TAKARA LEBEN (8897 JP)
CONDOMINIUM SALES RECOVERY LEADS THE WAY

FY2018 RESULTS AND POST FY19 1Q SUMMARY

Takara Leben (8897 JP) reported FY2018 result on 16 May; Operating profit was ¥10,046mil (-20.3% YoY) on sales ¥132,005mil (+19.1% YoY).

OP fell short of the firm's estimate of ¥10,700mil due to accelerated inventory clearance. As of FY18-end, the condominium inventory level was 199 units, well below the 384units as of FY17-end.

In the Real Estate Sales business, both new condominium and new detached house sales fell short of the firm's forecast for FY18, under the ongoing medium-term management plan. However, the shortfall was partially offset by the Renewal Resale business and Liquidation business.

New Built-for-Sale Condominium sales unit rose 37units YoY to 1,656units (vs. 1,700 units the firm was expecting). At the same time, new condominium contracts increased by 264units YoY to 792units, which will be delivered in FY19.

The Detached House segment underperformed the most – gross profit was ¥701mil vs. ¥1,600mil estimate for FY18 – due to price cuts. In particular, sales in the more prestigious areas – where prices are above ¥100mill – fell short as buyers are able to find high-rise tower condos in prime urban locations or a custom-designed house in similar locations for the same price. Recognising this impact, the firm reduced prices by 10~15% to reduce inventory.

Other businesses earnings were largely in line with the company estimate. In the Real Estate Rental business, gross profit margin fell by 3.9ppt YoY due to higher initial costs incurred in connection with the newly added properties. In the Real Estate Management business, the number of properties under management increased by 4,386units YoY to 54,036units.

Sales in the Power Generation business were largely in line, although the mix between facility sales to the Takara Leben Infrastructure Fund (9281 JP) and revenue from power generation was different from what the firm originally estimated. Facility sales was estimated to fall by 52.3% YoY to ¥7,000mil, but the actual sales was 12.9% lower than the forecast and resulted in revenues of ¥6,100mil (-58.5% YoY). On the other hand, Power Generation revenue was ¥4,694mil (+32.1% YoY), 23.5% above company guidance.

The firm guides for OP of ¥13,000mil (+29.4% YoY) on sales ¥160,000mil (+21.2% YoY). New condos, detached houses and power facility sales are estimated to contribute to earnings growth.

The FY18 dividend payment remained the same as in FY17 at ¥16/share (dividend pay-out ratio 27%).

EXECUTIVE SUMMARY

- FY18 OP was ¥10,046mil (-20.3% YoY) on sales ¥132,005mil (+19.1% YoY).
- In the Real Estate Sales business, earnings fell short for both new condos and new detached houses. Although the firm sees stability in supply-demand for family homes, the price of condos and detached houses has become less affordable to many. The fact that interest rates are unlikely to increase in the known future also makes consumers reluctant to buy homes at the current prices.
- The performance of the Renewal Resale and Liquidation segments offset the poor performance in the condo and detached house sub-segments. The Liquidation business continues to enjoy stable returns on investment by sponsoring the listed Takara Leben Real Estate Investment Trust (3492 JP).
- FY19 is the 2nd year of the 3-year management plan. Compared to the target figures, the current FY19 forecast is lower for new condo sales and detached houses. The company aims to sell more condos (+294units YoY) by focusing on a compact condo series catering to single households – the *NEBEL* series. Compact condos were originally for young professional singles and DINKs in urban locations but are becoming popular among the well-to-do seniors. The Detached House segment GPM can be improved by boosting turnover.
- FY19 dividend is forecast to rise +¥3 YoY to ¥19/share.

