

Sansei Landic Co., Ltd. (TSE1: 3277)

Steady growth supported by the expertise in coordination of real estate rights

-the unique business model that is not easily affected by the real estate market trend-

CEO at K Asset
MARKET ANALYST, CMA

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Corporate Profile

Location Chiyoda-ku, Tokyo

Representative Takashi Matsuzaki
Representative Director

Established February 1976

Capital 709 million yen
(As of Dec. 31, 2015)

Listed December 13, 2011

URL <http://www.sansei-l.co.jp/>

Business Real estate

Stock price data (closing price as of Aug. 31, 2016)

Stock price 673 yen

No. of shares outstanding 8,145,500 shares

Trading unit 100 shares

Market cap 5,482million yen

Dividend (E) 12 yen

PER (E) (consolidated) 6.45 times

Actual PBR (consolidated) 0.88 times

Executive Summary

- The largest coordinator of real estate rights in Japan. As its strengths, the company possesses the skills for coordinating rights related to leasehold land and has the experience. Leasehold land is traded mostly for the purpose of coping with inheritance, and so it is not easily affected by the real estate market trend. Accordingly, its business is expected to grow stably.
- In the first half (January to June 2016), the sale of real estate was favorable. As a result, sales were 5.94 billion yen (up 38.4% YoY), operating income was 530 million yen (up 33.6% YoY), ordinary income was 440 million yen (up 27.4% YoY), and net income was 240 million yen (up 15.5% YoY). As for full-year results, sales and profit are estimated to grow, as prepared real estate will be sold.
- Sansei Landic Co., Ltd. is expanding the business according to the mid-term plan for the period till December 2017. The company is currently forming a new mid-term plan till 2020. As well as the expansion of existing business, the company also focuses on the establishment of new business and the human resource development with the aim for long-term growth.
- In the stock market, the prices of realty-related shares are stagnant, because of uncertainty about the future economy. The stock price of Sansei Landic has declined. However, the company is estimated to have good potential for growth. First, the business of the company, which specializes in the adjustment of real estate rights, is less affected by the market trend. Second, the environment surrounding the company is getting better. Furthermore, the company has launched new business from the long-term perspective.
- The company's stock price dropped from this year's high: 1,057 yen (March 31) to 656 yen (August 19), and has been fluctuating in a narrow range, which can be said to be a very affordable, rock-bottom range with PER 6-fold and PBR 0.8-fold. The growth rate for this fiscal year is estimated to be about 15%. If the company is recognized as a real estate company that can tolerate deflation, PER will reach 13 or 14 times, according to some evaluations. Target stock price: 1,360 to 1,470 yen

Corporate History and Outline of Business

■ Corporate History

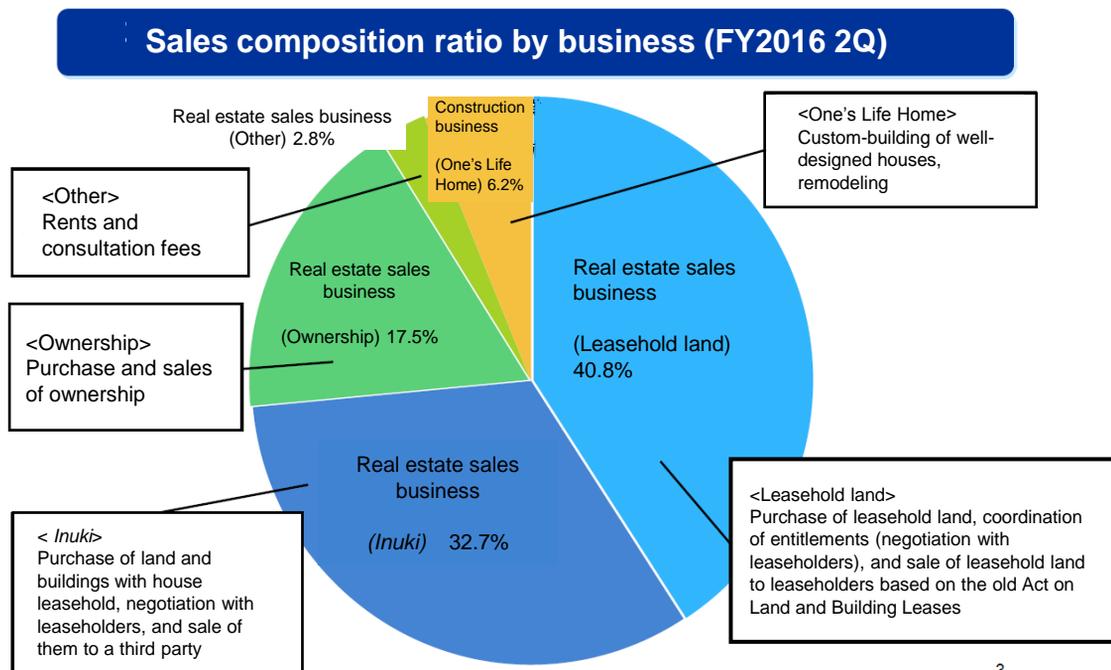
In February 1976, the company was founded to broker the sale of real estate, and the lease of condominiums, apartments, and buildings. In 1991, after the burst of the realty bubble, the company started the business of the adjustment of real estate rights, which is less affected by, economic situation and this is now its core business. Since 1997, it has been handling *Inuki* *. Its subsidiary has been selling custom-built houses and renovating housing. In 2011, it was listed in the JASDAQ market, and the Second Section of the Tokyo Stock Exchange. Then, in 2014, it was listed in the First Section of the Tokyo Stock Exchange.

