

Sansei Landic (TYO: 3277)

Sales and profits both ahead of guidance.
Purchasing increased significantly, with inventories of real estate for sale amounting to 20.7 billion yen.

◇ **Sales undercut the target, but profits overachieved. Inventories reached a record high.**

In the 3Q results for FY12/2022, sales of Sansei Landic fell by approximately 15% yoy but progressed better than planned. Sales of Leasehold land declined, but both Old unutilised properties and Freehold increased. Profits exceeded the plan for both Leasehold land and Old unutilised properties. Operating profit increased by 17%. On the other hand, the volume of purchases grew significantly in 3Q, with real estate for sale at the end of 3Q at an unprecedented level of 20.7 billion yen, so the earnings should increase in the next fiscal year and the following years. 3Q progress ratios were 66% for sales and 86% for operating profit versus the guidance. The company should comfortably achieve its full-year targets with 4Q earnings kicking in. The share price remains undervalued in light of the current solid business progress.

◇ **3Q FY12/2022 results: Purchases increase significantly, with real estate for sale amounting to 20.7 billion yen.**

Sales were 11,261 million yen, declining 14.7% yoy. This was because the sales of leasehold land in 3Q last year were large. Sales were **ahead of the company plan by 294 million yen**. Profit margins for both Leasehold land and Old unutilised land were better than forecast. **Operating profit registered 1.2 billion yen, rising 16.8% yoy**, thanks to the solid property market and cost reductions and sales efforts.

On a three-month basis, 3Q sales were 3,095 million yen, down 24.3% yoy, while operating profit fell by 286 million yen or 15.1%. On the other hand, the operating profit margin improved by 1 pt to 9.3%.

Since the spread of COVID-19 at the beginning of 2020, the sales activities of the real estate industry, primarily a face-to-face sales business, have been severe. The company has implemented several infection control measures, including introducing a remote working system, and is now almost back to normal operating conditions. As a result, the number of deals has increased to levels exceeding those before the infection. The company's purchases and inventories have also increased significantly, as discussed below.

The spread of COVID-19 has affected some office buildings and commercial real estate, with the introduction of remote working and curtailed outings. Still, the impact on the company's business areas, such as Leasehold land and Old unutilised properties, has been minor. Demand has remained robust due to the strength of the property market, and sales prices are rising.

In BS, real estate for sale increased significantly due to higher-than-expected progress in purchasing. It increased by 7,474 million yen to 20,775 million yen from the end of the previous fiscal year. Interest-bearing debt increased by 4,649 million yen to 12,757 million yen due to significantly higher purchases. As a result, total assets increased by 7,457 million yen to 27,508 million yen. As liabilities increased, the equity ratio fell by 11.8 percentage points to 39.6%.

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 3Q	13,198	21.8	1,027	287.4	943	519.8	547	492.4	66.02	—
2022/12 3Q	11,261	-14.7	1,200	16.8	1,071	13.7	909	65.9	110.94	—

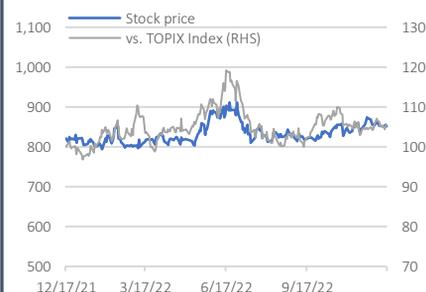
3Q financial result update

Real estate

As of December 19, 2022

Share price(12/16)	¥851
52weeks high/low	¥921/787
Avg Vol (3 month)	11.4 thou shrs
Market Cap	¥7.22 bn
Enterprise Value	¥14.69 bn
PER (22/12 CE)	6.59 X
PBR (21/12 act)	0.64 X
Dividend Yield (22/12 CE)	3.17 %
ROE (21/12)	9.19 %
Operating margin (22/9)	8.66 %
Beta (5Y Monthly)	0.62
Shares Outstanding	8.485 mn shrs
Listed market	TSE Standard

