

3277 Sansei Landic

Sponsored Research
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3Q Results: Sales +3%, OP -64% due to impact from COVID-19
Current earnings trend is recovering, aiming at achieving revised full-term guidance

►Impact of COVID-19: In person sales visits greatly affected

—For mainstay Real Estate Sales Business mainly in leasehold land and old unutilized properties, in person sales visits are essential since rights adjustments of concerned parties are key. As a result of restrictions on sales activities due to the spread of COVID-19 infections, delays and push outs of real estate sales arose, having a major impact on earnings.

—At the same time, the Company raised its cash position by selling a portion of real estate holdings and carrying out asset conversion

—After the declaration of a state of emergency was lifted, the Company cautiously resumed sales activities after implementing required COVID-19 countermeasures. Currently sales contracts and settlements are apparently progressing favorably. (However, the recent new wave of infections nationwide should be monitored closely)

►3Q Cumulative FY12/20 Results: Sales +3%, OP -64%

—Net sales ¥10,835mn (+3.1%), OP ¥265mn (-64.3%), ordinary profit ¥152mn (-77.5%), and profit attributable to owners of parent ¥92mn (-78.3%).

—Real Estate Sales Business sales managed to increase +2.6% thanks to the 11-fold increase in Freehold, despite declines in Leasehold Land (-4%) and Old Unutilized Properties (-25%). Segment OP declined -31.3%.

—At the same time, Construction Business sales increased +6.8%, and the operating loss shrank.

►FY12/20 Full-term Guidance: Sales ¥16.7bn (-7%), OP ¥647mn (-65%)

—The Company revised down 1H and full-term guidance on 7/31 in light of the impact of COVID-19, with revised full-term guidance for sales -7% and OP -65%. 2Q results in particular were severely impacted by COVID-19, however currently, having entered the 4Q, sales including the delayed portion until then appear to be progressing favorably, and the Company is confident it can achieve revised guidance.

►Will a share price revaluation proceed? P/B ratio remains low

—After dipping following the downward revision on 7/31, the share price has been gradually recovering. The situation of the P/B ratio trading below 1.0x has continued in recent years, however ROE has been trending over 10%, and this term the Company is indicating a dividend hike. Going forward, as the company makes progress in countermeasures for COVID-19 and when earnings are on a recovery path, we believe there is room for a re-rating of the share price.

JPY mn	Net Sales	YoY (%)	Oper. Profit	YoY (%)	Ord. Profit	YoY (%)	Profit ATOP	YoY (%)	EPS ¥
FY2016/12	12,300	6.3	1,446	11.3	1,328	11.1	853	17.9	104.94
FY2017/12	13,098	6.5	1,762	21.9	1,668	25.6	1,111	30.2	134.45
FY2018/12	16,833	28.5	1,765	0.2	1,642	-1.5	1,006	-9.4	119.62
FY2019/12	18,020	7.1	1,860	5.4	1,758	7.0	1,158	15.1	137.08
FY2020/12(E)	16,752	-7.2	647	-65.2	450	-74.4	268	-76.8	31.81
FY2019/12Q3	10,512	-0.2	743	-11.5	676	-7.8	425	13.1	50.34
FY2020/12Q3	10,835	3.1	265	-64.3	152	-77.5	92	-78.3	10.95

FOLLOW-UP



Focus Points:

Provides solutions to Japanese RE issues through 'real estate rights adjustments' cultivated through many years of experience and know-how. While Leasehold Land and Old Unutilized Property is niche business, the latent market is huge.

Key Indicators

Share price (2/12)	747
YH (20/1/19)	927
YL (20/3/13)	560
10YH (18/1/26)	1,506
10YL (16/11/4)	172
Shrs out. (mn shrs)	8.47
Mkt cap (¥ bn)	6.32
EV (¥ bn)	9.78
Equity ratio (6/30)	48.8%
FY12/20 P/E (CE)	23.5x
FY12/19 P/B (act)	0.64x
FY12/19 ROE (act)	12.3%
FY12/20 DY (CE)	3.34%

Share price chart (52 weekly)



