

Sansei Landic (TYO: 3277)

The management revised up as the business is running ahead of forecasts. Sold off subsidiary One's Life Home.

◇ **The company has shifted its management resources to the well-performing core business. The management now expects a rise in 1H profits, though they had initially expected a fall.**

Sansei Landic started FY12/2022 strongly, delivering 1Q sales and profits above projections thanks to a significant increase in sales of old unutilised buildings. Although it lowered the full-year sales target as it sold off a construction subsidiary, it raised the earnings forecasts for 1H and the full year amid a robust property market. Real estate purchases were also larger than the previous year, progressing as planned. The management announced a share buyback, which endorsed their confidence in the current year's performance. The shares have outperformed TOPIX year-to-date and have been solid since the result announcement. Trading on 0.66x book, they remain undervalued.

◇ **1Q Results: Sales and profits were down yoy, but exceeded the management's forecasts**

Thanks to a significant increase in old unutilised buildings, 1Q sales registered 4.44 billion yen (-17.2% yoy), and operating profit was 440 million yen (-15.4% yoy), beating the management's estimate by a margin of 490 million yen and 150 million yen, respectively. (It should be noted that as the scale of each project is large, quarterly results would fluctuate significantly depending on the timing of booking. To grasp a more accurate business performance, one should compare the progress to company estimates).

By segment, **Real estate sales business** recorded sales of 4,222 million yen, down 18.3% yoy but 13.3% above the company estimate. Profit dropped 8.1% to 774 million yen but exceeded the management's forecast.

Leasehold land: 1,793 million yen (-48.2% yoy). The progress was in line with the forecast, mainly in the metropolitan area. Sales came in at 2.8% above the company forecast, and profits exceeded its estimate. The yoy sales decline is attributable to the higher-than-usual sales of last year.

Old unutilised properties: 2,024 million yen (+42.6% yoy). Both sales and profits were significantly higher than planned, partly because projects scheduled to be booked from 2Q were front-loaded in 1Q. Sales were 31.0% higher than planned, and profit margins were also better than expected.

Freehold: 315 million yen (+64.3% yoy). As sales were lower-than-usual in the previous year, 1Q sales grew significantly yoy but slightly undercut the estimate by 8.3%. Profit margins were largely in line with expectations.

Meanwhile, **Construction business** delivered sales of 222 million yen (+14.0% yoy), which was 3.0% below the plan. The segment lost 16 million yen, which contracted from the loss of 38 million yen in the same period of last fiscal year. As referred to later, the company sold off all the shares of construction subsidiary One's Life Home on 31 March, so sales from Construction business will not be counted in from 2Q onwards.

* Revised company forecasts

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 1Q	5,365	11.6	528	252.3	502	386.6	323	380.3	38.47	-
2022/12 1Q	4,444	-17.2	447	-15.4	415	-17.4	375	16.1	45.51	-
2021/12 2Q	9,109	9.0	689	74.3	631	116.4	402	120.8	48.37	-
2022/12 2Q (CE)*	8,290	-9.0	839	21.9	761	20.7	669	62.2	81.14	-

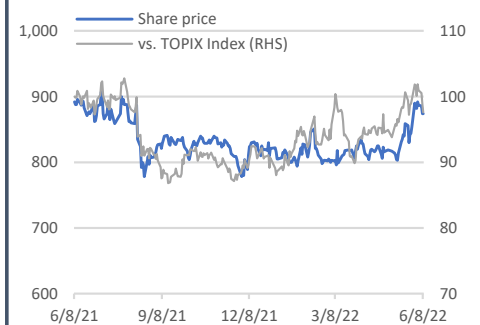
1Q financial result update

Real estate

As of June 8, 2022

Share price(6/8)	¥874
52weeks high/low	¥908/778
Avg Vol (3 month)	12.08 thou shrs
Market Cap	¥7.40 bn
Enterprise Value	¥9.67 bn
PER (22/12 CE)	6.81 X
PBR (21/12 act)	0.69 X
Dividend Yield (22/12 CE)	3.08 %
ROE (21/12)	6.44 %
Operating margin (21/12)	6.52 %
Beta (5Y Monthly)	0.87
Shares Outstanding	8.476 mn shrs
Listed market	TSE Standard

