TESS Holdings (TSE Code: 5074)

Significant Order Increases in Storage Battery EPC

GIR View

Results for the Three Months Ended September 30, 2025 Confirm a Significant Increase in Orders

The results for the three months ended September 30, 2025 confirmed a significant increase in orders for the storage battery EPC business we have been monitoring. Although ordinary income and profit before taxes declined due to non-operating income/losses—including changes in accounting methods for derivatives and the disappearance of one-off gains due to consolidation—and fluctuations in extraordinary income/losses, we consider this to be a fundamentally strong performance.

Performance Growth Expected Through Storage Battery Business

We have long pointed out that stabilization equipment, such as BESS (battery energy storage systems), will be necessary to address power grid instability caused by the increasing number of power generation facilities that cannot control power output, such as solar power. The significant increase in orders received and order backlog during the three months ended September 30, 2025 can be seen as the result of capturing this environmental change as a business opportunity.

Going forward, attention will focus on the company's performance growth, centered on its storage battery EPC business. GIR remains highly attentive to further developments as we maintain our stance that TESS Holdings is a promising company with extensive technologies and expertise related to the renewable energy business.

KEY STATISTICS

Key Share Statistics

Recent Price (12/19/2025)	¥319
52-week High/Low	¥249/¥490
Shares Outstanding	70,646,130 shares
Market Cap	¥22,537million
PER	18.78 times
PSR	0.48 times
Dividend (Dividend Yield)	¥5.80(1.82%)

Sector Overview

Sector	Construction

Financials (FYE 06/2026 Forecast)

Net Sales	¥47,000 million
Operating Profit Margin (%)	7.7%
EBITDA Margin (%)	17.3%

Management

President	Kazuki Yamamoto
URL	https://www.tess-hd.co.jp/english/

Results for the Three Months Ended September 30, 2025

During the three months ended September 30, 2025, net sales increased 53% year-on-year to ¥12.7 billion, operating profit rose 9.3% to ¥990 million, ordinary profit decreased 23.7% to ¥570 million, and profit fell 96.3% to ¥20 million. The Energy Supply Segment achieved increased revenue and operating profit due to higher electricity sales revenue from renewable energy power generation and strong performance in retail electricity supply. The Engineering Segment also achieved increased revenue and operating profit, primarily driven by steady progress in construction projects, particularly for power storage systems, within its commissioned renewable energy EPC business. However, the significant decline in ordinary profit and profit before taxes was primarily due to the disappearance of one-off profit-boosting factors that occurred in the previous fiscal year ended June 30, 2025. Key factors included a decrease in gains on investments in silent partnerships associated with the consolidation of the Fukuoka Miyako Mega Solar Plant (approximately ¥360 million decrease; non-operating income/losses), the disappearance of negative goodwill (¥470 million decrease; extraordinary income/losses), and a decrease in loss on step acquisitions (¥290 million decrease; extraordinary income/losses) had a significant impact. Furthermore, income taxes increased (¥290 million increase) due to factors such as not recognizing deferred tax assets related to asset retirement obligations, resulting in the profit before taxes remaining at a level close to break-even.

In the Engineering Segment, orders received surged 10.34 times year-on-year to ¥17.46 billion, while the order backlog soared 231.2% to ¥34.69 billion. Orders were driven by commissioned and development EPC projects for FIT solar power conversion to FIP plus co-location storage batteries and grid storage plants. Storage battery-related projects accounted for approximately 91% of orders received and about 85% of the order backlog, confirming steady progress in expanding the storage battery EPC business—one of the growth drivers in the Mid-Term Management Plan.

In the Energy Supply Segment, operation and maintenance (O&M) revenue and profit declined due to the expiration of large-scale contracts. However, renewable energy power generation achieved increased revenue and profit through the commencement of power generation at the Saga Imari Biomass Power Plant, the conversion of Fukuoka Miyako Mega Solar Plant into a consolidated subsidiary, and an increase in on-site PPAs. Furthermore, biomass fuel sales commenced with the start of operations at the consolidated subsidiary Saga Imari Biomass Power Plant, specifically for PKS fuel. However, this was eliminated in consolidation. These were not recorded as sales, and instead, a gross profit of approximately ¥150 million was recorded.

On the balance sheet, the completion of the Saga Imari Biomass Power Plant led to an increase in non-current assets, primarily financed by an increase in long-term borrowings, resulting in total assets rising by ¥1.6 billion to ¥152.8 billion. Going forward, as outlined in the company's Mid-Term Management Plan, growth investments and the concentration of management resources towards business transformation are anticipated.

Full-year Forecast for the Fiscal Year Ending June 30, 2026

The full-year forecast for the fiscal year ending June 30, 2026 remains unchanged. Net sales are projected to increase by 28.1% to ¥47 billion, operating profit by 41.3% to ¥3.6 billion, ordinary profit is expected to return to profitability at ¥1.8 billion, and profit is forecast to increase by 485.8% to ¥1.2 billion. Dividends are projected at ¥5.80 per share, targeting a consolidated payout ratio of 30%. Regarding the project to develop land for renewable energy power generation in Kyoto Prefecture, while progress is steady, obtaining permits and rights is expected to take time. Therefore, this project is not included in the financial forecast for the fiscal year ending June 30, 2026.