Source: SPEEDA

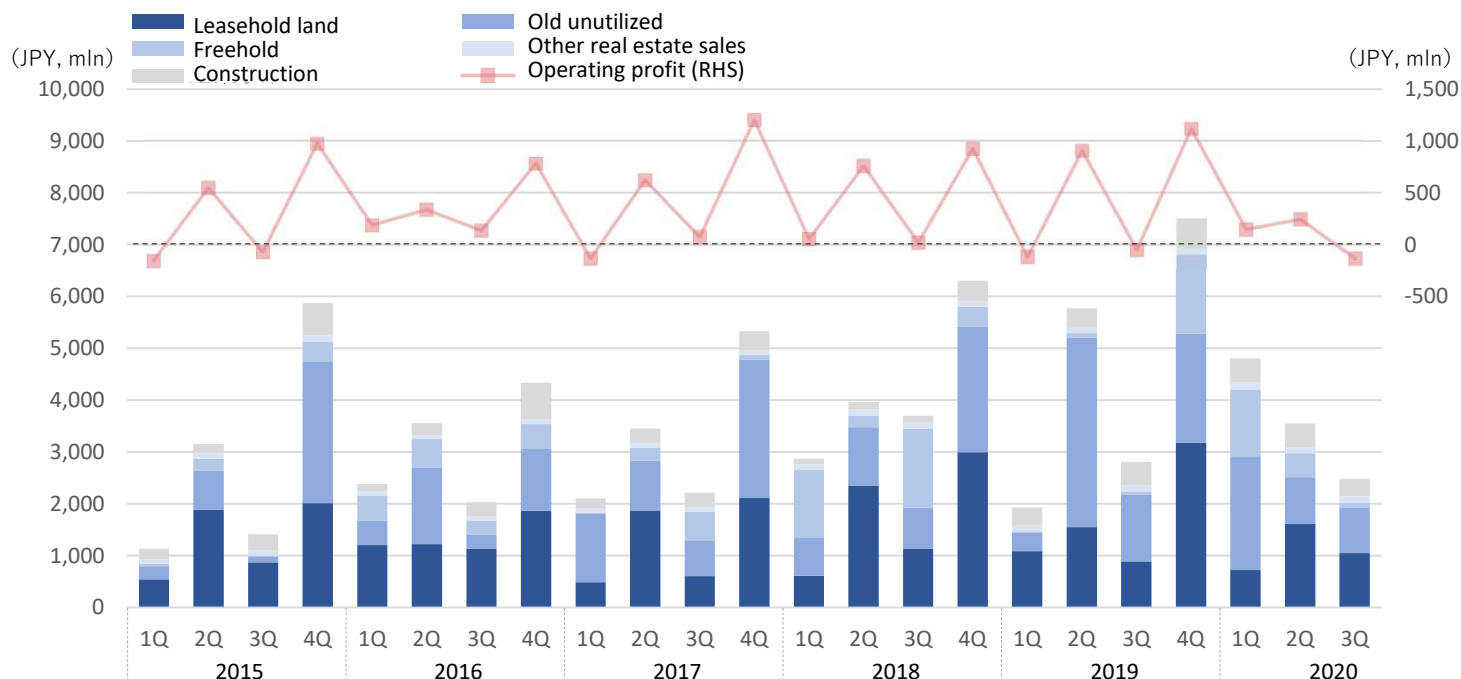
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This report was prepared by Sessa Partners on behalf of Sansei Landic Co., Ltd. Please refer to the legal disclaimer at the end for details.

Quarterly Trend of Sales by Segments and Total OP



Source: compiled by Sessa Partners from company's IR materials.

① 3Q Cumulative FY12/20 Financial Results

1) Sales +3%, OP -64% due to significant impact from COVID-19

—Looking at the first 9 months results by quarters:

- i) 1Q sales +150% YoY, with no impact from COVID-19
- ii) 2Q sales -39%, OP -73%, suffering a significant impact from COVID-19, in a quarter which is seasonally normally a high profit period
- iii) 3Q sales -12%, operating loss expanded YoY (see table on P5)

—To begin with, since transaction amounts are large, real estate transaction negotiations normally require in person meetings, but it is especially important to build relationships of trust in the case of 'real estate rights adjustments' targeted by the Company, and restrictions on sales activities had a significant impact due to COVID-19 on progress of business.

2) Trends by Segments

a) Real Estate Sales Business: sales ¥9,586mn (+3%), OP ¥1,083mn (-31%)

—Leasehold Land: sales ¥3,376mn (-4%). Due to issuance of the declaration of a state of emergency, sales negotiations were suspended or postponed, causing delays. -11.8% relative to plan. There were some properties sold on reduced margins to promote monetization, resulting in a profit margin below plan.

—Old Unused Properties: sales ¥3,949mn (-25%). Due to delays in surrender negotiations and postponement of contracts, there were some push outs. -5.7% relative to plan.

—Freehold: sales ¥1,876mn (up 11-fold). There was a low base in the previous term, and sales grew sharply. -6.1% relative to plan.

—Regarding actual purchases, purchasing increased for all categories.

