

Sansei Landic (TYO: 3277)

Sales and profits are up significantly yoy and are running way above the company target. The company should revise up, though there needs to be caution about pandemic disease.

➤ Key points for the financial results for 3Q of FY 12/2021

- ✓ The company made up for delays in sales activities caused by COVID-19. Sales and profits are rising significantly over the last year and are running way above the guidance.
- ✓ Profits have already overachieved the full-year company forecasts, and upward revision looks likely.
- ✓ Despite the strong results, the stock price is left undervalued continuing adjustment.

➤ Financial results for 3Q of FY 12/2021: Sales grew 22% * year-on-year and operating income increased 4 times

For 3Q of FY 12/2021, the company posted net sales of 13,198 million yen (up 21.8%), an operating income of 1,027 million yen (up 287.4%), an ordinary income of 943 million yen (up 519.8%), and a quarterly net income attributable to the shareholders of the parent company shareholders of 547 million yen (up 492.4%).

Sales and profits are up significantly year-on-year and are way above the company guidance. Business rebounded from the significant impact of COVID-19 in 2Q and 3Q of the previous year. Moreover, the countermeasures against COVID-19, such as the adoption of IT for marketing, were positive. (See also the next page and the graph)

By segment, the real estate sales business performed well, delivering sales of 12,284 million yen (up 28.4%) and a profit of 1,987 million yen (up 83.5%). On the other hand, the construction business registered sales of 913 million yen (down 27.9%) and the loss of 144 million yen (a loss of 5 million yen last year) (See the next page for details).

The procurement in the real estate sales business totaled 7,544 million yen (down 31.9%). The orders received in the construction business were 1,186 million yen (up 61.3%). Since the level was high in the previous year, the procurement decreased yoy. However, there appears no impact on the immediate business performance.

➤ Full-year outlook for FY 12/2021: the forecast are left unchanged despite profits overachieving the full-year guidance

So far, sales have achieved 72% of the guidance, and profits have exceeded the management's target by the end of 3Q. However, the management retained the full-year forecasts. Currently, the impact of the fifth wave of COVID-19 is significant, and the company says that it will carry over some of the properties scheduled for sale in 4Q to the next fiscal year. Still, the management may well revise up for the full year.

*Unless otherwise specified in this report, % of increase/decrease indicates year-on-year comparison (cumulative basis).

3Q financial result update

Real estate

As of Dec. 8, 2021

Share price (12/7)

¥811

52weeks high/low	¥908/722
ADVT (¥ mn, monthly)	¥10 mn
Mkt cap	¥6.8 bn
Shrs out.	8.474 mn, shrs
PER (21/12 CE)	13.3 X
PBR (20/12 act)	0.65 X
ROE (20/12 act)	3.6 %
Shr eqty ratio (21/9)	51.6 %

Listed market

TSE 1st section

Stock price performance



%	1 mo.	3 mo.	12 mo.
Stock price	-2.1%	-1.2%	9.3%
Relative stock price	0.5%	2.4%	-3.3%

