%)	15.5%

Management

President	Kazuki Yamamoto
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URL	https://www.tess-hd.co.jp/english/
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the commercialization of large-scale energy storage systems. These developments are believed to be driven by the circumstances outlined above.

Compared to other renewable energy-related companies in the industry, TESS Holdings has accumulated a wide range of technologies and expertise, making it highly likely for the company to view market changes as business opportunities. As such, TESS Holdings is very much worth watching.

Results for the Nine Months Ended March 31, 2025

During the nine months ended March 31, 2025, net sales increased by 17.2% year-on-year to 26.8 billion yen, operating profit rose by 28.8% to 2.67 billion yen, ordinary profit decreased by 94.0% to 230 million yen, and profit fell by 74.3% to 620 million yen. The Energy Supply Segment achieved both increased revenue and profit due to steady growth in renewable energy power generation, on-site PPA, and biomass fuel sales, as well as strong performance in the Engineering Segment, where both energy conservation and renewable energy EPC projects were robust. Regarding ordinary profit and profit before taxes, which were released in November 2024, the significant profit decline was primarily due to derivative valuation losses.

However, the most notable point in the results for the nine months ended March 31, 2025 is that, as announced in the company's Mid-Term Management Plan, it has secured multiple large orders related to storage batteries, expanding its order backlog from 12.6 billion yen as of March 31, 2024, and 13.5 billion yen as of December 31, 2024, to 22.1 billion yen as of March 31, 2025. This is considered to be the result of FIP conversion from FIT, as well as the full-scale introduction of large-scale storage battery systems into power grids.

In the Engineering Segment, orders received surged 131.2% year-on-year to 16.92 billion yen, and the order backlog increased 175.2% to 22.1 billion yen. Orders were driven by commissioned and development EPC projects for FIT solar power conversion to FIP plus co-location storage batteries, and for grid storage plants. In terms of the order backlog breakdown, approximately 50% of orders are for storage batteries, while co-generation, in-house power generation facilities, and biomass power generation facilities account for approximately 40% of the order backlog. This marks the early realization of efforts to expand the storage battery EPC business, one of the growth drivers outlined in the Mid-Term Management Plan.

In the Energy Supply Segment, the renewable energy supply through in-house consumption solar power generation systems, particularly using the on-site PPA model, is growing steadily. The addition of the Fukuoka-Miyako Mega Solar power plant as a consolidated subsidiary under the FIT system contributed to increased revenue, along with increased shipments of biomass fuel and a decrease in procurement prices.



On the balance sheet, total assets increased by 30.7 billion yen to 149.8 billion yen due to an increase in non-current assets resulting from the Fukuoka-Miyako Mega Solar power plant becoming a consolidated subsidiary and an increase in construction in progress for the construction of the Saga Imari Biomass Power Plant, which was mainly covered by an increase in long-term borrowings. Going forward, as outlined in the company's Mid-Term Management Plan, TESS Holdings is expected to invest in growth and focus management resources on transforming its business structure.

Full-year Financial Forecast for the Current Fiscal Year Ending June 30, 2025

The full-year forecast remains unchanged, with both net sales and operating profit up but ordinary profit down 94.8% year-on-year to 400 million yen and profit down 41% to 700 million yen, due to the impact of approximately 1.8 billion yen in losses on valuation of derivatives. As for dividends, TESS Holdings expects to pay a dividend of 7.66 yen per share, a decrease of 8.34 yen per share, since gains/losses on the valuation of derivatives do not affect cash flow, and the company deducts such impacts in accordance with its dividend policy.

Derivative valuation losses are related to long-term contracts for imported fuel for the biomass power generation business that will be absorbed as the business progresses. While this is, in principle, a correct accounting treatment under the current market value accounting rules, the fact that it is a valuation loss that has no impact on the business itself should be taken into consideration from the investor side. The accounting treatment for long-term forward exchange contracts has been applied to hedge accounting from the interim consolidated accounting period ending June 30, 2025. As a result, long-term forward exchange contracts will no longer impact fiscal period profit/loss in the future.