Changes in the Amount of Purchases and Inventories



Changes in the Number of Projects and Number of Purchasing Contracts



Source: Company materials (earnings presentation for 3Q FY12/20)

b) Construction Business: sales ¥1,267mn (+7%), OP loss (¥5mn) versus (¥65mn) loss the previous term.

—Due to the spread of COVID-19, there were delays in negotiations and some contracts were postponed. While the amount of sales increased, the number of projects declined -3%.

—There was also a significant impact on orders, with both new orders and backlogs declining by half YoY. Due to the slowdown in sales, prospects for turning profitable on a full-term basis appear to have become difficult.

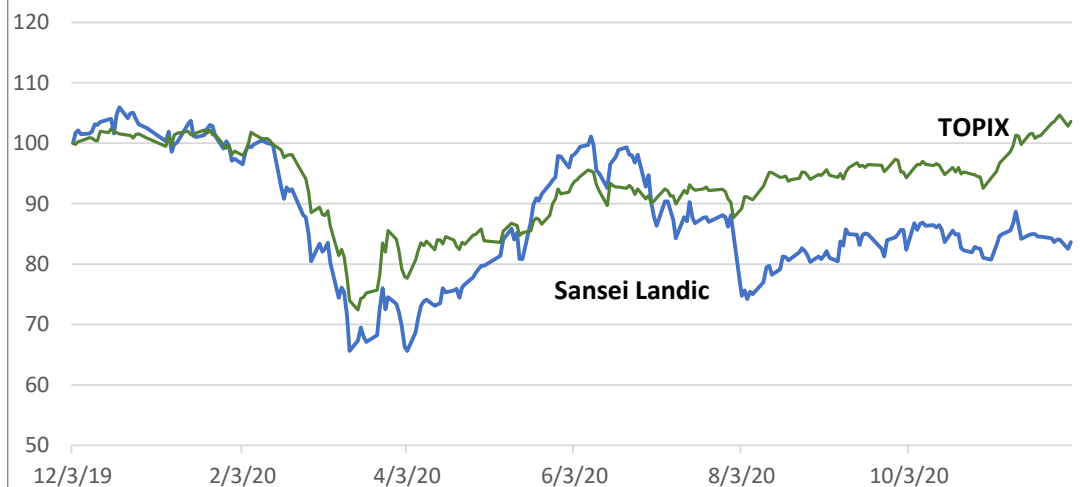
② FY12/20 Full-term Guidance: Sales ¥16.7bn (-7%), OP ¥647mn (-65%)

—Taking into account the significant change in the business environment as a result of the spread of COVID-19, the Company revised down 1H and full-term guidance on 7/31. Full-term FY12/20 sales: ¥21,552mn → ¥16,725mn, OP: ¥1,686mn → ¥647mn, ordinary profit: ¥1,559mn → ¥450mn, and profit attributable to owners of parent: ¥1,047mn → ¥268mn.

—The progress ratio relative to full-term guidance as of the end of the 3Q is 65%, but seasonally both sales and profits tend to concentrate in the 2Q and 4Q, and currently sales conditions appear to be progressing favorably. Since revised full-term guidance factored in a cautious outlook, the Company is confident that it can achieve revised full-term guidance. (However, the recent new wave of infections nationwide and countermeasures should be monitored closely)

—Management considers shareholder rebates to be an important issue, and it is indicating a dividend hike for the 7th consecutive term in FY12/20, forecasting annual DPS of ¥25.

Relative performance (vs. TOPIX)



Source: Sessa Partners from SPEEDA data.

③ Share Price Trend

—Relative performance over the last 12 months has been essentially parallel with TOPIX, but a divergence opened up after the downward revision on 7/31.

—At the same time, the P/B ratio has been consistently below 1.0x in recent years. While it will first be necessary to break free from the impact of COVID-19 and once again re-enter a growth orbit, considering that ROE has consistently been above 10%, undervaluation will likely begin to stand out.

Historical Valuation Trend



Source: Sessa Partners from SPEEDA data.

