

Sansei Landic (TYO: 3277)

Despite a decline in sales, profits increased as profit margins improved. The real estate inventory for sale reached an unprecedented level due to a significant increase in the purchase.

◆Operating profit increased by 30% due to improved profit margins despite a fall in sales. Inventory volume hit a record high

In FY12/2022, Sansei Landic's sales declined by 8% YoY, but operating profit increased by 32% as the profit margin exceeded expectations thanks to the robust property market and cost reductions. Sales of Leasehold land, Old unutilised properties and Freehold fell short of the company estimates, but sales of Old unutilised properties went up by 40% YoY, a significant increase. In addition, there was a significant increase in the purchase of real estate for sale, particularly for old unutilised properties. Real estate for sale at the end of FY12/2022 reached an unprecedented level of 23.6 billion yen, further confirming the sales growth from FY12/2023 onwards.

In the meantime, the company's share price has remained in the 800-900 yen range for the past few years. Solid earnings growth is expected from FY12/2023 onwards, driven by a strong property market and a high inventory of real estate for sale. Given the low price to book, the shares look attractive.

◆Results for FY12/2022: Decrease in sales and profit; real estate inventories for sale at 23.6 billion yen

The company's full-year results for FY12/2022 show sales of 15,533 million yen, a decrease of 7.7% YoY. As previously reported, the company transferred its construction business at the end of March 2022, and sales from that business are excluded for the April-December period (sales for the construction business during April-December of FY2021/12 were about 1.1 billion yen). Excluding this effect, sales in the real estate business alone were almost flat YoY, and in line with the revised company forecasts revealed on 16 January 2023. Regarding profits, the profit margins of both Leasehold land and Old unutilised properties came in higher than anticipated. **Operating profit increased by 31.5% to 1,469 million yen** thanks to the robust real estate market, cost reductions and marketing efforts. Net profit ATOP (attributable to owners of parent) increased significantly as corporate income tax decreased by more than 200 million yen due to the above-mentioned transfer of shares of the construction business subsidiary.

The real estate industry, which is focused on face-to-face sales, was significantly affected by the outbreak of COVID-19 at the beginning of 2020. The company has taken many measures to combat the infection, including introducing a remote working system, and has almost returned to normal business conditions. As a result, the number of projects has recovered to levels above pre-infection levels. Consequently, the purchase and inventory of real estate for sale have increased significantly.

In the past, the company's sales tended to be higher in the 2Q and 4Q (see chart above), but since FY2021/12, sales have levelled off each quarter.

In the BS, real estate for sale has increased significantly by 10,356 million to 23,657 million yen since the end of FY2021/12. Interest-bearing debt increased by 8,291 million yen to 16,399 million yen due to a significant increase in purchases. As a result, total assets increased by 8,926 million yen to 28,976 million yen. The liability increase resulted in a 13.3 percentage point fall in the equity ratio to 38.1%.

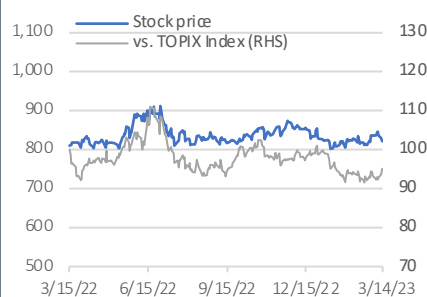
4Q financial result update

Real estate

As of 15 March, 2023

Share price(3/14)	¥821
52weeks high/low	¥921/800
Avg Vol (3 month)	12.9 thou shrs
Market Cap	¥6.99 bn
Enterprise Value	¥14.68 bn
PER (22/12 CE)	8.00 X
PBR (21/12 act)	0.61 X
Dividend Yield (22/12 CE)	3.53 %
ROE (21/12)	9.93 %
Operating margin (22/9)	9.46 %
Beta (5Y Monthly)	0.55
Shares Outstanding	8.520 mn shrs
Listed market	TSE Standard

Stock price performance



	1 mo.	3 mo.	12 mo.
Stock price	-1.6%	-3.8%	1.4%
Relative stock price	0.7%	-2.3%	-4.9%

