

Strong Results Driven by Recovery from COVID-19. Sales up 12% YoY. OP up 3.5x YoY.

➤ 1QFY21 Results: Sales Up 12%, OP Up 3.5x on Sharp Rise in Leasehold Land Sales

—Sales and profits exceeded guidance and year-earlier results: Sales ¥5,365mn (+11.6% YoY), OP ¥528mn (+252.3% YoY), RP ¥502mn (+386.6% YoY), profit attributable to owners of parent ¥323mn (+380.3% YoY). 1Q results reached a record high.

—Real Estate Sales Business: Sales ¥5,171mn (+19.2% YoY). The increase in sales was driven by a substantial rise in Leasehold Land sales, up by about 5x YoY (incl. land with old unutilized properties). Segment profit was ¥842mn, up 85.5% YoY.

—Construction Business: Sales ¥194mn (-58.4% YoY). The segment loss was ¥38mn, a further deterioration from a segment loss of ¥3mn in the same period last year.

➤ FY21 Full-Year Guidance: Initial Guidance Unchanged

—In 1Q, the achievement rates of full-year guidance for sales and OP were 29% and 58%, respectively. OP already exceeded the 1H target of ¥280mn. The full-year targets appear comfortably within reach, due to the steady progress made in 1Q, albeit this partly owed to a cautious guidance that was issued in view of the impact from COVID-19.

—In the Construction Business, the impact of soaring lumber prices bears watching.

➤ Share Buybacks: Repurchased 200,000 Shares

—Sansei Landic decided on its first ever share buyback at the Board of Directors meeting held on February 12 as part of its efforts to bolster shareholder returns, which it views as an important management issue. The company repurchased 200,000 shares directly on the market, for a total value of ¥167mn, in the period through April 20.

➤ Share Price Trends: Hovering Near YTD High After Strong Earnings Results

—The Company's share price made substantial gains after delivering strong earnings results on May 17. The share price has remained near the YTD high thereafter. However, the stock is still being trading below book value, at 0.74x book. The latest earnings results were robust, and guidance for this fiscal year appears comfortably within reach. Should the widespread inoculation of the Japanese population restore economic activities, the Company could return to its past sales and profit growth trend. Also, Sansei Landic is expected to announce a new medium-term business plan around the middle of this year or later. Whether the announcement triggers a re-rating of the stock merits paying attention.

FY	Net Sales (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	Rec. Profit (¥ mn)	YoY (%)	Profit ATOP (¥ mn)	YoY (%)	EPS (¥)
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
2020/12 1Q	4,807	149.7	150	-	103	-	67	-	7.96
2021/12 1Q	5,365	11.6	528	252.3	502	386.6	323	380.3	38.47

Source: compiled by Sessa Partners from company material

1Q 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. Back to growth track on sales and profit through recovery from COVID-19 impact.

Key Indicators

Share price (6/15)	893
YH (4/7)	908
YL (1/4)	722
10YH (18/1/26)	1,506
10YL (12/8/1)	172
Shares out. (mn shrs)	8.469
Mkt cap (¥bn)	7.589
EV (¥bn)	10.393
Equity ratio (3/31)	54.4%
FY12/21 PER (CE)	14.86x
FY12/20 PBR (act)	0.74x
FY12/20 ROE (act)	3.6%
FY12/21 DY (CE)	2.79%

Share Price Chart (Weekly)



