

Sansei Landic (TYO: 3277)

The earnings exceed the company's forecasts, which had previously been revised upwards.
The number of projects recovered to above the pre-pandemic levels.

◆The impact of the pandemic disease has been largely overcome, and the earnings came in ahead of the company forecasts.

In 2Q FY12/2022 results, sales were slightly short of the plan due to some sales of old unutilised properties being shifted to 3Q. On the other hand, profits were even higher than the upward revision announced at the time of the 1Q results announcement due to higher-than-planned sales of leasehold land and cost reductions. The number of projects and purchase contracts has increased significantly and is recovering to the pre-pandemic levels. As of 2Q, the progress ratios against the company's full-year forecast is 48% for sales and 65% for operating profit, and the company may well revise up eventually. The company's share price was above 900 yen after the announcement of 1Q results but has recently been in the low 800s, and its P/B ratio of 0.62x remains undervalued compared with historical averages.

◆Trends in 2Q results for FY2022/12: Operating profit above forecast, up 33% yoy.

In the 2Q results for FY2022/12, sales fell 10.4% yoy to 8.165 billion yen, underachieving the company plan by 124 million yen. This is because the company postponed some sales of old unutilised properties to the 3Q. Profits exceeded forecasts thanks to higher-than-planned sales of leasehold land and the benefit of cost reductions. Operating profit increased by 32.5% to 913 million yen yoy.

On a 2Q non-consolidated basis, sales were 3,721 million, down 0.6%, and operating profit was 466 million, up 190.0%. The operating profit margin was 12.5%, a 2.5 pt improvement compared to 1Q.

In Real estate sales business, where face-to-face sales are the main operation, the company's sales activities were severely affected after the spread of COVID-19 at the beginning of 2020. The company has now returned to almost normal operating conditions after implementing many anti-infection countermeasures, including introducing a remote working system. As a result, the number of projects has recovered above the pre-pandemic level. Purchases and inventories have also increased significantly.

On the purchasing side, the volume of information received by the company has increased. In addition, demand is strong, reflecting the robust property market in recent times. On the other hand, there are concerns about the various cost increases, such as demolition costs.

On the sales front, selling prices are on an upward trend, backed by increasing demand for property, and profit margins are improving. With leaseholders' purchasing sentiment recovering, the company's operating environment continues to be favourable.

In BS, real estate for sale has increased due to steady progress in purchasing. It increased by 1,851 million yen to 15,152 million yen compared to the end of the previous year. On the other hand, interest-bearing debt decreased by 222 million yen to 7,885 million yen as a result of progress in sales. As total assets increased by 2,628 million yen to 22,678 million yen, the equity ratio fell by 4.3 percentage points to 47.1%.

2Q financial result update

Real estate

As of September 27, 2022

Share price(9/26)	¥815
52weeks high/low	¥921/778
Avg Vol (3 month)	18.5 thou shrs
Market Cap	¥6.91 bn
Enterprise Value	¥8.78 bn
PER (22/12 CE)	6.34 X
PBR (21/12 act)	0.62 X
Dividend Yield (22/12 CE)	3.31 %
ROE (21/12)	8.85 %
Operating margin (22/6)	5.79 %
Beta (5Y Monthly)	0.72
Shares Outstanding	8.483 mn shrs
Listed market	TSE Standard

Stock price performance



	1 mo.	3 mo.	12 mo.
Stock price	-3.4%	-8.7%	-2.2%
Relative stock price	2.5%	-7.6%	9.6%