Stock price performance



%	1 mo.	3 mo.	12 mo.
Stock price	7.0%	8.8%	-2.0%
Relative stock price	4.0%	-2.8%	-2.4%

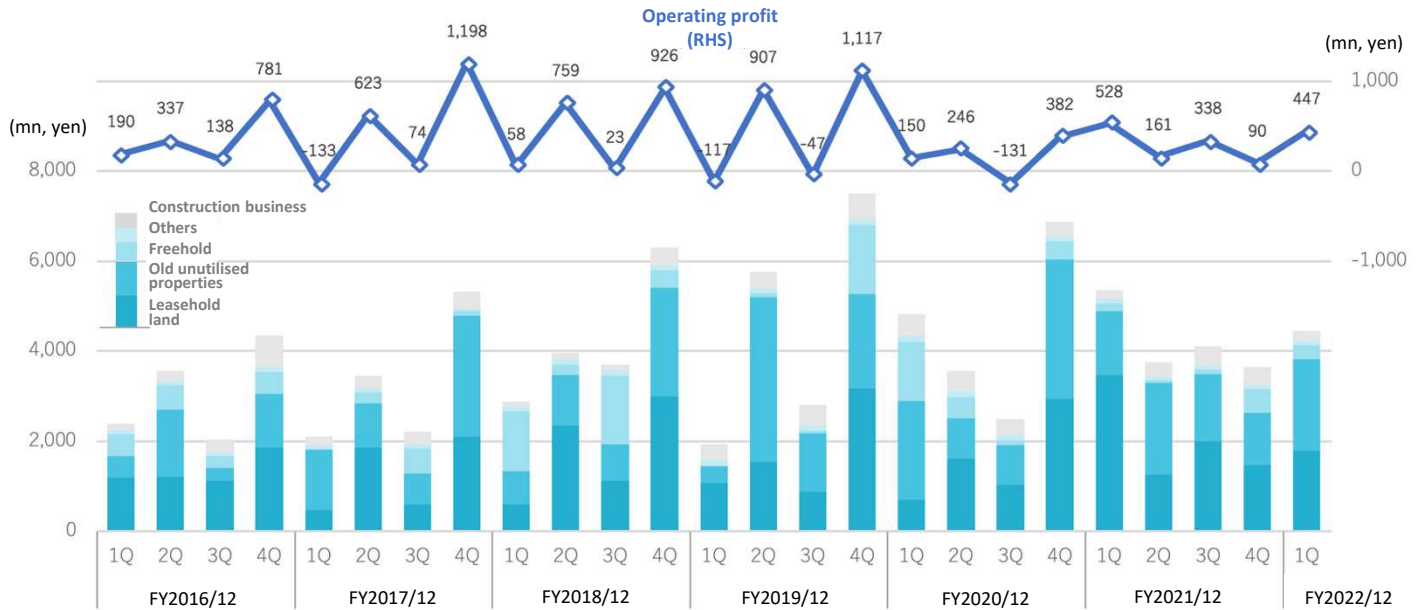
Points of interest

The company operates a nationwide property rights adjustment business, realising stable revenue opportunities in niche markets. It is recovering from the impact of Corona on its operations. Target operating profit of JPY 1.8 billion for FY12/2024 in the medium-term plan

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Quarterly sales and operating profit



Source: Omega Investment from company materials

Purchases and orders received for the Real estate sales business were 2,956 million yen (+14.5% yoy). This split into leasehold land of 1,289 million yen (+13.1% yoy), Old unutilised land business of 1,383 million yen (-1.5% yoy) and Freehold of 283 million yen (+672.7% yoy). The progress was in line with the annual purchase target of 13.4 billion yen. The number of projects exceeded the pre-COVID levels. The number of contracts is also on an upward trend.

On the other hand, orders for Construction business fell sharply to 65 million yen (-83.0% yoy). This reflected the lengthening of the period between the application for construction and the signing of the contract.

