

TAKARA LEBEN (8897 JP)

FY20 SALE OF CONDOMINIUMS IN LINE BUT DELAY IN MARKETING NEW CONDOMINIUMS REMAINS AS A RISK TO FY21 EARNINGS.

FY20 1H EARNINGS RESULT

Takara Leben (8897 JP) reported FY20 1H GP of ¥10,380mil (-16.9% YoY) on sales of ¥51,581mil (-11.1% YoY). Overall, 1H earnings were within the company's expectations despite the closure of show homes during the State of Emergency.

Real Estate Sales Business

The Real Estate Sales segment saw 1H GP of ¥8,678mil (-12.1% YoY) on sales of ¥40,190mil (-12.8% YoY). The segment is further divided into five divisions – New Built-for-Sale Condominiums, New Detached Houses, Renewal Resale, Liquidation and Others. Two segments that have relatively larger influence on the firm's earnings are as follows:

- **New Built-for-Sale Condominiums Segment**

In the New Built-for-Sale Condominiums segment – Takara Leben's core business – the firm reported FY20 1H GP of ¥6,490mil (+12.3% YoY) on sales of ¥26,148mil (+5.1% YoY).

The firm plans to deliver 1,980 units (1,850 units excluding units under a joint-venture (JV)) of condominiums in FY20. By the end of 1H, 1,772units (1,645 units without ones under a JV) were contracted, which produced a contract ratio of 89.5% vs 78.9% a year ago (88.9% without a JV vs 79.0% a year ago). While not an apple-to-apple comparison, the contract ratio for new condominiums of the Tokyo Metropolitan area for the six months between April~Sept 2020 was 70.2%, according to research conducted by the Real Estate Economic Institute Co., Ltd (<https://www.fudousankeizai.co.jp>).

Since the April 7 State of Emergency announcement by the Japanese Government and through to the restrictions being lifted on 25 May, all show homes were closed. However, the number of visitors started recovering from June and hit a record level in August, which led to the aforementioned favourable contract ratio.

The main reason for a high contract ratio is because Takara Leben's customers are looking to buy their permanent homes. The main target population for Takara Leben's condominiums is young families. They tend to buy condominiums when their lifestyle changes, such as when their children start primary school. Unlike those who wish to invest in buy-to-let properties, the demand for permanent homes is relatively insensitive to the macroeconomic environment and has proved to be less affected by the current situation under COVID.

The firm reckons that the demand is supported by the mortgage loan tax deductions provided by the Japanese government, the rise in dual income households, financial support from the elderly parents to their children, and ultra-low interest rates. On the other hand, the supply of condominiums remains low, which means the condominium market's supply-demand balance is tight.

EXECUTIVE SUMMARY

- Takara Leben (8897 JP) reported FY20 1H results: GP was ¥10,380mil (-16.9% YoY) on sales of ¥51,581mil (-11.1% YoY).
- In the core New Built-for-Sale Condominiums business, contract ratio as of 1H achieved 89.5%, or 1,772units out of delivery target of 1,980 condominiums.
- The main reason for a high contract ratio is because Takara Leben's customers are looking to buy their permanent homes.
- Ultra-low interest rates, the Japanese government's subsidy for mortgage loan holders and financial support from elderly parents has helped underpin demand for condominiums.
- The low supply of condominiums has also supported prices as indicated by data from Japan's Real Estate Economic Institute.
- Liquidation GP saw a 55.5% YoY drop in 1H because of the lack of property sales given the slow market.
- Takara Leben is guiding for FY20 GP of ¥24,900mil (-18.4% YoY) and OP of ¥6,000mil (-49.6% YoY) on sales of ¥136,800mil (-18.8% YoY).
- FY20 is the final year of the 3-year Medium-term Management Plan. Current FY20 guidance is 27.8% short for GP and 19.5% short for sales compared to the original target.
- In the core condominiums business, GPM was slightly weaker due to high construction costs on the back of Japan's structural labour shortage.
- In FY20, the dividend payment will be ¥12/share, down ¥7/share YoY along with a drop in EPS but maintains a pay-out ratio at 38.3%.