BUSINESS SEGMENTS

REAL ESTATE SALES BUSINESS

New Built-for-Sale Condominium Business

New Condominium sales made a gross profit of ¥11,977mil (-10.0% YoY) on revenues of ¥57,203mil (-5.2% YoY). Unit sales were 1,656units – short of the 1,700units the company had estimated to sell. In FY18, the firm focused on reducing the inventory level rather than achieving the sales target. As a result, the end of year condominium inventory was reduced to 199units compared to 384units at the beginning of the year. The GPM of 20.9% (or 21.1% if adjusted for inventory revaluation) fell by -1.2ppt YoY (or -1.0ppt YoY), also below the company estimate 21.7%. Under the medium-term management plan, the firm forecast a GPM of 21.7% for FY19 but that has now been revised down to 20.7% (-0.2ppt YoY) due to the change in product mix and higher land costs. In FY19, Takara Leben will focus on the *Nebel* series, a compact-size (average size of 30~50m²) condominium series targeting primarily on single households and DINKs. Also, the firm plans to source locations close to stations, which can increase the land cost.

The year started with a favourable contract ratio. Out of the targeted sales units (1,950 units) for the year, 792 units (40.6%) were already under the contract at the beginning of the year. The contract ratio at the beginning of the year is usually ranged between 31~32%). With higher than usual contract ratio, the firm sees no particular downside risk to FY19 earnings forecasts – gross profit ¥15,500mil (+29.4% YoY) on sales ¥75,000mil (+31.1% YoY). The business historically has seasonality in H2. This year, the firm plans to complete 697 condominiums in Q2, 154units in Q3 and 1092units in Q4 to remove the seasonality.

The firm views that although the current condominium price has become less affordable, the supply-demand balance is still at the equilibrium. Despite the planned consumption tax hike from 8% to 10% is set to be imposed in Oct 2019, there has been no sign of a rush to buy. The firm views this to be more to do with the fact that the 2% increase can easily be mitigated by an increase in subsidies once it has gone through, such as an extension of the tax waiver for mortgage loans from current 10 years to 13 years. There is a clear distinction between condos that sell and those that do not. Condominiums that sell quickly are typically located close to stations – because the current main buyers are working couples, so convenience is the key factor for the location. There are increasing numbers of working couples, so-called "power couples", whose household income is above ¥15mil. Takara Leben's main target was families with young children. Within the target population, there are increasing numbers of working couples.

New Detached House Business

In FY18, the new detached house business generated gross profit of ¥701mil (-15.5% YoY) on revenues of ¥8,817mil (+39.2% YoY). Unit sales were 131units (+15units YoY), 59units in short of target. The GPM was 8.0% (-5.1ppt YoY) compared to the company's estimate of 13.3%. The GPM worsened because of the price reductions made to reduce inventory. The firm's detached house project included a prime location such as Setagaya –the ward west of Shibuya. Due to higher land prices in such highly sought-after and prestigious areas, where the price of some detached houses can reach ¥100mil+, these homes are now having to directly compete with high-rise condominiums located in even more central locations such as those popular so-called tower mansions in Central Tokyo – signature properties of the "zaibatsu" real estate companies such as Mitsui Fudosan (8801 JP), Mitsubishi Estate (8802 JP) and Sumitomo Realty (8831 JP) – and/or custom-designed houses. In fear of increasing year-end inventory, the firm decided to reduce the selling price by 10~15% (¥10~15mil). It is estimated that a GPM of 8% is almost the break-even operating profit level.

In FY19, the firm is guiding for segment gross profit of ¥1,000mil (+42.6% YoY) on revenues of ¥10,000mil (+13.4% YoY), by selling 200units (+69units YoY). FY19 guidance was revised down from previous forecast guided under the medium-term plan (Sales ¥13,200mil, OP ¥1,700mil and 230units, respectively). The firm plans to change locations focusing on the suburban areas and maintain the average price level between ¥50-60mil.

Renewal Resale Business

The Renewal Resale business earned gross profit of ¥537mil (+6.9x YoY) on sales ¥3,305mil (+5.6x YoY) and overshot the company's estimate for the year (GP ¥220mil on sales ¥1,700mil respectively). The GPM was 16.3% (+2.9ppt YoY) thanks to shorter turnover. Compared to the estimated 150unit procurement, the firm sourced just 257units in FY18. The business usually buys and sells several single pre-owned condominium units, renovates them and then puts them on the second-hand condo market.