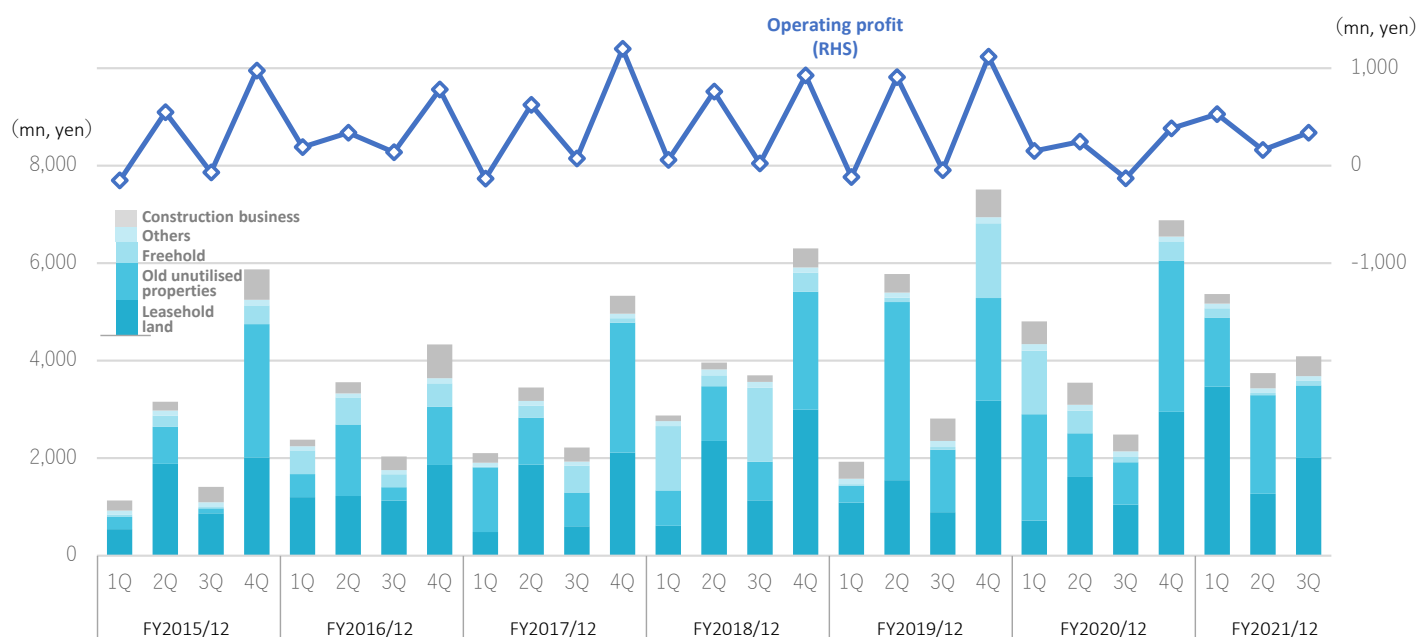
Points of interest

Sansei Landic expands the real estate rights adjustment business nationwide. It aims to capture opportunities for stable earnings in niche markets. Given high ROE of 10% or more over the past few years, the stock price looks undervalued. In 2020/12, pandemic disease greatly affected the business. However, the company is recovering in 2021/12.

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 (¥)
2017/12	13,098	6.5	1,762	21.9	1,668	25.6	1,111	30.2	134.45	18.00
2018/12	16,833	28.5	1,765	0.2	1,642	-1.5	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 (CE)	18,385	3.4	919	8.5	762	7.5	505	41.3	59.88	25.00
2020/12 3Q	10,835	3.1	265	-64.3	152	-77.5	92	-78.3	10.95	—
2021/12 3Q	13,198	21.8	1,027	287.4	943	519.8	547	492.4	66.02	—

Quarterly sales and operating profit



Source: Omega Investment from company materials

◆ Trends by segment: (See also the table on page 5)

a) Real estate sales business : Sales of 12,284 million yen (up 28.4%, + 14.7% above the guidance), profit of 1,987 million yen (up 83.5%)

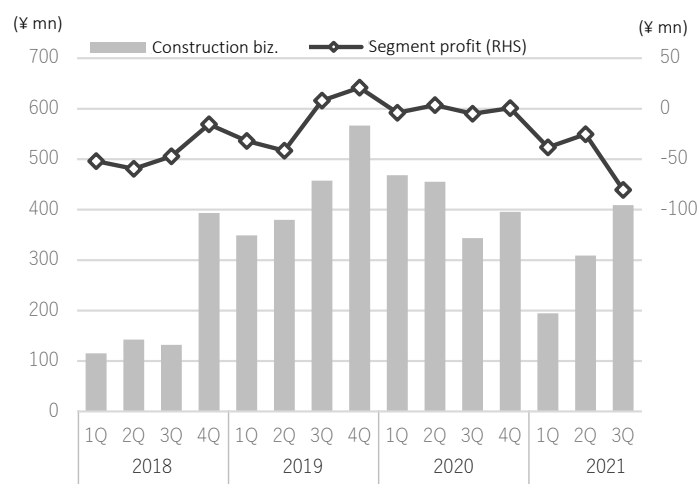
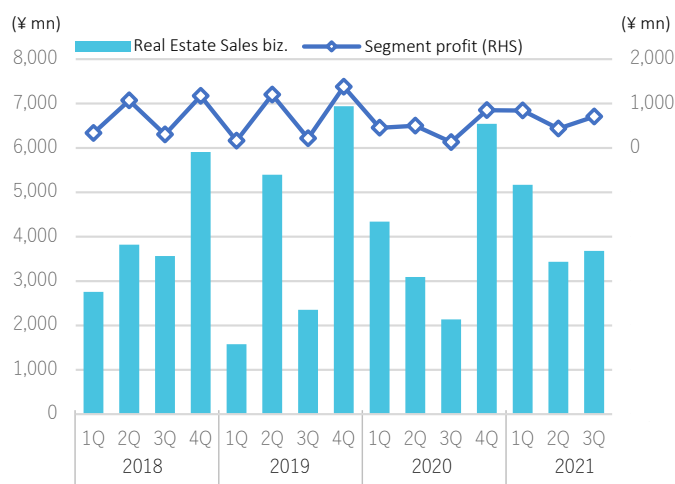
– **Leasehold land: Sales were 6,734 million yen (up 99.5 %).** The properties mixed with old unutilised properties, which the company scheduled to sell in the 4Q of the last year, were booked as sales this term. In addition, 3Q sales were strong.