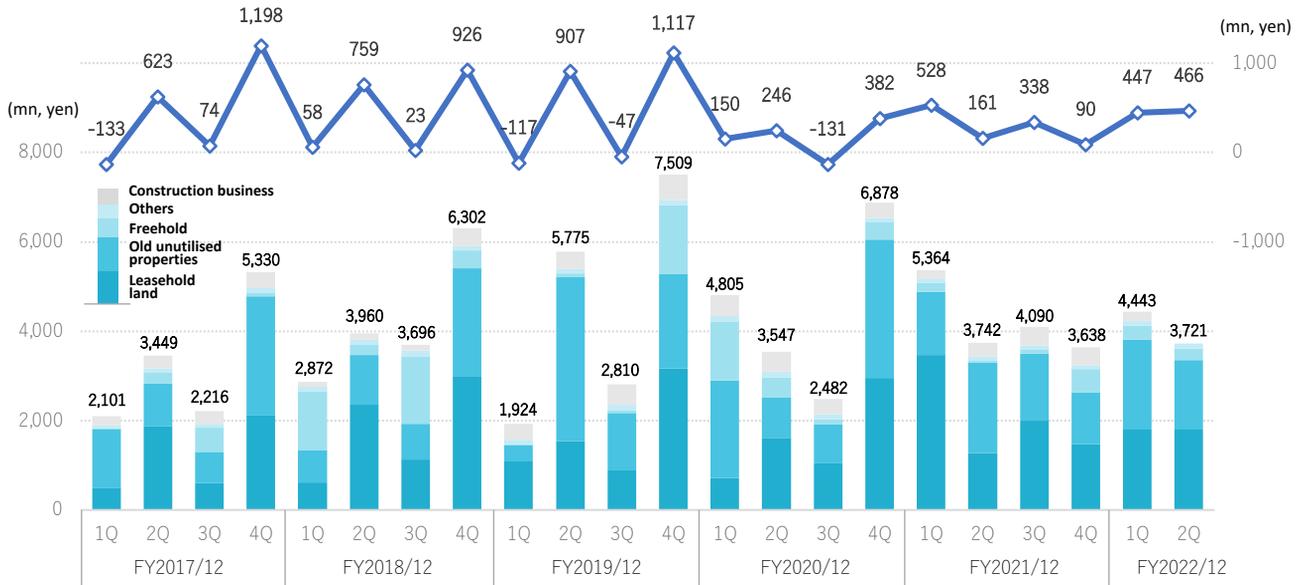
Points of interest

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.

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JPY, mn	Net sales	YoY %	Oper. profit	YoY %	Ord. profit	YoY %	Profit ATOP	YoY %	EPS (¥)	DPS (¥)
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 (CE)	17,103	1.6	1,402	25.5	1,226	22.7	1,058	73.7	128.40	27.00
2021/12 2Q	9,109	9.0	689	74.3	631	116.4	402	120.8	48.37	—
2022/12 2Q	8,165	-10.4	913	32.5	832	31.9	713	77.2	86.67	—

Quarterly sales and operating profit



Source: Omega Investment from company materials

By segment, **Real estate sales business** recorded sales of 7,943 million yen (-7.7%). Sales of Leasehold land and Freehold were higher than planned, but the overall sales were lower than planned due to changes in the timing of sales of the above-mentioned old unutilised properties. Segment profit increased to 1,540 million yen, up 20.4%. Sales of leasehold land overachieved the plan, and cost reductions exceeded the plan.

Leasehold land: recorded sales of 3,587 million yen (-24.2%). Sales decreased yoy due to higher-than-normal results in the same quarter of the previous year. Sales came in 4.2% above the company plan, with profits also exceeding the forecasts. Sales remained steady, particularly in the metropolitan area.

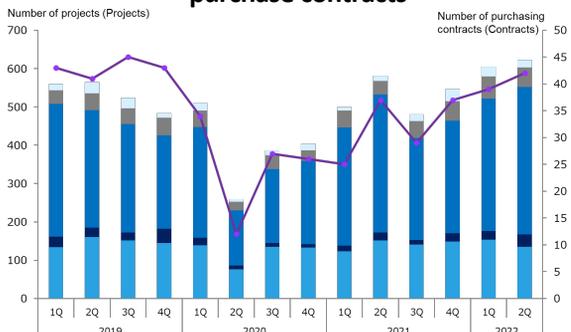
Old unutilised properties: booked sales of 3,580 million yen (+3.9%). Sales were 7.9% below the company plan due to the postponement of a project to 3Q that was scheduled to be booked in 2Q. Profits were higher yoy thanks to the improved profit margin. The company is better at this business in western Japan, but recent projects in the Tokyo metropolitan area are also increasing.

Freehold: saw sales rise to 581 million yen (+145.1%). Significant yoy growth, partly due to the low level of the same period of last year. Sales were 4.1% ahead of the plan. Profits also overachieved the forecast.

As noted in the previous update note, the company sold all the shares in building subsidiary One's Life Home at the end of March 2022, and only sales of 222 million yen in 1Q were counted in the 2Q cumulative results. Sales from **Construction business** will be non-existent from 2Q onwards.

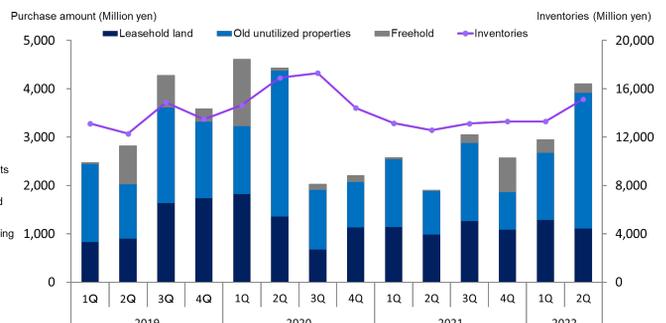
Purchases increased significantly by 57.4% yoy to 7,070 million yen. The breakdown was 2,398 million yen (+12.8%) for Leasehold land, 4,192 million yen (+82.3%) for Old unutilised properties and 479 million yen (+634.5%) for Freehold, running in line with the company's full-year purchase volume target of 13.4 billion yen. The number of projects has exceeded the pre-pandemic level, and the number of contracts is also upward.