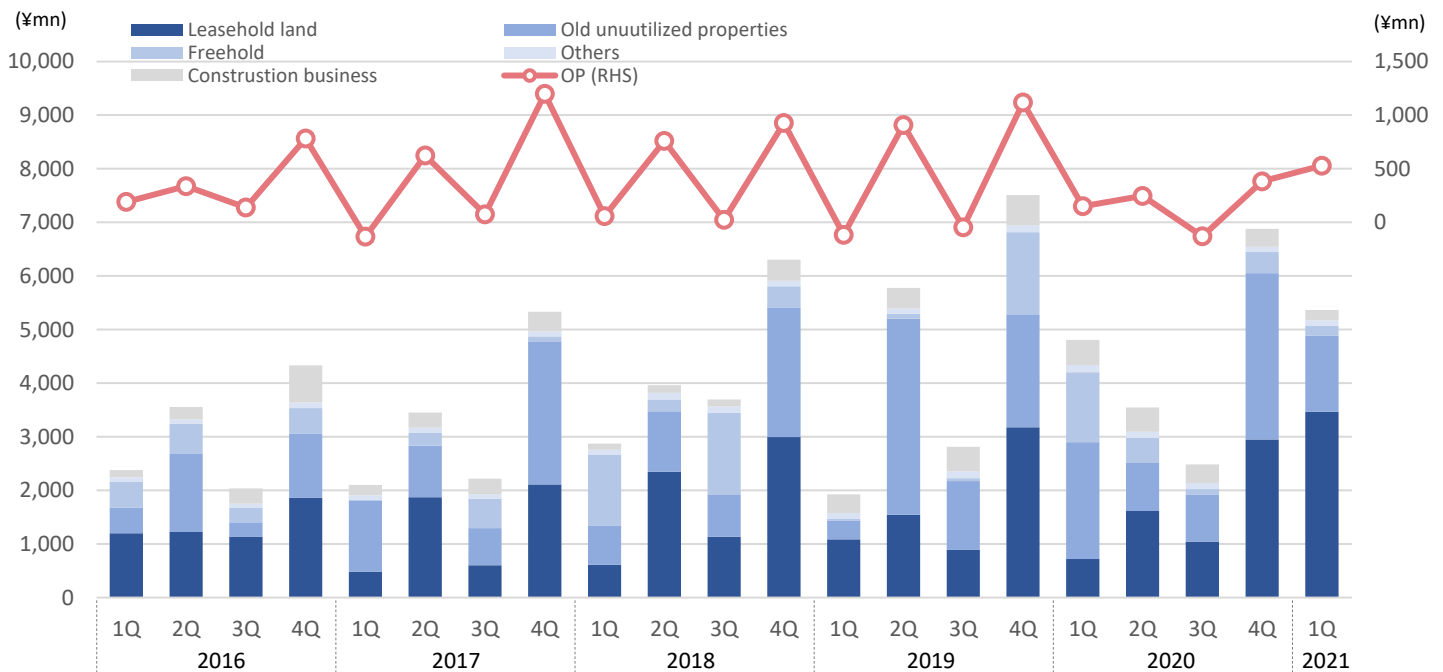
Source: SPEEDA

SESSA Research team

research@sessapartners.co.jp

This report was prepared by SESSA Partners on behalf of Sansei Landic Co., Ltd. For details, please refer to the Disclaimer at the end of this report.

Consolidated Quarterly Earnings: Sales and OP Trends by Segment (Subsegment)



Source: compiled by Sessa Partners from company material

1. 1QFY21 Results

1) Sales Up 12% YoY (¥5,365mn), OP Up 3.5x YoY (¥520mn)

In 1QFY21, Sansei Landic posted sales of ¥5,365mn (+11.6% YoY), OP ¥528mn (+252.3% YoY), RP ¥502mn (+386.6% YoY), and profit attributable to shareholders of parent ¥323mn (+380.3% YoY). Both sales and profits exceeded guidance and the year-earlier level, reaching a record high for 1Q.

COVID-19 took a heavy toll on Sansei Landic’s sales activities since 2QFY20 due to the nature of its business where most real estate sales take place through in-person activities. The Company continued to take preventive measures against the spread of infections among business partners and employees. As a result, business activities were nearly restored back to normal from 4QFY20 and the recovery in earnings began to take shape.