Consequently, the average unit price of condominiums in the Tokyo Metropolitan area remains well above ¥50mil/unit. According to the Real Estate Economic Institute Co., Ltd, the April-Sept supply in the area dropped 26.2% YoY to 8,851 units while the average price per unit went up by 1.3% YoY to ¥60.85mil.

Takara Leben's condominiums are on offer at an average price of ca. ¥40mil/unit – an affordable price zone for young families' permanent homes. The high contract ratio and a tight supply-demand balance suggests that the firm will likely not have to offer discounts to clear inventory. The segment's IH GPM was 24.8%, +1.6pp YoY.

- **Liquidation**

The second largest division in the Real Estate Sales Segment is Liquidation. The division reported weak earnings with IH GP of ¥1,355mil (-55.5% YoY) on sales of ¥5,360mil (-67.5% YoY) due to a lack of property sales. Takara Leben does not intend to proactively sell properties in a current less profitable market environment.

As of the end of September 2020, the division had total assets of ¥61,310mil, which is split into ¥21,382mil in residential assets, ¥18,082mil in office buildings, ¥14,385mil in hotels and ¥7,460mil in commercial properties (NB: "Assets & Debt by Segment on P6). Takara Leben wrote off the revaluation losses of hotel properties in FY19, hence will unlikely provide further allowances for the revaluation on existing hotel properties.

Real Estate Sales Business Sales & GP by Division									
(¥mil)		FY19		FY20				MTP	
		IH	FY	IH	YoY (%)	FYCE	YoY (%)	vs. Plan(%)	FY20 Target
Segment Total	Sales	46,102	129,649	40,190	-12.8	106,300	-18.0	-18.2	129,950
	Gross profit	9,872	22,619	8,678	-12.1	20,300	-10.3	-21.2	25,750
	GPM (%)	21.4	17.4	21.6	+0.2pp	19.1	+1.7pp	-0.7pp	19.8
New condos	Sales	24,874	77,171	26,148	5.1	74,000	-4.1	-12.4	84,500
	Gross profit	5,780	15,650	6,490	12.3	15,000	-4.2	-19.4	18,600
	GPM (%)	23.2	20.3	24.8	+1.6pp	20.3	+0.0pp	-1.7pp	22.0
New detached	Sales	2,092	7,808	2,268	8.4	5,900	-24.4	-60.3	14,850
	Gross profit	161	720	203	26.2	500	-30.6	-74.4	1,950
	GPM (%)	7.7	9.2	9.0	+1.3pp	8.5	-0.7pp	-4.6pp	13.1
Renewal resale	Sales	1,578	3,431	1,920	21.6	4,200	22.4	23.5	3,400
	Gross profit	233	421	293	25.9	700	66.1	75.0	400
	GPM (%)	14.8	12.3	15.3	+0.5pp	16.7	+4.4pp	+4.9pp	11.8
Liquidation	Sales	16,491	37,854	5,360	-67.5	20,000	-47.2	-16.7	24,000
	Gross profit	3,044	4,828	1,355	-55.5	4,000	-17.2	-9.1	4,400
	GPM (%)	18.5	12.8	25.3	+6.8pp	20.0	+7.2pp	+1.7pp	18.3
Others	Sales	1,065	3,382	4,493	321.8	2,200	-35.0	-31.3	3,200
	Gross profit	653	997	334	-48.8	100	-90.0	-75.0	400
	GPM (%)	61.3	29.5	7.5	-53.8pp	4.5	-25.0pp	-8.0pp	12.5

Source: Takara Leben's Medium-Term Management Plan and FY20 IH presentation materials

Segments other than Real Estate Sales

Other than Real Estate for Sale segments, the firm has 4 segments – Real Estate Rental, Real Estate Management, Electric Power Generation (which includes Facility Sales and Electricity Sales) and Others.