Points of interest

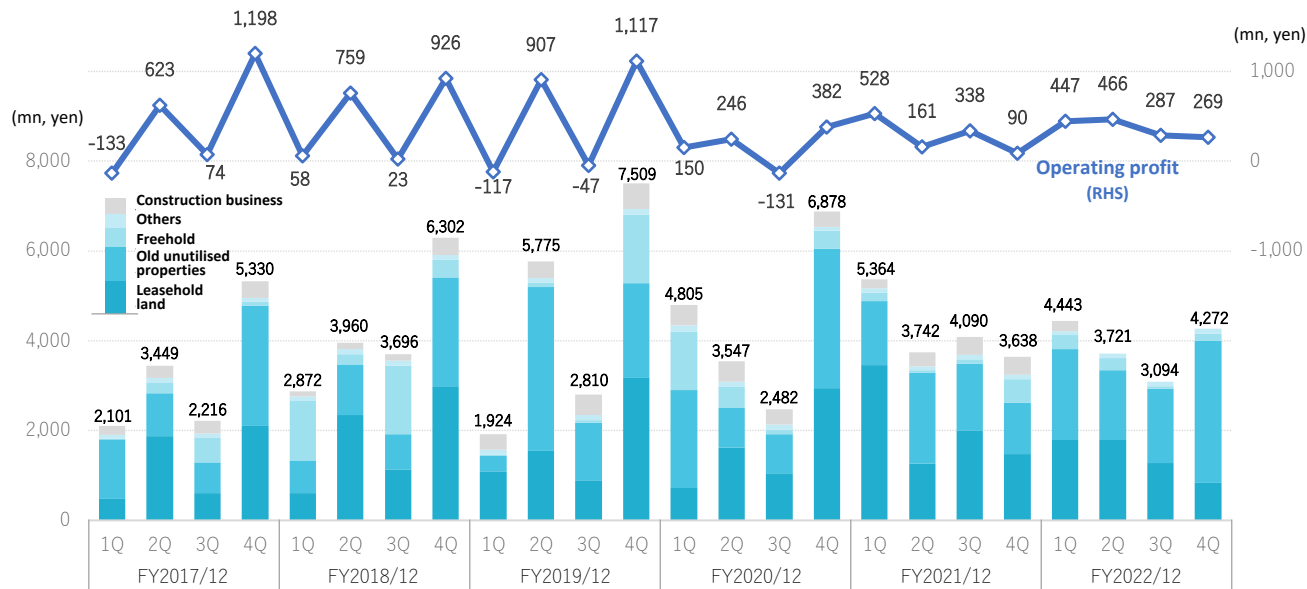
The company operates a nationwide property rights adjustment business, realising stable revenue opportunities in niche markets. It is recovering from the impact of Covid-19 on its operations. The medium-term plan targets an operating profit of 1.8 billion yen for FY12/2024, with the management aiming at TSE Prime listing.

This report is made at the request of Sansei Landic. For details, refer to the disclaimer on the last page.

JPY, mn	Net sales	YoY %	Oper. profit	YoY %	Ord. profit	YoY %	Profit ATOP	YoY %	EPS (¥)	DPS (¥)
2018/12	16,833	28.5	1,765	0.2	1,642	7.0	1,006	-9.4	119.62	21.00
2019/12	18,020	7.1	1,860	5.4	1,758	7.0	1,158	15.1	137.08	23.00
2020/12	17,774	-1.4	847	-54.5	709	-59.7	357	-69.1	42.34	25.00
2021/12	16,836	-5.3	1,117	31.9	999	40.9	609	70.5	73.56	26.00
2022/12	15,513	-7.7	1,469	31.5	1,283	28.4	1,060	73.9	129.61	28.00
2023/12 (CE)	17,119	10.2	1,594	8.5	1,305	1.7	836	-21.1	102.68	29.00



Quarterly sales and operating profit



Source: Omega Investment from company materials

➤ Segment trends

Sales in the **Real estate sales business** were **15,311 million yen (-1.4%)**. Sales of Leasehold land and Freehold fell YoY and were below the company estimates. Although sales of Old unutilised properties also undercut the company forecast, they were significantly higher YoY. The company's business model includes some large-scale deals, which take time to close, so sales fluctuate due to delays in sales booking and other factors. Therefore, the underachievement vis-a-vis the company plan should be considered a minor concern. **Segment profit increased by 19.9% to 2,797 million yen**. Profit margins are improving against the backdrop of a solid property market.