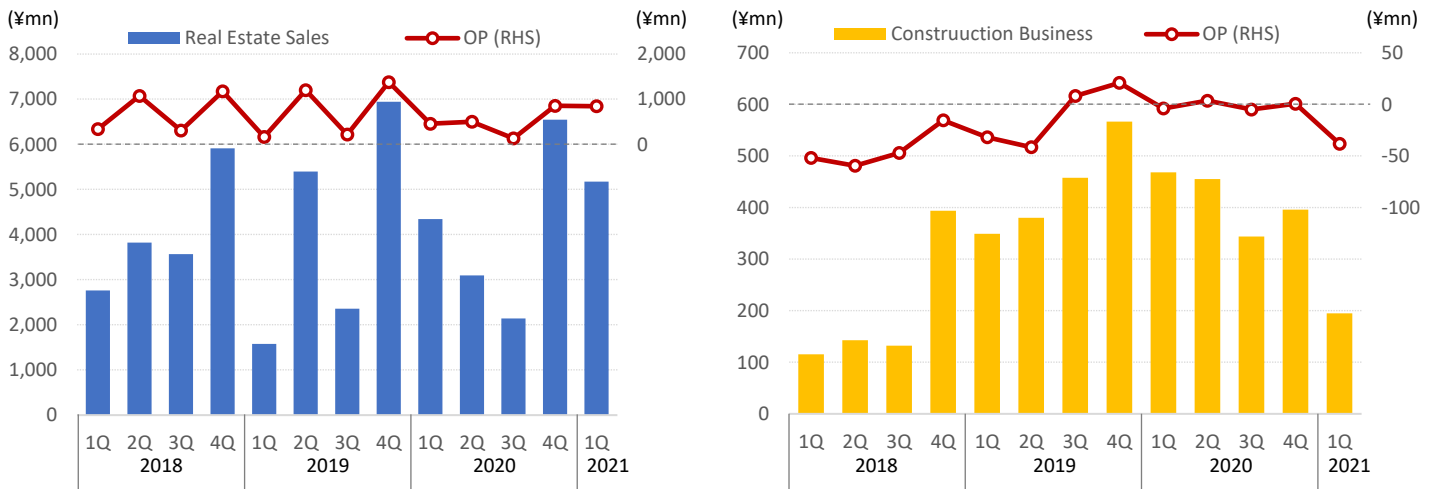
Sales were lifted by the substantial increase in Leasehold Land sales on the delayed recognition of projects originally scheduled to be booked in 4QFY20 and the earlier-than-planned sales of properties in view of uncertainties around the pandemic.

The gross profit margin improved significantly (19.6% in 1QFY20 → 25.1% in 1QFY21), thanks to increased sales coupled with higher-margin projects. OP expanded by 3.5x YoY, owing to efforts to reduce SG&A expenses.

2) Segment Trends

a) **Real Estate Sales Business:** Sales up 19.2% YoY (¥5,171mn), segment profit up 85.5% YoY (¥842mn)

Sales and OP Trends by Segment (¥mn)



Source: compiled by Sessa Partners from company material

Note: Sansei Landic recognizes sales under the categories of “leasehold land,” “old unutilized properties,” and “freehold” at the time of purchase. Rights adjustments after the purchase may cause leasehold land to turn into a freehold lot, but it is recognized as part of leasehold land as per their categorization upon purchase. Properties may be a combination of leasehold land, old unutilized property, and freehold lot. In such cases, properties that include leasehold land are recognized as leasehold land, while properties combining old unutilized properties and freehold lot are recognized as old unutilized properties.

—**Leasehold Land:** Sales were up 381.4% YoY (¥3,464mn). The sharp rise in sales from the same period last year reflects the recognition of sales of a property combined with an old unutilized property^(Note) that was originally expected to be sold last year, coupled with the earlier-than-anticipated sales of some lots. Sales exceeded the 1Q target by 8.3%.

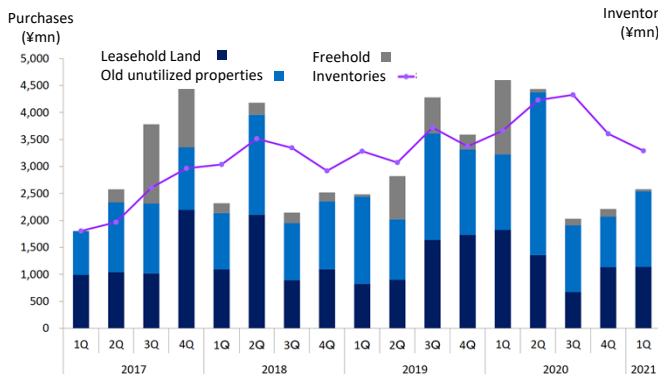
—**Old Unutilized Properties:** Sales were down 34.9% YoY (¥1,419mn). The decline came on the back of a high hurdle from the previous year when sales were strong. While sales fell 6.0% behind the plan, profit exceeded the forecast.

