

Sansei Landic Co., Ltd. (TSE1: 3277) - Follow up report

To grow steadily while flexibly responding to changes in the procurement environment

CEO at K Asset
MARKET ANALYST, CMA

Kenichi Hirano

Corporate Profile

Location	Chiyoda-ku, Tokyo
Representative	Takashi Matsuzaki Representative Director
Established	February 1976
Capital	720 million yen (As of Dec. 31, 2016)
Listed	December 13, 2011
URL	http://www.sansei-l.co.jp/
Business	Real estate

Stock price data
(closing price as of Mar. 10, 2017)

Stock price	793 yen
No. of shares outstanding	8,149,500 shares
Trading unit	100 shares
Market cap	6,462 million yen
Dividend (E)	15 yen
PER (E)	(consolidated) 6.93 times
Actual PBR	(consolidated) 0.94 times

Executive Summary

- For the fiscal year ended December 2016, sales and profit significantly grew and were all at record-high levels. Sales were 12.3 billion yen (up 6.3% YoY), operating income was 1.446 billion yen (up 11.3% YoY), ordinary income was 1.328 billion yen (up 11.1% YoY), and net income was 853 million yen (up 17.9% YoY). Compared to the initial forecast, sales were lower as the large-scale transactions of *Inuki** were put off till other accounting periods, but profits were higher due to the strong sales of leasehold land and ownership, which are highly profitable.
(*Inuki: value-decreasing land on which buildings with house leasehold stand)
- As for the sales composition, the ratio of the Inuki dropped from 33.3% to 27.7%. The ratio of the leasehold land segment declined slightly from 45.8% to 44%, although its sales increased. The ratio of the ownership grew significantly from 6% to 14.6% thanks to steady procurement. Sales of real estate were healthy as a whole, and profits exceeded the initial forecast. However, procurement results indicate a change in the business environment. The Inuki business segment, which had plentiful inventory two years ago, declined considerably, and the leasehold land segment, too, was sluggish. This is due to the settlement of the short-term boost of inheritance-related measures for the decrease in the basic deduction for inheritance tax. More and more landowners who have leasehold land or Inuki and those who involved with them are asking the company to purchase or to manage their properties as they have done in the past. The ownership sale segment is growing steadily.
- The Fiscal year ending December 2017 is the final year of the mid-term plan. It is considered that the planned figures are difficult to be achieved due to changes to the purchase environment. However, even if the plan is not achieved, it is expected that the sales and profits will increase, and profits will make a record high. The company also plans to increase dividend with a positive attitude for shareholder returns. To achieve long-term growth, the company focuses on strengthening purchasing activity and establishing new business such as the guest house business and the business of solving the problem of empty houses.
- The company's stock price steadily increased from 636 yen (September 20, 2016) to 817 yen (February 27, 2017). It can be said that the price remains very affordable, with PER 6-fold and PBR 0.9-fold. For the current fiscal year, both sales and profit are expected to increase. If the company is recognized as a real estate company that can tolerate deflation, PER will reach around 12 times, according to some evaluations. Target stock price: 1,300 to 1,400 yen

Financial Results

Financial results

For the fiscal year ended December 2016, sales and profit grew, marking a record high. Sales were lower than the initial forecast, as the scales of properties the company deals with are getting smaller than before and the large-scale transactions of Inuki were put off till other accounting periods. On the other hand, profits were higher than the initial forecast, because the sales of highly profitable leasehold land (up 2.1% YoY) and ownership (up 159.5% YoY) were favorable, and SG&A, including personnel cost, taxes, and other public charges, decreased. As for the sales composition, the ratio of the Inuki business segment dropped from 33.3% to 27.7%, while the ratio of the ownership sales segment rose from 6.0% to 14.6%. The performance of the construction business was nearly equal to that in the previous year.

