TESS Holdings (TSE Code: 5074)

Attention Turns to Bolstering Construction Capabilities as Orders Received Rise in the Power Storage Business

GIR View

Significantly Increased Orders and Sales in the Six Months Ended December 31, 2025

The results for the six months ended December 31, 2025 indicated a substantial increase in orders and sales expansion in the storage battery EPC business, which is an area that we have been following closely. Strong performance in the core business and the elimination of derivative valuation losses led to significant increases in operating profit, ordinary profit, and profit before taxes.

Performance Expansion Anticipated Driven by Storage Battery EPC Business

We have previously pointed out the need for stabilization equipment, such as BESS (Battery Energy Storage Systems), to resolve power grid instability caused by the increasing number of power generation facilities, like solar power, that cannot control their outputs. The significant increase in orders and order backlog continuing from the nine months ended March 31, 2025 can be seen as the result of capturing this environmental change as a business opportunity.

The company achieved rapid order growth by shifting its proposal-based sales resources to the storage battery EPC business early on, responding to changes in the market environment. On the other hand, improving construction capacity cannot be achieved without progressively strengthening the organization and securing of partner companies and subcontractors. As indicated in the financial results briefing materials, the company is steadily advancing its construction capacity. The pace at which it strengthens this capacity over the medium term, alongside the pace of order growth, is considered a key point of focus.

KEY STATISTICS

Key Share Statistics

Recent Price (03/13/2026)	¥678
52-week High/Low	¥252/¥738
Shares Outstanding	70,649,130 shares
Market Cap	¥47,900 million
PER	39.84 times
PSR	1.02 times
Dividend (Dividend Yield)	¥5.80(0.86%)

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/

Going forward, the company's performance expansion centered on its storage battery EPC business will be closely watched. GIR maintains its stance that TESS Holdings is a promising company possessing broad technology and expertise in the renewable energy business.

Results for the Six Months Ended December 31, 2025

For the six months ended December 31, 2025, net sales increased 50.1% year-on-year to ¥27 billion, operating profit rose 35.8% to ¥3.27 billion, ordinary profit surged 975.6% to ¥2.58 billion, and profit grew 120.8% to ¥1.32 billion. The Engineering Segment drove significant revenue and operating profit growth, primarily from expanded orders for power storage system projects within its commissioned renewable energy EPC business, coupled with steady progress in construction. Additionally, the Energy Supply Segment contributed to increased revenue and operating profit, benefiting from higher electricity sales revenue from renewable energy power generation and strong performance in retail electricity supply. Furthermore, ordinary profit saw a substantial increase owing to the near-complete disappearance of derivative valuation losses incurred in the previous fiscal year ended June 30, 2025 (a decrease of approximately ¥1.7 billion). The increased ordinary profit offset the decrease in gains on investments in silent partnerships associated with the consolidation of the Fukuoka Miyako Mega Solar Plant (a decrease of approximately ¥360 million) and the increase in interest expenses (an increase of approximately ¥260 million). At the level of profit before taxes, although there was a decrease of ¥470 million (extraordinary loss) due to the disappearance of negative goodwill associated with the consolidation of the Fukuoka Miyako Mega Solar Plant, strong core business performance and the disappearance of derivative valuation losses strongly led to a significant increase in profit.

In the Engineering Segment, orders received surged 8.28 times year-on-year to ¥34.21 billion, while the order backlog soared 328.7% to ¥44.53 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. Large-scale ventures with Daiwa Energy & Infrastructure and Tokyo Century for grid storage battery projects led the expansion in orders. Storage battery-related projects accounted for approximately 91% of orders received and 92% of order backlog, confirming steady progress in expanding the storage battery EPC business—one of the growth drivers put forth 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, driven by the commencement of power generation at the Saga Imari Biomass Power Plant, the consolidation of the Fukuoka Miyako Mega Solar Plant as a subsidiary, and an increase in on-site PPAs. Furthermore, regarding biomass fuel, although the volume of palm kernel shell (PKS) fuel handled increased following the commencement of operations at the consolidated subsidiary Saga Imari Biomass Power Plant, the entire volume was used internally. Consequently, it was eliminated from consolidation, resulting in no sales recognition, and so a gross profit of approximately ¥350 million was recorded.

On the balance sheet, total assets increased by ¥8.9 billion to ¥160.2 billion. This was primarily due to an increase in non-current assets with the completion of the Saga Imari Biomass Power Plant, and an increase in accounts receivable for completed construction work associated with the expansion of the Engineering Segment, which was mainly financed by an increase in short-term borrowings. 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 current fiscal year 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%. While steady progress is being achieved in development projects for business sites related to renewable energy power generation within Kyoto Prefecture, obtaining permits and rights is still expected to take time moving forward. As a result of the overall current progress, these projects are not included in the performance forecast for the fiscal year ending June 30, 2026.