Leasehold land: Sales were **5,703 million yen (-30.5%)**. Last year's results included a large property mixed with old unutilised properties, which led to a significant decrease. Sales were 9.6% below the company's forecasts. The number of deals decreased by 14.5% to 294. The profit margin exceeded expectations, and profits were way higher than anticipated.

Old unutilised properties: Sales recorded **8,399 million yen (+38.1%)**. Sales rose YoY but were 10.3% below the company plan. The number of deals counted 42, declining 26.3% YoY. In addition to Greater Tokyo, the development of new projects for old unutilised properties progressed in Western Japan. This has been reflected in the recent strong performance of Old unutilised properties business.

Freehold: Sales were **787 million yen (-8.9%)**. Profits were largely in line with expectations, although sales came in 8.9% below the company estimate. The number of deals more than doubled to 18.

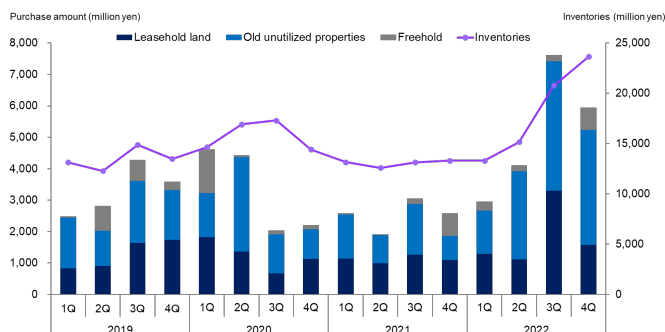
➤ Purchase of real estate for sales: Large increases in each segment, reaching a record high

The purchase for the Real estate sales business increased significantly by 104.0% to 20,636 million (10,118 million last year). The breakdown is 7,274 million yen (+62.6%) for Leasehold land business, 11,979 million yen (+155.5%) for Old unutilised properties business and 1,383 million yen (+44.8%) for Freehold business.

Project numbers and purchase contracts



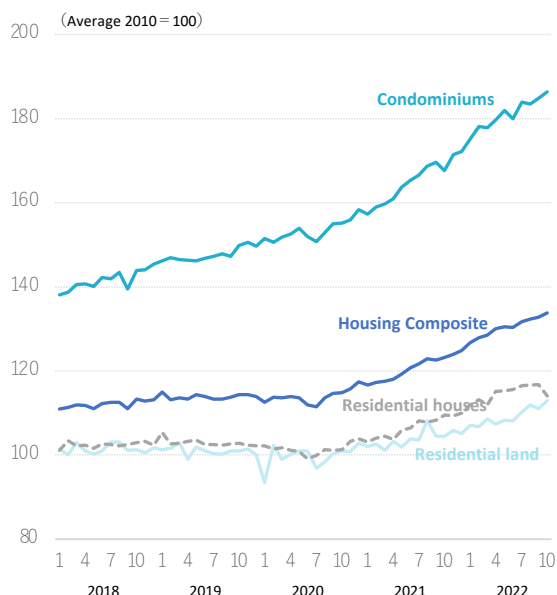
Purchase and Inventory



Source: company materials

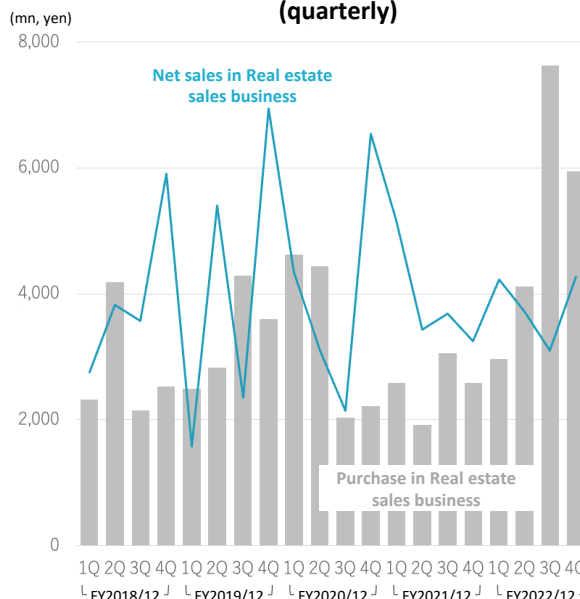


Property price index (residential)



Source: Omega Investment, based on Ministry of Land, Infrastructure, Transport and Tourism data.