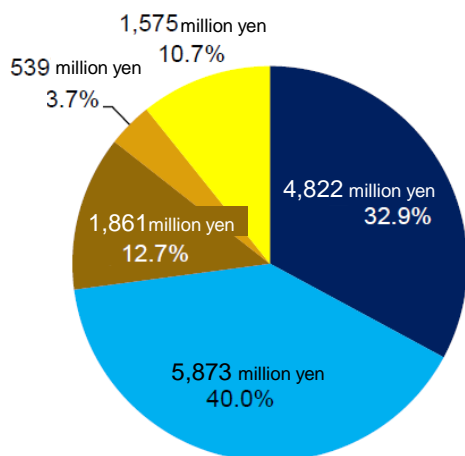
(Million yen)

FY2016					
	Results	Initial forecast	Change (%)	Previous results (FY2015)	YoY (%)
Sales	12,300	14,670	-16.2	11,567	6.3
Operating income	1,446	1,401	3.2	1,299	11.3
Ordinary income	1,328	1,291	2.9	1,196	11.1
Net income	853	848	0.6	724	17.9

*Ref. Company's financial results material

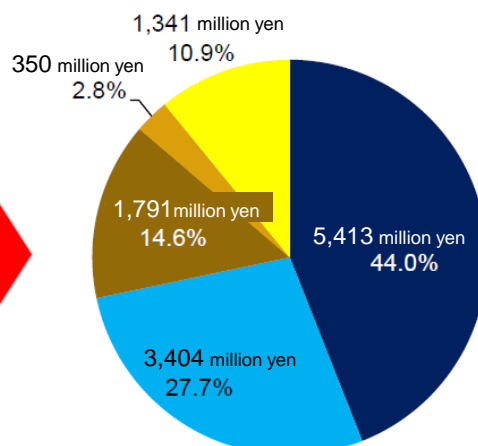
Sales by business (FY2016)

FY2016 Initial forecasts



Company total: 14,670 million yen

FY2016 Results



Company total: 12,300 million yen

- Real estate sale business (Leasehold land)
- Real estate sale business (Inuki)
- Real estate sale business (Ownership)
- Real estate sale business (Other)
- Construction business

Performance by segment / Procurement

■ Performance by segment

As for the performance of each business segment, the real estate sale business earned sales of 1,095.911 million yen (up 7.0% YoY), and a profit of 225.127 million yen (up 11.5% YoY). The number of transactions for Inuki increased, but the sales of the Inuki business segment declined because the scale of transactions got smaller and large-scale transactions were put off till other accounting periods. On the other hand, the sales of the ownership sale segment grew considerably despite the decline in the number of transactions. As for the construction business, 170 buildings, including custom-built houses and renovating housing, were sold. The sales of custom-built houses decreased from the previous year, because the period from application to start of construction got longer. The sales of renovation grew thanks to the increase in large-scale transactions, but profit rate declined because actual cost exceeded the estimated one in some cases. (Million yen)

	No. of transaction			Sales		
	12/2015	12/2016	YoY (%)	12/2015	12/2016	YoY (%)
Real estate sale business	406	420	3.4	10,240	10,959	7.0
Leasehold land	350	362	3.4	5,300	5,413	2.1
Inuki*	32	36	12.5	3,851	3,404	-11.6
Ownership	24	22	-8.3	690	1,791	159.5
Other	-	-	-	398	350	-12.1
Construction business	171	170	-0.6	1327	1,341	1.0
Total	-	-	-	11,567	12,300	6.3

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

■ Procurement

Sales were healthy as a whole, but procurement decreased slightly. This is partially because the scale of transactions got smaller and the procurement for large-scale transactions is decreasing, as mentioned above. This indicates that the short-term boost of inheritance-related measures for the decrease in the basic deduction for inheritance tax calmed down, and does not mean a change in the situation. More and more landowners who have leasehold land or Inuki and those who involved with them are asking the company to purchase or to manage their properties as they have done in the past. Since the procurement of leasehold land and Inuki involves inheritance affairs in many cases, and the tightening of inheritance taxation in January 2015 was considered favorable. However, the rate of purchase contract is seemingly decreasing, although the number of inquiry for purchasing or managing leasehold land or Inuki is growing due to the diversification of procurement channels. There are several possible reasons, including land owners' reluctance to sell land because of their expectation toward the rise in land price and the increasing use of mortgage-backed loans for paying inheritance tax. Amid this procurement environment, the company is increasing staff at branches, revising the procedure manual of purchase, and expanding their network based on business tie-ups with leading securities firms and financial institutions, in order to improve procurement. (Million yen)

