Sansei Landic | 3277

Sponsored Research
March 31, 2021

Sessa Investment Research

A year greatly affected by COVID-19: Sales -1% and OP -55%. Aiming for positive growth in sales and profit for FY21/12.

▷Full-year results for the FY12/20: Sales -1%, OP -55%

–Net sales ¥17,774mn (-1.4%), OP ¥847mn (-54.5%), recurring profit ¥709mn (-59.7%), and profit attributable to owners of parent ¥357mn (-69.1%).

–At the time of the FY12/09 results announcement, the Company forecasted FY12/20 sales of ¥21,552mn, an OP of ¥1,686mn, a recurring profit of ¥1,559mn, and net profit attributable to the parent of ¥1,047mn. However, by COVID-19 impact, the Company revised downward its forecasts after posting 2Q results to ¥16,725mn, ¥647mn, ¥450mn, and ¥268mn, respectively. Achievement rates compared to Company forecasts were 106%, 131%, 158%, and 133%, respectively.

–Sales in the Real Estate Sales business were ¥16,111mn, with sales of Leasehold land and Old unutilized properties decreased around 5% YoY. Freehold increased by 33%, but total sales fell by 1%. Segment profit decreased by 34.5% to ¥1,935mn.

–Construction business sales decreased 5.2% to ¥1,662mn. The segment loss narrowed to ¥4mn from ¥44mn loss the previous year.

▷ FY12/21 forecast: 3% revenue increase (¥18.3bn) and an 8% operating profit increase (¥920mn).

–The Company expects FY12/21 results as shown in the table below. COVID-19 have been moderating since the second half of last year, and mind is on a recovery trend both purchases and sales sentiment.

–Real Estate Sales are expected to increase by 3.5% to ¥16.6bn. Construction business sales are expected to increase by 3% to ¥1.71bn.

▷Shareholder Return Policy

–The Company has raised its dividend for six consecutive fiscal years through FY12/20, and has indicated that it may raise its dividend in FY12/21 in line with performance.

–On February 12, 2021, the Company's Board of Directors resolved to buy back company shares for the first time. The Company will buy back up to 200,000 shares, or 2.37% of its outstanding shares (excluding treasury stock).

▷Is the share price under review? PBR remains low.

–The Company's share price has been gradually recovering since it slumped following the downward revision of earnings at the end of July last year, and has risen further after the share buyback announcement mentioned above. The Company plans to announce a new medium-term management plan in mid-2021, and we will be watching closely to see if this provides an opportunity for a reversal in the Company's share price, which has remained below 1x PBR.

FY	Net Sales (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	Rec. Profit (¥ mn)	YoY (%)	Profit ATOP (¥ mn)	YoY (%)	EPS (¥)
2016/12	12,300	*6.3*	1,446	*11.3*	1,328	*11.1*	853	*17.9*	104.94
2017/12	13,098	*6.5*	1,762	*21.9*	1,668	*25.6*	1,111	*30.2*	134.45
2018/12	16,833	*28.5*	1,765	*0.2*	1,642	*-1.5*	1,006	*-9.4*	119.62
2019/12	18,020	*7.1*	1,860	*5.4*	1,758	*7.0*	1,158	*15.1*	137.08
2020/12	17,774	*-1.4*	847	*-54.5*	709	*-59.7*	357	*-69.1*	42.34
2021/12(CE)	18,385	*3.4*	919	*8.5*	762	*7.5*	505	*41.3*	59.88

Source: compiled by SESSA Partners from company materials

FOLLOW-UP

Sansei Landic

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 (3/30)	848
YH (3/22)	886
YL (1/4)	722
10YH (18/1/26)	1,506
10YL (12/8/1)	172
Shares out. (mn shrs)	8.468
Mkt cap (¥bn)	7.181
EV (¥bn)	11.168
Equity ratio (12/31)	50.1%
FY12/21 PER (CE)	14.17x
FY12/20 PBR (act)	0.71x
FY12/20 ROE (act)	12.3%
FY12/21 DY (CE)	2.94%