Real estate sales and purchases (quarterly)



Source: Omega Investment from company materials

On top of the robust property market, the company has expanded the number of large properties requiring a rights adjustment period of more than one-year with managing risk. And it has been successful in the strategic broadening of business areas. These have resulted in a significant increase in purchases.

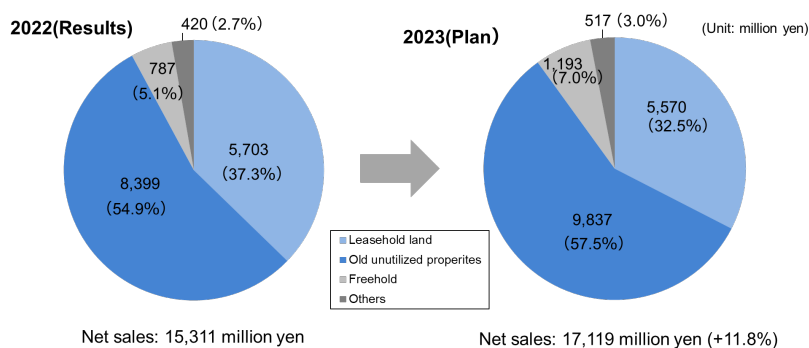
A sudden increase in inventories raises concerns over whether the company has the sales capacity to sell out and whether unsold items will become bad stock. However, the company states that it has no such concerns as it is proceeding cautiously with purchases and is increasing inventories in anticipation of sales in the next fiscal year and beyond. More than 80% of the properties were purchased less than a year ago, and the portfolio is regionally diversified with the metropolitan area (40%, composition at the end of December 2022), Western Japan (25%), Central Japan (26%) and Northern Japan (9%).

The above right-hand chart shows the trend of the company's Real estate sales business in terms of sales and purchases. The purchase has been low since 3Q FY2020 due to a slowdown in sales activities caused by COVID-19. However, it has been recovering since FY2022. Purchasing has been particularly strong in the current 3Q, suggesting the company has secured the foundations for earnings growth in the coming years and beyond.

◇Forecasts for FY12/2023: 10% rise in sales and 8.5% increase in operating profit

For FY12/2023, the company forecasts a 10.2% increase in sales to 17,119 million yen, an 8.5% increase in operating profit to 1,594 million yen and a 21.1% decrease in net profit ATOP to 836 million yen. The decreasing net income is a reversal of the significant increase in net income in FY2022/12 due to a decrease in corporate tax, as mentioned. Excluding this impact, profit will grow YoY. Given the current high property inventories, this forecast looks conservative. The company plans to pay a dividend of 29 yen a share at the end of FY12/2023, the 10th consecutive year of a dividend hike.

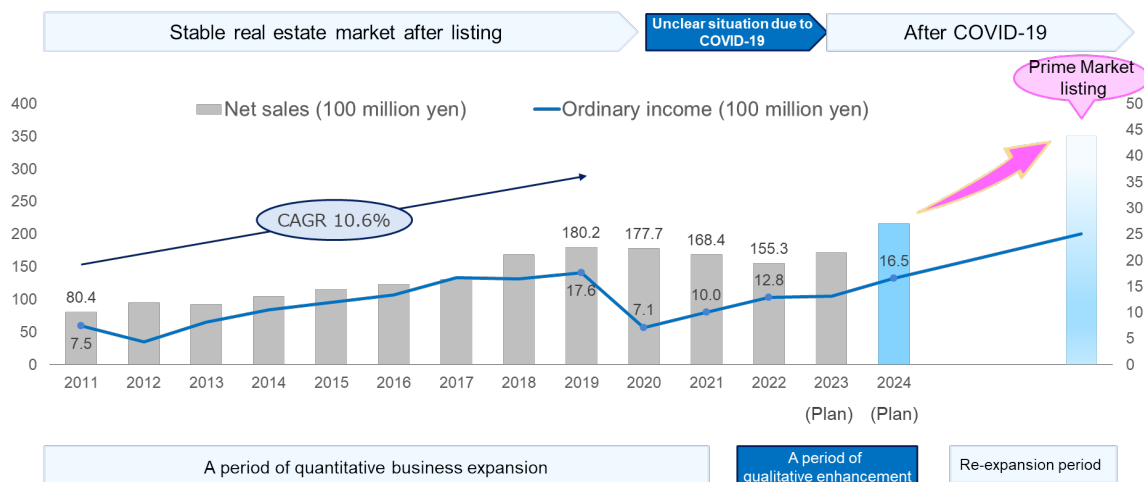
Real estate sales business - sales forecast by business segment