In FY18, the firm sourced a whole condo complex (41units in one building) and sold it as a block within the year. This boosted the number of units sold and pushed up the segment earnings. In FY19, the firm plans to source 240units. As of the end of FY18, the firm already held 229units in inventory and plans to increase that to 389units by the end of FY19. Those that are not sold during the year are managed in the Real Estate Rental segment generating rent for the firm. GP guidance is ¥320mil (-40.5% YoY) on sales ¥2,720mil (-17.7% YoY), largely in line with the medium-term management plan. However, the GPM is estimated to fall to 11.8% YoY (-4.5ppt YoY) as the firm does not expect there is any block sale as in FY18.

Liquidation Business

The Liquidation business made ¥7,235mil gross profit (+3.1x YoY) on revenues of ¥33,502mil (+3.4x YoY), largely outperforming the company estimate (GP ¥5,500mil / sales ¥30,000mil) under the medium-term management plan. The investment portfolio is well-balanced, comprising residence of 32.4%, office and commercial buildings of 35.7%, hotels of 24.6% and others of 7.3%. The book value of existing and completed properties was ¥42,351million as of March 2019. By adding the current pipelines, the net asset value (NAV) of the Liquidation business is estimated at ¥79,107mil as of the end of FY21.

In FY19, the firm is guiding for GP of ¥6,300mil (-12.9% YoY) on sales ¥30,000mil (-10.4% YoY). Properties developed here will eventually be sold to Takara Leben Real Estate Investment Trust (Takara Leben REIT (3492 JP), private investment trusts, or bridge funds. Prior to selling properties to REITs and funds, the firm earns rent from those properties under the Rental business.

Real Estate Sales Business by Segment

(¥mil)		Result		CE	Medium-term Plan target		
		FY3/18	FY3/19	FY3/20	FY3/19	FY3/20	FY3/21
New Condos	Sales	60,368	57,203	75,000	60,000	76,000	84,500
	GP	13,313	11,977	15,500	13,000	16,500	18,600
	GPM (%)	22.1	20.9	20.7	21.7	21.7	22.0
	Sales units (units)	1,619	1,656	1,950	1,700	1,950	2,200
	Ratio of units in Tokyo Met, Kinki, Chukyo, Fukuoka and Sapporo (%)	48.7	54.5	47.3	55.5	50.0	50.0
New Detached Houses	Sales	6,335	8,817	10,000	12,000	13,200	14,850
	GP	830	701	1,000	1,600	1,700	1,950
	GPM (%)	13.1	8.0	10.0	13.3	12.9	13.1
	Sales units (units)	116	131	200	190	230	270
Renewal Resale	Sales	588	3,305	2,720	1,700	2,720	3,400
	GP	78	537	320	220	320	400
	GPM (%)	13.4	16.3	11.8	12.9	11.8	11.8
	Procured units	75	257	240	150	240	300
	Inventory at year-end (units)	59	229	389	160	320	500
Liquidation	Investment	27,000	34,147	30,000	30,000	30,000	30,000
	Sales	9,707	33,502	30,000	30,000	26,000	24,000
	GP	2,322	7,235	6,300	5,500	4,700	4,400
	GPM (%)	23.9	21.6	21.0	18.3	18.1	18.3
Others	Sales	2,340	1,993	3,000	2,000	3,000	3,200
	GP	541	608	400	340	400	400
	GPM (%)	23.1	30.5	13.3	17.0	13.3	12.5

Source: Nippon Investment Bespoke Research UK Ltd based on Takara Leben's FY18 earnings presentation material

REAL ESTATE RENTAL AND MANAGEMENT BUSINESS

Real Estate Rental

Real Estate rental business's GPM fell to 20.7% in FY18 from the previous year's 24.6% due to higher initial costs incurred by the newly procured properties. In FY19, the firm is guiding for a GPM of 25% on sales ¥6,000mil (+2.9% YoY). The business earns stable revenue from rental properties on the firm's balance sheet but are taken off-balanced when the firm sells them to REITs and investment funds.