- **Real Estate Rental / Real Estate Management Segments**

The Real Estate Rental business earned GP of ¥575mil (-23.5% YoY) on sales of ¥2,815mil (-2.5% YoY). The main business of the Rental segment is to temporarily lease properties before they are sold through its Liquidation business. The drop in the Rental business GP was due to the sale of some properties.

The Real Estate Management division reported GP of ¥264mil (+2.4% YoY) on sales of ¥2,720mil (+10.2% YoY). Some 50% of condominium properties under management by Takara Leben are developed by other condominium developers. Resident associations are constantly looking to change the property management agents if it results in a lower property management service charge. Since this business has become more price competitive, the firm aims to target properties from which it can earn other fee income, such as for insurance, and repair and maintenance.

The first major repair phase of properties completed prior to the Lehman crisis is about to commence – properties for which the firm is aiming to obtain property management mandates.

- **Electric Power Generation Business Segment**

The Electric Power Generation Business is divided into two businesses: the sale of facilities and the sale of electricity generated at mega solar facilities owned by the firm. There were no mega solar facilities sold during the 1H. Sale of Electricity reported a gross loss of ¥189mil on sales of ¥2,903mil (-0.8% YoY).

Sales & GP by Segment - other than Real Estate Sales									
(¥mil)		FY19		FY20				MTP	
		IH	FY	IH	YoY (%)	FYCE	YoY (%)	vs. Plan (%)	FY20 Target
Real Estate Rental	Sales	2,886	5,965	2,815	-2.5	5,500	-7.8	-12.7	6,300
	Gross profit	753	1,589	575	-23.5	1,100	-30.8	-30.2	1,575
	GPM (%)	26.1	26.7	20.4	-5.7pp	20.0	-6.7pp	-5.0pp	25.0
Real Estate Management	Sales	2,468	5,046	2,720	10.2	5,400	7.0	0.0	5,400
	Gross profit	257	576	264	2.4	600	4.1	-14.3	700
	GPM (%)	10.4	11.4	9.7	-0.7pp	11.1	-0.3pp	-1.9pp	13.0
Sale of power facilities	Sales	383	15,983	0	n/a	7,550	-52.8	-55.6	17,000
	Gross profit	172	3,020	0	n/a	540	-82.1	-80.0	2,700
	GPM (%)	45.0	18.9	n/a	n/a	7.2	-11.7pp	-8.7pp	15.9
Sale of Electricity	Sales	2,928	4,999	2,903	-0.8	5,450	9.0	29.8	4,200
	Gross profit	139	116	-189	-236.0	60	-48.6	-71.4	210
	GPM (%)	4.7	2.3	n/a	n/a	1.1	-1.2pp	-3.9pp	5.0
Others	Sales	3,230	6,850	2,951	-8.6	6,600	-3.6	-7.7	7,150
	Gross profit	1,294	2,593	1,051	-18.8	2,300	-11.3	-35.5	3,565
	GPM (%)	40.1	37.9	35.6	-4.5pp	34.8	-3.1pp	-15.1pp	49.9

Source: Takara Leben's Medium-Term Management Plan and FY20 1H presentation materials

FY20 GUIDANCE AND THE END OF 3-YEAR MEDIUM-TERM MANAGEMENT PLAN

Takara Leben is guiding for FY20 GP of ¥24,900mil (-18.4% YoY) and OP of ¥6,000mil (-49.6% YoY) on sales of ¥136,800mil (-18.8% YoY). Three main reasons for the decline in GP are as follows:

1. Fewer condominiums were delivered, as well as a lack of sales in the Liquidation Segment will likely lead to a ¥2,300mil YoY (-10.3% YoY) fall in GP.
2. A drop in the number of mega solar facilities sold. The firm expects a ¥2,500 decline (-82.1% YoY) in GP.
3. Lower rent from the Real Estate Rental business will likely cause a ¥500mil decline (-30.8% YoY) in GP.