Figure 1: Consolidated Results

Accounting period	FY06/2022	FY06/2023	FY06/2024	FY06/2025				
				Q1	Q2	Q3	Q4 CE	Q1-Q4 CE
Net sales	34,945	34,415	30,643	8,308	9,705	8,775	11,212	38,000
YoY	2.0%	-1.5%	-11.0%	33.5%	9.7%	12.6%	44.0%	24.0%
Gross profit	8,455	10,611	6,553	2,103	2,627	1,473	1,797	8,000
YoY	12.1%	25.5%	-38.2%	21.4%	29.1%	14.8%	19.6%	22.1%
Gross profit margin	24.2%	30.8%	21.4%	25.3%	27.1%	16.8%	16.0%	21.1%
Selling, general, and administrative expenses	3,309	3,746	4,183	1,159	1,162	1,212	1,767	5,300
YoY	5.3%	13.2%	11.7%	13.7%	8.3%	36.8%	46.6%	26.7%
Operating profit	5,146	6,864	2,370	944	1,465	260	31	2,700
YoY	17.0%	33.4%	-65.5%	32.2%	52.3%	-34.5%	-89.6%	13.9%
Operating profit margin	14.7%	19.9%	7.7%	11.4%	15.1%	3.0%	0.3%	7.1%
Ordinary profit	4,654	5,518	7,660	757	(517)	(15)	175	400
YoY	21.3%	18.6%	38.8%	52.0%	Decline to Deficit	Deficit Reduction	-95.5%	-94.8%
Profit	2,759	3,794	1,326	684	(87)	19	84	700
YoY	34.1%	37.5%	-65.1%	141.7%	Decline to Deficit	-98.8%	-107.8%	-47.2%
Profit margin	7.9%	11.0%	4.3%	8.2%	-0.9%	0.2%	0.7%	1.8%

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: CE=Company Estimate. Rounded to the nearest million yen, rounded to one decimal place.



Current Status and Storage Battery EPC Business Outlook

Our Initial Report on TESS Holdings stated that the company's storage battery business is expected to be a driving force for medium-term growth. This report adds analysis focused on the background behind the growing demand for grid storage battery systems and the potential market for these systems.

Power Grid BESS Needs and Estimated Storage Battery EPC Market Size

When direct current (DC) power generation, such as solar power generation, is introduced into an alternating current (AC)-based power grid, such as thermal power generation or nuclear power generation, in quantities exceeding a certain level, there are four main reasons why stabilization equipment, such as battery energy storage systems (BESS), becomes necessary.

- I. Solar power generation is greatly affected by the amount of sunlight and therefore has highly variable outputs (fluctuation response).
- II. Lack of inertia due to connection via an inverter (frequency stabilization).
Solar power generation produces a DC output, which is converted to AC via an inverter before being connected to the grid. However, unlike conventional rotary machines (generators), inverters do not have the “inertia” that naturally supports the grid's frequency. As a result, devices that provide a “synthetic inertia” using batteries or inverters, known as virtual synchronous generators, are employed for frequency stabilization.
- III. Differences in power generation between day and night, as well as supply-demand balance (peak shifting).
- IV. Response to momentary power shortages, such as those caused by weather conditions (momentary backup).

The degree to which BESS is required (capacity and output) with the introduction of solar power generation varies depending on the power grid energy mix and the supply-demand characteristics of each region within Japan, so it is difficult to generalize. However, according to the Agency for Natural Resources and Energy, considerations were made regarding the introduction of storage batteries in the Kyushu region capable of storing approximately 30% of solar power output in order to avoid output curtailment. Additionally, in California, it has been stated that storage battery output equivalent to 15–20% of peak power demand will be required in the future. In the case of California, the figure is based on the maximum electricity demand including other power sources, rather than just solar power output, making the overall scale larger. As demonstrations progress globally, attention will focus on how much stabilization equipment needs to be introduced to stabilize power grids.

As of the end of 2023, the total installed capacity of renewable energy power generation introduced in Japan under the FIT system was 77 GW (of which 68 GW was solar power), and the total installed capacity of storage battery systems introduced under FIP was 986 MW, according to published figures. While the situation is still fluid at this stage, assuming that storage battery systems equivalent to 30% of power generation capacity are needed for grid stabilization, an additional 23 GW of equipment would be required, indicating that investment in this field is still in



its early stages. Additionally, with an estimated investment of 16,000 yen per kilowatt for equipment installation, it is projected that approximately 370 billion yen will be invested over the next several years. Given that Tokyo Electric Power Company alone spends approximately 1 trillion yen annually on equipment investment, this issue is a challenge for all power companies nationwide. However, considering the potential entry of new players, such as leasing companies, and the transition to FIP, the industry is expected to be sufficiently able to absorb this investment.

The grid storage battery EPC business is positioned as one of the growth drivers in TESS Holdings' Mid-Term Management Plan, and we would like to reaffirm that this business has promising potential to contribute to earnings.



