

## TAKARA LEBEN (8897 JP)

CONDOMINIUM SUPPLY IN THE TOKYO MET AREA MAY GO UP IN CY21 BUT WILL NOT BE A MAJOR IMPACT ON PRICING

### FY20 Q3 RESULT

Takara Leben (8897 JP) reported FY20 Q3 GP of ¥18,639mil (-2.4% YoY) on sales of ¥88,271mil (-8.9% YoY). The firm also announced an upward revision of the full-year guidance.

The previous guidance was based on the new condominium delivery of 1,980 units for the year, however, the company contracted 2,039 units as of December 2020, which is 103.0% of the planned delivery of 1,980. Furthermore, the Liquidation business earned more than expected revenue thanks to the liquidation of higher-margin in-house developed residences.

### SEGMENTS

#### Real Estate Sales Business

The Real Estate Sales segment saw cumulative Q1~Q3 gross profits [GP] of ¥15,247mil (+21.4% YoY) on sales of ¥65,422mil (+1.2% 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 Q3 GP of ¥8,157mil (+10.8% YoY) on sales of ¥34,579mil (+4.3% YoY).

The firm planned to deliver 1,980 units (1,850 units excluding units under a joint venture (JV)) in FY20. By the end of Q3, 2,039 units were contracted, which produced a contract ratio of 103.0% vs 89.5% in Q2. The delivery of the additional 59 units will be filled from ca. 500 units of completed inventories. As a result, FY20 earnings guidance for this business was revised from the previous FY20 GP forecast of ¥15,000mil on sales of ¥74,000mil to a GP of ¥15,900mil (+1.6% YoY) on sales of ¥76,400mil (-1.0% YoY).

The upward revision was partly because the forecast announced in September 2020 was based on conservative assumptions. However, 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 who 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 demand for condominiums is supported by several factors such as the mortgage loan tax deductions provided by the Japanese government, the rise in dual income households,

### EXECUTIVE SUMMARY

- Takara Leben (8897 JP) reported FY20 Q3 GP of ¥18,639mil (-2.4% YoY) on sales of ¥88,271mil (-8.9% YoY) together with an upward revision to the full year guidance.
- A higher-than-expected contract ratio as of Q3 contributed to the upward revision of sales, while the sale of in-house developed residential properties led to upward revision of full-year gross profit (GP).
- The previous full-year guidance was made with conservative assumptions under the pandemic. However, demand for permanent homes to which Takara Leben supplies condominiums proved resilient under the current COVID-led macroeconomic environment. Due to a tight supply-demand balance, prices remained high.
- FY20 guidance was revised to GP of ¥26,900mil (-11.9% YoY / revised up by 8.0%) and OP of ¥7,300mil (-38.7% YoY / revised up by 21.7%) on sales of 141,900mil (-15.8% YoY / revised up by 3.7%).
- 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 revised FY20 guidance is 22.0% short at the GP level and 16.5% short for sales versus the plan's final year target.
- While the supply of condominiums will likely increase in CY21, given CY20 was a restrictive year, Takara Leben reckons that the increase is not likely to detrimentally affect the tight supply-demand balance in the condominium market, nor prices.
- Along with the revision to the FY20 guidance, the dividend forecast was also revised up by ¥2/share to ¥14/share, generating a pay-out ratio 37.1%.

financial support from the elderly parents to their children, and ultra-low interest rates. Furthermore, the low supply of condominiums especially during 1H helped boost the contract ratio in Q3. Moreover, thanks to the tight market's conditions, prices have also remained firm.

Consequently, the average unit price of condominiums in the Tokyo Metropolitan area remains well above ¥60mil/unit. 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 tight supply-demand balance suggests that the firm will likely not have to offer discounts to clear inventory. The segment's Q3 (cumulative) GPM was 23.6%, up from 22.2% from the same period in FY19.

- **Liquidation Segment**

second largest division in the Real Estate Sales Segment is Liquidation. The division reported cumulative Q3 GP of ¥5,777mil (+61.6% YoY) on sales of ¥18,522mil (-16.3% YoY). During 1H, Takara Leben did not proactively sell properties during such lacklustre market conditions. However, properties sold during Q3 include a higher-margin residential letting property developed in-house. Consequently, cumulative Q3 Liquidation business GPM improved 15.0ppt YoY to 31.2% and 5.9ppt compared to 1H. Accordingly, FY20 guidance for the Liquidation business was revised from a GP of ¥4,000mil on sales of ¥20,000mil to GP of ¥5,800mil (+20.1% YoY) on sales of 20,700mil (-45.3% YoY).