Real Estate Sales Segment

FY20 guidance for the segment is GP of ¥20,300mil (-10.3% YoY) on sales of ¥106,300mil (-18.0% YoY).

- **New Built-for-Sale Condominiums Segment**

Takara Leben is guiding for FY20 GP of ¥15,000mil (-4.2% YoY) on sales of ¥74,000mil (-4.1% YoY), together with total delivery of 1,980 condominiums (1,850 excluding those under a JV). This is short of the 2,200 units

planned under the Medium-term Management Plan [MTP], which ends in FY20, because of the deliberate decision to reduce the supply under the COVID pandemic. Of the condominiums sold in FY20, 48.4% will likely be in large city areas including the Tokyo metropolitan area, the Chubu area, and the Kinki area.

Although Takara Leben achieved a favourable contract ratio level in 1H, hence condominium delivery will likely reach the planned 1,980 units, the marketing of condominiums to be delivered in FY21 has been delayed to 2H onwards. As of September, the firm has 115 units (108 units without JV) contracted that are due for delivery in FY21. It has also ca. 500 units in completed inventory carried over to FY21.

- **Liquidation Segment**

FY20 guidance for the Liquidation business is for GP of ¥4,000mil (-17.2% YoY) on sales of ¥20,000mil (-47.2% YoY). Takara Leben plans to invest ¥30,000mil (-0.7% YoY), which includes some in-house developed properties and is expected to improve the GPM from last year's 12.8% to 20.0% in FY20.

The total book value of properties under development was ¥19,862mil as of September 2020, of which ¥5,076mil was in residential properties, ¥7,692mil in office properties, ¥5,307mil in hotels and ¥1,786mil in retail properties. Due to the COVID, the liquidation market remains less active, therefore, the firm might consider temporarily retaining and leasing those properties if the expected return cannot be secured. However, the liquidation of residential properties remain relatively stable while that of office and retail properties reflecting slow recovery in economic activities. As for the hotel properties, operating the hotels in its liquidation portfolio in-house, instead of leasing them to hotel operators who might struggle under the current pandemic, is also an option, while the liquidation market of hotel properties remains at the bottom.

Segments other than Real Estate Sales

FY20 guidance for Segment other than Real Estate Sales is for a GP of ¥4,600mil (-41.8% YoY) on sales of ¥30,500mil (-21.5% YoY). The largest business in the segment is Electric Power Generation Business in which Sale of Power Facilities is guided to see GP of ¥540mil (-82.1% YoY) on sales of ¥7,550mil (-52.8% YoY). Takara Leben aims to increase generation capacity by 62MW to the accumulated generation capacity of 197MW in FY20.

The renewable energy market has been least impacted by the COVID; however, it has become difficult to find an attractive investment among the remaining mega solar properties because those still available for sale are developed with lower FIT price. Takara Leben aims to increase generation capacity but in renewable energy generation facilities other than solar power. Currently, the firm owns 206MW generation capacity of which 76% is at FIT price of ¥36/KwH.

Nearing to the final stage of the Medium-term Management Plan

FY20 is the final year of the 3-year Medium-term Management Plan that targets GP of ¥34,500mil on sales of ¥170,000mil. The current FY20 guidance is 27.8% short for GP and 19.5% short for sales versus the original target. All business segments will likely see a shortfall vs. the Medium-term Management Plan target. In the core Condominium business, the firm managed to deliver condominiums close to its goal despite the tight market conditions and firm pricing triggered by high construction costs. However, the GPM was slightly weaker due to the continuously high level of construction costs due to Japan's structural labour shortage. Looking ahead, the lack of supply in the condominium market, as well as a peaking-out of construction costs supported by changes to labour market conditions – with fewer projects due to COVID, not only are there now more construction workers available for work but the construction companies' quotes are also coming down – will likely improve the core business's margin.