Source: company materials



Progress of the Medium-term Plan (2022 - 2024)



Source: company materials

◇ Progress of the Medium-term Plan (2022 - 2024)

On 14 February 2022, the company announced its new medium-term plan (2022-2024), 'Transformation to 2024'. The plan reviews the previous medium-term plan and reveals the company's targets for 2024 and the direction of the company's future. The company has achieved sales growth at a CAGR of 10.6% between 2011 and 2019, but due to COVID-19, sales continued to decline in 2020 and 2021. In the new medium-term plan, the company has set the period 2022-2024 as a period of qualitative reinforcement after the temporary stagnation caused by the pandemic disease. It has set an operating profit target of 1.8 billion yen for FY2024 (FY2022 actual: 1.47 billion yen). In addition, the company intends to realise new growth by strengthening its financial base and accelerating up-front investment to list in the TSE Prime market.

Specifically, the company plans to: 1) expand existing businesses, 2) expand its business domains, and 3) strengthen its management foundation. For each of these three, the company has stated the following.

- (1) Concerning expanding existing businesses, the company will build a stable organisation-led sales infrastructure from an individual-led one and promote the structuring of sales activities through data analysis and sales management. A new sales structure will be established for the post-pandemic period.
- (2) To expand business domains, in addition to working on new schemes in existing businesses, the company aims to pursue regional redevelopment projects, M&A and alliances actively.
- (3) Strengthening the management base will be achieved by strengthening the governance, reviewing the back-office structure, reinforcing the financial base and reforming human resource management.

The company also clarified its ROE policy, with a target of 9.0% or more for FY12/2024. The company's ROE for FY12/2022 was 7.8%, normalising corporate taxation. However, the company has achieved above 10% in the past and should be able to achieve a much higher ROE.

◇ Share price: Remains cheap, considering growth expectations for the next fiscal year and beyond

The company's share price has been in a box of 800-900 yen for the past few years. This is because it was difficult to see the next growth story due to the stagnant periods caused by the pandemic disease. However, with a new medium-term plan, the currently robust property market, and current inventory levels, we expect the company's earnings to return to a growth trajectory. Price-to-book is cheap (see the next page, the chart below), so the shares look attractive.

5-year stock price move



Share price compared to TOPIX (last three years)



Historical PBR (last five years)



Financial data (quarterly)

