

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

Specialist in coordinating real estate rights that is resistant to deflation
Expansion of business opportunities for sellers, buyers, and the company

CEO at K Asset
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Corporate Profile

Location	Chiyoda-ku, Tokyo
Representative	Takashi Matsuzaki Representative Director
Established	February 1976
Capital	709 million yen (As of Dec. 31, 2015)
Listed	December 13, 2011
URL	http://www.sansei-l.co.jp/
Business	Real estate

Share price data (closing price as of Mar. 10, 2016)

Share price	901 yen
No. of shares outstanding	8,108,500 shares
Trading unit	100 shares
Market cap	7,306 million yen
Dividend (E)	12 yen
PER (E)	(consolidated) 8.54 times
Actual PBR	(consolidated) 1.21 times

Executive Summary

- The largest coordinator of real estate rights in Japan. It purchases leasehold land that is subject to the old Act on Land and Building Leases, coordinates the entitlements between land owners and leaseholders, boosts real estate value, and sells them.
- Its core business is the sale of real estate. The company operates the business of coordinating real estate rights that are divided into ownership rights and leasehold rights, and the business of buying value-decreasing land on which decrepit buildings and apartments with house leasehold stand, canceling lease contracts, and selling them or selling land after making it vacant. In addition, its subsidiary sells and remodels detached houses, manages real estate, and brokers lease.
- As its strengths, it possesses the skills for coordinating rights related to leasehold land and has experience. Since it takes a lot of time and labor to coordinate rights, there are a few firms that focus on the business of dealing with leasehold land like the company. Leasehold land is traded mostly for the purpose of coping with inheritance, and so it is not easily affected by the real estate market trend. In addition, it is said that there are 1 million pieces of leasehold land in Japan. Accordingly, its business is expected to grow stably.
- In FY12/15, the sale of real estate was healthy, and so sales and profit increased considerably. Through the expansion of information channels, purchase is progressing steadily, and the increase in sales and profit is expected in this fiscal year. As the company strengthens personnel development, further growth is expected.
- As PER is 8x and PBR is 1x, the share price is undervalued. The company's business performance is estimated to grow about 15% in this fiscal year. If the company is recognized as a real estate company that is resistant to deflation, PER may increase to around 13-14x.
Target share price: 1,360 to 1,470 yen

Corporate History and Outline of Business

■ Corporate History

In February 1976, the company was founded to broker the sale of real estate, and the lease of condominiums, apartments, and buildings. In 1991, after the burst of the realty bubble, the company started the business of liquidation of leasehold land, which is not easily affected by economic situations, and this is now its core business. Since 1997, it has been handling value-decreasing land on which buildings with house leasehold stand and its subsidiary has been selling custom-built houses and renovating housing. In 2011, it was listed in the JASDAQ market, and the Second Section of the Tokyo Stock Exchange. Then, in 2014, it was listed in the First Section of the Tokyo Stock Exchange.

■ Outline of Business

Its corporate group is composed of the parent company “Sansei Landic” and one consolidated subsidiary. Sansei Landic purchases and sells real estate, while “One’s Life Home” custom-builds and remodels detached houses. They operate business nationwide with 8 strongholds in Tokyo, Osaka, Nagoya, etc.

The sale of real estate accounts for 88.5%, and the sale and remodeling of detached housing makes up 11.5% (FY12/15). The real estate sale business of the company means the “business of integrating real estate rights.” The company increases the value of real estate by coordinating and combining entitlements for real estate whose intrinsic value has been degraded because of the division into the rights to use and to own, such as those of leasehold land and value-decreasing land on which buildings with house leasehold stand, and then sells them.

