Sansei Landic

Leader in property rights realignment, specializing in leasehold land and old underutilized properties;

Targets growth by expanding property information channels

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Business

Pioneer in property rights realignment: aims to expand nationwide presence via its leasehold land and old occupied properties businesses

Sansei Landic's core business area, the Real Estate Sales segment, accounted for 91.4% of total sales in FY12/17, and its strength lies in leasehold land (land with leasehold interest) and old underutilized properties (such as aging apartments only partially occupied by tenants). These leasehold lands and underutilized properties often have multiple rights holders (landowners, leaseholders, and tenants), making it difficult to renovate or redevelop and causing low asset value. Sansei Landic purchases such property or land rights, adds value by sorting out the relationships between various rights holders, and resells.

Sansei Landic started handling leasehold land in June 1991, and now has a leading market share in the handling of leasehold land and old underutilized properties (we estimate 20–25%). In addition to its head office, the company has eight branch offices across Japan.

Earnings trends

Jump in profit on improved sales structure efficiency and high-margin projects in FY12/17; profit trending upward in FY12/18 as well

FY12/17 results: Sales were JPY13.1bn (+6.5% YoY), operating profit JPY1.8bn (+21.9% YoY), recurring profit JPY1.7bn (+25.6% YoY), and net income attributable to parent company shareholders JPY1.1bn (+30.2% YoY). Sales and profits reached record highs. Sales of leasehold land and freeholds declined YoY, causing total sales to fall short of the company's forecast, but profits rose significantly on improved sales structure efficiency and high-margin projects.

FY12/18 forecasts: Company forecasts are sales of JPY17.5bn (+33.5% YoY), operating profit of JPY1.8bn (+3.9% YoY), recurring profit of JPY1.7bn (+2.1% YoY), and net income attributable to parent company shareholders of JPY1.2bn (+4.1% YoY), marking record sales and profits. This upward trajectory is set to continue despite only small advances on the profit level due to higher SG&A expenses as labor costs rise on upfront spending and the wage base increases.

Medium-term strategy

Grow existing businesses and make new businesses into third earnings pillar using expertise in rights realignment

Medium-term plan: Under the previous plan started in FY12/15, the company worked to develop information channels and enhance its region-based sales structure in order to continue growing existing businesses.

Its new plan, begun from FY12/18, has three stated aims: growth, stability, and returns. In Japan's real estate market from 2020 onward, the company expects land with unknown owners, vacant houses, and other issues to come to the fore. It will be developing new businesses that leverage its accumulated expertise in rights realignment and plans to make such businesses into a third earnings pillar to complement its leasehold land and old underutilized properties businesses. FY12/20 targets are operating profit of over JPY2.0bn (+13.5% vs. FY12/17) and recurring profit of over JPY1.9bn (+13.9%), and it aims to maintain an ROA (recurring profit based) of 12% or higher (as in FY12/17).

Strengths and weaknesses

Strengths

Leader in a niche market: Leader in rights realignment for leasehold land and old underutilized properties (we estimate 20–25% share). TSE1 listing helped it gain name recognition and increase the number of properties it handles.

Strong rights realignment capability: Excels in grasping the needs of multiple rights holders and finding solutions.

Large potential market: Company estimates Tokyo's leasehold land market at over JPY1.7tn. Its leasehold land sales are still about JPY5bn. Leasehold land projects decline year by year, but needs remain.

Weaknesses

Rooted in Japanese property laws: Business model premised on domestic laws.

Synergies remain unclear: New businesses are in early stages and synergies with core businesses remain unclear.

New earnings pillar remains underdeveloped: Business portfolio lacks risk diversification.

Profit growth drivers

[To date] Leasehold land + comparatively profitable old occupied properties: Stable earnings from leasehold land (immune to economic fluctuations), and higher sales and profits from higher number of old underutilized properties

[Medium-term] Growing demand to reconcile interests: Amid the rise in vacant properties due to an aging, shrinking population, leasehold land and old underutilized properties are being liquidated by the inheriting generation, which seeks to better utilize these assets

Indices	
Market capitalization	JPY8.9 bn
Stock price (2018/10/29)	JPY1,061
Shares issued (incl. treasury shares)	8,406,800 shares
Foreign stockholding ratio (2017/12/31)	6.46 %
BPS (FY12/17)	JPY957.50
PBR (FY12/17)	1.11 x
PER (FY12/18 Est.)	7.7 x
Dividend (FY12/18 Est.)	JPY21.00
Dividend yield (FY12/18 Est.)	15.16 %
ROE (FY12/18 Est.)	14.5 %
Net debt / Equity ratio (FY12/17)	48.5 %

*Issued shares include treasury stock

Earnings results and forecasts													
		Sales (JPYmn)	YoY	Operating profit (JPYmn)	YoY	Recurring profit (JPYmn)	YoY	Net income (JPYmn)	YoY	EPS (JPY)	BPS (JPY)	ROA (RP-based)	ROE
FY12/10	Cons.	7,415	23.8%	655	113.5%	539	104.8%	301	110.3%	50.18	399.68	9.9%	13.4%
FY12/11	Cons.	8,042	8.5%	750	14.5%	747	38.4%	444	47.6%	73.50	469.71	11.6%	15.8%
FY12/12	Cons.	9,475	17.8%	517	-31.0%	437	-41.5%	233	-47.5%	33.80	497.51	6.6%	7.0%
FY12/13	Cons.	9,188	-3.0%	920	77.9%	810	85.3%	456	95.4%	66.04	560.55	10.1%	12.5%
FY12/14	Cons.	10,444	13.7%	1,205	30.9%	1,044	28.9%	626	37.5%	90.23	664.77	11.8%	13.7%
FY12/15	Cons.	11,568	10.8%	1,300	7.9%	1,196	14.6%	724	15.6%	90.08	744.23	11.9%	12.8%
FY12/16	Cons.	12,300	6.3%	1,446	11.3%	1,329	11.1%	854	17.9%	104.94	840.78	12.0%	13.2%
FY12/17	Cons.	13,099	6.5%	1,762	21.9%	1,669	25.6%	1,111	30.2%	134.45	957.50	12.0%	15.0%
FY12/18 Est.	Cons.	17,482	33.5%	1,830	3.9%	1,703	2.1%	1,157	4.1%	138.55	-	-	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: On August 31, 2011, the company conducted a 50-for-1 stock split. BPS and EPS data adjusted accordingly.

Business

Pioneer in property rights realignment: Aims to expand nationwide presence via the leasehold land and old underutilized properties businesses

Overview

Sansei Landic operates the Real Estate Sales segment (91.4% of total sales in FY12/17) and the Construction segment (8.6% of sales). The company was founded by Katsumi Ozawa in February 1976, and is headquartered in Tokyo. Takashi Matsuzaki (born in 1970) joined in May 1993 and took over the role of president from Mr. Ozawa in July 2003. The company started by handling leasehold land* in June 1991. Now it handles both leasehold land and old underutilized properties**, and engages in property procurement, rights realignment, sales, and management across Japan. Consolidated subsidiary One's Life Home operates the Construction segment.

Unlike typical real estate, leasehold land and old underutilized properties are often tangled up in complex relationships between various rights holders, underpinned by historical land laws (old Act on Land Leases and old Act on Building Leases). As such, realigning these rights requires substantial expertise and communication with various parties. Within the real estate sector, leasehold land and old underutilized properties are a niche market because they require substantial effort in terms of rights realignment, while each property is relatively small. Sansei Landic is the leading player in this market (Shared Research estimates the company's market share at 20–25%). At end-December 2017, the company had 129 employees at the parent and 151 consolidated employees.

* Leasehold land: Land that is leased out by a landowner, on which a third party (leaseholder) can build housing. The leaseholder owns the house, but not the land on which it is built.
** Old underutilized properties: Old properties such as partially occupied apartment buildings that need renovation or redevelopment, but cannot easily be renovated or torn down due to existing tenants.

Real Estate Sales segment

The Real Estate Sales segment comprises four businesses: leasehold land, old underutilized properties, freehold, and other.

Leasehold land business	Acquire leasehold land, extend roads and negotiate with rights holders, and sell leasehold land to leaseholders
Old underutilized properties business	Acquire land and old apartment buildings with resident tenants from building owners, negotiate with leaseholders to vacate, demolish the buildings, and sell land to developers or home builders
Freehold business	Acquire and sell freeholds
Other business	Receive rental revenue and consulting fees

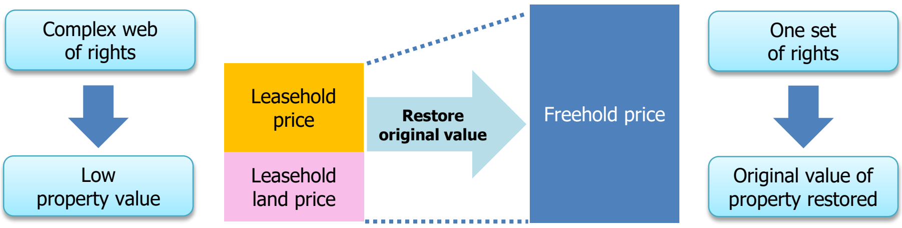
Source: Shared Research based on company data

Business model: Real estate rights realignment business

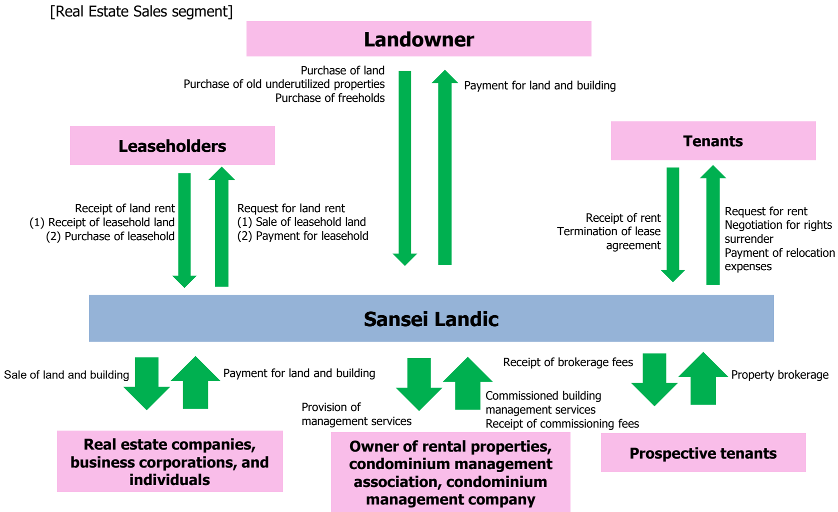
The leasehold land and old underutilized properties businesses accounted for 81.8% of

FY12/17 sales. If a property has multiple rights holders (landowner, leaseholder, and tenant), it is difficult to redevelop or otherwise effectively utilize the property, leading to a reduction in asset value. Sansei Landic purchases the land rights of such properties from landowners, enhances their value by realigning the various rights, then resells. The company collects property information primarily from real estate brokers, examines the legal restrictions and various rights relationships of a property, and purchases the land rights following negotiations with the landowner.