In FY20, the firm will pay an annual dividend of ¥12/share, a drop of ¥7/share compared to FY19, along with a fall in EPS but there is no change to the 38.3% pay-out ratio.

Earnings summary								
(¥mil / March-yr end)	FY19		FY20					MTP
	IH	FY	IH	YoY (%)	FYCE	YoY (%)	vs. Plan (%)	FY20 Target
Total sales	57,998	168,493	51,581	-11.1	136,800	-18.8	-19.5	170,000
Real estate sales	46,102	129,649	40,190	-12.8	106,300	-18.0	-18.2	129,950
Real estate rental	2,886	5,965	2,815	-2.5	5,500	-7.8	-12.7	6,300
Real estate management	2,468	5,046	2,720	10.2	5,400	7.0	0.0	5,400
Power generation	3,311	20,982	2,903	-12.3	13,000	-38.0	-38.7	21,200
Sale of Power Facilities	383	15,983	0	n/a	7,550	-52.8	-55.6	17,000
Sale of Electricity	2,928	4,999	2,903	-0.8	5,450	9.0	29.8	4,200
Others	3,230	6,850	2,951	-8.6	6,600	-3.6	-7.7	7,150
COGS	45,507	137,977	41,200	-9.5	111,900	-18.9	-17.4	135,500
GP	12,490	30,516	10,380	-16.9	24,900	-18.4	-27.8	34,500
GPM (%)	21.5	18.1	20.1	-1.4pp	18.2	-0.1pp	-2.1pp	20.3
SG&A	8,611	18,614	8,527	-1.0	18,900	1.5	-5.5	20,000
OP	3,879	11,901	1,853	-52.2	6,000	-49.6	-58.6	14,500
OPM (%)	6.7	7.1	3.6	-3.1pp	4.4	-2.7pp	-4.1pp	8.5
RP	3,414	11,201	1,620	-52.5	5,000	-55.4	-61.5	13,000
RPM (%)	5.9	6.6	3.1	-2.8pp	3.7	-2.9pp	-3.9pp	7.6
NP attributed to the parent	2,260	5,361	893	-60.5	3,400	-36.6	-62.2	9,000
NPM (%)	3.9	3.2	1.7	-2.2pp	2.5	-0.7pp	-2.8pp	5.3

Source: Takara Leben FY20 IH earnings material

Assets and Debt by Segment							
(¥mil)	Mar-19	Mar-20	Sep-20		Mar-19	Mar-20	Sep-20
Real Estate for Sale	18,821	23,861	37,687	Liquidation	59,234	57,106	61,310
New Built-for-Sale Condominiums	5,727	4,673	7,940	Residence	20,822	16,386	21,382
New Detached Houses	2,579	2,740	1,106	Office	11,295	19,438	18,082
Renewal Resale	4,993	8,871	8,633	Hotels	19,463	14,293	14,385
Liquidation	5,510	7,538	14,544	Commercial properties	7,653	6,988	7,460
Power Generation Facilities	0	0	5,334				
Others	10	37	127				
Real Estate for Sale in Process	49,860	46,102	52,954	Loans and Corporate Bonds	111,657	114,025	131,462
New Built-for-Sale Condominiums	44,379	41,399	47,051	New Built-for-Sale Condominiums	41,588	36,657	42,757
New Detached Houses	2,560	1,133	1,931	New Detached Houses	4,667	2,237	2,556
Renewal Resale	362	28	4	Renewal Resale	3,055	6,857	6,926
Liquidation	1,587	2,893	3,036	Liquidation	38,947	38,131	41,813
Power Generation Facilities	0	0	0	Power Generation Facilities	18,546	18,995	23,423
Others	970	647	929	Others	0	418	936
Tangible Fixed Asset	75,224	67,220	64,110	Amount not tagged to assets	4,851	10,727	13,048
Liquidation	52,137	46,674	43,728				
Power Generation Facilities	20,853	18,630	18,189				
Others	2,233	1,914	2,192				

Source: Takara Leben FY20 IH presentation material

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