<Business Segments>

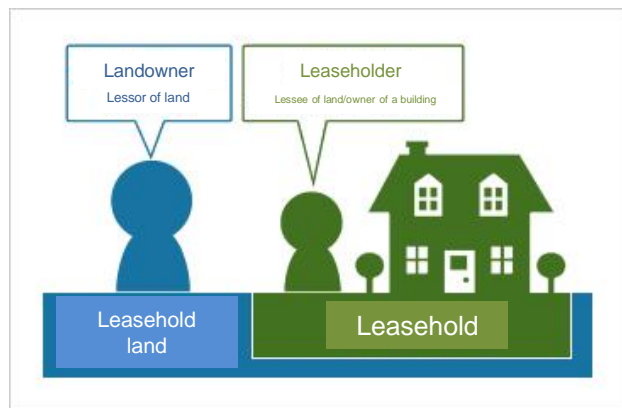
Real estate sale business	Leasehold land	Purchase of leasehold land, coordination of entitlements (negotiation with leaseholders), and sale of leasehold land to leaseholders
	Value-decreasing land on which buildings with house leasehold stand	Purchase of land and buildings with house leasehold, negotiation with leaseholders, and sale of them to a third party
	Ownership	Purchase and sale of ownership
	Others	Rents and consultation fees
Construction business	Detached housing	Custom-building of well-designed houses
	Remodeling	Remodeling and renovation

Outline of Business (Leasehold Land Business)

<What is “leasehold land”?>

Leasehold land means the land leased to someone for his/her building. The rights related to this land are divided into the rights to own and use the land. The land under the building is called leasehold land. The right to own and use the land and building is called ownership. There is also value-decreasing land on which buildings and apartments with house leasehold stand that cannot produce sufficient profit due to deterioration.

(Taken from the website of the company)



■ Background of the leasehold land business

This business is targeted at the land that is subject to the old Act on Land and Building Leases before the amendment in 1992. The land ownership system did not protect leasehold, providing landowners with advantages, and so landlords tended to buy up land. To deal with this issue, the system has been revised several times, giving some advantages to leaseholders.

However, there emerged new problems, such as the difficulty in requesting return of land. Therefore, the law amended in 1992 established the “fixed-term leasehold,” which would not disadvantage the owners of leasehold land, so that they would become able to lease their land without worries.

However, “fixed-term leasehold” is applicable to only the contracts concluded after the enforcement of the new law, and the contracts signed under the old law are not subject to the new law. The leasehold land that is subject to the old law has many problems related to roads and boundaries, and unclear entitlements. The company can utilize them as business opportunities.

■ Needs for right coordination

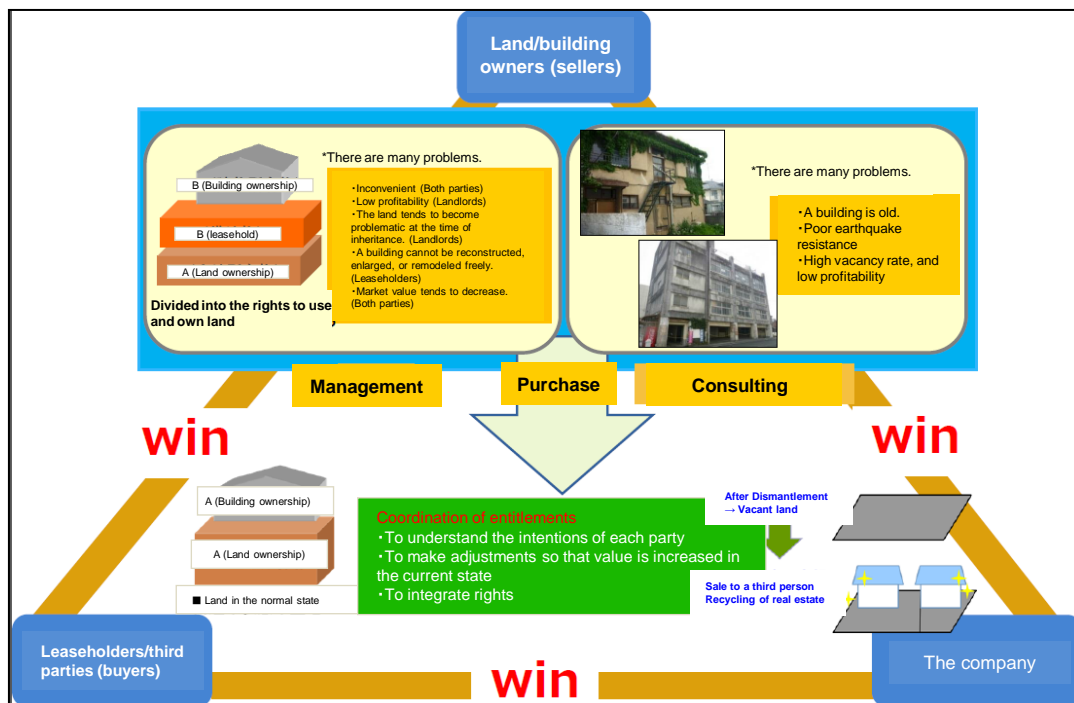
According to the “survey on national consciousness of land issues in fiscal 2014” conducted by the Ministry of Land, Infrastructure, Transport and Tourism, 30.3% of respondents answered “Yes, I think so.” to the question “Is land more beneficial than deposits, shares, etc.?” This percentage is the lowest in the history since 1993.