Overview of the company's added value

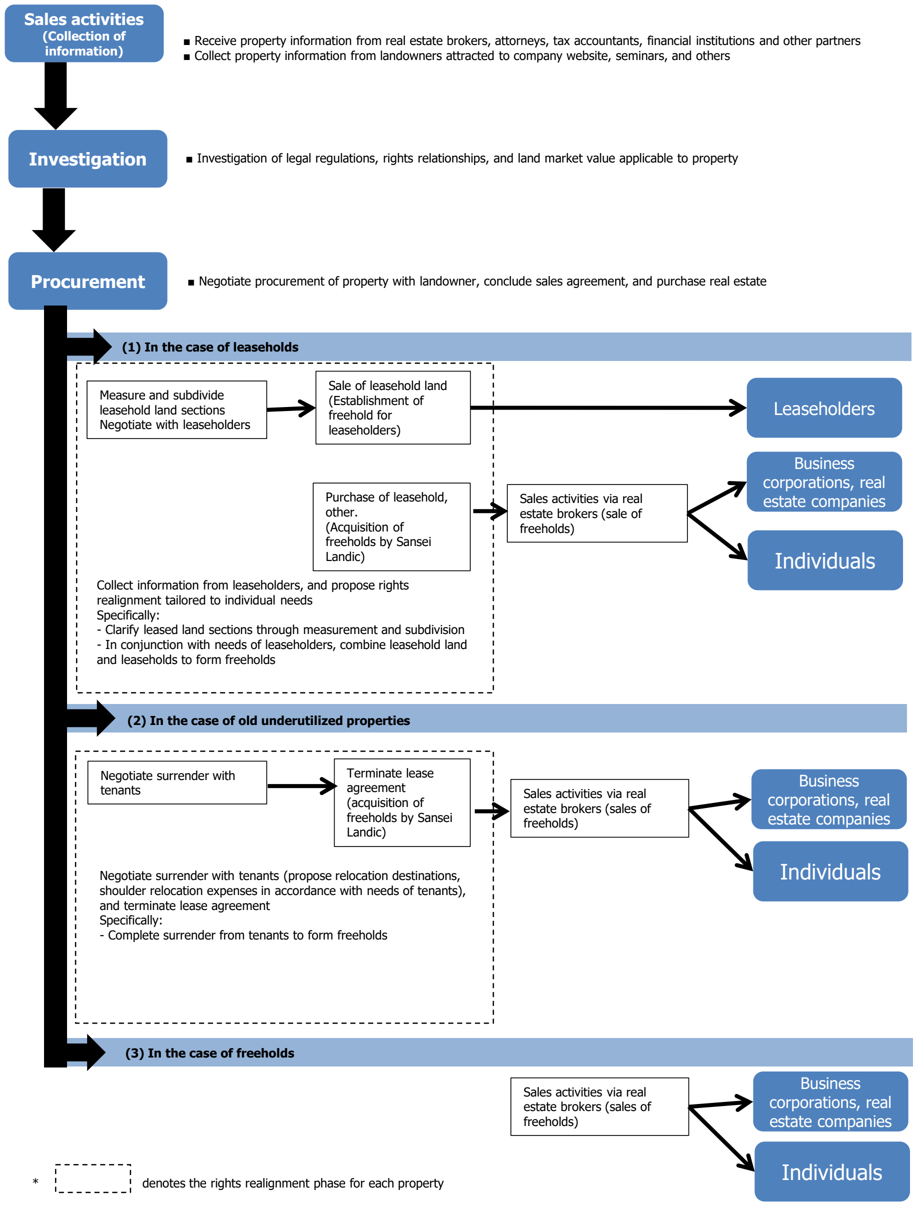


Source: Shared Research based on company data



Source: Shared Research based on company data

Standard workflow in the Real Estate Sales segment

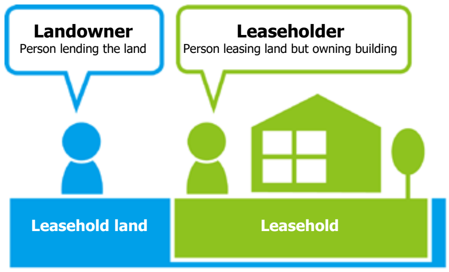


Source: Shared Research based on company data

Leasehold land business

In the case of leasehold land, land and building rights are distinct. The landowner leases the land to the leaseholder, who can build a house on the land, but owns only the house and not the land.

Illustration of leasehold land



Source: Shared Research based on company data

Problems arising from conflicting interests of landowner vs leaseholder

A single piece of land with both a landowner and a leaseholder can lead to problems for both sides. Leaseholders have particularly strong legal rights in Japan. As such, landowners, despite owning the land in question, are barred from using the land as they see fit unless they receive permission from the leaseholders. Because the rent for leasehold land tends to be low, a lack of demand due to poor ability to generate revenue may make it difficult for successors to sell the land. On the other hand, leaseholders cannot rebuild their houses on the leased land without approval from the landowner, and so in many cases end up shouldering the financial burden of living in an older, run-down property. In addition, since leaseholders do not own the land, the standalone value of their land lease is low, making it difficult to sell the lease. In these ways, both parties suffer, and landowners and leaseholders often get stuck in a deadlock that can last several decades. During this time, accumulated mutual reticence and negative emotions may make it difficult for the two parties to directly resolve any issues. Sansei Landic enters the scene as a mediator, disentangles the complex rights and human relationships, and works to raise the value of the property to an appropriate level.

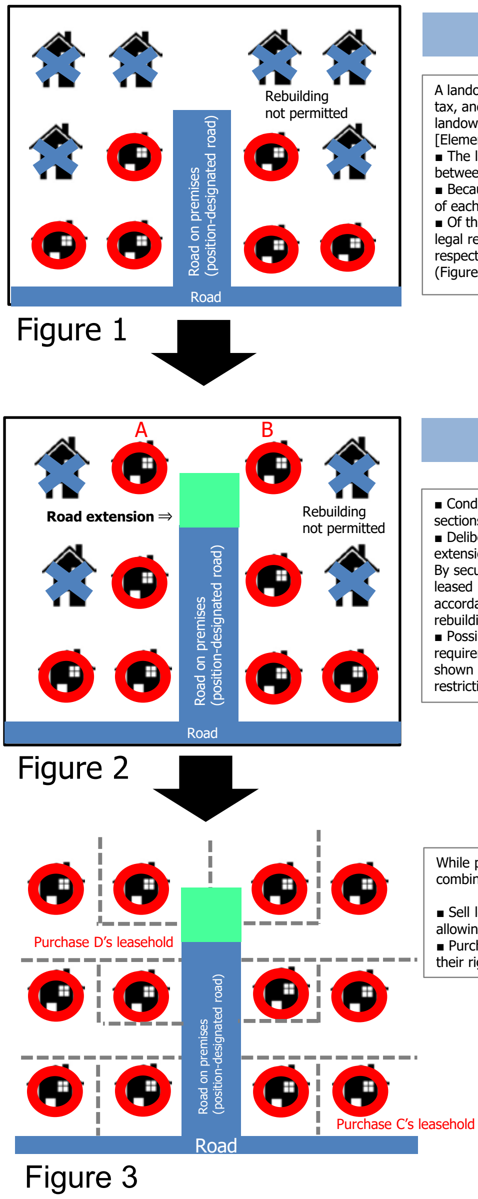
Example of realigning property rights

The following example from Kanagawa Prefecture illustrates Sansei Landic's process of property rights realignment (refer to following figures). It involved land of roughly 1,000sqm with 12 leaseholders. First, Sansei Landic purchased the land rights from the landowner, who thus managed to sell (liquidate) the land. At the time of acquisition, due to legal restrictions six of the 12 buildings on the land could not be rebuilt because they were not directly adjacent to a road. This kept the values of these properties extremely low.

After a precise measurement work, working with the relevant government office Sansei Landic extended the road, making two of the six properties adjacent to a road. Next, it reallocated the land in such a way as to give all properties access to the road, making rebuilding possible for all 12 properties. This boosted their value considerably.

Sansei Landic's primary objective is to sell to leaseholders the land rights on which their properties are built. The leaseholders, by purchasing these land rights to achieve a freehold, enhance asset value. Some leaseholders are not interested in buying land rights, and instead prefer to sell their leaseholds to the company. In Kanagawa Prefecture, Sansei Landic sold land rights to 10 out of the 12 leaseholders, and purchased the leaseholds from the remaining two. It then sold the two (now freehold) properties to third parties.

Example of property rights realignment



Overview

A landowner involved in an inheritance becomes liable for inheritance tax, and is faced with the need to sell the relevant leasehold land. The landowner sells the leasehold land to Sansei Landic.
[Elements that require rights realignment]
- The landowner lends the land to 12 leaseholders, resulting in a division between the leasehold land and leasehold.
- Because the property consists of a single piece of land, the boundaries of each section of leased land are not clearly determined.
- Of the 12 subdivided sections of leasehold land, six do not fulfill the legal requirement of being immediately adjacent to the road, and the respective leaseholders are therefore unable to rebuild their property (Figure 1).