Share Price Chart (Weekly)

Source: SPEEDA

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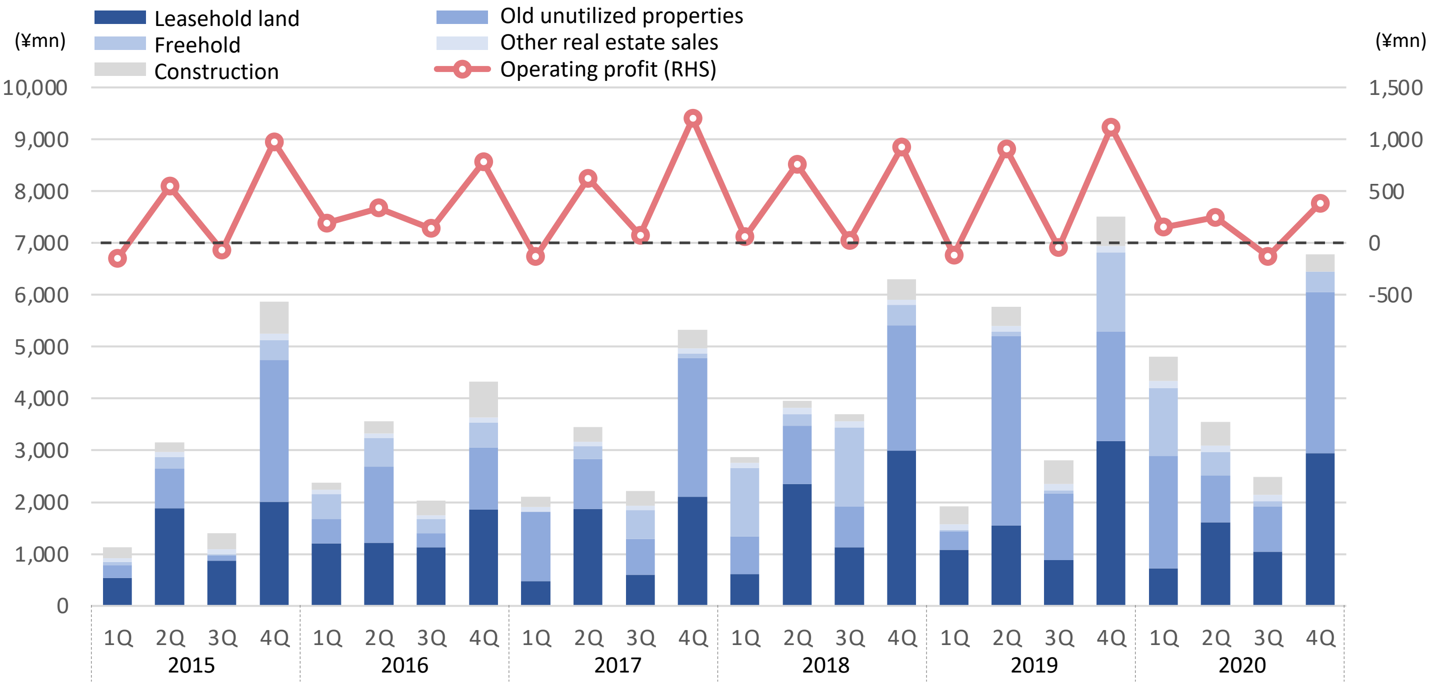
Quarterly Consolidated Results, Net Sales & Operating Profit by Segment



Source: compiled by Sessa Partners from company materials

1. FY12/20 Financial Results
1) Lower sales (1%) and lower operating profit (55%) due to significant impact from COVID-19

–The Company's financial results are seasonal, with 2Q and 4Q trending larger, but in 12/20, 2Q was significantly lower from COVID-19 impacts. In 2Q alone, sales fell 39% and operating profit was down 73% YoY. Although the Company posted a loss in 3Q stemming from restricted 2Q sales activities, it was on a gradual recovery path in the second half of the year.