Project numbers and purchase contracts



Source: company materials

Purchase and Inventory





◇ Company forecast for FY12/2022: no change from the numbers released at the time of the 1Q result announcement

As of the end of 2Q, the progress ratios against the full-year forecasts are 48% for sales, 65% for operating profit, 68% for recurring profit and 67% for net profit attributable to owners of the parent company. As mentioned above, the company expects to record the sales of some old unutilised properties in 3Q, which was previously planned to be booked in 2Q, so the company should comfortably achieve its full-year sales targets. Given the current progress, the earnings will likely exceed the company's forecasts.

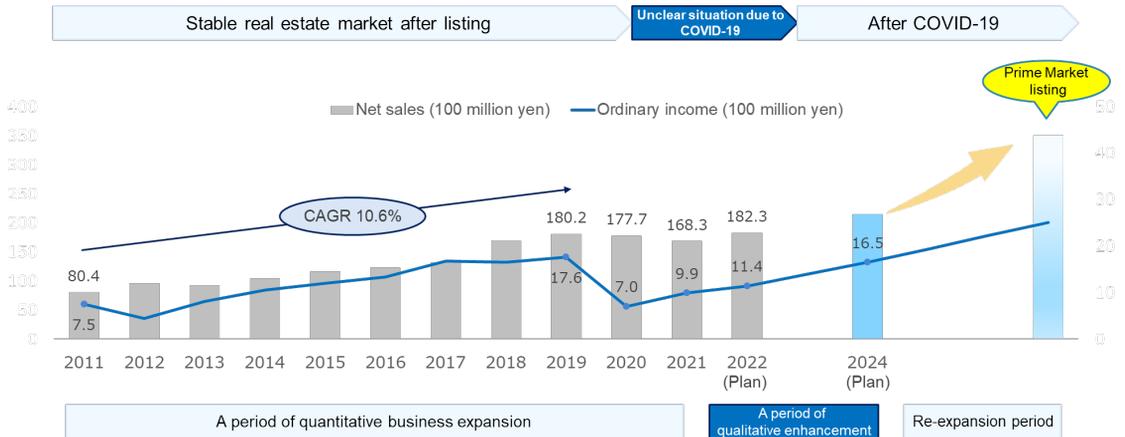
The company plans to pay a dividend of 27 yen at the end of FY2022/12, the ninth consecutive year of dividend increases.

◇ Progress of the medium-term management plan "Transformation to 2024"

In February 2022, the company announced its medium-term management reform plan, "Transformation to 2024", which clarified that the company, which had been growing at a CAGR of 10.6% in top-line sales until 2019, would restructure its growth story, which had flattened due to COVID-19. The company has identified 2022-24 as a period of qualitative strengthening, with the aim of TSE Prime listing from 2025 onwards. It is actively investing in new businesses and bolstering its financial base. The objective is to achieve new growth. To expand existing businesses, the company will actively introduce IT. By strengthening the improvement process through IT, the company aims to achieve a more sophisticated procurement and sales strategy, strengthen the company-wide information sharing mechanism, and strengthen individual sales capabilities. In addition, as part of expanding its business domain, the company is promoting regional redevelopment projects. For example, it has renovated a cottage in Hachimantai, operating accommodation facilities and revitalising the local area. It is expected to take time for the new business to become profitable. Nevertheless, the project is expected to expand and should be a matter of future attention.

Medium-term management plan: positioning

- 2022-24 will be a period of qualitative enhancement, with a focus on growth initiatives aiming at TSE Prime listing from 2025 onwards



Source: company materials

◇ Share price trend

The company's share price was above 900 yen after the announcement of 1Q results but has recently been in the low 800 yen range. The share price continues to struggle to move up. The shares underperformed TOPIX over the last three years. However, the company has largely recovered from the adverse impact of the pandemic disease, as endorsed by the recent financial results. At the same time, its profit recovery has been remarkable, partly due to the buoyant property market. The company operates on a solid financial base, with over 9 billion yen retained earnings. In light of these, a PBR of 0.62x, which remains below the five-year historical trend of 0.83x, suggests that the shares are undervalued.