Sales in the Engineering Segment are expected to increase by 17.8% to ¥19.7 billion, and operating profit is slated to climb 93.2% to ¥1.7 billion. This growth is driven by steady expansion in energy conservation and renewable energy, coupled with anticipated recorded net sales from orders in the storage battery EPC business. In the Energy Supply Segment, sales are anticipated to rise by 36.8% to ¥27.3 billion, and operating profit is projected to increase 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. Following the absorption of increased expenses related to business expansion, such as personnel costs, operating profit is forecast to increase by 41.2%, while ordinary profit is expected to return to profitability.

Given the exceptionally high progress rate against full-year profit forecasts at the first-half stage, in addition to there being no indication of potential recordings of deteriorated profitability in relation to projects scheduled for completion in the second half, we believe it is possible that the full-year forecast may be revised when the results for the nine months ending March 31, 2026 are announced. However, beyond the extent of short-term earnings upside, the key point for achieving the company's Mid-Term Management Plan will be how much it can increase the construction capacity of its storage battery EPC business, which is currently experiencing a rapid growth in orders.

Consolidated Results (Millions of Yen)

Accounting Period	FYE 06/2022	FYE 06/2023	FYE 06/2024	FYE 06/2025	FYE 06/2026 Q1	FYE 06/2026 Q2	FYE 06/2026 Full-year CE
Net Sales	34,945	34,415	30,643	36,684	12,709	14,334	47,000
YoY	2.0%	-1.5%	-11.0%	19.7%	52.9%	47.7%	28.1%
Gross Profit	8,455	10,611	6,553	7,453	2,298	3,494	9,000
YoY	12.1%	25.5%	-38.2%	13.7%	9.2%	33.0%	20.7%
Gross Profit Margin	24.2%	30.8%	21.4%	20.3%	18.0%	24.4%	19.1%
Selling, General, and Administrative Expenses	3,309	3,746	4,183	4,905	1,302	1,218	5,400
YoY	5.3%	13.2%	11.7%	17.3%	12.4%	4.8%	10.0%
Operating Profit	5,146	6,864	2,370	2,548	995	2,277	3,600
YoY	17.0%	33.4%	-65.5%	7.5%	5.4%	55.4%	41.2%
Operating Profit Margin	14.7%	19.9%	7.7%	6.9%	7.8%	15.9%	7.6%
Ordinary Profit	4,654	5,518	7,660	(641)	577	2,007	1,800
YoY	21.3%	18.6%	38.8%	Decline to Deficit	-23.7%	Return to Profit	Return to Profit
Profit	2,759	3,794	1,326	204	25	1,293	1,200
YoY	34.1%	37.5%	-65.1%	-82.8%	-96.3%	Return to Profit	488.2%
Profit Margin	7.9%	11.0%	4.3%	0.6%	0.1%	9.0%	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.

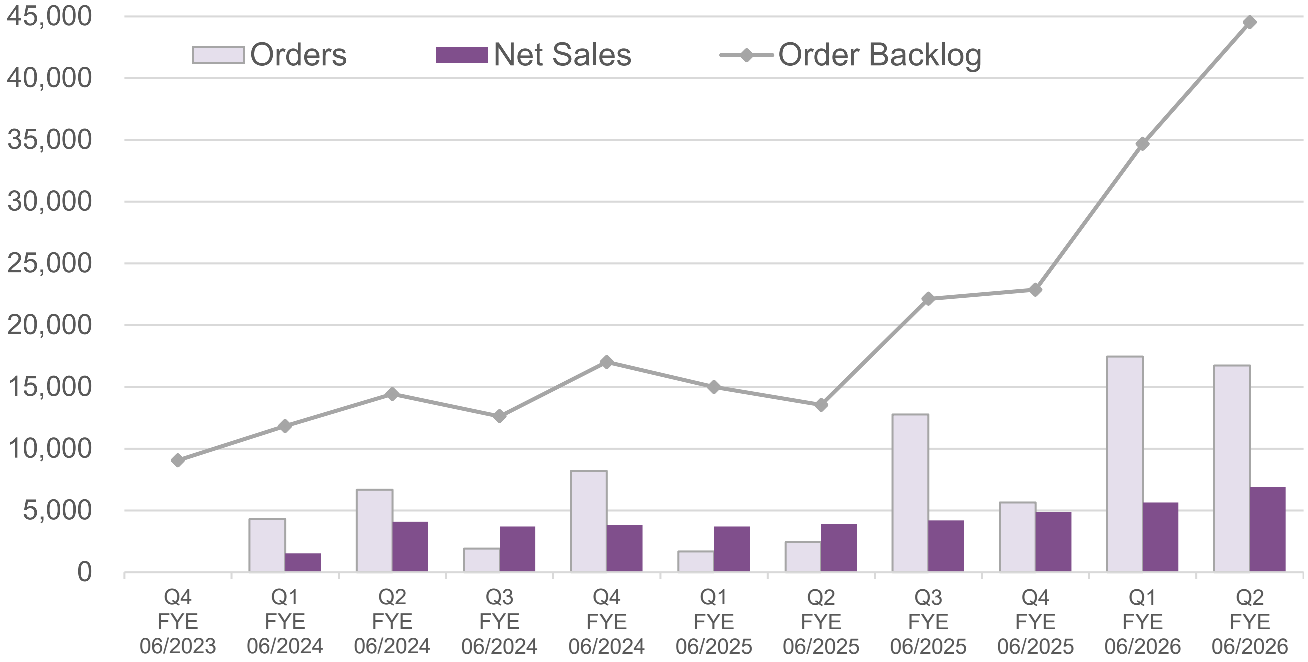
Current Status of the Storage Battery Business