(See graph on next page)

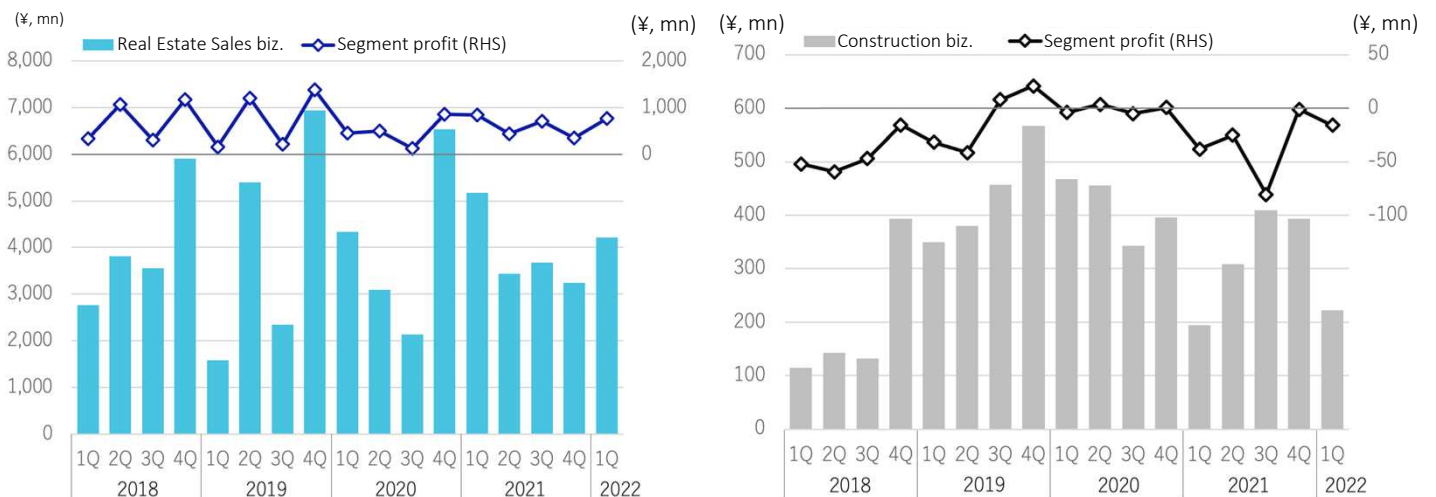
◇ **Forecasts for 2H and FY12/2022 were raised to reflect strong performance.**

The company has revised up as follows.

2H :

(million yen)	Initial estimate (YoY)	Revised estimate (YoY)	Revision (%)
Sales	7,052 (-22.6%)	8,290 (-9.0%)	+17.6%
Operating Profit	395 (-42.7%)	839 (+21.9%)	+112.4%
Recurring Profit	317 (-49.7%)	761 (+20.7%)	+140.1%
Net Income	201 (-49.9%)	669 (+66.2%)	+232.8%

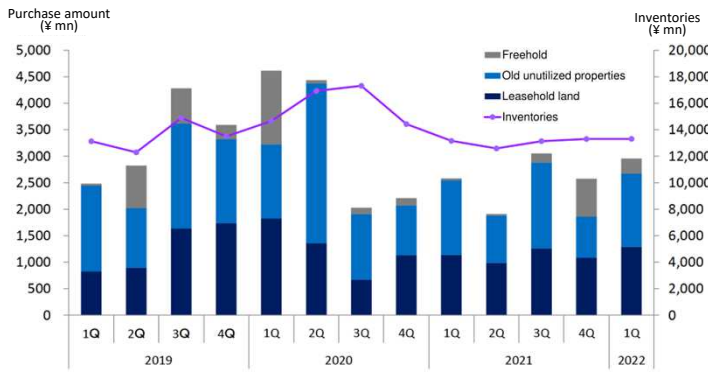
Sales and operating income by quarterly segment