Comparison with Competitors

We have pointed out that although there are a number of Japanese listed companies in the same industry that similarly handle business related to renewable energy, TESS Holdings is able to develop diverse business strategies, including in terms of service offerings, types of renewable energy, business models, and target users. Therefore, there is essentially a mix of companies that are difficult to categorize as belonging to the same sector despite being in the same industry.

However, most attention in the renewable energy industry is currently focused on the introduction of storage battery systems into power grids. Companies are beginning to disclose their intentions to enter this field and their achievements in securing contracts. Among these, notable examples include the following: (1) TESS Holdings' secured large-scale battery EPC orders totaling 14.7 billion yen (as of May 15, 2025), and (2) RENOVA's announcement of an off-take agreement with Tokyo Gas (in this agreement, Tokyo Gas, as the off-taker, will pay a fixed long-term usage fee for the right to operate the power storage plant). In terms of other competitors, ereks has not made any specific announcements at this time, while West Holdings and gremz have only disclosed information on small-scale projects. Non-disclosing companies are also believed to be actively pursuing large-scale orders behind the scenes, making their future moves a topic of interest.

Stock Price Indicators

Over the approximately six-month period since we issued our Initiation Report on TESS Holdings, the stock prices of the company and erex rose by about 30%, while those of other companies fell by approximately 7–10%. TOPIX remained largely unchanged over the same period, suggesting that company-specific selection is taking place. When looking at erex, the company is undergoing a business restructuring following the recognition of significant deficits in its power wholesale business, and the re-evaluation of the company appears to have progressed due to the prospect of achieving profitability in the current fiscal year. Additionally, West Holdings and gremz have only disclosed relatively small-scale projects, which may have been insufficient to garner active market evaluation. While the impact of RENOVA's signing of an off-take agreement with Tokyo Gas should not be minor, it was likely challenging to raise the valuation of the company with its substantial debt in a rising interest rate environment. Finally, TESS Holdings has confirmed the bottoming out of its performance following consecutive downward revisions, and expectations for its Mid-Term Management Plan are believed to have driven the bottoming out of its stock price. Going forward, further improvements in stock market valuation are anticipated if performance expansions through storage battery EPC projects are confirmed on a quarterly basis.

**Figure 2: Price/Valuation Comparison (millions of yen, yen, times)**

Code	Company name	Stock price Dec 13, 2024	Stock price Jun 10, 2025	Change	Market cap	EV	Dividend per share	PER	PBR	EV/ EBITDA
5074	TESS Holdings Co., Ltd.	270	337	125%	23,904	92,648	7.7	34.1	0.6	15.5
9519	RENOVA, Inc.	723	676	93%	62,039	657,356	-	41.4	0.7	25.5
1407	West Holdings Corporation	1,661	1,495	90%	58,775	112,624	65.0	7.3	1.9	7.2
9517	erex Co., Ltd	616	797	129%	62,415	104,738	11.0	18.3	1.0	8.6
3150	gremz, Inc.	2,522	2,340	93%	55,791	45,632	85.0	11.5	3.4	6.2

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place. Stock prices are closing prices on December 13, 2024, and June 10, 2025.



Management Indicators

Figure 3: Per Share Data

Accounting period	FY06/2020	FY06/2021	FY06/2022	FY06/2023	FY06/2024
Total number of shares outstanding (thousand shares)	3,507	35,069	35,244	35,346	70,644
EPS	26.77	31.83	38.43	51.05	16.82
EPS adjusted		31.42	38.18	50.88	16.80
BPS	127.01	324.47	358.41	401.08	588.72
DPS	20.00	20.52	21.00	26.00	16.00

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place.

Figure 4: Cash Flows (millions of yen)

Accounting period	FY06/2020	FY06/2021	FY06/2022	FY06/2023	FY06/2024
Depreciation and amortization	1,943	2,492	2,850	3,127	3,231
Cash flows from operating activities	(1,608)	431	14,646	13,827	(42)
Cash flows from investing activities	(15,348)	(4,475)	(6,215)	(16,029)	(15,490)
Cash flows from financing activities	19,220	17,098	(12,397)	(5,192)	18,436

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place.

Figure 5: Financial Data (%)

Accounting period	FY06/2020	FY06/2021	FY06/2022	FY06/2023	FY06/2024
Return on assets (ROA)	3.6%	4.2%	4.8%	5.9%	7.2%
Return on equity (ROE)	22.1%	13.1%	11.2%	13.4%	3.4%
Equity-to-asset ratio	9.6%	22.6%	26.7%	30.0%	34.9%

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place.



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