<b>Real Estate Sales Business Sales &amp; GP by Division</b>											
¥mil)		FY19			FY20						MTP
		1H	Q3	FY	1H	Q3	FYCE (Old)	FYCE (New)	YoY (%)	New/Old (%)	FY20 Target
<b>Segment Total</b>	Sales	46,102	64,638	129,649	40,190	65,422	106,300	111,900	-13.7	5.3	129,950
	Gross profit	9,872	12,562	22,619	8,678	15,247	20,300	23,300	3.0	14.8	25,750
	GPM (%)	21.4	19.4	17.4	21.6	23.3	19.1	20.8	+3.4pp	+1.7pp	19.8
<b>New condos</b>	Sales	24,874	33,144	77,171	26,148	34,579	74,000	76,400	-1.0	3.2	84,500
	Gross profit	5,780	7,360	15,650	6,490	8,157	15,000	15,900	1.6	6.0	18,600
	GPM (%)	23.2	22.2	20.3	24.8	23.6	20.3	20.8	+0.5pp	+0.5pp	22.0
<b>New detached</b>	Sales	2,092	4,204	7,808	2,268	4,387	5,900	5,700	-27.0	-3.4	14,850
	Gross profit	161	326	720	203	417	500	500	-30.6	0.0	1,950
	GPM (%)	7.7	7.8	9.2	9.0	9.5	8.5	8.8	-0.4pp	+0.3pp	13.1
<b>Renewal resale</b>	Sales	1,578	2,348	3,431	1,920	3,119	4,200	4,200	22.4	0.0	3,400
	Gross profit	233	316	421	293	510	700	700	66.1	0.0	400
	GPM (%)	14.8	13.5	12.3	15.3	16.4	16.7	16.7	+4.4pp	+0.0pp	11.8
<b>Liquidation</b>	Sales	16,491	22,119	37,854	5,360	18,522	20,000	20,700	-45.3	3.5	24,000
	Gross profit	3,044	3,575	4,828	1,355	5,777	4,000	5,800	20.1	45.0	4,400
	GPM (%)	18.5	16.2	12.8	25.3	31.2	20.0	28.0	+15.2pp	+8.0pp	18.3
<b>Others</b>	Sales	1,065	2,821	3,382	4,493	4,814	2,200	4,900	44.9	122.7	3,200
	Gross profit	653	982	997	334	384	100	400	-59.9	300.0	400
	GPM (%)	61.3	34.8	29.5	7.5	8.0	4.5	8.2	-21.3pp	+3.7pp	12.5

Source: Takara Leben's Medium-Term Management Plan and FY20 Q3 Fact Book

### Segments other than Real Estate Sales Business

There are 4 divisions in the Segments other than Real Estate Sales – Real Estate Rental, Real Estate Management, Electric Power Generation (which includes Facility Sales and Electricity Sales) and Others.

#### • Real Estate Rental / Real Estate Management Business

The Real Estate Rental business earned cumulative Q3 GP of ¥896mil (-19.8% YoY) on sales of ¥4,278mil (-1.4% YoY). The main business of the Rental segment is to temporarily lease properties before they are sold through its Liquidation business.

The Real Estate Management division reported cumulative Q3 GP of ¥383mil (-6.9% YoY) on sales of ¥4,087mil (+9.5% YoY). Some 50% of condominium properties under management by Takara Leben are developed by other condominium developers. Resident associations are constantly looking to change property management agents, especially if it results in a lower property management service charge. Since this business has become more price competitive, Takara Leben aims to target properties from which it can earn other fee income, such as for insurance, and repairs and maintenance. The first major repair phase of properties that were completed prior to the Lehman crisis is about to commence – properties for which the firm is also aiming to obtain property management mandates.

#### • Electric Power Generation Business

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 sales of mega solar facilities (equivalent to 19MW capacity) during Q3, while no sales were made during 1H. As a result, the Sales of Power Facilities division earned cumulative Q3 GP of ¥700mil (-76.8% YoY) on sales of ¥5,953mil (-62.8% YoY). On the other hand, Sale of Electricity reported a gross loss of ¥360mil on sales of ¥4,072mil (+5.7% YoY). FY20 forecast of sale of power facilities was revised to GP of ¥750mil (-75.2% YoY) from ¥540mil, and sales was revised from ¥7,550mil to ¥7,450mil (-53.4% YoY). FY20 sale of electricity will revised to a gross loss of ¥350mil.