Rights realignment phase

- Conduct measurement work, and clarify boundaries between different sections of the leased land.
- Deliberate with the relevant government office regarding road extension onto the premises.
By securing approval for the road extension, sections A and B of the leased land now fulfil the requirement of adjoining the road in accordance with the Building Standards Act, removing restrictions on rebuilding (Figure 2).
- Possible to connect all sections of land to the road, thus fulfilling the requirement of the Building Standards Act, by subdividing the land as shown in Figure 3 in deliberation with leaseholders. Consequently, restrictions on rebuilding are lifted for all sections of the leased land.

While proposing rights realignment tailored to the needs of leaseholders, combine leasehold land with leasehold to achieve a freehold.

- Sell leasehold land to leaseholders interested in such a purchase, allowing them to acquire freeholds.
- Purchase leasehold from land leaseholders C and D who wish to sell their rights, allowing Sansei Landic to acquire freeholds.

Source: Shared Research based on company data

Earnings structure of the leasehold land business

The price of land is determined by a range of factors including location, shape, and environment. When buying or selling land rights and leaseholds, the common practice is to use the leasehold ratio (ratio of a typical leasehold value to fee simple value), which is used in inheritance tax appraisals. These ratios change in proportion to the property value. The ratio of land rights can vary from 10–70% depending on the location. For most parcels*, leasehold value exceeds land right value.

*Parcel: A lot or lots listed as a single parcel in the land registry. It is possible to break down a parcel into smaller plots or to put smaller plots together into a parcel.

Sansei Landic calculates the property sales value for each portion of land based on the leasehold ratio, the area of the site leased by the leaseholder, the lease period, the rent, and other variables. It then subtracts various costs (brokerage commissions, calculated real estate acquisition tax and other taxes, and various other costs necessary for realigning property rights) and a predetermined amount based on the sales price (Sansei Landic's profit) to arrive at the procurement price.

If the land rights ratio is 40%, the leaseholder already owns 60% of the land and only needs to buy the remaining 40% to own the full set of rights, so many leaseholders tend to do this. The sales price is often higher than the procurement price, due to the company's initiatives to raise the value of the land, such as road development.

After procurement, Sansei Landic aims to sell 80% of a property within one year, 15% within three years, and the remaining 5% within five years.

Old Act on Land Leases and old Act on Building Leases vs. Act on Land and Building Leases

The land Sansei Landic handles is land under the old Act on Land Leases and the old Act on Building Leases. Not long after the Great Kanto Earthquake of 1923, Japan moved into the Showa Era (1926–1989). A concurrent population inflow into urban areas led to a surge in real estate prices, raising the need to protect leaseholders. This resulted in revisions to the Act on Land Leases and Act on Building Leases in 1941 (now referred to as the Old Act on Land Leases and Act on Building Leases). Under the revised laws, landowners were no longer permitted to terminate land lease agreements or refuse renewals without justifiable grounds. After the Second World War, the Act on Temporary Treatment of Rental Land and Housing in Cities Damaged by War was enacted with the aim of promoting post-war recovery, and this included expanding the supply of leased land. During Japan's period of rapid economic growth, land prices soared, and population inflows into urban areas continued. Although many aging buildings on leasehold land required reconstruction, securing the necessary approval from landowners often proved problematic. This led to further revisions to the Act on Land Leases and Act on Building Leases in 1966. The revised laws allowed leaseholders who could not obtain approval for reconstruction or expansion of their properties from their landowner to secure such authorization from a court. The old laws, enacted during the period of turmoil surrounding the Second World War, failed to properly address many of the issues that arose in connection with the sharp leap in the number of land or building leases, resolve problems related to roads, and clarify the boundaries of adjacent land, lease agreement details, and rights relationships.

In 1992, the new Act on Land and Building Leases was enacted, introducing the concept of fixed-term leaseholds. Land lease contracts established after the new law took effect are subject to a fixed term. However, there is still substantial leasehold land governed by the old laws. Leasehold land is now being liquidated as land established before and after the Second World War is transferred to successors and others, and as there are calls to shed outdated regulations. The property rights realignment business has emerged amid this backdrop.

Market size for leasehold land

There is no objective sector data on the market size for leasehold land in Japan. According to the 2013 Housing and Land Survey of the Ministry of Internal Affairs and Communication (MIC), Japan had roughly 1mn leaseholds (survey held every five years, so results of 2018 survey scheduled for release in 2020). Since leaseholds are for leasehold lands, we can assume the same number of land right parcels. The Tokyo metropolitan area alone has 155,200 land right parcels, and Sansei Landic estimates the corresponding market size at over JPY1.7tn. The company sold 300 leasehold lands in FY12/17 for sales of just JPY5.1bn. This implies a large untapped market.

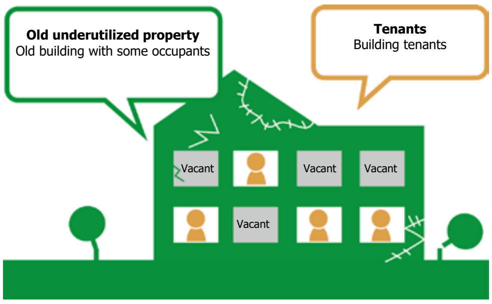
Sansei Landic mainly operates in the Kanto and Kansai areas. Although unit sales prices are low, the business enjoys stable sales without being swayed by economic fluctuations, as leaseholders benefit from buying land rights.

FY12/17 sales of leasehold land came to JPY5.1bn (38.7% of total sales). The company sold 300 properties at an average unit price of JPY17mn, an improvement on the average of JPY15mn in FY12/16. The average price of leasehold land is lower than for old underutilized properties, but the margin is higher due to added value arising from rights realignment.

Old underutilized properties business

Old underutilized properties refer to old revenue-generating properties, such as a 30-year-old wooden apartment building. Whereas new buildings have low vacancy rates and high rents, older buildings have high vacancy rates and low rents.

Old underutilized property



Source: Shared Research based on company data

Example of realigning rights of an old underutilized property

The following example is from a property in Nagoya city. Sansei Landic purchased land with an area of roughly 430sqm and an accompanying 30-year-old run-down wooden apartment building on the land. Due to a lack of maintenance, the building had a high vacancy rate, and thus generated limited rental revenue. The land and building owner, by selling to Sansei Landic, was able to liquidate a property with sluggish margins. Three of the eight residential units were occupied. Sansei Landic negotiated with these three tenants, offering to help them find new housing with better conditions and shouldering the relocation costs. Consequently, all three moved out and their existing lease agreements were dissolved. Once the premises were vacant, Sansei Landic demolished the building and sold the vacant lot to a provider of built-for-sale housing.

Market size for old underutilized properties

According to the 2013 Housing and Land Survey by the MIC, of the privately owned rental dwellings in Japan built in 1990 or earlier, 1,852,900 are wooden structures, accounting for 3.6% of total dwellings. The company converted and sold 39 old underutilized properties in FY12/17, with sales at just JPY5.6bn. This suggests a large potential market compared to the company's performance, similar to the leasehold land business.

In FY12/17, the company's sales of converted old underutilized properties accounted for 43.1% of total sales. The average unit price was JPY145mn. Although the unit price is 8.6x that of leasehold land, margins are relatively low.

Sansei Landic operates this business mainly in the Sapporo, Nagoya, and Fukuoka areas. It sells vacant lots to condominium developers and detached housing manufacturers, so proactively provides information. Given the growing demand for vacant land, the company is expecting an increase in the size of properties handled as well as a rise in margins.

Freehold business

In the freehold business, the company procures and sells the full set of property rights (freeholds do not require the realignment of property rights). The company adds value by procuring the full set of property rights and putting conditions in order, then sells the freehold property. For example, it may convert farming land into residential land and arrange road development, then sell the land as a large parcel of subdivided lots, or it may purchase land adjoining a parcel of leasehold land it already owns to sell the combined land as part of a larger parcel.

In FY12/17, the company recorded JPY899mn in sales for the freehold business (6.9% of total sales). It sold a total of 21 freehold properties, with an average unit price of JPY43mn. In FY12/16, the company sold 22 freehold properties for sales of JPY1.8bn, with an average unit price of JPY81mn. As these figures show, unit prices in the business can vary significantly. Over the last three to four years, the number of properties valued at around JPY100mn has increased, but the company anticipates a significant increase in sales in

FY12/18 because of a large project in Sapporo (valued at about JPY1.3bn).

Other business

The other business includes revenue from renting out property and consulting fees. The company also offers outsourcing services to landowners. Landowners can outsource all land lease management operations to the company, including land rent collection, arrears payment notifications, and renewal procedures. Having Sansei Landic manage leaseholders not only reduces the burden on the landowner but also facilitates efficient utilization of the leasehold land. For Sansei Landic, through these services it may be able to create future procurement opportunities.

Earnings trends in the Real Estate Sales segment

Sansei Landic's mainstay operations, the leasehold land and old underutilized properties businesses, have the following earnings trends.

The earnings composition of the leasehold land, old underutilized properties, and freehold businesses vary each year, leading to fluctuations in sales and profits. A higher share of the leasehold land business tends to translate into modest sales growth but higher margins, resulting in a sizeable jump in profits. An increase in the share of the old underutilized properties business leads to higher sales but lower margins, resulting in smaller profit growth. The company aims for a certain margin level when procuring properties, but because it needs to act in accordance with the intentions of the various rights holders when it sells those rights, profit margins fluctuate between individual projects.

For the same reason, the timing of booking sales also fluctuates, leading to earnings fluctuations each quarter. During periods of stagnant real estate prices (such as after the 2008 global financial crisis) the company tries to raise the share of the leasehold land business, which enjoys stable sales. Conversely, when real estate prices recover, the company increases the share of sales of the old underutilized properties business. In doing so, profits have trended upward over the five years through FY12/17.

In FY12/17, the Real Estate Sales segment posted sales of JPY12.0bn, operating profit of JPY2.7bn, and a profit margin of 22.9%. In comparison, FY12/09 sales were JPY4.8bn, operating profit JPY532mn, and the profit margin 11.0%. In eight years, sales increased 2.5x and operating profit 5.2x. The profit margin has remained around 20% from FY12/13 through FY12/17.