	No. of compartment			Purchase amount		
	12/2015	12/2016	YoY (%)	12/2015	12/2016	YoY (%)
Real estate sale business	515	476	-7.6	9,322	6,442	-30.9
Leasehold land	422	417	-1.2	3,700	3,169	-14.4
Inuki	61	37	-39.3	4,860	2,171	-55.3
Ownership	32	22	-31.3	760	1,100	44.7

FY2017 Forecasts

■FY2017 Forecasts

The fiscal year ending December 2017 is the last year of the 3-year mid-term management plan (2015-2017). Due to the changes in the business environment, the initial forecast was revised downwardly, but sales and profit are estimated to increase. Considering the procurement situation, real estate for sale at the beginning of the term is estimated to decrease from the previous fiscal year, and sales are forecasted to be larger in the second half. Branch improvement measures in the Osaka area and business tie-ups, etc. are bearing fruit, and so the company is dealing with the larger number of inquiries for purchasing or managing leasehold land and Inuki, and the company expects that actual results will reach the forecast. As for non-consolidated performance, sales are projected to grow, while profit is estimated to decline. As for consolidated performance, sales and profit are forecasted to grow as the deficit in the construction business will be eliminated. The dividend amount is forecasted to rise by 3 yen per share to 15 yen per share, indicating the dividend increase for the four consecutive years, and payout ratio will increase from 11.4% to 13.2%. There is still room for further dividend increase. (Million yen)

	Sales	YoY (%)	Operating income	YoY (%)	Ordinary income	YoY (%)	Net income	YoY (%)
1H	5,302	-10.7	123	-76.6	78	-82.4	19	-91.8
2H	14,448	17.5	1,466	1.4	1,374	3.4	929	8.9

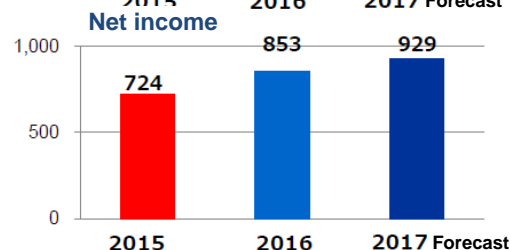
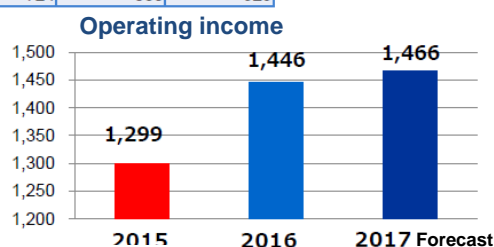
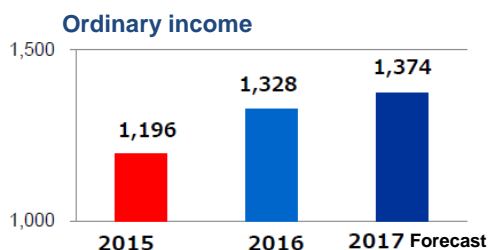
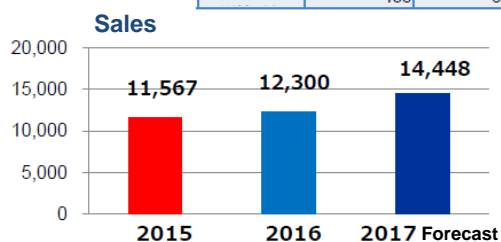
Performance trends and forecasts are presented as follows. For the current fiscal year, the company expects to achieve record high performance, through increasing sales, operating income, ordinary income and net income.

*Ref. Company's financial results material

Consolidated performance / Forecasts

Unit: million yen

	2013	2014	2015	2016 Results	2017 Forecasts
Sales	9,187	10,443	11,567	12,300	14,448
Gross margin	2,933	3,388	3,769	3,956	4,266
Operating income	919	1,204	1,299	1,446	1,466
Ordinary income	809	1,044	1,196	1,328	1,374
Net income	455	626	724	853	929