FY (¥mn)	2019/12				2020/12				2021/12				2022/12			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
[Sales by segment]																
Net sales	1,925	5,775	2,811	7,507	4,807	3,546	2,481	6,938	5,365	3,744	4,089	3,637	4,444	3,721	3,094	4,272
Year-on-year basis	-33.0%	45.8%	-23.9%	15.0%	149.7%	-38.6%	-11.7%	-7.6%	11.6%	5.6%	64.8%	-47.6%	-17.2%	-0.6%	-24.3%	17.4%
Real estate sales business	1,576	5,396	2,353	6,941	4,339	3,092	2,137	6,543	5,171	3,434	3,679	3,244	4,222	3,721	3,094	4,272
Year-on-year basis	-42.8%	41.3%	-33.9%	17.5%	175.3%	-42.7%	-9.2%	-5.7%	19.2%	11.1%	72.1%	-50.4%	-18.3%	8.3%	-15.9%	31.7%
Sales composition ratio	81.9%	93.4%	83.7%	92.5%	90.3%	87.2%	86.2%	94.3%	96.4%	91.7%	90.0%	89.2%	95.0%	100.0%	100.0%	100.0%
Leasehold land	1,086	1,546	889	3,176	719	1,613	1,044	2,950	3,464	1,267	2,003	1,474	1,793	1,794	1,284	832
Year-on-year basis	77.7%	-34.2%	-21.5%	6.1%	-33.8%	4.3%	17.4%	-7.1%	381.4%	-21.5%	91.9%	-50.0%	-48.2%	41.6%	-35.9%	-43.6%
Sales composition ratio	56.4%	26.8%	31.6%	42.3%	15.0%	45.5%	42.1%	42.5%	64.6%	33.8%	49.0%	40.5%	40.3%	48.2%	41.5%	19.5%
Old unutilised properties	351	3,657	1,283	2,108	2,180	897	872	3,101	1,419	2,025	1,488	1,151	2,024	1,556	1,649	3,170
Year-on-year basis	-51.6%	225.4%	62.0%	-12.9%	520.6%	-75.5%	-32.0%	-47.1%	-34.9%	125.8%	70.6%	-62.9%	42.6%	-23.2%	10.8%	175.4%
Sales composition ratio	18.2%	63.3%	45.6%	28.1%	45.4%	25.3%	35.1%	44.7%	26.4%	54.1%	36.4%	31.6%	45.5%	41.8%	53.3%	74.2%
Freehold	28	88	55	1,532	1,305	465	106	395	191	46	101	526	315	266	49	157
Year-on-year basis	-97.9%	-60.4%	-96.4%	290.8%	4560.7%	428.4%	92.7%	-74.2%	-85.3%	-90.1%	-4.7%	33.2%	64.9%	478.3%	-51.5%	-70.2%
Sales composition ratio	1.5%	1.5%	2.0%	20.4%	27.1%	13.1%	4.3%	5.7%	3.6%	1.2%	2.5%	14.5%	7.1%	7.1%	1.6%	3.7%
Others	110	104	126	126	133	117	116	97	96	95	88	94	89	105	112	114
Year-on-year basis	11.1%	-14.8%	5.0%	21.2%	21.5%	12.5%	-7.9%	-23.0%	-28.3%	-18.8%	-24.1%	-3.1%	-7.3%	10.5%	27.3%	21.3%
Sales composition ratio	5.7%	1.8%	4.5%	1.7%	2.8%	3.3%	4.7%	1.4%	1.8%	2.5%	2.2%	2.6%	2.0%	2.8%	3.6%	2.7%
Construction business	349	379	457	566	468	455	343	395	194	309	409	392	222	-	-	-
Year-on-year basis	202.6%	166.5%	246.1%	44.0%	34.1%	19.8%	-24.9%	-30.1%	-58.4%	-32.1%	19.3%	-0.8%	14.0%	-	-	-
Sales composition ratio	18.1%	6.6%	16.3%	7.5%	9.7%	12.8%	13.8%	5.7%	3.6%	8.3%	10.0%	10.8%	5.0%	-	-	-
[Statements of income]																
Net sales	1,925	5,775	2,811	7,507	4,807	3,546	2,481	6,938	5,365	3,744	4,089	3,637	4,444	3,721	3,096	4,272
Cost of sales	1,346	4,014	2,076	5,466	3,865	2,557	1,934	5,431	4,020	2,756	2,945	2,745	3,146	2,310	1,963	3,066
Gross profit	579	1,762	736	2,042	942	989	548	1,507	1,344	986	1,143	892	1,297	1,411	1,132	1,206
SG&A expenses	696	855	783	924	792	744	678	925	816	826	805	802	850	946	845	937
Operating income	-117	907	-47	1,117	150	245	-131	382	528	160	338	90	447	466	287	269
Non-operating income	4	28	5	5	9	5	51	5	12	8	8	6	7	7	6	7
Non-operating expenses	34	38	32	40	55	63	60	10	37	40	34	39	39	55	54	64
Ordinary income	-147	898	-75	1,083	103	188	-140	298	502	128	311	56	415	417	239	212