Stock price performance



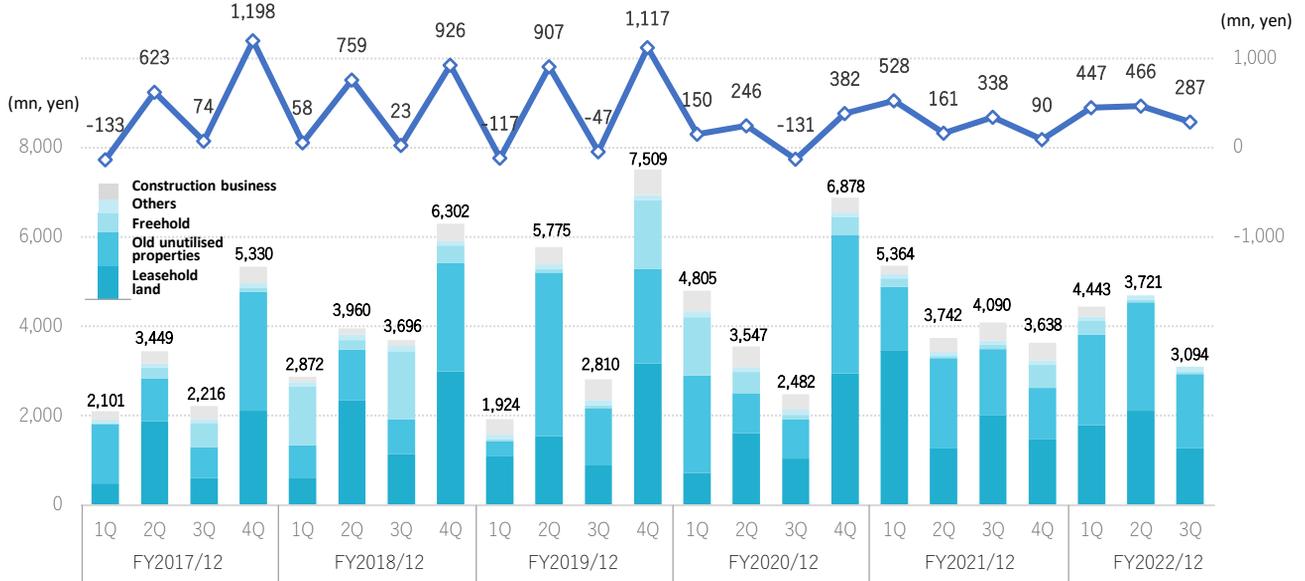
	1 mo.	3 mo.	12 mo.
Stock price	1.9%	3.9%	3.8%
Relative stock price	2.6%	3.3%	5.6%

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.

This report is made at the request of Sansei Landic. For details, refer to the disclaimer on the last page.

Quarterly sales and operating profit



Source: Omega Investment from company materials

➤ Segment trends

Sales of Real estate sales segment amounted to 11,039 million yen (-10.1%). Progress was mainly in line with plans for Leasehold, Old unutilised properties and Freehold. A yoy drop is due to the significant sales of leasehold land in the same period of the previous year. Segment profit increased by 2,200 million yen or +10.7%. Profit margins improved significantly due to sales and cost-cutting efforts in both Leasehold land and Old unutilised properties.

Leasehold land: sales of 4,871 million yen (-27.7%). Sales declined as the previous year's results included large properties with a mix of Old unutilised properties. Versus the company plan, sales were higher by 1.0%. While sales were in line with the forecast, profit margins were higher than expected, and profits exceeded the plan.

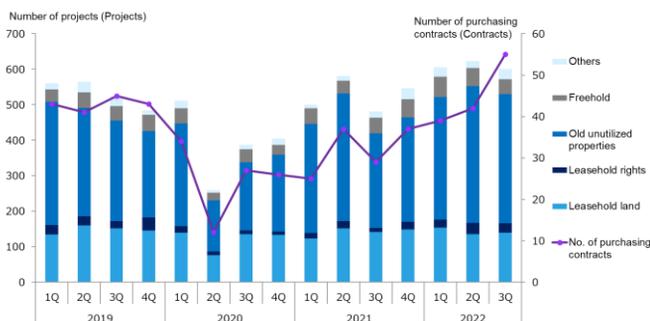
Old unutilised properties: sales of 5,229 million yen (+6.0%). Sales were 4.3% above the plan. Both profits and profit margins were higher yoy and exceeded the plan. Sales were robust in both the Tokyo metropolitan and western Japan regions.