Earnings trends in the Real Estate Sales segment

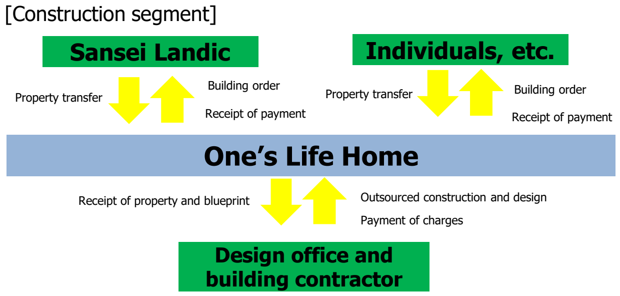
	Real Estate Sales									
(JPYmn)	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18 Est.
Sales	4,816	6,057	6,887	7,701	7,599	8,839	10,241	10,959	11,968	16,036
Leasehold land	3,049	3,394	4,379	3,765	3,690	4,134	5,300	5,413	5,066	7,108
Old underutilized properties	507	882	1,991	2,725	2,311	3,034	3,851	3,404	5,649	5,472
Freehold	1,082	1,556	282	1,084	1,279	1,348	691	1,792	899	3,035
Other	177	225	236	196	320	323	398	350	353	421
Segment profit	532	1,099	1,208	976	1,580	1,779	2,018	2,251	2,742	-
Segment profit margin	11.0%	18.1%	17.5%	12.6%	20.8%	20.1%	19.7%	20.5%	22.9%	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Construction segment

One's Life Home, a consolidated subsidiary of Sansei Landic, provides fully custom-designed detached housing, designer-led renovations, and related management services. It specializes in custom-built housing that features natural materials and uses minimal amounts of harmful chemicals to provide a healthier living environment, and offers consumers a change to collaborate with architects to turn their ideas into reality. One's Life Home has custom-built and renovated houses on display at a show house exhibition at Komazawa in Setagaya-ku, Tokyo.

Overview of Construction segment



Source: Shared Research based on company data

Earnings trends in the Construction segment

Segment sales have ranged between JPY1.1bn and JPY1.7bn during the nine years through FY12/17, peaking at JPY1.7bn in FY12/12 and declining since then. The segment posted losses in five of these years, and relatively low profits in the other four years. Sales declined in FY12/17, but restructuring enabled the company to shrink the segment loss.

In this segment, the company books sales according to the percentage of completion method after construction has begun, so orders do not lead immediately to sales or profit. However, various measures the company is implementing seem to be having a favorable impact, so it aims to move into the black soon.

Earnings trends in the Construction segment

	Construction									
(JPYmn)	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18 Est.
Sales	1,161	1,363	1,196	1,738	1,663	1,624	1,359	1,391	1,203	1,444
Segment profit	17	19	-34	21	-105	35	-39	-56	-44	-
Segment profit margin	1.4%	1.4%	-2.8%	1.2%	-6.3%	2.2%	-2.8%	-4.0%	-3.7%	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Competition and market share

Sansei Landic is the market leader in operations related to leasehold land and old underutilized properties (Shared Research estimates the company's market share at 20–25% by transaction value).

The company has seven or eight competitors, but not one specializes in these areas or has a nationwide presence as Sansei Landic does. Listed companies that handle leasehold land include Arealink Co., Ltd. (TSE Mothers: 8914) and Yamada Servicer Synthetic Office (JASDAQ: 4351), but neither specialize in this area, and their transaction values are just JPY1.9bn (FY12/17) and JPY295mn (FY12/17) respectively. In the Tokyo area, Sansei Landic's largest competitor is Tokyo City-Development Co., Ltd. (unlisted), which is strong in direct sales to landowners and has developed proprietary information channels. Its sales are roughly half of Sansei Landic's. Another competitor in Tokyo is Heisei Toshi Keikaku Co., Ltd. (unlisted), which is about one-fifth the size of Sansei Landic. Toukai Tatemono Co., Ltd. is another rival, headquartered in Osaka, and mainly competes with the company in Kansai and Nagoya. Unlike Sansei Landic, it acquires leaseholds from leaseholders, and after t freeholds, it builds for-sale detached houses. It is smaller than Sansei Landic.

Comparison with peers

Ticker	Company	Fiscal year	Sales (JPYmn)	OP (JPYmn)	OPM	ROA (RP-based)	ROE	Equity ratio	Net debt / Equity ratio	Main businesses (% of sales)
3299	Mugen Estate	FY12/17	63,568	7,122	11.2%	11.0%	24.7%	32.5%	1.16	Purchase and sale (renovation)(96)
8940	Intellex	FY05/18	43,507	1,560	3.6%	3.7%	8.2%	31.6%	1.43	Renovation and sale of pre-owned condominiums (80)
3230	Star Mica	FY11/17	23,075	3,575	15.5%	5.6%	14.1%	28.3%	2.25	Renovated condominium (sale and rental)(77)
8914	Arealink	FY12/17	21,489	2,379	11.1%	9.1%	9.8%	54.7%	0.15	Property management (91), property revitalization and liquidation (6)
3277	Sansei Landic	FY12/17	13,099	1,762	13.5%	12.0%	15.0%	47.3%	0.48	Real Estate Sales (89), Construction (11)
4351	Yamada Servicer Synthetic Office	FY12/17	2,088	61	2.9%	1.1%	2.3%	70.9%	-0.62	Servicer (29), staffing (57), real estate solutions (14), other (0)
	Average		32,948	3,280	11.0%	8.3%	14.4%	38.9%	1.09	

Source: Shared Research based on each company data
Note: Figures rounded to the nearest million yen.

Earnings trends

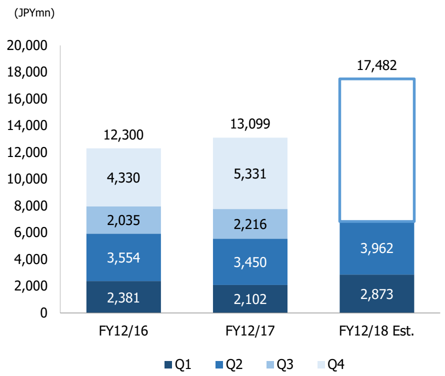
Quarterly earnings

Cumulative earnings (cons.)	FY12/16				FY12/17				FY12/18		FY12/18			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of 1H	1H Est.	% of FY	FY Est.
Sales	2,381	5,935	7,970	12,300	2,102	5,552	7,768	13,099	2,873	6,835	**84.2%**	**8,119**	**39.1%**	**17,482**
YoY	110.1%	38.4%	40.0%	6.3%	-17.3%	-6.5%	-2.5%	6.5%	36.7%	23.1%				
Cost of sales	1,601	4,154	5,477	8,344	1,643	3,799	5,253	8,566	2,139	4,539				
YoY	114.0%	51.2%	49.4%	7.0%	2.6%	-8.5%	-4.1%	2.7%	30.2%	19.5%				
Cost ratio	67.2%	70.0%	68.7%	67.8%	78.2%	68.4%	67.6%	65.4%	74.4%	66.4%				
Gross profit	780	1,781	2,493	3,957	459	1,753	2,515	4,532	734	2,296				
YoY	102.6%	15.5%	22.7%	5.0%	-41.2%	-1.6%	0.9%	14.5%	60.0%	31.0%				
GPM	32.8%	30.0%	31.3%	32.2%	21.8%	31.6%	32.4%	34.6%	25.6%	33.6%				
SG&A expenses	590	1,254	1,828	2,510	592	1,263	1,952	2,770	676	1,478				
YoY	9.8%	9.2%	7.1%	1.6%	0.3%	0.7%	6.8%	10.4%	14.2%	17.1%				
SG&A ratio	24.8%	21.1%	22.9%	20.4%	28.2%	22.8%	25.1%	21.1%	23.5%	21.6%				
Operating profit	190	527	665	1,446	-133	490	564	1,762	58	817	**151.6%**	**539**	**44.7%**	**1,830**
YoY	-	33.6%	104.6%	11.3%	-	-7.0%	-15.2%	21.9%	-	66.8%				
OPM	8.0%	8.9%	8.3%	11.8%	-6.3%	8.8%	7.3%	13.5%	2.0%	12.0%				
Recurring profit	166	444	565	1,329	-146	457	503	1,669	30	745	**156.9%**	**475**	**43.8%**	**1,703**
YoY	-	27.4%	120.5%	11.1%	-	3.1%	-11.1%	25.5%	-	63.1%				
RPM	7.0%	7.5%	7.1%	10.8%	-6.9%	8.2%	6.5%	12.7%	1.1%	10.9%				
Net income	84	244	316	854	-132	261	293	1,111	3	435	**150.4%**	**289**	**37.6%**	**1,157**
YoY	-	15.5%	201.7%	17.9%	-	7.0%	-7.2%	30.1%	-	66.6%				
Net margin	3.5%	4.1%	4.0%	6.9%	-6.3%	4.7%	3.8%	8.5%	0.1%	6.4%				