Meanwhile, to the question “Do you want to own or rent a house?,” 79.2% of respondents answered, “I wish to own both land and a building.” The popularity of land as an asset has declined, but people still want to possess their own houses. Accordingly, it can be inferred that there are potential needs from leaseholders for “purchasing the land on which they live.” On the other hand, the owners of leasehold land want to convert their land into cash for paying inheritance tax. This is because the conditions for in-kind payment were tightened through the revision to the tax systems in 2006, and it became difficult for in-kind payment to use leasehold land that has troubles regarding leasehold, land rents and boundaries so on. Even if there are needs from a leaseholder and a owner of leasehold land, the coordination of entitlements does not progress smoothly between the both parties in many cases. The company offers a solution of “buying leasehold land from owners of leasehold land, coordinating entitlements appropriately, and then selling them to leaseholders,” which satisfies the needs from both parties. It also handles value-decreasing land on which buildings with house leasehold stand and general ownership. In the case of such land with house leasehold, the company buys real estate from landowners, cancels lease contracts with leaseholders, and sells land and buildings or sells the land after making it vacant to a third person.

Strengths and Characteristics of the Company

<Coordination of rights related to leasehold land>

(Taken from the reference materials for briefing financial results)



Strengths and characteristics of the leasehold land business of the company

1. These transactions are conducted mainly for inheritance and coping with inheritance tax, and so this business is not easily affected by the real estate market trend.
2. Since the payments for transactions are small, dead stocks hardly affect its business performance.
3. Since leaseholders are prioritized as target buyers, it is not hard to find buyers. (The buyers are composed of mainly leaseholders and their children, and third-party buyers account for about 10%.)
4. For most of real estate, their rights are coordinated and they are sold within 1 year after purchase. The stocks procured over one year account for several %. In this light, too, the business performance of the company is hardly affected by the real estate market trend.

Position in the industry

There are few enterprises that coordinate rights of leasehold land and sell them as their core business, because it takes a lot of time and labor to do so. The company handles about 500 transactions for coordinating rights per year, showing the largest number of transactions and the largest or second largest sales in the industry.

In order to conduct this kind of business, it is necessary to accumulate necessary know-how for coordinating rights regarding particular real estate and develop systems for gathering information and managing sales staff. Major real estate companies prefer large-scale projects to utilize their scale advantage, rather than steadily completing transactions with a selling price of about 10 million yen. On the other hand, small-sized real estate firms face difficulty in raising funds in some cases, because it is necessary to explain the risks of unsuccessful coordination of entitlements, delay in real estate transfer, unsold stocks, etc. to financial institutions, to receive loans.

The company has made some achievements, and so it can receive loans from a broad range of financial institutions, such as megabanks, local banks, and shinkin banks.

Industry Trends and Performance

■ Industry Trends and Growth Potential

As previously mentioned, the company's business is targeted at leasehold land that is subject to the old Act on Land and Building Leases. According to a survey conducted by the Ministry of Internal Affairs and Communications, there were 1 million households living on land with non fixed-term leaseholds as of 2013. From this, it is said that there are a large number of leasehold land nationwide that the company can target.