Management Issues and Future Business Development / Risk

■ Management issues and future business development

In order to facilitate continuous growth, the company is setting the following management goals: (1) to strengthen its existing business, (2) to create new kinds of business by utilizing its expertise to adjust rights, and (3) to enhance and hand down human skills, and is producing a new mid-term management plan (fiscal year 2018 to 2020). The environment surrounding the real estate business of the company is becoming more favorable, as the disposal of structures constructed under the old aseismic standards is being accelerated and the measure of decreasing fixed property tax is being revised in order to urge the removal of run-down empty houses. The company specializes in the adjustment of complex rights for leasehold land, and it is considered that there will be plenty of business chances to offer solutions to meet the needs of both leasehold land owners and leaseholders. Some enterprises are entering this leasehold land business field, but this is favorable because they would help cultivate the latent leasehold land market. Only Sansei Landic conducts nationwide business and has impregnable competitive advantages. In order to expand the procurement channels nationwide, the company cemented the alliances with housing makers, financial institutions, tax accountants, and others. This is bearing fruit. On the other hand, the company is expanding its consulting service and actively collecting information through seminars, and so it is expected to make inroads into latent markets further. The company is steadily securing human resources for enhancing its human skills.

In addition, the company is working on the guest house business, although it depends on the easing of regulations in the future. It seems that the guest house business can get along with the leasehold land business. The company also plans to carry out the business of solving the problem of empty houses nationwide as a future business by transforming them into guest houses or utilizing the guardianship system.

Without solving the problems with leasehold land, it is impossible to address the urgent issue of disaster prevention in a region filled with wooden houses. The company also sets a goal of contributing to society by solving the issues of disaster prevention by using its accumulated the expertise. Its steady efforts to survive for 100 years are expected to be highly evaluated.

■ Risk

Risk factors are (1) Impairment risk—if the prices of owned real estate nosedive due to the abrupt changes in economic situations, disaster, or the like, the posting of impairment loss will reduce revenue; (2) Risk that right adjustment will be stymied—it will become difficult to sell land or trading will be put off, if land prices drop considerably or right adjustment is delayed; and (3) Risk of a credit crunch—As of the end of December 2016, interest-bearing debt balance was 2.7 billion yen, much smaller than the amount as of the end of the previous fiscal year: 3.9 billion yen, but if interest to be paid augments due to the rise in the interest rate or it becomes difficult to receive loans due to monetary tightening, etc., there will be some impact on business operation.

Stock Price

■ Stock Price

The high-pressure economy of the U.S. (demand-boosted economy) gained steam as President Trump took office, and interest rate started to rise. This is expected to influence the low-interest rate policy of Japan, and so the future outlook is uncertain. However, the business of the company, which specializes in the adjustment of real estate rights, is less affected by these market trends. In the foreseeable future, the company is expected to grow sufficiently with its current business. Second, the environment surrounding the company is getting better, as the number of elderly people will increase, the basic deduction for inheritance tax will lower, and fixed asset tax will be revised for facilitating the removal of vacant houses. The company has worked on new business from the long-term viewpoint, and so its growth potential is high.

The company's stock price steadily increased from 636 yen (September 20, 2016) to 817 yen (February 27, 2017). It can be said that the price remains very affordable, with PER 6-fold and PBR 0.9-fold. For the current fiscal year, both sales and profits are expected to increase. If the company is recognized as a real estate company that can tolerate deflation, PER will reach around 12 times, according to some evaluations.

Target stock price: 1,300 to 1,400 yen



Disclaimer

This report has been produced by analysts at K Asset, commissioned by Finantec Co., Ltd. The opinions and conclusions contained herein are the fair assessments and evaluations of the analysts who produced the report based on information the company presented, through interviews etc. The information contained should in no way be taken as factual information provided by the company.

The information contained in this report is intended solely for the purpose of providing information as a reference for investment decisions. It is no way intended as a recommendation or solicitation to buy or sell securities or other financial instruments.

Any investment decision made based on the information contained herein is the sole responsibility of the investor, and Finantec Co., Ltd. and the commissioned analysts can in no way be held responsible. Information provided in this report is a fair evaluation of the information available at the time of publication. It should be noted that contents may change at any time without notice.

This report is copyrighted by Finantec Co., Ltd. and K Asset. The unauthorized reproduction, sale, use, publication and distribution of this report is prohibited by law.

Enquiries relating to this report:

Finantec Co., Ltd. 4F, Annex, Kabutocho Kaisei Bldg., 13-1 Kabutocho, Nihonbashi, Chuo-ku, Tokyo 103-0026

Email: report@finantec-net.com

TEL: 03-4500-6880 FAX: 03-4500-6888