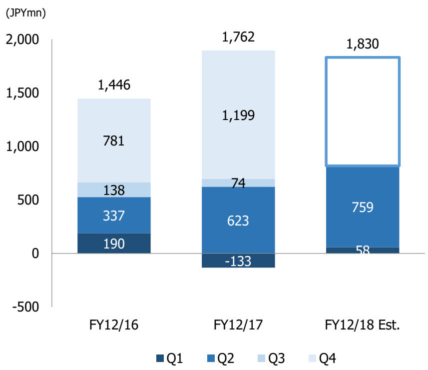
Quarterly earnings (cons.)	FY12/16				FY12/17				FY12/18	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	2,381	3,554	2,035	4,330	2,102	3,450	2,216	5,331	2,873	3,962
YoY	110.1%	12.6%	44.6%	-26.3%	-17.3%	-2.9%	8.9%	23.1%	36.7%	14.8%
Cost of sales	1,601	2,553	1,323	2,867	1,643	2,156	1,454	3,314	2,139	2,400
YoY	114.0%	27.8%	44.1%	-30.6%	2.6%	-15.5%	9.9%	15.6%	30.2%	11.3%
Cost ratio	67.2%	71.8%	65.0%	66.2%	78.2%	62.5%	18.7%	25.3%	74.4%	60.6%
Gross profit	780	1,001	712	1,463	459	1,294	762	2,017	734	1,561
YoY	102.6%	-13.5%	45.6%	-15.8%	-41.2%	29.3%	7.1%	37.9%	60.0%	20.7%
GPM	32.8%	28.2%	35.0%	33.8%	21.8%	37.5%	9.8%	15.4%	25.6%	39.4%
SG&A expenses	590	664	574	682	592	671	689	818	676	802
YoY	9.8%	8.7%	2.8%	-10.7%	0.3%	1.1%	20.0%	19.9%	14.2%	19.6%
SG&A ratio	24.8%	18.7%	28.2%	15.7%	28.2%	19.5%	8.9%	6.2%	23.5%	20.2%
Operating profit	190	337	138	781	-133	623	74	1,199	58	759
YoY	-	-38.4%	-	-19.8%	-	85.0%	-46.6%	53.5%	-	21.9%
OPM	8.0%	9.5%	6.8%	18.0%	-6.3%	18.0%	0.9%	9.2%	2.0%	19.2%
Recurring profit	166	277	121	764	-146	603	46	1,166	30	715
YoY	-	-46.6%	-	-18.7%	-	117.4%	-62.4%	52.6%	-	18.6%
RPM	7.0%	7.8%	6.0%	17.6%	-6.9%	17.5%	0.6%	8.9%	1.1%	18.0%
Net income	84	160	72	538	-132	393	32	818	3	431
YoY	-	-49.8%	-	-13.2%	-	146.7%	-55.3%	52.1%	-	9.8%
Net margin	3.5%	4.5%	3.5%	12.4%	-6.3%	11.4%	0.4%	6.2%	0.1%	10.9%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly sales



Quarterly operating profit



Source: Shared Research based on company data

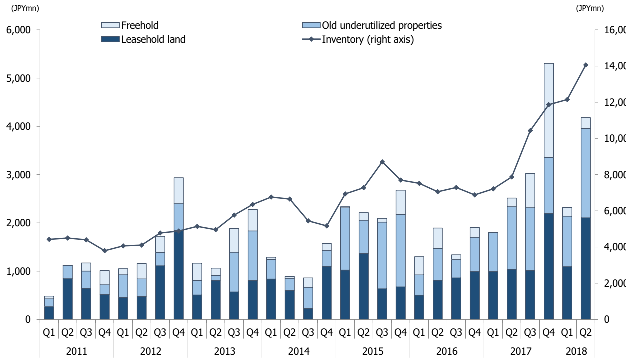
Quarterly earnings by segment

Segment sales and profits (JPYmn)	FY12/16 Q1	Q2	Q3	Q4	FY12/17 Q1	Q2	Q3	Q4	FY12/18 Q1	Q2	FY12/18 % of FY	FY Est.
Sales	**2,381**	**5,935**	**7,970**	**12,300**	**2,102**	**5,552**	**7,768**	**13,099**	**2,873**	**6,835**	**39.1%**	**17,482**
YoY	110.2%	38.4%	39.9%	6.3%	-11.7%	-6.5%	-2.5%	6.5%	36.7%	23.1%		
Real Estate Sales	2,244	5,568	7,322	10,959	1,907	5,079	7,006	11,969	2,758	6,577	**41.0%**	**16,036**
YoY	142.6%	42.8%	46.6%	7.0%	-15.0%	-8.8%	-4.3%	9.2%	44.6%	29.5%		
% of total sales	94.3%	93.8%	91.9%	89.1%	90.7%	91.5%	90.2%	91.4%	96.0%	96.2%		
Leasehold land	1,201	2,422	3,553	5,413	483	2,353	2,955	5,067	611	2,961	41.7%	7,108
YoY	121.5%	-0.1%	7.9%	2.1%	-59.8%	-2.9%	-16.8%	-6.4%	26.5%	25.9%		
% of total sales	50.4%	40.8%	44.6%	44.0%	23.0%	42.4%	38.0%	38.7%	21.3%	43.3%		
Old underutilized properties	473	1,942	2,213	3,404	1,327	2,290	2,982	5,649	725	1,850	33.8%	5,472
YoY	89.3%	92.3%	99.0%	-11.6%	180.4%	17.9%	34.8%	66.0%	-45.4%	-19.2%		
% of total sales	19.9%	32.7%	27.8%	27.7%	63.1%	41.2%	38.4%	43.1%	25.2%	27.1%		
Freehold	485	1,040	1,308	1,792	15	259	809	899	1,322	1,545	50.9%	3,035
YoY	850.6%	270.8%	325.6%	159.5%	-96.9%	-75.1%	-38.2%	-49.8%	8655.1%	495.9%		
% of total sales	20.4%	17.5%	16.4%	14.6%	0.7%	4.7%	10.4%	6.9%	46.0%	22.6%		
Other	85	164	247	350	81	177	260	353	99	221	52.6%	421
YoY	3.2%	-11.1%	-12.5%	-12.1%	-4.3%	7.8%	5.2%	0.9%	22.3%	25.1%		
% of total sales	3.6%	2.8%	3.1%	2.8%	3.9%	3.2%	3.4%	2.7%	3.4%	3.2%		
Construction	137	367	649	1,341	195	473	762	1,130	115	258	**17.9%**	**1,444**
YoY	-34.1%	-5.9%	-7.7%	1.0%	42.6%	29.0%	17.5%	-15.8%	-40.9%	-45.5%		
% of total sales	5.8%	6.2%	8.1%	10.9%	9.3%	8.5%	9.8%	8.6%	4.0%	3.8%		
Operating profit	**190**	**527**	**665**	**1,446**	**-133**	**490**	**564**	**1,762**	**58**	**817**		
YoY	-225.0%	33.4%	104.6%	11.2%	-170.0%	-7.0%	-15.2%	21.9%	-143.7%	66.8%		
Real Estate Sales	442	1,010	1,340	2,251	104	975	1,308	2,742	335	1,406		
YoY	519.4%	23.8%	40.8%	11.5%	-76.5%	-3.5%	-2.4%	21.8%	223.3%	44.2%		
% of operatng profit	118.0%	111.9%	109.9%	102.6%	166.6%	108.6%	105.6%	101.6%	118.3%	108.6%		
OPM	19.7%	18.1%	18.3%	20.5%	5.4%	19.2%	18.7%	22.9%	12.2%	21.4%		
Construction	-67	-107	-121	-56	-41	-77	-70	-44	-52	-111		
YoY	43.3%	19.8%	10.4%	45.7%	-38.5%	-27.8%	-42.2%	-21.5%	26.0%	44.1%		
% of operatng profit	-17.9%	-11.8%	-9.9%	-2.6%	-66.1%	-8.6%	-5.6%	-1.6%	-18.3%	-8.6%		
OPM	-	-	-	-	-	-	-	-	-	-		
Adjustments	-185	-376	-554	-749	-195	-408	-675	-936	-225	-478		

Segment sales and profits (JPYmn)	FY12/16 Q1	Q2	Q3	Q4	FY12/17 Q1	Q2	Q3	Q4	FY12/18 Q1	Q2
Sales	**2,381**	**3,554**	**2,035**	**4,330**	**2,102**	**3,450**	**2,216**	**5,331**	**2,873**	**3,962**
YoY	110.2%	12.6%	44.6%	-26.3%	-11.7%	-2.9%	8.9%	23.1%	36.7%	14.8%
Real Estate Sales	2,244	3,324	1,753	3,638	1,907	3,172	1,927	4,963	2,758	3,819
YoY	142.6%	11.8%	60.2%	-30.7%	-15.0%	-4.6%	9.9%	36.4%	44.6%	20.4%
% of total sales	94.3%	94.6%	86.3%	84.1%	90.7%	92.1%	88.0%	93.8%	96.4%	96.6%
Leasehold land	1,201	1,222	1,131	1,860	483	1,870	602	2,111	611	2,350
YoY	121.5%	-35.1%	30.3%	-7.4%	-59.8%	53.1%	-46.7%	13.5%	26.5%	25.7%
% of total sales	50.4%	34.8%	55.6%	43.0%	23.0%	54.3%	27.5%	39.9%	21.4%	59.5%
Old underutilized properties	473	1,468	271	1,192	1,327	962	692	2,668	725	1,124
YoY	89.3%	93.3%	165.9%	-56.5%	180.4%	-34.5%	155.3%	123.9%	-45.4%	16.8%
% of total sales	19.9%	41.8%	13.3%	27.5%	63.1%	27.9%	31.6%	50.4%	25.3%	28.4%
Freehold	485	555	268	483	15	244	549	91	1,322	223
YoY	850.6%	141.8%	897.3%	26.2%	-96.9%	-56.0%	104.8%	-81.2%	8655.1%	-8.8%
% of total sales	20.4%	15.8%	13.2%	11.2%	0.7%	7.1%	25.1%	1.7%	46.2%	5.6%
Other	85	80	83	103	81	96	83	93	99	122
YoY	3.2%	-22.5%	-15.3%	-11.0%	-4.3%	20.7%	0.2%	-9.6%	22.3%	27.4%
% of total sales	3.6%	2.3%	4.1%	2.4%	3.9%	2.8%	3.8%	1.8%	3.5%	3.1%
Construction	137	230	282	692	195	278	289	368	115	143
YoY	-34.1%	26.4%	-9.9%	10.8%	42.6%	20.9%	2.5%	-46.9%	-40.9%	-48.7%
% of total sales	5.8%	6.5%	13.9%	16.0%	9.3%	8.1%	13.2%	7.0%	4.0%	3.6%
Adjustments	0	42	3	5	0	6	26	42	12	9
Operating profit	**190**	**337**	**138**	**781**	**-133**	**623**	**74**	**1,199**	**58**	**759**
YoY	-225.0%	-38.4%	-297.1%	-19.9%	-170.0%	84.9%	-46.6%	53.5%	-143.7%	21.9%
Real Estate Sales	442	568	330	911	104	871	333	1,434	335	1,071
Yo YoY	519.4%	-23.7%	142.6%	-14.6%	-76.5%	53.4%	0.9%	57.4%	223.3%	22.9%
% of operating profit	118.0%	107.5%	104.4%	93.4%	166.6%	104.3%	97.8%	98.2%	118.3%	105.9%
OPM	19.7%	17.1%	18.8%	25.0%	5.4%	27.5%	17.3%	28.9%	12.2%	28.0%
Construction	-67	-40	-14	65	-41	-36	7	26	-52	-59
YoY	43.3%	-6.0%	-31.1%	-8.8%	-38.5%	-9.7%	-152.0%	-60.1%	26.0%	64.7%
% of operating profit	-17.9%	-7.6%	-4.4%	6.6%	-66.1%	-4.3%	2.1%	1.8%	-18.3%	-5.9%
OPM	-	-	-	-	-	-	-	-	-	-
Adjustments	-185	-191	-178	-195	-195	-213	-267	-261	-225	-253

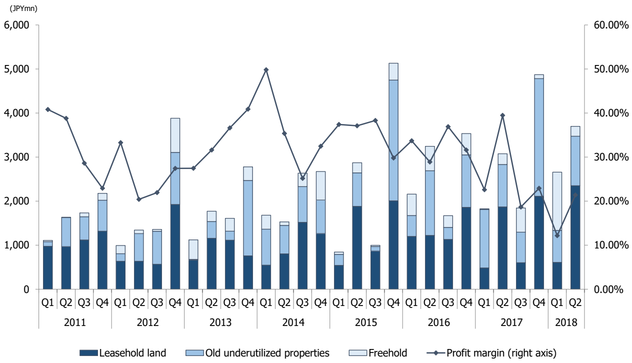
Source: Shared Research based on company data
Note: Figures may differ from company materials due to rounding methods.