—**Freehold:** Sales were down 85.3% YoY (¥191mn). Sales were significantly below the same period last year, when sales were unusually high, but came in roughly in line with the plan.

The total amount of purchases in the Real Estate Sales Business was ¥2,581mn. While purchases dropped sharply (-44.1% YoY) due to a pullback from the sharp rise in purchases of leasehold land and freehold lots a year earlier, purchases were still in line with the plan. Purchases bottomed in 3QFY20 and have been recovering since. The number of leasehold land lots increased by 5.2% YoY, to 101 lots. The purchase value totaled ¥1,139mn, down 37.5% YoY. The number of old unutilized properties increased by 69.2% YoY, to 22 lots. The purchase value totaled ¥1,404mn, up 0.2% YoY. Freehold purchases dropped sharply from the same period last year. The number of freehold lots was 1 lot (compared to 6 lots in the same period last year), and the purchase value was ¥36mn, down 97.4% YoY.

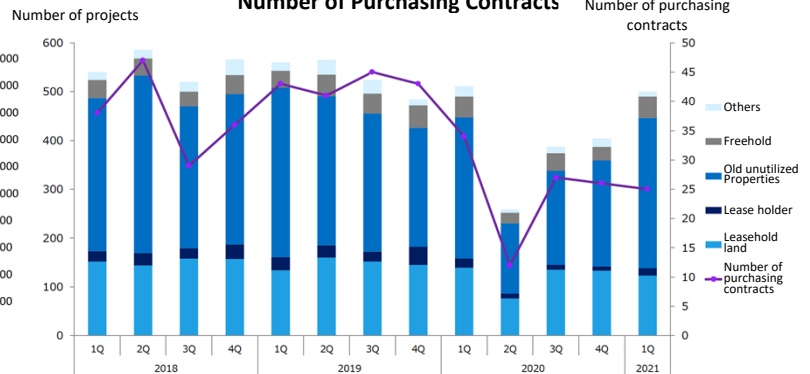
b) Construction Business: Sales down 58.4% YoY (¥194mn), segment loss ¥38mn (segment loss of ¥3mn in the same period last year)

Changes in the Amount of Purchases and Inventories (¥mn)



Changes in the Number of Projects and

Number of Purchasing Contracts



Source: compiled by Sessa Partners from company material

CME Lumber Futures (July)



Source: CME

The number of properties sold was 40, down 28.6% YoY. Sales fell from the same period last year and came in behind the plan due to a decrease in construction work carried over to the beginning of year and some delays in construction properties.

Orders increased to ¥383mn, up 33.1% YoY, but the order backlog was ¥645mn, down 23.6% YoY, due to a drop in construction work carried over to the beginning of the period.

2. FY12/21 Full-Year Guidance: Initial Guidance Unchanged

In 1Q, the achievement rates of the full-year forecast were 29% and 58% for sales and OP, respectively, thanks to a considerable uptick in the number of properties sold, chiefly due to the recognition of leasehold land sales delayed from the previous fiscal year as a result of COVID-19. On an OP basis, 1Q results have already exceeded the ¥280mn forecast for 1H. The Company is apparently making steady progress in 2Q as well, bringing the likelihood of an upward revision in sight.

Meanwhile, soaring lumber prices bear watching in the Construction Business. Partly due to the ongoing low interest rate environment in the US as an economic stimulus measure against COVID-19, the number of housing starts has been on the rise. This has caused a tightening in the supply and demand for lumber used for pillars and beams of houses. The surge in lumber prices is a cause for concern in the Construction Business as new housing starts may be affected moving forward.

3. Share Buybacks: Repurchased 200,000 Shares

The Company decided to repurchase shares for the first time ever in addition to maintaining the same dividend as FY20 as part of its efforts to bolster shareholder returns, which it considers to be an important management issue. Sansei Landic repurchased 200,000 shares directly from the market between February 15 and April 20, and the repurchase amount totaled approximately ¥167mn (figure below).