In the Engineering Segment, sales are expected to increase by 17.8% to ¥19.7 billion, and operating profit by 93.2% to ¥1.7 billion, driven by steady growth in energy conservation and renewable energy, along with anticipated sales to be posted from storage battery EPC projects. In the Energy Supply Segment, sales are projected to increase by 36.8% to ¥27.3 billion, and operating profit by 13.5% to ¥3.8 billion, driven by expanded power sales revenue from installed renewable energy power plants and growth in the electricity retail business. Absorbing increased expenses such as personnel costs associated with business expansion, operating profit is expected to rise by 41.2%, and ordinary profit is projected to return to profitability.

Consolidated Results (Millions of Yen)

Accounting Period	FYE 06/2022	FYE 06/2023	FYE 06/2024	FYE 06/2025	FYE 06/2026	
					Q1	Full-year CE
Net Sales	34,945	34,415	30,643	36,684	12,709	47,000
YoY	2.0%	-1.5%	-11.0%	19.7%	52.9%	28.1%
Gross Profit	8,455	10,611	6,553	7,453	2,298	9,000
YoY	12.1%	25.5%	-38.2%	13.7%	9.2%	20.7%
Gross Profit Margin	24.2%	30.8%	21.4%	20.3%	18.0%	19.1%
Selling, General, and Administrative Expenses	3,309	3,746	4,183	4,905	1,302	5,400
YoY	5.3%	13.2%	11.7%	17.3%	12.4%	10.0%
Operating Profit	5,146	6,864	2,370	2,548	995	3,600
YoY	17.0%	33.4%	-65.5%	7.5%	5.4%	41.2%
Operating Profit Margin	14.7%	19.9%	7.7%	6.9%	7.8%	7.6%
Ordinary Profit	4,654	5,518	7,660	(641)	577	1,800
YoY	21.3%	18.6%	38.8%	Decline to Deficit	-23.7%	Return to Profit
Profit	2,759	3,794	1,326	204	25	1,200
YoY	34.1%	37.5%	-65.1%	-82.8%	-96.3%	488.2%
Profit Margin	7.9%	11.0%	4.3%	0.6%	0.1%	2.5%

Source: Prepared by Global IR, Inc. based on the company’s annual securities reports and IR materials.
Note: Figures are rounded to the nearest million yen, or to the first decimal place. CE=Company Estimate.

Current Status of the Storage Battery Business

The company's storage battery business, one of the growth drivers in its Mid-Term Management Plan, is performing well. We have long pointed out that stabilization equipment, such as BESS (battery energy storage systems), will be necessary to sufficiently address the instability in the power grid caused by the increasing number of power generation facilities that cannot control power output, including solar power. In Japan, at the end of 2023, it was announced that Japanese domestic renewable energy power generation capacity installed under the FIT program reached 77 GW (of which solar power accounted for 68 GW), while storage battery systems installed under the FIP program totaled 986 MW. Assuming that grid stabilization requires storage battery systems equivalent to about 30% of direct current (DC) power generation capacity, this implies a need for approximately 23 GW of new equipment installation. Given that equipment installation typically requires an investment of ¥16,000 per kW, this translates into an estimated ¥370 billion investment over the next several years. GIR considers the company a strong contender to capture orders in this new market.

Expected Near-term Financial Performance Growth Driven by the Storage Battery Business

The storage battery EPC business is considered a new market that has emerged in recent years, yet the company has so far secured orders worth ¥36.7 billion as of the three months ended September 30, 2025. The large-scale projects listed in the table below drove the orders received for the Engineering Segment during the three months ended September 30, 2025, significantly expanding the order backlog. Discussions for further large-scale projects appear to be ongoing, and they are expected to continue driving growth.

▶ Large orders received for storage battery EPC total approximately 36.7 billion yen (as of Nov. 14, 2025)

TX2030 Mid-Term Management Plan Focus Business Areas: Power Storage Business-Related Operations					
	Ordering Party	Order Type	Order Month	Order Amount	Delivery Date (Est.)
Power storage plants for the grid	Shizuoka Kikugawa Power Storage Plant LLC*1	Development	March 2025	Approx. 5 billion yen	March 2027
	DEI Battery Fund Alpha LLC (Invested by Daiwa Energy & Infrastructure Co. Ltd.)	Commissioned	April 2025	Approx. 4 billion yen	December 2027
	DEI Battery Fund Beta LLC (Invested by Daiwa Energy & Infrastructure Co. Ltd.)*2	Development	September 2025	Approx. 13 billion yen	April 2028
	LLC formed by Tokyo Century Corporation*2	Development	November 2025	Approx. 9 billion yen	June 2028
FIP conversion of FIT solar power plants + storage battery co-location	Japanese domestic operating companies*3 (Listed on the Tokyo Stock Exchange Prime Market)	Commissioned	March 2025	Approx. 5.7 billion yen	January 2026

*1 In the future, Shizuoka Kikugawa Power Storage Plant LLC, which is the ordering party, may become a consolidated subsidiary of our company. In such a case, the order amount will not be included in consolidated revenue.