Real Estate Sales segment procurement value



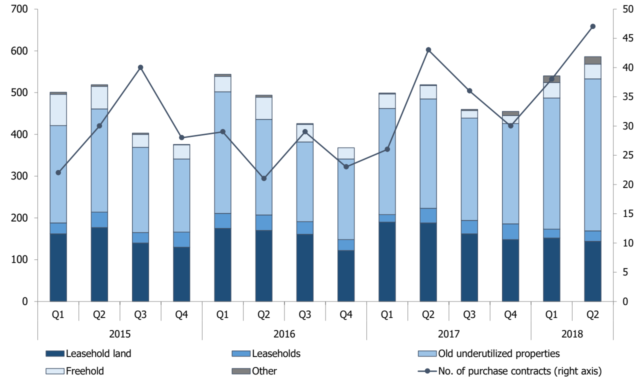
Source: Shared Research based on company data

Real Estate Sales segment sales



Source: Shared Research based on company data

Number of properties and number of purchase commitments



Source: Shared Research based on company data

1H FY12/18 results

Overview

1H FY12/18 sales came to JPY6.8bn (+23.1% YoY), operating profit to JPY817mn (+66.8% YoY), recurring profit to JPY745mn (+62.9% YoY), and net income attributable to parent company shareholders to JPY435mn (+66.6% YoY).

A large project scheduled for 1H was delayed until Q3, so sales reached just 84.2% of the company's 1H target, but profits were up significantly as the margin exceeded expectations on the sale of properties in areas with a high unit price.

Segment results

Real Estate Sales segment

Segment profit was JPY1.4bn (+44.2% YoY) and the margin (segment profit divided by segment sales; adjustments not made) was 21.4%, up 2.2pp from 19.2% in 1H FY12/17. Sales of leasehold land increased YoY by 25.9% in 1H FY12/18, bringing a large sales increase.

Sales of leasehold land came to JPY3.0bn (+25.9% YoY), fairly much in line with the company's forecast, but profits were above plan. By region, sales have been favorable mainly in Kanto with a contribution from a large property acquired in FY12/17, and the average unit price rose. Procurement value was up 57.4% YoY at JPY3.2bn. The company expects sales of JPY7.1bn (+40.3% YoY) in FY12/18.

Sales of old underutilized properties came to JPY1.8bn (-19.2% YoY). Although the average unit price declined, the number of units was up 80% YoY, so sales exceeded the company's forecast by 5.8%. Sales are steadily growing, particularly in Western Japan. Procurement value was up 37.7% YoY at JPY2.9bn. The company expects sales of JPY5.5bn (-3.1% YoY) in FY12/18.

Sales of freeholds rose YoY by 495.9%, but still fell 45.1% short of plan due to a large project scheduled for 1H being delayed until Q3. Procurement value was up 63.8% YoY at JPY405mn. The company expects sales of JPY3.0bn (+237.6% YoY).

Construction segment

Segment sales were JPY258mn (-45.5% YoY), falling 29.3% short of plan. In addition to wooden structures, the company received orders for four reinforced concrete buildings, but it took longer than expected between applying for and starting construction, and this caused the shortfall. Website revision and improved efficiency of sales activities by channel helped to improve the number of acquisitions, so the company expects sales of JPY1.4bn (+20.0% YoY) in FY12/18.

FY12/18 forecasts

Overview

Sansei Landic forecasts FY12/18 sales of JPY17.5bn (+33.5% YoY), operating profit of JPY1.8bn (+3.9% YoY), recurring profit of JPY1.7bn (+2.1% YoY), and net income attributable to parent company shareholders of JPY1.2bn (+4.2% YoY). The company expects record sales and profits. Although sales of a large freehold is set to bring a significant increase in sales, the company expects only a slight improvement in profits due to higher SG&A expenses as labor costs rise on upfront spending and the wage base increases. This shows its cautious view of FY12/18 earnings, since it views its earnings structure (as revised in FY12/17) to be only temporary. By segment, it forecasts sales of JPY16.0bn (+34.0% YoY) for Real Estate Sales, and JPY1.4bn (+20.0% YoY after adjustments) for Construction. It has not disclosed profit forecasts by segment.

Real estate for sale remaining in inventory (the source of future earnings) as of end-1H FY12/18 totaled JPY14.1bn, up 18.5% from JPY11.9bn at end-FY12/17. The company will work from Q3 onward to acquire properties to sell from FY12/19 onward.

New medium-term plan (FY12/18 to FY12/20)

Achievements of previous medium-term plan

In FY12/17, which was the final year of the medium-term management plan initiated in FY12/15, the company focused on achieving continued business growth by strengthening organized sales initiatives to develop information channels and by establishing a region-based sales structure that can promptly respond to changes in the market environment. The company succeeded in developing new channels with trust banks, securities companies, and sublease companies as sources of property information. It also strengthened sales capabilities through measures such as reinforcing staffing in the Tokai, Kinki, and Kyushu areas.

In the Real Estate Sales segment, procurement of real estate for sale was strong in the leasehold land, old underutilized properties, and freehold businesses; procurement value finished at JPY11.9bn, up 72.5% YoY. On the sales front, old underutilized properties business saw a significant increase, but due to lower sales in leasehold land and freehold, FY12/17 sales rose only moderately by 6.5%. As a result, sales only reached 83.7% of the target set out in the medium-term plan. However, operating profit in FY12/17 exceeded forecast by 20.2%, recording double-digit YoY growth for two consecutive fiscal years. Operating profit also surpassed the medium-term plan target by 7.8%.

New medium-term plan (FY12/18 to FY12/20)

On February 14, 2018, Sansei Landic announced a new medium-term plan spanning FY12/18 through FY12/20. The company expects large structural reforms after 2020, as it sees a period of various real estate-related challenges (e.g. land with unknown owners, vacant houses, areas with many wooden buildings, and redevelopment of urban areas) approaching. It has therefore positioned the term covered by the new medium-term plan as a time for preparation, when it will streamline its internal structure and cultivate capabilities to respond to future changes in the market.

The company achieved goals set out in the previous medium-term plan to a certain degree; it expanded sales channels, improved profit margin by diversifying sales initiatives, boosted staff performance by creating manuals filled with knowledge of experienced employees, and pioneered new businesses by forming business alliances. Meanwhile, several challenges associated with future growth have become clear. For example, the company needs to develop new businesses to prepare for the anticipated changes in the real estate industry, expand information channels to bolster procurement, level out quarterly sales, improve earnings of consolidated subsidiary One's Life Home (core company in the Construction segment), and strengthen HR through initiatives geared at specific resource groups including managers, young employees, and female employees.

Views on the real estate market

According to Sansei Landic, multiple problems are expected to surface in Japan's real estate industry after 2020, and companies like itself that specialize in property rights realignment will become key to solving these issues. That said, Sansei Landic thought it must first strengthen its business structure to be able to seize the opportunities, so it drafted the new medium-term plan positioning the three years as a period to prepare for the next stage of growth.

Issues anticipated to surface:

- Vacant houses
- Land with unknown owners
- Fragmented ownership
- Earthquake-resistance for housing
- Redevelopment of old urban areas
- Areas with many wooden buildings

These issues, which have their origin in the aging Japanese society where developing local communities or building towns are becoming increasingly difficult, are closely associated with Sansei Landic's specialization of property rights realignment and housing reconstruction. Based on this market outlook, the company summarized its core initiatives in the new medium-term plan as follows:

- Growth: Develop and generate earnings from new businesses that address various challenges in the real estate industry
- Stability: Maintain steady growth of existing businesses
- Shareholder returns: Return profits to shareholders, society, and employees

In regard to growth, the company plans to develop new businesses that address various real estate-related issues by leveraging its accumulated expertise in rights realignment and the capabilities of One's Life Home. It hopes these new businesses will have synergies with its core businesses, leasehold land and old underutilized properties, and can be developed into a third earnings pillar.

Sansei Landic says it is developing a build-for-sale business using its properties for sale, a renovation and support business to assist minpaku operators (accommodation in private homes for travelers) and those having trouble finding housing (elderly or handicapped individuals), and a preowned home resale business, and hopes to achieve profitability as early as possible. One specific example is the acquisition of a 30-year-old building in Funabashi, Chiba Prefecture, which it renovated and began operating for the benefit of elderly and disabled individuals in May 2018. It is also considering expanding its business area, primarily within Tokyo.

In the minpaku business, the company formed a business alliance with Hyakusenrenma, Inc., and launched their first rental property in Tokyo (Ota-ku) in April 2016 with plans to launch a second property in the same area in April 2018. In this business, the properties used are authorized by the relevant governing bodies; Sansei Landic either puts its own properties to effective use or carefully selects and acquires properties for specific use as a minpaku facility.