As a result, nine-month sales doubled year-on-year, exceeding the company forecast by 23.7%.

— **Old unutilised properties** (properties with furnishings of previous tenants): **Sales of 4,932 million yen (up 24.9%)**. Sales in 2Q and 3Q expanded significantly by 125.8% and 70.6%, respectively. Nine-month sales and profits exceeded the forecasts.

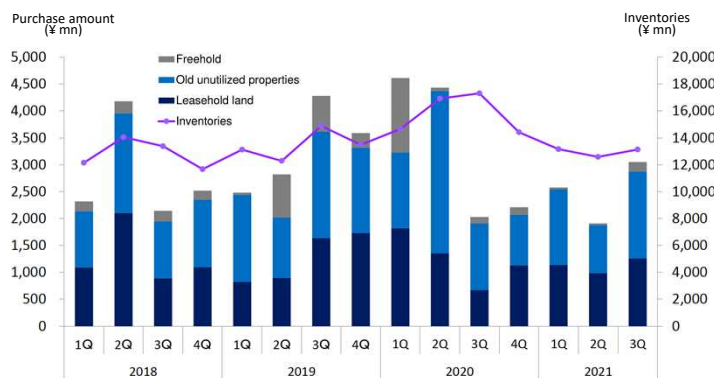
– **Freehold: Sales registered 338 million yen (down 82.0%)**. Sales declined significantly year-on-year as they were more robust than usual last year. The management anticipated sales to drop considerably judging from the inventory at the beginning of this fiscal year. Sales did not reach even that forecast. However, the freehold business is a low-profit margin because of the competition with other more common real estate companies, and it is not easy to utilise the company's features. Therefore, the impact on the overall profits is not so significant.

Sales and operating income by quarterly segment



Source: Omega Investment from company materials

Purchase and Inventory



Project numbers and purchase contracts



Source: company materials

The procurement amount in the real estate sales business was 7,544 million yen. Although the number of projects and the number of purchase contracts have improved significantly, the period until settlement has become longer in some cases, and accumulation slowed down. Procurement decreased in all leasehold land, old unutilised properties and freehold, resulting in a total decline of 31.9%. However, this will not affect the company's business performance for the current fiscal year. The company will focus on securing projects for the next fiscal year.

b) Construction Business: Sales of 913 million yen (down 27.9%, -21.3% below the forecast), a loss of 144 million yen (a loss of 5 million yen yoy)

COVID-19 delayed business negotiations and construction starts, and sales were down yoy, undercutting the company forecasts. The earnings were significantly affected by the provision for construction loss of about 82 million yen. This was related to wooden construction, the company's high-value-added mainstay. There was a cost overrun of RC properties, which the company had started as a new initiative.

The orders received in the construction business are on track of recovery, despite COVID-19 and the skyrocketing lumber prices.

On the balance sheet, cash and deposits increased by 849 million yen (from the end of December 2020) to 5,179 million yen due to the steady progress of sales activities. Real estate for sale decreased by 1,290 million yen, and the balance at the end of September was 13,134 million yen. At the same time, interest-bearing debt decreased by 487 million yen to 7,853 million yen.

◇ Full-year outlook for FY 12/2021: Profit reached the initial forecast, but the management left guidance unchanged.

As per the nine-month progress, sales have achieved 72% of the management's full-year target, and profits are already much above the company's guidance. However, they left their forecasts unchanged. As the impact of the fifth wave of COVID-19 was more significant than expected, the company says that it will carry over some of the properties that it planned to sell in 4Q to the next fiscal year. Nevertheless, the expectations for an upward revision to the full-year earnings forecast should mount.