#### Sales & GP by Segment - other than Real Estate Sales Business

(¥mil)		FY19			FY20						MTP
		1H	Q3	FY	1H	Q3	FYCE (Old)	FYCE (New)	YoY (%)	New/Old (%)	FY20 Target
Real Estate Rental	Sales	2,886	4,340	5,965	2,815	4,278	5,500	5,500	-7.8	0.0	6,300
	Gross profit	753	1,116	1,589	575	896	1,100	1,000	-37.1	-9.1	1,575
	GPM (%)	26.1	25.7	26.7	20.5	20.9	20.0	18.2	-8.5pp	-1.8pp	25.0
Real Estate Management	Sales	2,468	3,733	5,046	2,720	4,087	5,400	5,400	7.0	0.0	5,400
	Gross profit	257	412	576	264	383	600	400	-30.6	-33.3	700
	GPM (%)	10.4	11.0	11.4	9.7	9.4	11.1	7.4	-4.0pp	-3.7pp	13.0
Sale of power facilities	Sales	383	15,983	15,983	0	5,953	7,550	7,450	-53.4	-1.3	17,000
	Gross profit	172	3,012	3,020	0	700	540	750	-75.2	38.9	2,700
	GPM (%)	45.0	18.9	18.9	n/a	11.8	7.2	10.1	-8.8pp	+2.9pp	15.9
Sale of Electricity	Sales	2,928	3,851	4,999	2,903	4,072	5,450	5,650	13.0	3.7	4,200
	Gross profit	139	70	116	-189	-360	60	-350	n/a	n/a	210
	GPM (%)	4.8	1.8	2.3	n/a	n/a	1.1	n/a	n/a	n/a	5.0
Others	Sales	3,230	4,296	6,850	2,951	4,457	6,600	6,000	-12.4	-9.1	7,150
	Gross profit	1,294	1,920	2,593	1,051	1,772	2,300	1,800	-30.6	-21.7	3,565
	GPM (%)	40.1	44.7	37.9	35.6	39.8	34.8	30.0	-7.9pp	-4.8pp	49.9

Source: Takara Leben's Medium-Term Management Plan and FY20 Q3 Fact Book

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

Takara Leben's initial FY20 guidance was for GP of ¥24,900mil (-18.4% YoY) and OP of ¥6,000mil (-49.6% YoY) on sales of ¥136,800mil (-18.8% YoY). Thanks to a stronger than expected contract ratio for condominiums and a sale of an in-house developed residential property that offers a higher profitability sold in the Liquidation business, the company revised up its full-year guidance to GP of ¥26,900mil (-11.9% YoY) and OP of ¥7,300mil (-38.7% YoY) on sales of 141,900mil (-15.8% YoY).

<b>Change in Company Guidance (FY20)</b>					
(¥mil / Mar-yr end)	Old	New	Change (¥mil)	Change (%)	FY19
Sales	136,800	141,900	+5,100	3.7	168,493
OP	6,000	7,300	+1,300	21.7	11,901
RP	5,000	6,200	+1,200	24.0	11,201
NP attributed to shareholders of the parent	3,400	4,100	+700	20.6	5,361
EPS (¥)	31.36	37.76	+6.40	20.4	49.45

Source: Takara Leben press release on 29 Jan 2021

Of the ¥2,000mil increase in guided FY20 GP, ¥1,800mil will likely come from Liquidation business, thanks to an improved GPM from the sale of an in-house developed residential property. FY20 sales guidance was revised by ¥5,100mil of which ¥2,400mil on the back of an increase in new condominium sales.

### 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 revised FY20 guidance is 22.0% short for GP and 16.5% short for sales versus the plan's final year target with all business segments likely to miss the Medium-term Management Plan's targets. In the core Condominium business, although the firm managed to deliver condominiums close to its goal despite the tight market conditions and firm pricing triggered by high construction costs, the GPM was slightly weaker as Japan's structural labour shortage has led to construction costs remaining high.

Forecasts given by the Real Estate Economic Institutes suggests a 17.5% YoY increase in CY21 supply of condominiums in the Tokyo Metropolitan area to 32,000 units, after having seen a dip in CY20 to 27,228 units (-12.8% YoY). However, Takara Leben reckons that the increase in supply, after a year that was affected by restricted sales activities due to the pandemic, will unlikely lead to a collapse in the supply-demand balance. Looking ahead, the lack of supply in the condominium market, as well as an expected 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 businesses margin.

The FY20 dividend was also revised up from ¥12/share to ¥14/share, though remains ¥5/share lower than that of FY19, along with a pay-out ratio of 37.1%.

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