In regard to stability, the company is focusing on enhancing its sales structure and developing human resources. In connection with the deepening and widening of its business areas, it established new sales offices to enhance sales efforts at local real estate-related businesses. Sansei Landic had previously conducted sales activities in the Kansai area primarily through its Kansai branch in Osaka, but in July 2018 opened the Kyoto branch to enhance efforts in the Kyoto area (sales activities via the Kyoto branch began in early September). At the same time, the company has enhanced sales activities at financial institutions to expand its information channels and is working to gain access to information from financial institutions with which it has yet to work. It revised its website and began using social media ads to improve its name recognition, which will help it collect information on properties and which it hopes will help it achieve more direct transactions. The company is also working to maintain an environment that makes sales work easier, for example by using IT tools to increase efficiency.

In regard to returns, Sansei Landic tries to maintain stable dividends, providing increases as profits increase. It plans a JPY3 dividend increase in FY12/18 to JPY21. The company also recognizes CSR activities as an important matter to be addressed by management, has established a fund in-house to support children's futures, and plans on working toward eliminating poverty. Furthermore, it plans to raise the wage base and take other measures to improve its treatment of employees.

FY12/20 targets are operating profit of over JPY2.0bn (+13.5% versus FY12/17) and recurring profit of over JPY1.9bn (+13.9%), and it aims to maintain an ROA (recurring profit based) of 12% or higher (as in FY12/17).

Strengths and Weaknesses

Strengths

Dominant position in a niche market: The company is a leading player in the niche markets of realigning property rights for leasehold land and old underutilized properties. (We estimate the company's market share at 20–25%). Both businesses require substantial time and effort in terms of property rights realignment, yet each project is comparatively small. Major real estate developers are less likely to enter this market where they will have difficulty in achieving economies of scale. At the same time, smaller real estate developers may find it difficult to raise the necessary capital for procurement given the low collateral value of leasehold land and other properties handled by Sansei Landic.

Sansei Landic's listing on the first section of the Tokyo Stock Exchange is helping it gain name recognition nationwide and increase the number of properties it handles around the country. The company has developed a broad, nationwide network, which gives it an edge in collecting information on properties by funneling much of the information on leasehold land to the company. Unlike its competitors, which operate in a single region, Sansei Landic has a nationwide foothold, with nine sales offices (including the head office) spanning from Sapporo to Fukuoka. The company has traditionally obtained most of its information from real estate brokers, but it is now leveraging its credibility as a listed company to organize seminars in cooperation with financial institutions and partner with tax accountants to expand its procurement channels.

Strong rights realignment capability: Sansei Landic started handling leasehold land in June 1991 and has developed significant expertise and ability in rights realignment. One of its greatest strengths is employees with the knowledge and skill required to conduct negotiations and arrive at resolutions suited to the needs of relevant parties. It conducts rights realignment training for newly hired college graduates, so that they can transition from procurement to sales within three years. These skills involve ongoing careful communication with certain customers to understand their needs. In many cases, employees will need to concurrently manage the interests of multiple leaseholders. The company is identifying patterns in the various problems faced by leaseholders and the corresponding solutions.

Large potential market: The leasehold land market in Tokyo is worth over JPY1.7tn (based on Sansei Landic estimates). Considering the company only has leasehold land sales of roughly JPY5bn, the untapped market is substantial. Since many of the leasehold land parcels established in the period of turmoil surrounding the Second World War are being transferred to successors, liquidations are likely to continue. According to the 2013 Housing and Land Survey of the MIC, there are 1,034,200 leaseholds nationwide, down 11.6% from 2008. Although the number of leasehold lands decrease year by year, properties change hands primarily as part of the inheritance process, so the need for handling leasehold lands will continue.

As the society ages, and with the 2020 Tokyo Olympics on the horizon, there is likely to be more trading in housing stock. The company therefore feels the number of properties with complex rights situations will grow as land with unknown owners, vacant houses, areas with many wooden buildings, urban redevelopment, and other real estate-related issues become apparent.

Weaknesses

Business is rooted in real estate practices that are unique to Japan: The company's core businesses are premised on a legal context that is unique to Japan (the old Act on Land and old Act on Building Leases).

Synergies remain unknown elements: The company's two core segments, Real Estate Sales and Construction, operate independently, and there is little scope for synergies between the two. In FY12/17, the Construction segment had sales of JPY1.1bn but posted an operating loss of JPY44mn. The company's new medium-term plan calls for greater coordination on projects where synergies may be expected, but the build-for-sale business using land left vacant after rights realignment has so far only worked on two projects, so it remains unclear what sort of contribution the business will make to earnings.

New earnings pillar remains underdeveloped: The leasehold land business and old underutilized properties business accounted for 81.8% of total sales in FY12/17, pointing to insufficient diversification of the business portfolio. The company has started building new businesses such as the operation of minpaku business (accommodation in private homes for travelers) in Ota-ku, Tokyo, and assistance for those having trouble finding housing (elderly or handicapped individuals) in Funabashi, Chiba Prefecture. However, these initiatives are still only being explored on a local level.

Income statement

Income statement										
(JPYmn)	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Est. Cons.
Sales	5,990	7,415	8,042	9,475	9,188	10,444	11,568	12,300	13,099	17,482
YoY	-	23.8%	8.5%	17.8%	-3.0%	13.7%	10.8%	6.3%	6.5%	33.5%
Cost of sales	4,266	5,167	5,557	7,061	6,254	7,055	7,798	8,344	8,566	-
YoY	-	21.1%	7.6%	27.1%	-11.4%	12.8%	10.5%	7.0%	2.7%	-
Cost ratio	71.2%	69.7%	69.1%	74.5%	68.1%	67.6%	67.4%	67.8%	65.4%	-
Gross profit	1,724	2,248	2,485	2,415	2,934	3,389	3,769	3,957	4,532	-
YoY	-	30.4%	10.5%	-2.8%	21.5%	15.5%	11.2%	5.0%	14.6%	-
GPM	28.8%	30.3%	30.9%	25.5%	31.9%	32.4%	32.6%	32.2%	34.6%	-
SG&A expenses	1,418	1,594	1,735	1,898	2,014	2,184	2,470	2,510	2,770	-
YoY	-	12.4%	8.9%	9.3%	6.1%	8.5%	13.1%	1.6%	10.3%	-
SG&A ratio	23.7%	21.5%	21.6%	20.0%	21.9%	20.9%	21.4%	20.4%	21.1%	-
Operating profit	307	655	750	517	920	1,205	1,300	1,446	1,762	1,830
YoY	-	113.5%	14.5%	-31.0%	77.9%	30.9%	7.9%	11.3%	21.9%	3.8%
OPM	5.1%	8.8%	9.3%	5.5%	10.0%	11.5%	11.2%	11.8%	13.5%	10.5%
Non-operating income	29	25	135	5	12	14	15	15	12	-
YoY	-	-14.0%	439.6%	-96.4%	141.0%	17.1%	6.3%	5.0%	-20.0%	-
% of sales	0.5%	0.3%	1.7%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	-
Non-operating expenses	72	140	138	85	122	174	118	133	106	-
YoY	-	93.9%	-1.4%	-38.4%	43.2%	42.9%	-32.3%	12.7%	-20.0%	-
% of sales	1.2%	1.9%	1.7%	0.9%	1.3%	1.7%	1.0%	1.1%	0.8%	-
Rcurring profit	263	539	747	437	810	1,044	1,196	1,329	1,669	1,703
YoY	-	104.8%	38.4%	-41.5%	85.3%	28.9%	14.6%	11.1%	25.5%	2.1%
RPM	4.4%	7.3%	9.3%	4.6%	8.8%	10.0%	10.3%	10.8%	12.7%	9.7%
Net income attributable to owners of parent	143	301	444	233	456	626	724	854	1,111	1,157
YoY	-	110.3%	47.6%	-47.5%	95.4%	37.5%	15.6%	17.9%	30.2%	4.1%
Net margin	2.4%	4.1%	5.5%	2.5%	5.0%	6.0%	6.3%	6.9%	8.5%	6.6%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Per-share data (JPY, after stock split adjustment)

	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Est. Cons.
Shares issued (year-end)	120,000	120,000	6,900,000	6,900,000	6,900,000	7,915,000	8,108,500	8,149,500	8,357,300	-
EPS	23.86	50.18	73.50	33.80	66.04	90.23	90.08	104.94	134.45	138.55
EPS (fully diluted)	-	-	-	-	-	88.58	88.74	104.03	133.52	-
Dividend per share	0.84	2.60	6.00	3.00	3.00	6.00	10.00	12.00	18.00	21.00
Book value per share	350.34	399.68	469.71	497.51	560.55	664.77	744.23	840.78	957.5	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: On August 31, 2011, the company conducted a 50-for-1 stock split. BPS and EPS data adjusted accordingly.

Balance sheet

Balance sheet (cons.)									
	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Current assets	3,160	5,796	5,251	6,256	8,023	7,835	10,366	9,749	15,874
Cash and cash equivalents	745	892	1,155	859	1,185	2,275	2,253	2,435	3,558
Inventories	2,076	4,653	3,704	4,840	6,354	5,180	7,705	6,900	11,873
Others	338	250	391	557	482	379	406	413	442
Fixed assets	983	1,005	834	836	895	957	1,031	1,083	1,042
Tangible fixed assets	124	109	136	134	568	603	572	590	467
Intangible fixed assets	19	72	85	79	100	96	76	87	81
Investments and other assets	839	822	612	621	226	257	382	405	494
Total assets	4,143	6,801	6,085	7,092	8,918	8,792	11,397	10,832	16,916
Current liabilities	1,710	3,017	2,663	3,097	4,586	3,164	4,909	3,750	8,430
Interest-bearing debt	996	1,805	1,732	2,094	3,361	2,094	3,777	2,624	7,074
Others	713	1,212	930	1,002	1,224	1,070	1,132	1,126	1,356
Fixed liabilities	331	1,385	181	562	464	366	453	225	479
Interest-bearing debt	274	1,334	146	525	418	320	179	87	362
Others	57	51	34	36	46	46	273	138	117
Total liabilities	2,041	4,403	2,844	3,659	5,051	3,531	5,363	3,976	8,909
Total net assets	2,102	2,398	3,240	3,432	3,867	5,261	6,034	6,856	8,006

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cash flow statement

Statement of cash flows									
	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities	950	-1,621	970	-953	-664	1,761	-1,451	1,611	-3,666
Cash flows from investing activities	-55	-106	127	-15	-175	-111	-116	-184	107
Cash flows from financing activities	-610	1,842	-877	692	1,136	-612	1,588	-1,278	4,667

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Financial ratios

Financial ratios									
	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
ROA (RP-based)	na	9.9%	11.6%	6.6%	10.1%	11.8%	11.9%	12.0%	12.0%
ROE	7.0%	13.4%	15.8%	7.0%	12.5%	13.7%	12.8%	13.2%	15.0%
Inventory turnover	na	2.2	1.9	2.2	1.6	1.8	1.8	1.7	1.1
Tangible fixed assets turnover	na	63.6	65.6	70.2	26.2	17.8	19.7	21.2	28.0
Current ratio	184.8%	192.1%	197.2%	202.0%	174.9%	247.6%	211.1%	260.0%	188.3%
Equity ratio	50.7%	35.3%	53.3%	48.4%	43.4%	59.8%	52.9%	63.3%	47.3%

Source: Shared Research based on company data

Historical performance

FY12/17 results

Overview

FY12/17 sales came to JPY13.1bn (+6.5% YoY), operating profit to JPY1.8bn (+21.9% YoY), recurring profit to JPY1.7bn (+25.6% YoY), and net income attributable to parent company shareholders to JPY1.1bn (+30.2% YoY).