Freehold: 630 million yen (+86.4%). Both sales and profits were largely in line with plans. As sales were low in the same period of the previous year, sales grew significantly yoy. Sales exceeded the company plan by 2.0%.

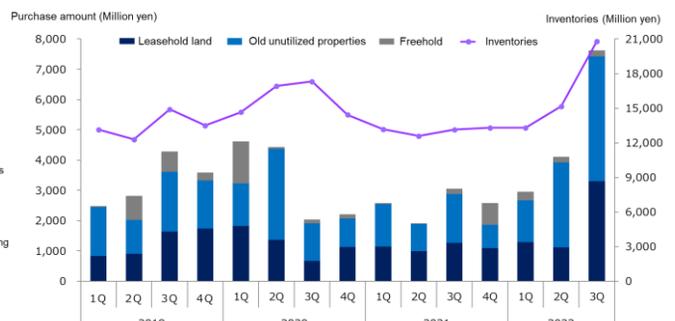
➤ Purchasing: progressed well above plan, with real estate inventories for sale amounting to 20.7 billion yen.

Purchases in the Real estate for sale business rose sharply by 94.8% yoy to 14,694 million yen (vs 7,544 million yen in 3Q FY2021). The breakdown is Leasehold land: 5.7 billion yen (+68.2%), Old unutilised land: 8.314 billion yen (+112.4%), Freehold: 678 million yen (+182.5%), already achieving the annual purchase volume target of 13.4 billion yen.

Project numbers and purchase contracts

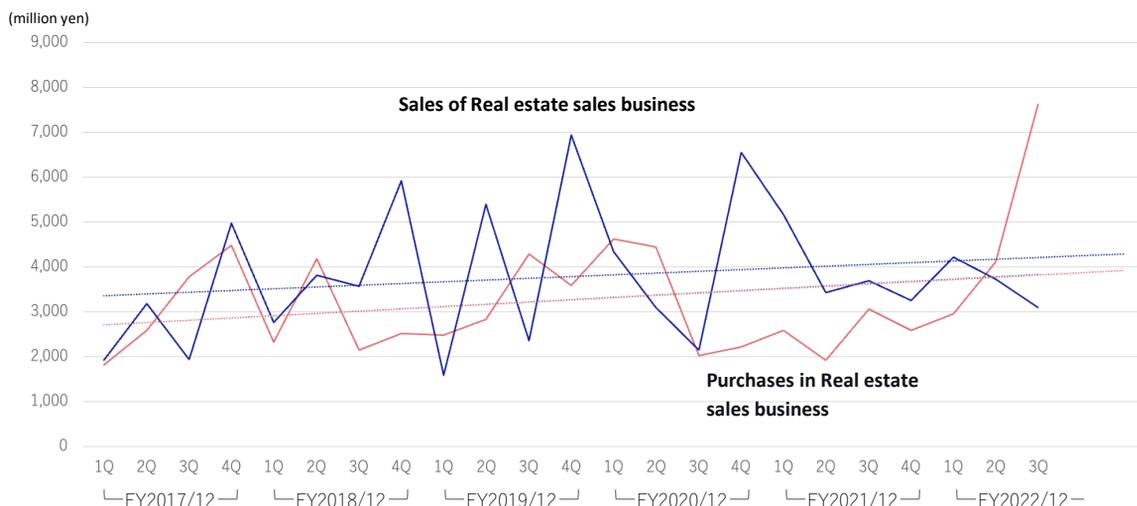


Purchase and Inventory



Source: company materials

Real estate sales business sales and purchases (quarterly)



Source: Omega Investment from company materials

This is due to the following: 1) The robust property market. 2) The expansion of large properties that require a rights adjustment period of more than one year, managing the risks associated with market, property and so on. 3) The success of the strategic expansion of the business area has led to a significant increase in purchases.