Real Estate Management

In this business, Takara Leben provides property management services to condominiums. In FY18, the GPM was 14.0% (+1.4ppt YoY) on sales of ¥4,512mil (+12.8% YoY), thanks to an increase in properties under management from 49,650 units in FY17 to 54,036units in FY18. Of the 4,386units rise YoY, less than half came from condominiums developed by Takara Leben. The Residents' Associations of condos developed by other developers increasingly choose the firm's property management services. Condominiums in Japan typically have large-scale renovation and repairs every 10~13 years. The next such timing should be around 2020 for condos developed in 2006~2007 – the pre-Lehman crisis peak. The firm aims to be involved in the expected large renovation mandates by offering day-to-day property management services. In FY19, the firm is looking to increase properties under management by 4,764units to 58,800 units (48.5% of those properties shall be non-Takara Leben condos), 1,200units more than what was estimated under the medium-term management plan.

POWER GENERATION BUSINESS

Power Generation business is divided into two revenue sources; 1) sales of power facilities to Takara Leben Infrastructure Fund (9281 JP) and 2) sales from selling electricity. The former earned 23.2% GP margin (-11.3ppt YoY) on ¥6,100mil sales (-58.4% YoY). The latter earned a GPM of 0.2% (-5.5ppt) on revenue of ¥4,694mil (+32.1% YoY). Due to the change in FIT policy, it is harder to find economically viable solar power plants. Many plants are either too big or difficult to efficiently manage. The cost to obtain a license continues to rise, squeezing the FY18 GPM. Takara Leben considers investing on wind and biomass plants but there are currently no projects in the pipeline. In FY19, the firm is guiding for a GPM of 15.9% (-7.3ppt YoY) on ¥17,000mil (+2.8xYoY) revenue in sales of facilities, and 4.9% (+4.7pptYoY) on ¥4,100mil (-12.7%YoY) in sales of electricity.

FY19 AND BEYOND

The firm is guiding for OP ¥13,000mil (+29.4%YoY) on sales of ¥160,000mil (+21.2%YoY). The improvement in sales can be largely due to a strong performance in two business segments: 1) new condos, and 2) sales of power generation facilities. Of the ¥27,995mil estimated rise in total sales, condo sales are forecast at +¥17,797mil (+31.1% YoY), detached houses at +¥1,183mil (+13.4% YoY), and power facility sales at +¥10,900mil (+2.8x YoY).

The firm plans to pay a dividend of ¥19/share in FY19. Based on FY19 EPS estimated by the company, that generates a dividend pay-out ratio is 25.7%.

On 29 July, Takara Leben announced the 1Q results. Operating loss was ¥1,753mil (compared to OP ¥793mil in FY18 1Q) on sales ¥12,192mil (-44.5% YoY). Real Estate Sales Segment sales fell 48.9% YoY to ¥6,161 because there was no condo completion in the period and sales were solely generated from backlog carried forward from last year. In FY19, the firm plans to deliver 1,950 units of condos of which 1,176 has already been under the contract. Power Generation segment sales was ¥1,616mil (-74.2% YoY), because of no facility sales occurred in 1Q. On the other hand, both Real Estate Rental and Real Estate Management segments saw YoY increase in revenue, ¥1,469mil (+3.7% YoY) and ¥1,226mil (+14.4% YoY). There is no change in the FY19 guidance by the firm.