Quarterly Consolidated Earnings Trend

	2018/12				2019/12				2020/12		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Net sales	2,873	3,961	3,696	6,303	1,925	5,776	2,811	7,508	4,807	3,547	2,481
YoY	36.7%	14.8%	66.8%	18.3%	-33.0%	45.8%	-23.9%	15.0%	149.7%	-38.6%	-11.7%
Real estate sales	2,757	3,819	3,564	5,909	1,576	5,396	2,353	6,941	4,339	3,092	2,137
YoY	44.6%	20.4%	85.0%	19.1%	-42.8%	41.3%	-34.0%	17.5%	175.3%	-42.7%	-9.2%
% of SLS	96.0%	96.4%	96.4%	93.7%	81.9%	93.4%	83.7%	92.4%	90.3%	87.2%	86.1%
Leasehold land	611	2,350	1,133	2,993	1,086	1,546	889	3,176	719	1,613	1,044
YoY	26.5%	25.7%	88.2%	41.8%	77.7%	-34.2%	-21.5%	6.1%	-33.8%	4.3%	17.4%
% of SLS	21.3%	59.3%	30.7%	47.5%	56.4%	26.8%	31.6%	42.3%	15.0%	45.5%	42.1%
Old unutilized	725	1,124	792	2,420	351	3,657	1,283	2,108	2,180	897	872
YoY	-45.4%	16.8%	14.5%	-9.3%	-51.6%	225.4%	62.0%	-12.9%	521.1%	-75.5%	-32.0%
% of SLS	25.2%	28.4%	21.4%	38.4%	18.2%	63.3%	45.6%	28.1%	45.4%	25.3%	35.1%
Freehold	1,322	222	1,518	392	28	88	55	1,532	1,305	465	106
YoY	8713.3%	-9.0%	176.5%	330.8%	-97.9%	-60.4%	-96.4%	290.8%	4560.7%	428.4%	92.7%
% of SLS	46.0%	5.6%	41.1%	6.2%	1.5%	1.5%	2.0%	20.4%	27.1%	13.1%	4.3%
Other real estate sales	99	122	120	104	110	104	126	126	133	117	116
YoY	22.2%	28.4%	42.9%	11.8%	11.1%	-14.8%	5.0%	21.2%	20.9%	12.5%	-7.9%
% of SLS	3.4%	3.1%	3.2%	1.7%	5.7%	1.8%	4.5%	1.7%	2.8%	3.3%	4.7%
Construction	115	142	133	393	349	380	457	567	468	455	344
YoY	-41.0%	-48.9%	-54.0%	7.1%	203.5%	167.7%	243.6%	44.3%	34.1%	19.7%	-24.7%
% of SLS	4.0%	3.6%	3.6%	6.2%	18.1%	6.6%	16.3%	7.6%	9.7%	12.8%	13.9%
Cost of sales	2,139	2,400	2,939	4,550	1,346	4,014	2,076	5,466	3,866	2,557	1,934
YoY	30.2%	11.3%	102.1%	37.3%	-37.1%	67.3%	-29.4%	20.1%	187.2%	-36.3%	-6.8%
Gross profit	734	1,562	756	1,753	579	1,762	736	2,042	942	989	548
YoY	59.9%	20.7%	-0.8%	-13.1%	-21.1%	12.8%	-2.7%	16.5%	62.7%	-43.9%	-25.5%
GPM	25.5%	39.4%	20.5%	27.8%	30.1%	30.5%	26.2%	27.2%	19.6%	27.9%	22.1%
SG&A expense	676	802	734	827	696	855	783	924	792	744	678
YoY	14.2%	19.5%	6.5%	1.1%	3.0%	6.6%	6.7%	11.7%	13.8%	-13.0%	-13.4%
SG&A ratio	23.5%	20.2%	19.9%	13.1%	36.2%	14.8%	27.9%	12.3%	16.5%	21.0%	27.3%
Operating profit	58	759	23	926	(117)	907	(47)	1,118	150	246	(131)
YoY	-	21.8%	-68.9%	-22.7%	-	19.5%	-	20.7%	-	-72.9%	-
Operating profit margin	2.0%	19.2%	0.6%	14.7%	-6.1%	15.7%	-1.7%	14.9%	3.1%	6.9%	-5.3%
Ordinary profit	30	715	(12)	910	(147)	898	(75)	1,083	103	189	(140)
YoY	-94.4%	-	-	-22.0%	-	25.6%	-	19.0%	-	-79.0%	-
Ordinary profit margin	1.0%	18.1%	-0.3%	14.4%	-7.6%	15.5%	-2.7%	14.4%	2.1%	5.3%	-5.6%
Profit (Loss) ATOP	3	432	(59)	631	(112)	585	(48)	734	67	115	(90)
YoY	-99.2%	-	-	-22.9%	-	35.4%	-	16.3%	-	-80.3%	-
Net profit margin	0.1%	10.9%	-1.6%	10.0%	-5.8%	10.1%	-1.7%	9.8%	1.4%	3.2%	-3.6%

Source: compiled by Sessa Partners from company's IR materials. Due to rounding, there may be a slight discrepancy with the company's financial results.

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