A rapid increase in inventories raises concerns about whether the company can sell out and whether unsold items will become unprofitable stock. However, the company denies such concerns, as it continues to purchase cautiously and is increasing inventories with an eye on sales in the next financial year and beyond.

The above chart shows the trend of purchases and sales in the company's property sales business. Before the spread of COVID-19, sales tended to increase in 2Q and 4Q and fall in 1Q and 3Q, but this has levelled off recently. Purchase volume remained low from 3Q FY2020 as sales activities stagnated due to COVID-19 but have recovered since entering FY12/2022. In particular, a significant increase in the current 3Q has ensured profit growth from the next financial year onwards.

◇ **Forecast for full FY12/2022: No change in the forecast announced after 1Q results.**

As of the end of 3Q, **progress against the full-year guidance is 66% for sales, 86% for operating profit, 87% for recurring profit and 86% for net profit attributable to owners of the parent company.** The company may well revise up its profit forecasts.

The company plans to pay a dividend of 27 yen a share for the performance of FY12/2022, the ninth consecutive year of dividend increases.

◇ **Share price: remains undervalued given growth expectations for the next fiscal year and beyond.**

The share price rose above 900 yen after the announcement of 1Q results but went down and bottomed out at 800 yen on 28 September, returning to the 850 yen level after the 3Q result announcement. From now on, the company's earnings should return to a growth trajectory again, backed by the robust property market and the significant increase in purchases in the current 3Q. Given the solid business progress and the growth expectation for next year and the following years, the share price valuations suggest that the shares remain undervalued (see chart on next page).



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	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	3,637	4,444	3,721	3,094
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%	-15.9%
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	3,094
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%	-15.9%
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%	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	1,284
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%	-35.9%
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%	40.5%	40.3%	48.2%	41.5%
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	1,649
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%	10.8%
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%	53.3%
Freehold	28	88	55	1,532	1,305	465	106	395	191	46	101	526	315	266	49
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%	-51.5%
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%	1.6%
Others	110	104	126	126	133	117	116	97	96	95	88	94	89	105	112
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%	27.3%
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%	3.6%
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	3,096
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	1,963
Gross profit	579	1,762	736	2,042	942	989	548	1,507	1,344	986	1,143	892	1,297	1,411	1,132
SG&A expenses	696	855	783	924	792	744	678	925	816	826	805	802	850	946	845
Operating income	-117	907	-47	1,117	150	245	-131	382	528	160	338	90	447	466	287
Non-operating income	4	28	5	5	9	5	51	5	12	8	8	6	7	7	6
Non-operating expenses	34	38	32	40	55	63	60	10	37	40	34	39	39	55	54
Ordinary income	-147	898	-75	1,083	103	188	-140	298	502	128	311	56	415	417	239
Extraordinary income	0	0	0	0	0	0	0	0	3	0	0	0	19	0	0
Extraordinary expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
Loss before income taxes	-147	898	-75	1,083	103	188	-140	298	506	128	311	56	435	399	231
Total income taxes	-35	312	-26	349	36	72	-49	295	183	48	166	-4	59	60	36
Net income	-112	585	-48	734	67	114	-90	176	323	79	145	61	375	338	196
[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	26,379
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	20,775
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	1,129
Tangible assets	469	471	462	456	451	449	443	306	291	290	293	301	317	313	314
Investments and other assets	694	666	689	669	668	653	691	655	595	703	732	730	761	743	769
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	27,508
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	11,168
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	6,960
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	5,453
Long-Term Borrowings	1,347	222	-	-	-	3,958	3,929	3,879	2,570	483	683	740	1,260	2,827	5,153
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	16,622
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	10,886
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	10,882
Capital stock	811	811	814	814	818	818	818	818	818	820	820	820	821	822	824
Legal capital reserve	772	772	775	775	779	779	779	779	779	781	781	781	782	785	786
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	9,557
Stock acquisition right	4	4	4	4	4	4	4	4	4	4	4	4	4	3	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	27,508
[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	-	-	-	-51	-	-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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