◇ Other topics: Application for "Standard Market" of Tokyo Stock Exchange

At the board of directors' meeting held on November 12, the company resolved to select and apply for the "standard market" for listing the company's stock in the new market category of TSE, which will be effective from April 4, 2022.

◇ Stock price: Financial results are good, but the stocks remain undervalued continuing adjustments.

Following the 2Q result report, the stock price rose due to the announcement of share buyback. But the stock price has been adjusting after the 3Q announcement. It is probably because the management did not revise up the full-year forecasts being cautious. As mentioned in our previous report, PBR is 0.65 and is below 0.89, which is the average over the last five years. If the company revises up at the time of 4Q result announcement and reveals a positive outlook for FY 12/2022, the stock price may well be re-rated. (Refer to the graph on the next page.)



5-year stock price move



Financial data

FY (¥mn)	2019/12				2020/12				2021/12		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
[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
Year-on-year basis	-33.0%	45.8%	-23.9%	15.0%	149.7%	-38.6%	-11.7%	-7.6%	11.6%	-7.6%	11.6%
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
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%
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%
Leasehold land	1,086	1,546	889	3,176	719	1,613	1,044	2,950	3,464	1,267	2,003
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%
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%
Old unutilised properties	351	3,657	1,283	2,108	2,180	897	872	3,101	1,419	2,025	1,488
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%
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%
Freehold	28	88	55	1,532	1,305	465	106	395	191	46	101
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%
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%
Others	110	104	126	126	133	117	116	97	96	95	88
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%
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%
Construction business	349	379	457	566	468	455	343	395	194	309	409
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%
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%
[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
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
Gross profit	579	1,762	736	2,042	942	989	548	1,507	1,344	986	1,143
SG&A expenses	696	855	783	924	792	744	678	925	816	826	805
Operating income	-117	907	-47	1,117	150	245	-131	382	528	160	338
Non-operating income	4	28	5	5	9	5	51	5	12	8	8
Non-operating expenses	34	38	32	40	55	63	60	10	37	40	34
Ordinary income	-147	898	-75	1,083	103	188	-140	298	502	128	311
Extraordinary income	0	0	0	0	0	0	0		3	0	0
Extraordinary expenses	0	0	0	0	0	0	0			0	0
Loss before income taxes	-147	898	-75	1,083	103	188	-140	298	506	128	311
Total income taxes	-35	312	-26	349	36	72	-49	295	183	48	166
Net income	-112	585	-48	734	67	114	-90	176	323	79	145
[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
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
Non-current assets	1,230	1,206	1,229	1,199	1,188	1,164	1,197	1,030	951	1,054	1,081
Tangible assets	469	471	462	456	451	449	443	306	291	290	293
Investments and other assets	694	666	689	669	668	653	691	655	595	703	732
Total assets	17,236	16,802	18,686	19,294	20,004	21,962	21,774	20,071	18,505	18,425	19,849
Current liabilities	6,904	6,996	9,135	9,047	9,883	7,767	7,699	5,772	5,517	7,540	8,633
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
Non-current liabilities	1,714	602	389	351	345	4,303	4,274	4,232	2,919	792	976
Long-Term Borrowings	1,347	222				3,958	3,929	3,879	2,570	483	683
Total liabilities	8,618	7,598	9,524	9,399	10,228	12,071	11,973	10,004	8,436	8,332	9,609
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
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
Capital stock	811	811	814	814	818	818	818	818	818	820	821
Legal capital reserve	772	772	775	775	779	779	779	779	779	781	782
Retained earnings	7,031	7,616	7,568	8,302	8,174	8,289	8,200	8,465	8,577	8,656	8,802
Stock acquisition right	4	4	4	4	4	4	4	4	4	4	4
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
[Statements of cash flows]											
Cash flow from operating activities		-286		-419		-3,683		-916		2,110	
Loss before income taxes		750		1,758		291		712		635	
Cash flow from investing activities		-27		-70		-9		-287		-26	
Cash flow from financing activities		-446		984		3,021		952		-2,129	
Net increase in cash and cash equiv.		-760		493		-671		-251		-46	
Cash and cash equiv. at beginning of period		3,465		3,465		3,958		3,958		3,707	
Cash and cash equiv. at end of period		2,704		3,958		3,287		3,707		3,661	

Source: Omega Investment from company materials



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