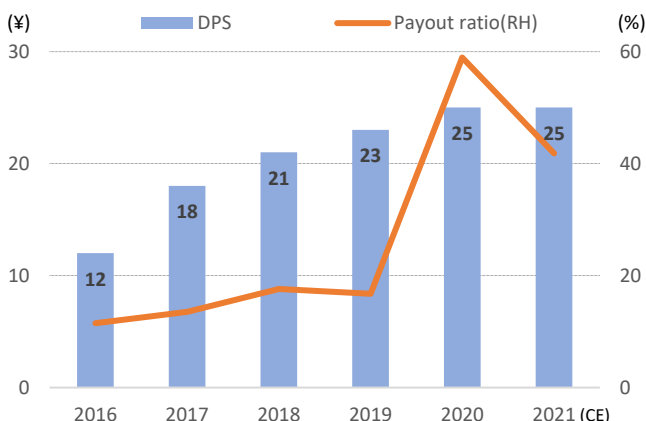
While the Company forecasts a per-share dividend of ¥25 in FY21, on par with FY20, it will consider increasing the dividend depending on its earnings performance.

4. Share Price Trends

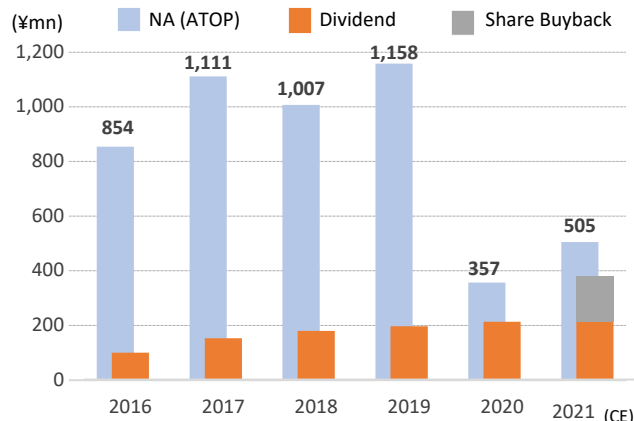
The Company's shares have been recovering from low levels since the end of last year, as investors welcomed the improvement in earnings since the announcement of FY20 results (despite the YoY declines in sales and profits), coupled with the forecast for YoY increases in sales and profits for FY21. The shares entered a slight correction in the latter half of April but has risen again following the strong 1Q earnings announcement this time. Thereafter, the shares have hovered at levels near the YTD high (upper figure on next page).

Meanwhile, the stock is trading at 0.74x book, remaining below book value since December 2018 (lower figure on next page). As stated above, earnings have so far been strong in the current fiscal year, and an upward revision to guidance may be imminent.

Changes in Per-Share Annual Dividend and Dividend Payout Ratio



Changes in Total Shareholder Returns



Source: compiled by Sessa Partners from company material

Changes in Share Price (Last 3 Years)



Source: compiled by Sessa Partners from Speeda data

Should widespread inoculations restore normal economic activities as we move forward, Sansei Landic could see earnings recover to historical levels. Management is expected to announced a new medium-term business plan around the middle of this year or later. Whether the announcement triggers a re-rating of the stock merits paying attention.

Valuation (Historical Trend)



Source: compiled by Sessa Partners from Speeda data

LEGAL DISCLAIMER

This report is intended to provide information about the subject company, and it is not intended to solicit or recommend investment. Although the data and information contained in this report have been determined to be reliable, we do not guarantee their authenticity or accuracy.

This report has been prepared by Sessa Partners on behalf of the concerned company for which it has received compensation. Officers and employees of Sessa Partners may be engaged in transactions such as trading in securities issued by the company, or they may have the possibility of doing so in the future. For this reason, the forecasts and information contained in this report may lack objectivity. Sessa Partners assumes no liability for any commercial loss based on use of this report. The copyright of this report belongs to Sessa Partners. Modification, manipulation, distribution or transmission of this report constitutes copyright infringement and is strictly prohibited.



Sessa Partners Inc.

5-3-18, Hiroo, Shibuya-ku, Tokyo
info@sessapartners.co.jp