Extraordinary income	0	0	0	0	0	0	0		3	0	0	0	19	0	0	1
Extraordinary expenses	0	0	0	0	0	0	0			0	0				8	7
Loss before income taxes	-147	898	-75	1,083	103	188	-140	298	506	128	311	56	435	399	231	205
Total income taxes	-35	312	-26	349	36	72	-49	295	183	48	166	-4	59	60	36	54
Net income	-112	585	-48	734	67	114	-90	176	323	79	145	61	375	338	196	151
[Balance Sheets]																
Current assets	16,007	15,596	17,458	18,095	18,816	20,798	20,577	19,040	17,554	17,371	18,769	18,968	19,018	21,579	26,379	27,929
Property for sale	13,129	12,290	14,890	13,493	14,655	16,923	17,312	14,424	13,493	12,586	13,134	13,301	13,304	15,152	20,775	23,657
Non-current assets	1,230	1,206	1,229	1,199	1,188	1,164	1,197	1,030	951	1,054	1,081	1,082	1,124	1,099	1,129	1,047
Tangible assets	469	471	462	456	451	449	443	306	291	290	293	301	317	313	314	299
Investments and other assets	694	666	689	669	668	653	691	655	595	703	732	730	761	743	769	701
Total assets	17,236	16,802	18,686	19,294	20,004	21,962	21,774	20,071	18,505	18,425	19,849	20,051	20,134	22,678	27,508	28,976
Current liabilities	6,904	6,996	9,135	9,047	9,883	7,767	7,699	5,772	5,517	7,540	8,633	8,731	8,153	8,871	11,168	12,606
Short-term borrowings	5,645	5,360	7,702	7,203	7,729	6,352	6,676	4,463	4,272	6,105	7,171	7,367	5,025	5,057	6,960	10,192
Non-current liabilities	1,714	602	389	351	345	4,303	4,274	4,232	2,919	792	976	1,017	1,525	3,114	5,453	5,314
Long-Term Borrowings	1,347	222				3,958	3,929	3,879	2,570	483	683	740	1,260	2,827	5,153	5,033
Total liabilities	8,618	7,598	9,524	9,399	10,228	12,071	11,973	10,004	8,436	8,332	9,609	9,749	9,679	11,968	16,622	17,920
Total net assets	8,618	9,204	9,162	9,895	9,776	9,891	9,801	10,067	10,070	10,093	10,240	10,301	10,463	10,692	10,886	11,056
Total shareholders' equity	8,618	9,204	9,162	9,895	9,776	9,891	9,801	10,067	10,070	10,093	10,240	10,297	10,459	10,688	10,882	11,052
Capital stock	811	811	814	814	818	818	818	818	818	820	820	820	821	822	824	833
Legal capital reserve	772	772	775	775	779	779	779	779	779	781	781	781	782	785	786	796
Retained earnings	7,031	7,616	7,568	8,302	8,174	8,289	8,200	8,465	8,577	8,656	8,802	8,863	9,023	9,362	9,557	9,708
Stock acquisition right	4	4	4	4	4	4	4	4	4	4	4	4	4	3	3	3
Total liabilities and net assets	17,236	16,802	18,686	19,294	20,004	21,962	21,774	20,071	18,505	18,425	19,849	20,051	20,134	22,678	27,508	28,976
[Statements of cash flows]																
Cash flow from operating activities	-286			-419		-3,683		-916		2,110		1,704		1,184		-9,267
Loss before income taxes	750			1,758		291		712		635		1,003		833		1,269
Cash flow from investing activities	-27			-70		-9		-287		-26		-51		-205		-266
Cash flow from financing activities	-446			984		3,021		952		-2,129		-608		-559		7,971
Net increase in cash and cash equiv.	-760			493		-671		-251		-46		1,045		420		-1,563
Cash and cash equiv. at beginning of period		3,465		3,465		3,958		3,958		3,707		3,707		4,752		4,752
Cash and cash equiv. at end of period	2,704			3,958		3,287		3,707		3,661		4,752		5,173		3,188