■ Outline of Business

Sansei Landic engages in coordination of real estate rights. The sale of real estate accounts for 93.8%, and the construction business accounts for 6.2% (FY2016 2Q). The real estate sale business of the company means the “business of integrating real estate rights.” The company increases the value of real estate by coordinating and combining entitlements for real estate whose intrinsic value has been degraded because of the division into the rights to use and to own, such as those of leasehold land and *Inuki** land on which buildings with house leasehold stand, and then sells them. Sansei Landic purchases and sells real estate, while its subsidiary “One’s Life Home” engages in architectural design, construction management, and interior design. They operate business nationwide with 8 branches with integrated systems which enables to conduct real estate project in one company.

**Inuki*: value-decreasing land on which buildings with house leasehold stand

*Source: Company’s financial briefing material



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**Leasehold land*: means the land leased to someone for his/her building. The rights related to this land are divided into the rights to own and use the land.

**Ownership*: means the right to own and use the land and building.

**Inuki*: value-decreasing land on which buildings with house leasehold stand and which cannot produce sufficient profit due to deterioration.

Performance

■ Performance

In the second quarter of the fiscal year ending December 2016, the real estate business was healthy, increasing sales and profit continuously. The reason why sales were slightly smaller than the initial forecast is that the sale of real estate with leasehold was put off till the second half. The sales (no. of transaction) of real estate have been favorable. As promoted by the company, the "leveling of sales throughout the year" is progressing steadily. Due to the decline in personnel cost, taxes and public charges, general and administrative expenses decreased, increasing profit much more than estimated.

FY2016 2Q

(Million yen)	Results	Initial forecast	Change (%)	Previous results (FY2015 2Q)	YoY (%)
Sales	5,935	6,128	-3.1	4,289	38.4
Operating income	527	426	23.7	394	33.8
Ordinary income	443	362	22.4	348	27.3
Net income	243	197	23.4	211	15.2

There are no revisions to the full-year forecast. Although the company deals with more properties whose scales are smaller than before, the sales transaction of leasehold land is increasing. The sales environment for *Inuki* is favorable. This is because the procurement amount and lots of leasehold land and *Inuki* are decreasing, but the procurement in the same period of the previous year (January to June 2015) was healthy. Actually, the balance of real estate for sale remains over 7 billion yen, and if the sale of procured real estate is promoted, sales and profit will grow in this fiscal year, too.

Sales by business

(Million yen, %)	No. of transaction			Sales		
	Jun. 2015	Jun. 2016	YoY	Jun. 2015	Jun. 2016	YoY
Real estate sale business	171	213	24.6	3,899	5,568	42.8
Leasehold land	153	182	19.0	2,424	2,422	-0.1
<i>Inuki</i>	10	20	100.0	1,009	1,941	92.4
Ownership	8	11	37.5	280	1,040	271.4
Other	-	-	-	184	164	-10.9
Construction business	71	81	14.1	389	367	-5.7
Total	-	-	-	4,288	5,935	38.4

In order to achieve the goals at the mid-term plan for the period till December 2017, the company has increased employees and strengthened its sales activities. The company plans to expand the scale and the number of properties in the medium term, by revising a procedure manual of purchase and enhancing the purchase team building.