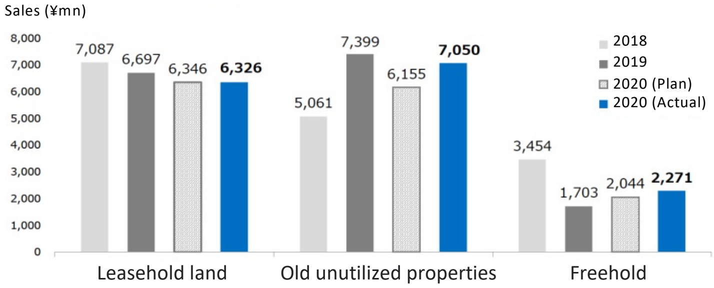
–As a result, sales for FY12/20 were ¥17,774mn (-1.4% YoY), OP was ¥847mn (-54.5%), recurring profit was ¥709mn (-59.7%), and net profit attributable to owners of the parent was ¥357mn (-69.1%). On the other hand, SG&A expenses were kept under control by lower sales commissions and a decrease in travel and transportation expenses due to restrictions on sales activities.

–The Company initially announced a FY12/20 forecast of ¥21,552mn in sales, ¥1,686mn in OP, ¥1,559mn in recurring profit, and ¥1,047mn in net profit attributable to the parent company. However, COVID-19 spreading, forecasts were revised downward to ¥16,725mn, ¥647mn, ¥450mn, and ¥268mn, respectively. The revised forecasts were conservative, and the Company achieved comparative respective performance figures of 106%, 131%, 158%, and 133%.

–Real estate transactions are typically not suitable for face-to-face meetings as the large sums of money involved, but it is especially important to build trusting relationships with customers with regard to the topic of real estate rights adjustments, which is the Company's target business, and the slowdown in sales activities by COVID-19 had a significant impact on business progress.

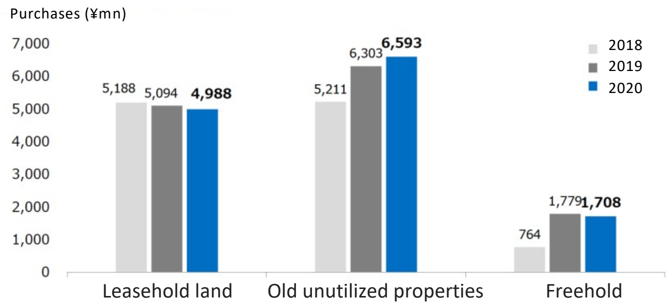
Real Estate Business Sales by Segment

- Leasehold land: Sales was in line with the company's estimation, but the margin missed the target.
- Old unutilized properties: Sales and profit well exceeded the estimation.
- Freehold: Sales and profit exceeded the estimation.



Real Estate Business Purchases by Segment

- Leasehold land: Same extent with previous year.
- Old unutilized properties: Increased in west Japan area.
- Free hold: Increased in Kanto area.



Source: company IR materials for FY12/2020, 25 Feb 2021

2) **Trends by Segment**

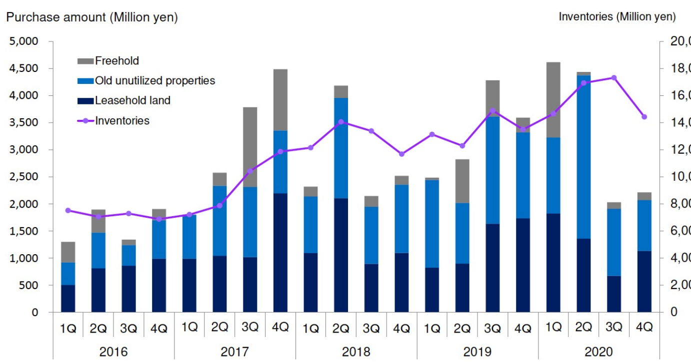
a) **Real Estate Sales: sales ¥16,111mn (-1%), OP ¥1,935mn (-35%)**