The company forecasted FY12/17 sales of JPY14.4bn (+17.5% YoY), operating profit of JPY1.5bn (+1.4% YoY), recurring profit of JPY1.4bn (+3.4% YoY), and net income attributable to parent company shareholders of JPY929mn (+8.9% YoY). While actual sales were JPY1.4bn short of the target, operating profit, recurring profit, and net income all exceeded the target by JPY296mn, JPY294mn, and JPY182mn, respectively. According to the company, sales fell short of the target due to lower sales YoY in leasehold land and freehold businesses in the Real Estate Sales segment. On the other hand, improved efficiency in sales structure and revenue booking of highly profitable projects brought all profit lines above respective targets.

In FY12/17, operating profit came to JPY1.8bn (+21.9% YoY). While sales were up 6.5% YoY, operating profit grew by 21.9%. The significant YoY rise can be attributed to higher profitability of properties sold, improved efficiency in sales activities, and better sales mix. Shared Research thinks this trend was especially pronounced in the Real Estate Sales segment; in the Construction segment narrower operating loss despite lower sales was owed to higher sales efficiency.

Segment results

Real Estate Sales segment

Segment profit came to JPY2.7bn (+21.8% YoY) and profit margin (segment profit/segment sales, excluding adjustments) to 22.9%, up 2.4pp from 20.5% in FY12/16. This segment is divided into three businesses based on sales items: leasehold land, old underutilized properties, and freehold. In FY12/17, it was noteworthy that old underutilized properties significantly increased while numbers of other properties declined.

In the Real Estate Sales segment, procurement and inventory reached record highs due to steady procurement tailored to regional characteristics and an increase in larger projects. Procurement of leasehold land came to JPY5.2bn (+65.5% YoY), old underutilized properties to JPY4.6bn (+109.9%), and freeholds to JPY2.8bn (+158.8%). While procurement rose in all businesses, the old underutilized properties business contributed the most. The company explained that procurement of old underutilized properties was especially pronounced in western Japan due to expansion of information channels coupled with enhanced sales structure in the area. At the time of the FY12/17 earnings announcement, the company forecasted total procurement value of JPY10.0bn for FY12/18.

Construction segment

Segment loss amounted to JPY44mn (loss of JPY56mn in FY12/16). Although the segment could not turn to profit, loss had narrowed. The Construction segment had lower YoY sales in FY12/17; narrower losses were owed to downsizing.

In FY12/17, sales in the Real Estate Sales segment came to JPY12.0bn (+9.2% YoY). In the Construction segment, sales were JPY1.2bn (-13.5%), or JPY1.1bn (-15.8%) excluding internal transactions. In the Real Estate Sales segment, sales of leasehold land came to JPY5.1bn (-6.4%), old underutilized properties to JPY5.6bn (+66.0%), and freeholds to JPY899mn (-49.8% YoY). The company sold 300 leasehold land parcels, 39 lots converted from old underutilized properties, and 21 freeholds.

Sales of leasehold land and freeholds were about 80% and 52% of the sales targets announced by the company, respectively. However, sales of old underutilizes properties significantly increased reaching 126% of the target, making up for the losses in other businesses. The Construction segment booked sales for 130 detached housing and renovation projects, with segment sales reaching 81% of the target set out in the company's plan. Overall, FY12/17 sales finished at 90.7% of the target, driven by robust performance of the old underutilized properties business.

Results versus initial plan

Results vs. Initial Est. (JPYmn)	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.
Sales (Initial Est.)	10,852	10,845	12,088	11,162	14,670	14,448
Sales (Results)	9,475	9,188	10,444	11,568	12,300	13,099
Results vs. Initial Est.	**-12.7%**	**-15.3%**	**-13.6%**	**3.6%**	**-16.2%**	**-9.3%**
Operating profit (Initial Est.)	664	1,059	1,242	1,401	1,466	1,466
Operating profit (Results)	517	920	1,205	1,300	1,446	1,762
Results vs. Initial Est.	**-22.1%**	**-13.1%**	**-3.0%**	**-7.2%**	**-1.3%**	**20.2%**
Recurring profit (Initial Est.)	497	854	1,139	1,291	1,374	1,374
Recurring profit (Results)	437	810	1,044	1,196	1,329	1,669
Results vs. Initial Est.	**-12.1%**	**-5.2%**	**-8.3%**	**-7.4%**	**-3.3%**	**21.4%**
Net income (Initial Est.)	253	517	705	848	929	929
Net income (Results)	233	456	626	724	854	1,111
Results vs. Initial Est.	**-7.8%**	**-11.9%**	**-11.2%**	**-14.6%**	**-8.1%**	**19.6%**

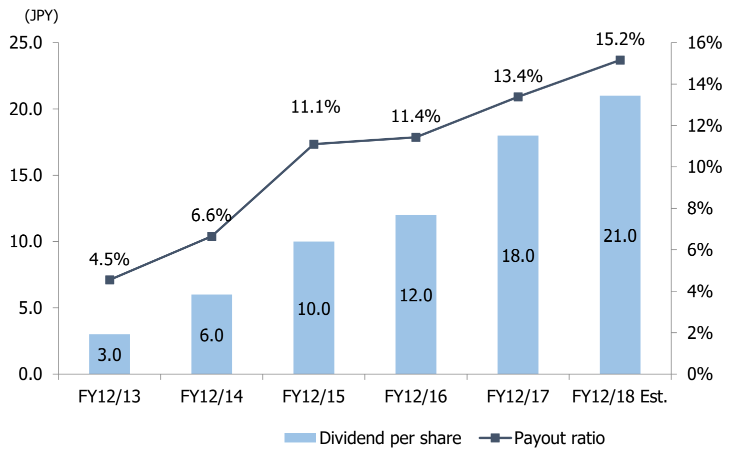
Source: Shared Research based on company data
Note: Figures may differ from company data due to differences in rounding methods.

Shareholder returns

Sansei Landic regards the return of profits to shareholders as a key management priority and aims to maintain stable dividends.

It aims to continue increasing dividends as profit increases and plans a JPY3 dividend increase in FY12/18 to JPY21. At the interim results, the company sends shareholder benefits in the form of bread products (emergency food with a three-year shelf life).

Dividend



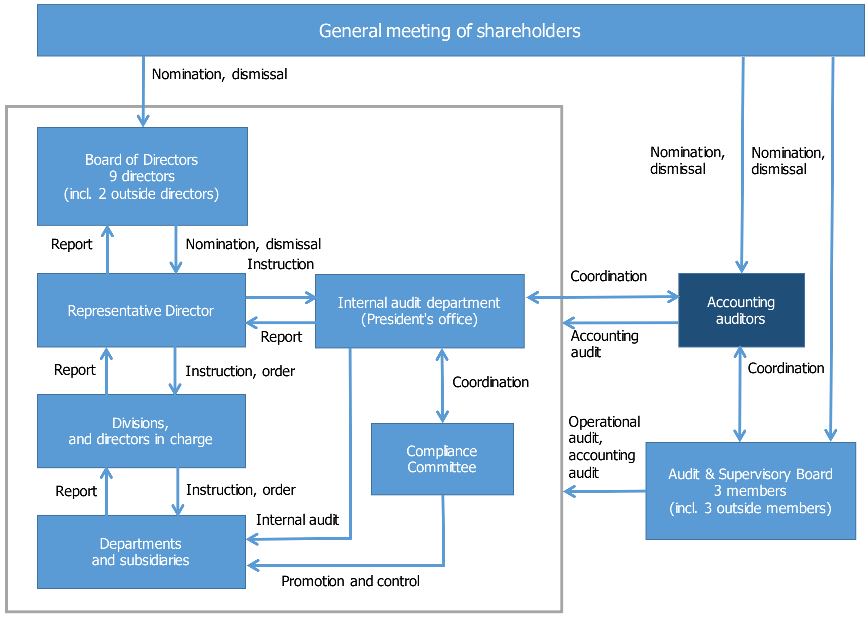
Source: Shared Research based on company data

Shareholders

Top shareholders	Shares held	Shareholding ratio
Takashi Matsuzaki	1,318,080	15.68%
Japan Trustee Services Bank. Ltd. (Trust account)	471,300	5.61%
Tetsuya Hisatomi	466,600	5.55%
Shoji Matsuura	465,400	5.54%
Junko Ozawa	377,000	4.48%
SBI Securities Co., Ltd.	284,915	3.39%
Yuka Kikuchi	156,750	1.86%
Yusuke Ozawa	156,750	1.86%
Kengo Ozawa	156,750	1.86%
The Maser Trust Bank of Japan, Ltd.	122,600	1.46%
Sum	3,976,145	47.30%
Total shares issued	8,406,800	100.00%

Source: Shared Research based on company data
Note: As of June 30, 2018

Corporate governance



Source: Shared Research based on company material

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