Mid-term plan

(Million yen)	2013	2014	2015	2016(E)	2017(E)
Sales	9,187	10,443	11,567	14,670	15,647
Gross profit	2,933	3,388	3,769	4,122	4,411
Operating income	919	1,204	1,299	1,401	1,635
Ordinary income	809	1,044	1,196	1,291	1,524
Net income	455	626	724	848	974

Industry Trends/Future Business Development /Shareholder Return

■ Industry trends

The company deals with leasehold land that is subject to the old Act on Land and Building Leases before the “fixed-term leasehold” was established. It is said that there were 1 million households living on land with non fixed-term leaseholds, which suggests that there are a large number of leasehold land throughout Japan that the company deals with. It seems to that the external environment surrounding the company is favorable, owing to the social changes such as accelerated strengthening of buildings under the old seismic code and an aging population, and the revision to tax system such as the basic deduction of inheritance tax, etc. It is said that the government is planning to revise measures for reducing fixed assets tax in order to accelerate the demolition of vacant houses that have fallen into disrepair. If it comes true, the number of properties with no favorable tax treatment is expected to increase, so that sales and purchases of them is also expected to do that. The company, which is a specialist in coordinating complex real estate rights, has good business opportunities. It is expected that the company satisfies the needs from owners of leasehold land and leaseholders.

■ Future business developments

The company is currently drafting its next mid-term management plan (2018 to 2020). As the external environment is favorable, the company will focus on these initiatives; (1) enhancing its existing business to expand the stable results base, (2) starting new business to take measures for real estate issues (concentrated areas of wooden housing, vacation rentals, regional vitalization, support for disaster-affected regions, etc.), and (3) developing human resources to pass on the expertise and improving work efficiency. Over the past few years, the company has cemented cooperative relations with housing makers, financial institutions, tax accountants, and so on in order to expand its procurement channels, and this effort is bearing fruit gradually. On the other hand, the company is enriching consulting services and gathering information through seminars in an intensive manner, and so it is expected to cultivate potential markets further.

■ Shareholder return

With regard to the dividend, the company plans to pay 12 yen per share for FY2016, increasing 2 yen. With that, dividend payout ratio will rise to 11.4% from 11.1%. In addition, to encourage the long-term holding of the company’s shares, the company enriched the shareholder benefit to shareholders who hold its shares for one year or more.

*Source: Company’s financial briefing material

Shareholder Benefits: “Canned Bread” Improvement of benefits for long-term shareholders

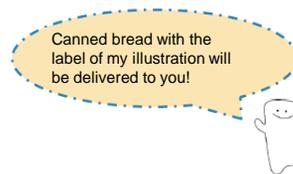
- Target shareholders
Shareholders who hold **one lot of shares (100 shares) or more** of the company and are written in the list of shareholders **as of the end of the second quarter (June 30)** each year
*See the figure.

- Timing of dispatch
Gifts will be dispatched in **late October**. (for fiscal 2016)

- Regarding the selection of shareholder benefits
Sansei Landic selected the “set of canned bread,” which is the original product of “Pan Akimoto” in Nasushiobara City, Tochigi Prefecture as shareholder benefits. The company felt empathy toward the social meaning of the emergency ration “Kyukancho Project” for international contributions conducted by Pan Akimoto, and selected its product as a gift for shareholders, for the purpose of popularizing canned bread as much as possible. Mr. Akimoto has sent about a total of 240,000 cans of bread, including Kyukancho, and Sansei Landic, too, adopted Kyukancho as emergency rations.



No. of shares held	Holding period	
	Less than 1 year	1 year or longer
100 (inclusive) to 200 (exclusive)	2 cans	3 cans
200 (inclusive) to 500 (exclusive)	3 cans	4 cans
500 or over	4 cans	5 cans



Stock Valuation/Risk

■ Stock Valuation

In the stock market, the prices of realty-related shares are stagnant, because of uncertainty about the future economy, and the stock price of Sansei Landic has declined. However, the company is estimated to have good potential for growth. First, the business of the company is less affected by the market trend because the company specializes in the adjustment of real estate rights, which is related to inheritance. In the foreseeable future, the company is expected to grow sufficiently with its current business. Second, the environment surrounding the company is getting better, as the number of elderly people will increase, the basic deduction for inheritance tax will lower, and fixed asset tax will be revised for facilitating the removal of vacant houses. And it has launched new business from the long-term perspective.

Its stock price dropped from this year's high: 1,057 yen (March 31) to 656 yen (August 19), and has been fluctuating in a narrow range, which can be said to be a very affordable, rock-bottom range with PER 6-fold and PBR 0.8-fold. The growth rate for this fiscal year is estimated to be about 15%. If the company is recognized as a real estate company that can tolerate deflation, PER will reach 13 or 14, according to some evaluations.

Target stock price: 1,360 to 1,470 yen

■ Risk Factors

Risk factors will be: revisions to the Act on Land and Building Leases, amendments to the inheritance tax system, changes to the purchase environment, such as tougher competition over acquisitions, sale issues created by delayed coordination of entitlements, a drop in value of owned real estate from a plummet in land value, lawsuits over complex rights relations, changes to debt financing, etc.



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