–Leasehold land: sales ¥6,326mn (-5.5%). Sales were almost in line with plans. Some properties were sold at a lower profit margin to push the generation of capital, resulting in a slightly lower than planned profit margin.
–Old unutilized properties: sales ¥7,050mn (-4.7%). Both sales and profits were well above plans, mainly rising in purchases in western Japan (60% of sales were in western Japan). Profitability was in line with expectations.
–Freehold: sales ¥2,271mn (+33.3%). Sales showed strong comparative improvement due to prior year's low level. Both sales and profit exceeded plans. Purchases in the Kanto area rose. The profit margin was in line with the initial forecast.

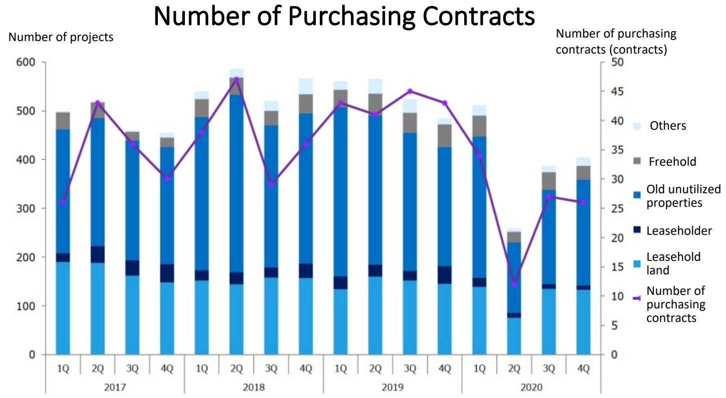
–Looking at the purchase amount by business segment in the real estate business, the purchased amount of Leasehold land was ¥4.99bn, almost the same as the previous year, as unit prices rose, offsetting a fall in the number of lots vs. the previous year (353 lots, down 21.9%). In the Old unutilized properties, the number of lots also fell significantly while unit prices rose, resulting in a sales volume of ¥6.59bn. Purchases in western Japan area rose. Figures for Freehold sales remained almost unchanged by an increase in Kanto area purchases.

–The purchase volume decreased significantly in the second half of the year due to a large decrease in the number of projects in 2Q caused by COVID-19, but for the full year, the purchase volume nevertheless increased slightly YoY. On the other hand, trends in the number of projects and purchase contracts, which also fell sharply in 2Q by COVID-19 impacts, have been on a recovery trend since 3Q.