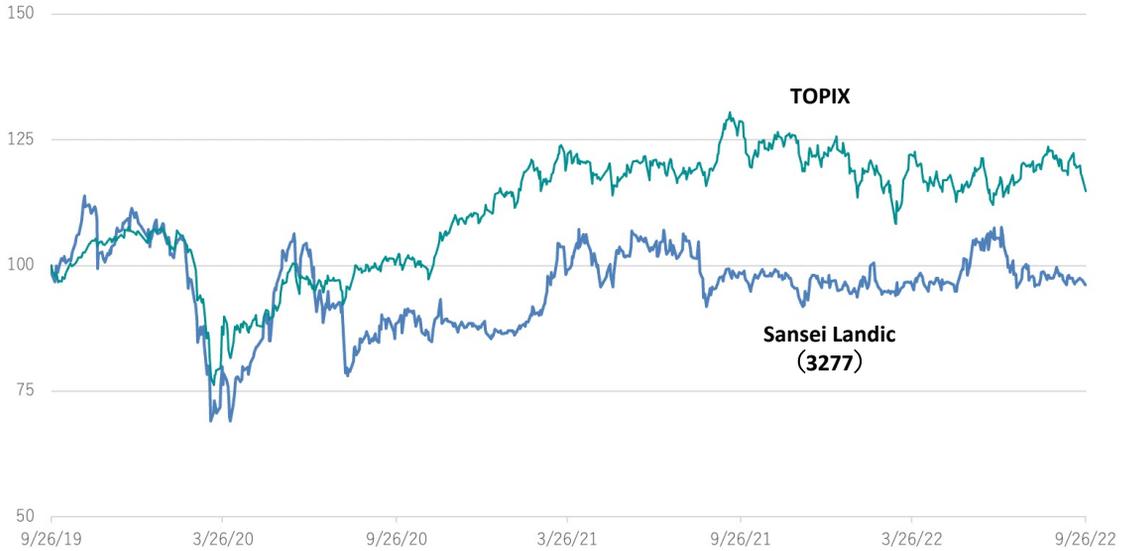
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5-year stock price move



Share price compared to TOPIX (last three years)



Historical PBR (last five years)



Financial data

FY (¥mn)	2019/12				2020/12				2021/12				2022/12	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
[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
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%
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
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%
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%
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
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%
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%
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
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%
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%
Freehold	28	88	55	1,532	1,305	465	106	395	191	46	101	526	315	266
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%
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%
Others	110	104	126	126	133	117	116	97	96	95	88	94	89	105
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%
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%
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
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
Gross profit	579	1,762	736	2,042	942	989	548	1,507	1,344	986	1,143	892	1,297	1,411
SG&A expenses	696	855	783	924	792	744	678	925	816	826	805	802	850	946
Operating income	-117	907	-47	1,117	150	245	-131	382	528	160	338	90	447	466
Non-operating income	4	28	5	5	9	5	51	5	12	8	8	6	7	7
Non-operating expenses	34	38	32	40	55	63	60	10	37	40	34	39	39	55
Ordinary income	-147	898	-75	1,083	103	188	-140	298	502	128	311	56	415	417
Extraordinary income	0	0	0	0	0	0	0	0	3	0	0	0	19	0
Extraordinary expenses	0	0	0	0	0	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	56	435	399
Total income taxes	-35	312	-26	349	36	72	-49	295	183	48	166	-4	59	60
Net income	-112	585	-48	734	67	114	-90	176	323	79	145	61	375	338
[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
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
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
Tangible assets	469	471	462	456	451	449	443	306	291	290	293	301	317	313
Investments and other assets	694	666	689	669	668	653	691	655	595	703	732	730	761	743
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
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
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
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
Long-Term Borrowings	1,347	222	-	-	-	3,958	3,929	3,879	2,570	483	683	740	1,260	2,827
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
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
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
Capital stock	811	811	814	814	818	818	818	818	818	820	820	820	821	822
Legal capital reserve	772	772	775	775	779	779	779	779	779	781	781	781	782	785
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
Stock acquisition right	4	4	4	4	4	4	4	4	4	4	4	4	4	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
[Statements of cash flows]														
Cash flow from operating activities	-	-286	-	-419	-	-3,683	-	-916	-	2,110	-	1,704	-	1,184
Loss before income taxes	-	750	-	1,758	-	291	-	712	-	635	-	1,003	-	833
Cash flow from investing activities	-	-27	-	-70	-	-9	-	-287	-	-	-	-	-	-205
Cash flow from financing activities	-	-446	-	984	-	3,021	-	952	-	-2,129	-	-608	-	-559
Net increase in cash and cash equiv.	-	-760	-	493	-	-671	-	-251	-	-46	-	1,045	-	420
Cash and cash equiv. at beginning of period	-	3,465	-	3,465	-	3,958	-	3,958	-	3,707	-	3,707	-	4,752
Cash and cash equiv. at end of period	-	2,704	-	3,958	-	3,287	-	3,707	-	3,661	-	4,752	-	5,173

Source: Omega Investment from company materials



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