*2 The contracts for these orders may be terminated if the development requirements are not met.

*3 Of the five EPC projects for power storage plants co-located with FIP solar power plants operated by Japanese domestic companies, four of the EPC projects will be ordered by Japanese domestic leasing companies (listed on the Tokyo Stock Exchange Prime Market) through lease contracts between Japanese domestic companies as lessees and the Japanese domestic leasing companies.

Source: "Financial Results Meeting Materials for the Three Months Ended September 30, 2025" company materials

Share Valuation Comparison with Japanese Competitors

When looking at how share prices of competing renewable energy companies have trended since our previous follow-up report on the company's full-year results, which cited share prices dated August 22, 2025, share prices between the TESS Holdings and gremz have largely remained at similar levels, while the other three companies (RENOVA, West Holdings, and erex) have seen declines of around 10 percentage points. This strongly suggests the three companies have been left behind by the stock market's strong performance, particularly the rise in AI-related company shares. While gremz' interim results for its fiscal year ending March 31, 2026 continued to show solid progress, the weak performance of its other competitors likely had an impact. This included erex, which reported a decline in profits for its interim period, and West Holdings, which posted lackluster results for its fiscal year ended August 31, 2025. However, GIR maintains its stance of viewing TESS Holdings as a promising company with extensive technologies and expertise related to the renewable energy business.

Furthermore, the results for the three months ended September 30, 2025 confirmed robust growth in orders for the storage battery business and an expansion in the order backlog. If the steady growth in the storage battery business continues to be reflected in future earnings reports, there should be no need to leave PBR at 0.6.

Share Price/Valuation Comparison (Millions of Yen, Yen, Times)

Code	Company	Share Price Aug 22, 2025	Share Price Nov 28, 2025	Change	Market Cap	EV	Dividend Per Share	PER	PBR	EV/ EBITDA
5074	TESS Holdings Co., Ltd.	353	350	99%	24,727	94,657	5.8	20.6	0.6	11.7
9519	RENOVA, Inc.	874	790	90%	72,082	371,726	-	48.1	0.5	14.4
1407	West Holdings Corporation	1,720	1,529	89%	70,376	128,740	70.0	10.4	2.1	9.8
9517	erex Co., Ltd	728	663	91%	51,821	61,547	11.0	15.2	0.7	5.0
3150	gremz, Inc.	2,539	2,499	98%	59,513	48,004	85.0	12.2	3.6	6.5

Source: Prepared by Global IR, Inc. based on the company's annual securities reports and IR materials.
Note: Figures are rounded to the nearest million yen, or to the first decimal place. Share prices are closing prices on August 22, 2025, and November 28, 2025

Management Indicators

Per Share Data

Accounting Period	FYE 06/2021	FYE 06/2022	FYE 06/2023	FYE 06/2024	FYE 06/2025
Total Number of Shares Outstanding (Thousand Shares)	35,069	35,244	35,346	70,644	70,646
EPS	31.83	38.43	51.05	16.82	2.91
EPS Adjusted	31.42	38.18	50.88	16.80	2.90
BPS	324.47	358.41	401.08	588.72	603.51
DPS	20.52	21.00	26.00	16.00	5.12

Source: Prepared by Global IR, Inc. based on the company's annual securities reports and IR materials.
Note: Figures are rounded to the nearest million yen, or to the first decimal place.

Cash Flows (Millions of Yen)

Accounting Period	FYE 06/2021	FYE 06/2022	FYE 06/2023	FYE 06/2024	FYE 06/2025
Depreciation and Amortization	2,492	2,850	3,127	3,231	4,523
Cash Flows From Operating Activities	431	14,646	13,827	(42)	7,806
Cash Flows From Investing Activities	(4,475)	(6,215)	(16,029)	(15,490)	(9,165)
Cash Flows From Financing Activities	17,098	(12,397)	(5,192)	18,436	3,794

Source: Prepared by Global IR, Inc. based on the company's annual securities reports and IR materials.
Note: Figures are rounded to the nearest million yen, or to the first decimal place.

Financial Data (%)

Accounting Period	FYE 06/2021	FYE 06/2022	FYE 06/2023	FYE 06/2024	FYE 06/2025
Return on Assets (ROA)	4.2%	4.8%	5.9%	7.2%	-0.5%
Return on Equity (ROE)	13.1%	11.2%	13.4%	3.4%	0.5%
Equity-to-asset Ratio	22.6%	26.7%	30.0%	34.9%	28.1%

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