Changes in the Amount of Purchases and Inventories

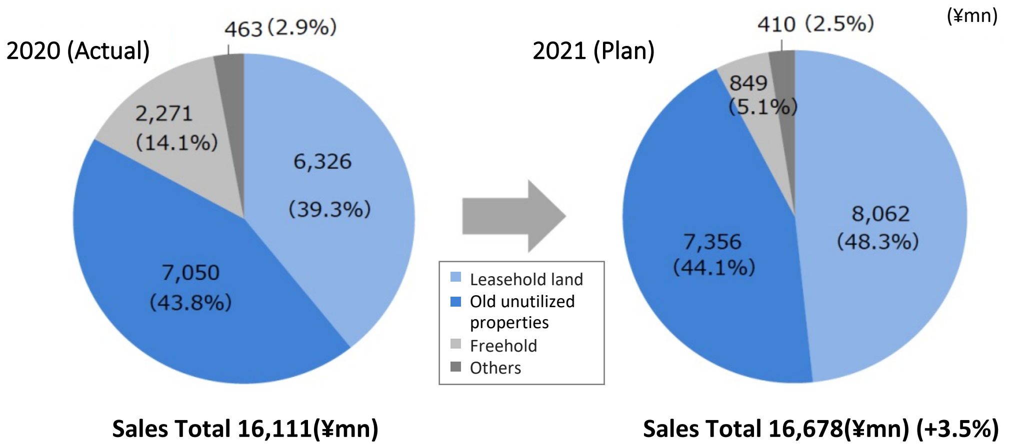


Changes in the Number of Projects and Number of Purchasing Contracts



Source: company IR materials for FY12/2020, 25 Feb 2021

Real Estate Sales / Segment-by-Segment Sales Plan



Source: company IR materials for FY12/2020, 25 Feb 2021

b) Construction Business: sales ¥1,662mn (-5%), OP loss (¥4mn) versus (¥44mn)
–The sales count fell by 6.9% to 163, owing to delays in business negotiations and the suspension of some contracts caused by COVID-19.
–Orders received were also severely affected by COVID-19, with both orders and order backlogs falling by half YoY. As a result, the Company was unable to achieve its initial plan of profitability in FY12/20.

2. Forecast for FY12/21: sales ¥18.3bn (+3%) , OP ¥0.9bn (+8.5%)
–For FY12/21, plans call for net sales of ¥18,385mn (+3.4%), OP of ¥919mn (+8.5%), recurring profit of ¥762mn (+7.5%), and net profit attributable to shareholders of the parent of ¥505mn (+41.3%).

–Real estate sales business is forecast at ¥16,678mn (+3.5%). This includes ¥8,062mn for Leasehold land (+27.4%), ¥7,356mn for Old unutilized properties (+4.3%), and ¥849mn for Freehold (-62.6%).

–Sales for the Construction business is almost unchanged at ¥1,712mn (+3%). The Company is planning to merge with One's Life Home, a subsidiary of its construction division, on July 1. By further improving management efficiency, the Company aims to return to profitability in the current fiscal year.

–Even with the presence of COVID-19, real estate prices have remained high, and inquiries for individual houses and condominiums have been strong. In terms of sales, although some activities have been affected, buying sentiment is recovering. In limiting face-to-face sales, the Company intends to improve operational efficiency by introducing IT technology.

3. In FY12/20, the Company failed to achieve its medium-term plan. Formulating the next medium-term management plan targets.
–In its mid-term plan through FY12/20, the Company targeted OP of ¥2,000mn, recurring profit of ¥1,900mn, and ROA of 12.0%. However, due to COVID-19 impacts, the Company fell far short of these targets, recording results of ¥847mn, ¥709mn, and ROA of 3.6%, respectively.

–The Company plans to disclose its new medium-term plan for the period through FY2023 in mid-2021 or later, prioritizing its response to COVID-19 and to address the various issues and management challenges it faces. The Company also plans to review ROA as a target management indicator.

4. Shareholder return policy: Dividend increase for the sixth consecutive year. First share buyback to be implemented.

–The Company considers shareholder returns to be an important management issue, and has increased dividends for six consecutive fiscal years. It has also indicated that it may increase dividends in FY12/21 in line with performance. In addition, the Company has changed its shareholder special benefit plan, giving preferential treatment to long-term shareholders.

–The Board of Directors resolved at its meeting on February 12, 2021 to repurchase the Company's own shares for the first time. The Company plans to buy back up to 200,000 shares, or 2.37% of its outstanding shares (excluding its own shares).

5. Share price trend

–The Company's share price performance is shown in the graph below. The Company's share price had been low and sideways trending following the downward revision of its earnings in July last year, but it may be said to have recently entered a medium to long-term upward trend.

–On the other hand, historical PBR data (next page) shows that PBR has been below 1.0 for the past several years. The Company needs to overcome COVID-19 first and get back on track for growth. Its ROE, however, has always been above 10%, which should make it appear even more undervalued.

Share Price Trend (last 3 years)

Source: compiled by Sessa Partners from SPEEDA data

Historical Valuation Trend

Source: compiled by Sessa Partners from SPEEDA data

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