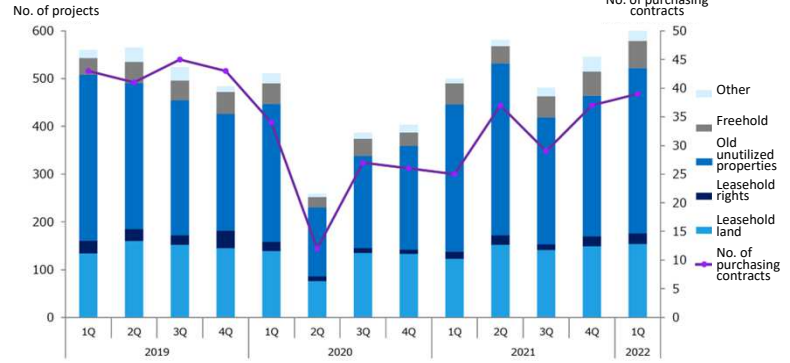
Source: Omega Investment from company materials



Purchase and Inventory



Project numbers and purchase contracts



Source: company materials

Full-year to 12/2022 :

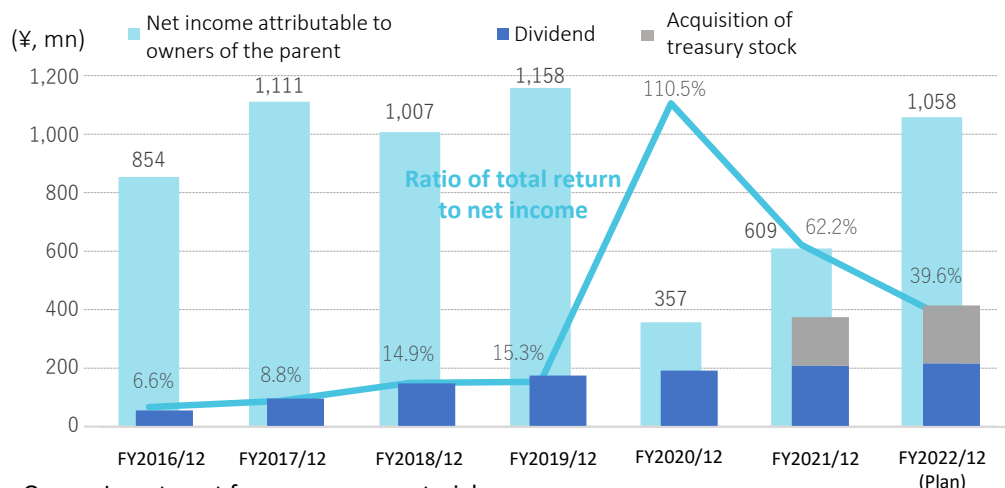
(million yen)	Initial estimate (YoY)	Revised estimate (YoY)	Revision (%)
Sales	18,235 (+8.3%)	17,103 (+1.6%)	-6.2%
Operating Profit	1,301 (+16.4%)	1,402 (+25.5%)	+7.8%
Recurring Profit	1,142 (+14.3%)	1,226 (+22.7%)	+7.4%
Net Income	754 (+23.8%)	1,058 (+73.7%)	+40.3%

For the full year, sales will decline yoy due to the sell-off of the consolidated subsidiary One's Life Home (the company estimates Construction business sales to be 1,134 million yen during Apr-Dec 2022). On the other hand, the 2Q sales estimate was raised as a project for Old unutilised properties, which is a segment under Real estate business, was brought forward to 1H earlier than the scheduled 2H. In addition, thanks to the recent strength of the real estate market, the sales prices of old unutilised properties have risen higher than expected. Furthermore, operating profit and recurring profit will likely be higher than forecast due to cost reduction efforts. Positive for the full-year net profit is a decrease in income taxes (about 230 million yen) resulting from the sales of One's Life Home shares and the waiver of receivables.

◇ Sold off construction subsidiary One's Life Home

Sansei Landic established One's Life Home in March 2005 and advanced into the build-and-sell detached houses business to enter the construction business, which is an upstream process in the real estate business. The company collected know-how on detached house construction and expected synergies with its real estate business. One's Life Home was involved in fully custom-built houses with excellent design and remodelling, but as a result, it proved not easy to turn this construction business into profitable. In recent years the company has experienced a sizeable gross cost overrun in RC properties. In addition, some inappropriate transactions were detected. The company considered restructuring One's Life Home by incorporating it into its parent operation but ultimately decided to sell the shares to another company in the same business. The company will also waive its claims against One's Life Home (730 million yen). As a provision for doubtful debts was already booked last year, there will be no impact on the current year's results. One's Home has been deconsolidated since April 2022.