Medium-term management Plan (FY3/19 ~ FY3/21) by Business Segment

(¥mil)	Prev Plan		Current Medium-term Management Plan							
	FY3/18		FY3/19CE		FY3/19 Result		FY3/20		FY3/21	
	Sales	GP	Sales	GP	Sales	GP	Sales	GP	Sales	GP
Real estate sales	79,341	17,086	105,700	20,660	104,820	21,060	120,920	23,620	129,950	25,750
New condominiums	60,368	13,313	60,000	13,000	57,203	11,977	76,000	16,500	84,500	18,600
New detached houses	6,335	830	12,000	1,600	8,817	701	13,200	1,700	14,850	1,950
Renewal resale	588	78	1,700	220	3,305	537	2,720	320	3,400	400
Liquidation	9,707	2,322	30,000	5,500	33,502	7,235	26,000	4,700	24,000	4,400
Others	2,340	541	2,000	340	1,993	608	3,000	400	3,200	400
Real Estate Rental	5,472	1,346	5,500	1,400	5,829	1,207	6,000	1,500	6,300	1,575
Real Estate Management	4,000	504	4,300	590	4,512	633	5,000	650	5,400	700
Power Generation	18,239	5,273	10,800	1,630	10,794	1,422	21,100	2,900	21,200	2,910
Sale of facilities	14,687	5,068	7,000	1,430	6,100	1,414	17,000	2,700	17,000	2,700
Revenue from selling energy	3,552	204	3,800	200	4,694	8	4,100	200	4,200	210
Others	3,797	1,568	3,700	2,120	6,045	2,561	6,980	n/a	7,150	n/a
Total Sales	110,851	25,779	130,000	26,400	132,000	26,886	160,000	n/a	170,000	n/a
Operating Profit	12,597		10,700		10,046		13,000		14,500	
Recurring Profit	11,792		9,600		9,027		11,800		13,000	
Net Profit	7,367		6,300		6,426		8,000		9,000	
Dividend (¥)	16		16		16		19		21	

Source: Nippon Investment Bespoke Research UK Ltd based on Takara Leben's FY18 earnings presentation

Financial Summary - Takara Leben (8897 JP)

(JPY million)	FY2015	FY2016	FY2017	FY2018	FY2019CE
Sales	76,268	103,599	110,851	132,005	160,000
Operating Profit	7,563	10,349	12,597	10,046	13,000
Recurring Profit	6,708	9,496	11,792	9,027	11,800
Net Profit	4,308	6,107	7,367	6,426	8,000
EPS (JPY)	38.99	56.14	68.12	59.33	73.79
Adjusted EPS (JPY)	38.82	55.85	67.80	59.00	-
Cash flow from operation (CFO)	2,428	22,644	9,869	22,428	-
Cash flow from investment (CFI)	-19,816	-27,540	-34,463	-34,347	-
Cash flow from finance (CFF)	19,663	6,129	24,012	3,427	-
Cash and cash equivalent	28,390	29,623	29,042	20,642	-
Free cash flow (FCF)	-17,388	-4,896	-24,594	-	-
CFO per share (JPY)	21.97	208.14	91.25	-	-
FCF per share (JPY)	-157.37	-45.00	-227.40	-	-
Total asset	129,744	139,874	177,975	184,893	-
Liabilities	96,066	103,081	135,067	137,158	-
Net asset	33,677	36,792	42,907	47,734	-
Capital	4,819	4,819	4,819	4,819	-
Shareholders' equity	33,537	36,635	42,748	47,341	-
BPS (JPY)	304.71	339.29	394.90	436.68	-
OPM (%)	9.92	9.99	11.36	7.61	8.13
ROE (%)	13.33	17.41	18.56	14.27	-
ROA (%)	5.68	6.94	7.32	5.02	-
Shareholder ratio (%)	25.85	26.19	24.02	25.60	-
D/E ratio (%)	286.45	281.37	315.96	289.72	-
Total asset turnover (X)	0.66	0.77	0.70	0.73	-
Interest coverage (x)	7.60	10.00	11.81	9.11	-
Current ratio (%)	176.75	171.52	181.97	168.28	-
Interest-bearing debt	70,169	79,727	106,442	111,656	-
EBIT	7,704	10,532	12,859	-	-
EBIT Margin (%)	10.10	10.17	11.60	-	-
EBITDA	8,896	12,929	14,802	12,577	-
EBITDA margin (%)	11.66	12.48	13.35	9.53	-
Annual dividend (JPY / share)	13.00	15.00	16.00	16.00	19.00
Normal dividend	13.00	15.00	16.00	16.00	-
Commemorative dividend	-	-	-	-	-
Dividend pay-out ratio (%)	33.30	26.70	23.50	27.00	-
DoE (%)	4.40	4.60	4.30	3.80	-
Shares outstanding as of the end of fiscal year (shares)	126,000,000	124,000,000	124,000,000	121,000,000	-
Treasury shares (shares)	15,938,307	16,022,507	15,750,907	12,587,307	-

Source: Nikkei Value Search

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