The storage battery business, one of the growth drivers in the company's Mid-Term Management Plan, continues to perform well. We have long been pointing out that stabilization equipment, such as battery energy storage systems (BESS), will be an important aspect in resolving the power grid instability caused by the increase in power generation facilities that cannot control power output, such as is the case with solar power generation. At the end of 2023, it was announced in Japan that renewable energy generation capacity introduced under the FIT system reached 77 GW (of which solar power accounted for 68 GW), while storage battery systems introduced under the FIP reached 986 MW. Assuming that grid stabilization requires storage battery systems equivalent to about 30% of DC 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 to an estimated ¥370 billion investment over the next few years. GIR considers TESS Holdings a strong contender to capture orders in this new market.

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

Despite the storage battery EPC business being a relatively new market that has emerged in recent years, the company has already secured orders totaling ¥34.2 billion across its entire Engineering Segment in the six months ended December 31, 2025, expanding its order backlog to ¥44.5 billion. This order backlog represents more than six quarters' worth of net sales compared to the approximately ¥7 billion in sales recorded during the recent peak in the second quarter (see chart below). The rapid expansion in orders was achieved by shifting the company's proposal-based sales resources to the storage battery EPC business early on, in response to changes in the market environment. On the other hand, further sales growth depends greatly on improving construction capacity, which cannot be achieved without steadily advancing the organization and securing of partner companies and subcontractors. For large-scale projects, the company adopts a percentage-of-completion method for revenue recognition. Therefore, construction capacity is expected to significantly impact period profitability. As indicated in the earnings briefing materials, the company is steadily strengthening its construction capacity through reforms and improvements in its human resources strategy. We consider the pace at which construction capacity is enhanced over the medium term, alongside the pace of order growth, as key points to watch.

Trends in Orders, Sales, and Order Backlog for the Engineering Segment (Millions of Yen)



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

Share Valuation Comparison with Japanese Competitors

Since the previous follow-up report on the company's full-year results on November 28, 2025, the share prices of renewable energy competitors have seen significant movements. TESS Holding's share rose sharply by 62%, while others saw slight declines to increases of around 15%. Among them, RENOVA, which is forecasting a profit decline this term, performed the worst. Other competitors also appear to have been left behind by the stock market's strong performance, particularly the rise in AI-related company shares. For TESS Holdings, this appears to reflect a process of gradual confirmation and revaluation, as outlined in its Mid-Term Management Plan, showing expanding orders and growing performance in its storage battery EPC business. GIR maintains its stance on the company, continuing to view TESS Holdings as a promising firm with broad technologies and expertise in the renewable energy sector.

The results for the six months ended December 31, 2025 confirmed robust order growth and an expanding order backlog for the storage battery EPC business. If the expansion of orders for this business continues alongside the steady increase of construction capacity in the second half and beyond, we see no reason to leave the PBR at 0.9.

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

Code	Company	Share Price Nov 28, 2025	Share Price Feb 18, 2026	Change	Market Cap	EV	Dividend Per Share	PER	PBR	EV/ EBITDA
5074	TESS Holdings Co., Ltd.	350	568	162%	40,129	110,059	5.8	33.4	0.9	13.5
9519	RENOVA, Inc.	790	774	98%	70,624	370,268	-	47.1	0.5	14.3
1407	West Holdings Corporation	1,529	1,760	115%	81,008	139,372	70.0	12.3	2.4	10.6
9517	erex Co., Ltd	663	697	105%	54,479	64,205	11.0	16.0	0.8	5.2
3150	gremz, Inc.	2,499	2,690	108%	64,062	52,553	85.0	13.2	3.9	7.2

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 November 28, 2025, and February 18, 2026.

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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