Shareholder Return



Source: Omega Investment from company materials



◇ Announced a share buyback

On the same day as the results announcement, the company announced that it would buy back its shares, up to 150,000 shares for a maximum of 200 million yen, between 16 May and 29 July 2022. It also plans to increase dividend payment by 1 yen a share for the performance of FY12/2022. These will be 12-month total shareholder returns of around 420 million yen and translate into a total shareholder revert ratio of about 40% of net profit for the year.

◇ Share price: positive reaction to the result announcement, still the shares remain undervalued.

The company's share price rose by 5.5% in one week following the announcement of a share buyback on top of the report of a favourable business outlook and the upward revision on 13 May. Real estate sales business, which runs on face-to-face sales, was severely affected by the coronavirus infection but had been recovering since FY12/2021. It has now almost recovered to the level before the infection spread. At the same time, the real estate market continues to be buoyant thanks to the monetary easing and other factors affecting the company's earnings positively. Despite the favourable business environment, the company's shares are trading at a PBR of 0.66x, which remains below the five-year historical trend of 0.87x. The shares outperformed TOPIX year-to-date, but they remain significantly undervalued. It will be interesting to see whether the company's shares will be re-rated further in the future.

5-year stock price move



Share price compared to TOPIX



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
[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
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%
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
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%
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%
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
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%
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%
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
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%
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%
Freehold	28	88	55	1,532	1,305	465	106	395	191	46	101	526	315
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%
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%
Others	110	104	126	126	133	117	116	97	96	95	88	94	89
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%
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%
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
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
Gross profit	579	1,762	736	2,042	942	989	548	1,507	1,344	986	1,143	892	1,297
SG&A expenses	696	855	783	924	792	744	678	925	816	826	805	802	850
Operating income	-117	907	-47	1,117	150	245	-131	382	528	160	338	90	447
Non-operating income	4	28	5	5	9	5	51	5	12	8	8	6	7
Non-operating expenses	34	38	32	40	55	63	60	10	37	40	34	39	39
Ordinary income	-147	898	-75	1,083	103	188	-140	298	502	128	311	56	415
Extraordinary income	0	0	0	0	0	0	0		3	0	0	0	19
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	56	435
Total income taxes	-35	312	-26	349	36	72	-49	295	183	48	166	-4	59
Net income	-112	585	-48	734	67	114	-90	176	323	79	145	61	375
[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
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
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
Tangible assets	469	471	462	456	451	449	443	306	291	290	293	301	317
Investments and other assets	694	666	689	669	668	653	691	655	595	703	732	730	761
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
Current liabilities	6,904	6,996	9,135	9,047	9,883	7,767	7,699	5,772	5,517	7,540	8,633	8,732	8,153
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	7,368	5,025
Non-current liabilities	1,714	602	389	351	345	4,303	4,274	4,232	2,919	792	976	1,017	1,525
Long-Term Borrowings	1,347	222				3,958	3,929	3,879	2,570	483	683	740	1,260
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
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
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
Capital stock	811	811	814	814	818	818	818	818	818	820	820	820	821
Legal capital reserve	772	772	775	775	779	779	779	779	779	781	781	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	8,863	9,023
Stock acquisition right	4	4	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	20,051	20,134
[Statements of cash flows]													
Cash flow from operating activities		-286		-419		-3,683		-916		2,110		1,704	
Loss before income taxes		750		1,758		291		712		635		1,003	
Cash flow from investing activities		-27		-70		-9		-287		-26		-51	
Cash flow from financing activities		-446		984		3,021		952		-2,129		-608	
Net increase in cash and cash equiv.		-760		493		-671		-251		-46		1,045	
Cash and cash equiv. at beginning of period		3,465		3,465		3,958		3,958		3,707		3,707	
Cash and cash equiv. at end of period		2,704		3,958		3,287		3,707		3,661		4,752	

Source: Omega Investment from company materials



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