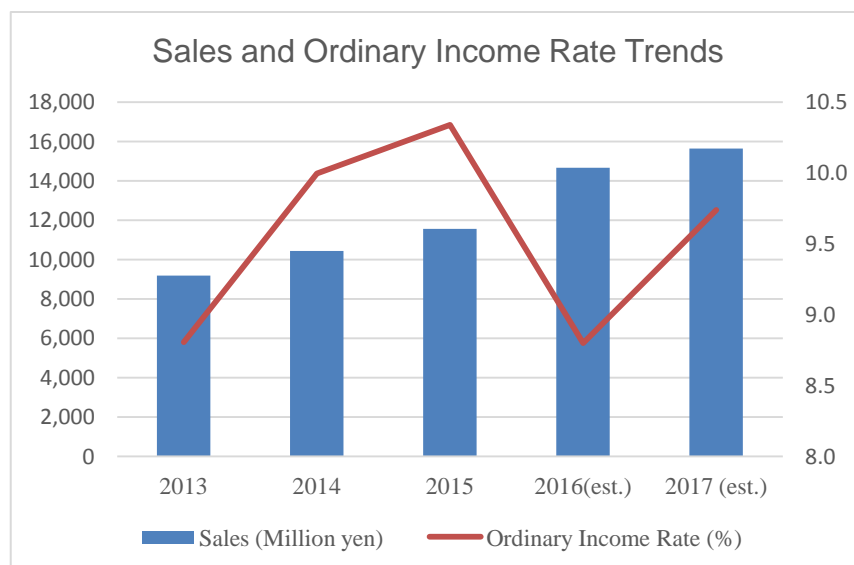
Approximately 80% of purchases are made through real estate brokers. Over the past few years, the company has been expanding its purchase channels by strengthening partnerships with home builders, financial institutions, tax accountants, etc. Considering its expansion of purchase channels, as well as efforts in information collection through the Internet and the hosting of seminars, the company is expected to further develop its potential market. Additionally, as the standard deduction on inheritance tax has fallen since the amendment to the law on Jan. 1, 2015, the needs of sales from leasehold land owners are likely to rise.

■ Performance

In FY12/15, the real estate sale business was healthy with sales and ordinary income their highest at 11.57 billion yen (up 10.8% YoY), and 1.20 billion yen (up 14.6% YoY), respectively, due to a favorable market environment.

Sales for the leasehold land business were 5.3 billion yen, up 28% YoY, and gross profit ratio improved to 36%. This is a result of strengthening purchase from local real estate agencies at the same time as developing new sources of information, which has seen high growth in the purchase of real estate.

In FY12/16, sales and profit are expected to increase again, with sales forecast at 14.67 billion yen (up 26.8% YoY) and ordinary income at 1.29 billion yen (up 8.0% YoY). Profit ratio will fall slightly with greater investment in personnel development and a rise in the trading of land on which buildings with house leasehold stand, but this is expected to recover from the following term. While business conditions are good, the company will continue to plan to even-out sales and improve efficiency. The company will also strengthen its business in the Tokai and Kinki regions, which show potential for growth.



Mid-term Management Plan

■ Mid-term Management Plan

The real estate market is heading for recovery due to a number of related social factors, such as accelerated strengthening of buildings under the old seismic code, an aging population, and a trend for higher inheritance tax. There are also moves to revise measures for reducing fixed assets tax, as a way to accelerate the demolition of vacant houses that have fallen into disrepair. This, paired with the increasing number of existing properties no longer receiving favourable tax treatment, will see higher sales and purchases.

The company aims for continued growth under these conditions, by strengthening purchase, and improving its ability to coordinate entitlements and make sales. It will also expand its consultation business by increasing its service line-up.

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

The coordination of leasehold land is little affected by recession and deflation, unlike land speculation. The company has been in this business for 24 years, but has not once seen a decline in demand. The trading of land on which buildings with house leasehold stand also looks set for expansion as these properties increase in the countryside with a rising elderly population. With landowners looking to cash-in, the company able to convince building owners to relocate to a property better than their current conditions, and a near-absent history of real estate claims, the company is able to build good relations based on a win-win-win situation for the seller, buyer and itself. This three-way benefit is the underlying meaning of the company's slogan, "three stars continue to shine."

The company is currently drafting its next mid-term management plan (2018 to 2020). It will be planning for further growth by expanding its stable results base, tackling real estate issues (concentrated areas of wooden housing, vacation rentals, regional vitalization, support for disaster-affected regions, etc.), and developing personnel with the aim of passing on knowhow and improving work efficiency.

■ Risk Factors

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

Stock Valuation

■ Stock Valuation

The amount of real estate for sale is piling up through the expansion of purchase channels. As stable growth is expected to continue, we see share price as undervalued with PER being 8x and PBR being 1x. Growth is expected at a rate of around 15% this term, and if the company is recognized as a real estate company resistant to deflation, share price could be valued with PER being 13x to 14x.

Target share price: 1,360 to 1,470 yen.



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