Source: Omega Investment from company materials

Financial data

FY (¥mn)	2011/12	2012/12	2013/12	2014/12	2015/12	2016/12	2017/12	2018/12	2019/12	2020/12	2021/12	2022/12
[Statements of income]												
Net sales	8,042	9,475	9,187	10,443	11,567	12,300	13,098	16,833	18,020	17,774	16,836	15,533
Cost of sales	5,557	7,061	6,254	7,055	7,798	8,344	8,566	12,028	12,902	13,788	12,467	10,485
Gross profit	2,485	2,415	2,934	3,389	3,769	3,957	4,532	4,805	5,119	3,986	4,368	5,047
SG&A expenses	1,735	1,898	2,014	2,184	2,470	2,510	2,770	3,039	3,258	3,139	3,250	3,578
Operating income	750	517	920	1,205	1,300	1,446	1,762	1,766	1,861	847	1,117	1,469
Non-operating income	135	5	12	14	15	15	12	28	42	88	34	26
Non-operating expenses	138	85	122	174	118	133	106	150	144	226	152	212
Ordinary income	747	437	810	1,044	1,196	1,329	1,669	1,643	1,759	709	999	1,283
Extraordinary income	54	23					97			32	3	20
Extraordinary expenses	4	17					94	104		29		33
Loss before income taxes	797	443	810	1,044	1,196	1,329	1,672	1,539	1,759	712	1,003	1,269
Total income taxes	353	209	354	418	472	475	561	533	600	355	394	209
Net income	444	233	456	626	724	854	1,111	1,007	1,159	358	609	1,060
[Balance Sheets]												
Current assets	5,251	6,257	8,023	7,836	10,366	9,749	15,874	15,745	18,094	19,040	18,968	27,929
Property for sale	3,698	4,834	6,346	5,166	7,699	6,877	11,863	11,678	13,493	14,424	13,301	23,657
Non-current assets	834	836	895	957	1,031	1,083	1,042	1,032	1,199	1,030	1,082	1,047
Tangible assets	136	135	569	603	572	591	467	458	456	306	301	299
Investments and other assets	612	622	226	258	383	405	494	505	669	655	730	701
Total assets	6,085	7,093	8,919	8,793	11,398	10,833	16,916	16,777	19,294	20,071	20,050	28,976
Current liabilities	2,663	3,098	4,587	3,165	4,910	3,751	8,430	6,160	9,047	5,772	8,731	12,606
Short-term borrowings	1,733	2,095	3,362	2,094	3,778	2,624	7,076	4,728	7,203	4,462	5,544	10,192
Non-current liabilities	181	562	465	367	453	226	479	1,710	351	4,232	1,017	5,314
Long-Term Borrowings	147	526	419	320	180	88	364	1,320		3,879	740	5,033
Total liabilities	2,845	3,660	5,051	3,531	5,363	3,977	8,909	7,869	9,399	10,004	9,748	17,920
Total net assets	3,241	3,433	3,868	5,262	6,034	6,856	8,006	8,908	9,894	10,066	10,301	11,056
Total shareholders' equity	3,241	3,433	3,868	5,262	6,034	6,852	8,002	8,904	9,890	10,062	10,297	11,052
Capital stock	257	257	257	661	710	720	788	811	814	818	820	833
Legal capital reserve	218	218	218	622	671	681	749	772	775	779	781	796
Retained earnings	2,766	2,958	3,393	3,978	4,654	5,451	6,464	7,320	8,302	8,465	8,863	9,708
Stock acquisition right						4	4	4	4	4	4	3
Total liabilities and net assets	6,085	7,093	8,919	8,793	11,398	10,833	16,916	16,777	19,294	20,071	20,050	28,976
[Statements of cash flows]												
Cash flow from operating activities	970	-953	-664	1,761	-1,451	1,611	-3,666	1,617	-420	-917	1,704	-9,267
Loss before income taxes	797	443	810	1,044	1,196	1,329	1,672	1,539	1,759	712	1,003	1,269
Cash flow from investing activities	127	-15	-175	-111	-116	-184	107	-64	-71	-288	-51	-266
Cash flow from financing activities	-877	692	1,136	-612	1,588	-1,278	4,667	-1,495	984	953	-608	7,971
Issuance of shares	406			800	97	21	37	45	6	9		
Net increase in cash and cash equiv.	219	-276	296	1,039	22	150	1,108	58	493	-251	1,045	-1,563
Cash and cash equiv. at beginning of period	850	1,069	793	1,089	2,128	2,150	2,299	3,407	3,465	3,959	3,707	4,752
Cash and cash equiv. at end of period	1,069	793	1,089	2,128	2,150	2,299	3,407	3,465	3,959	3,707	4,752	3,188
Free cash flow	1,097	-968	-839	1,650	-1,567	1,427	-3,559	1,553	-491	-1,205	1,653	-9,533

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