

TAKARA LEBEN (8897 JP)

FY21 1H EARNINGS WERE IN LINE – NO SURPRISES. EARNINGS SEASONALITY OF CONDO SEGMENTS WILL BE IN Q4.

FY21 1H RESULTS

Takara Leben (8897 JP) reported FY21 1H gross profit [GP] of ¥10,408mil (flat YoY) and operating profit [OP] of ¥566mil (-69.5% YoY) on sales of ¥50,098mil (-2.9% YoY). The change to the revenue recognition method which has been applied as of this fiscal year primarily affects the New Built-for-Sale Condominium segment, whereby any optional services the firm offers to condominium buyers at the expense of Takara Leben will be recognised as a discount instead of an SG&A item. On an annualised basis, the impact to earnings will be small. Therefore, the YoY figures in the tables below are not based on a like for like comparison, however they do demonstrate the general earnings trend. Although the trend appears to be negative and the achievement ratio to FY21 guidance is only 31.6% in sales and 7.2% in OP respectively, the 1H results were largely in line with the firm's expectation. Delivery of new built-for-sale condominiums will be concentrated in the Q4 as initially planned, hence there is no revision in the full-year guidance.

SEGMENTS**Real Estate Sales Business**

The Real Estate Sales Business reported FY21 1H gross profits [GP] of ¥7,066mil (-18.6% YoY) on sales of ¥35,578mil (-11.5% YoY). The segment is further divided into five divisions – New Built-for-Sale Condominiums, New Detached Houses, Renewal Resale, Liquidation and Others. The two segments that have a relatively larger influence on the firm's earnings are discussed below:

1. New Built-for-Sale Condominiums Segment

The New Built-for-Sale Condominiums segment – Takara Leben's core business – reported FY21 1H GP of ¥2,839mil (-56.3% YoY) on sales of ¥14,549mil (-44.4% YoY). The contract ratio of new condominiums achieved was 83.7% (1,506 units) of the FY21 planned delivery of 1,800 units, which compares to 89.5% contract ratio during the same period in FY20. Despite the continuous Statement of Emergency closures, the number of visitors to the firm's show homes has been unaffected.

According to the Real Estate Economic Institute Co., Ltd. [REEI], a real estate think-tank, prices of newly-built-sale condominiums are extremely resilient. For example, the average unit price of condominium in the Tokyo Metropolitan area rose 10.1% YoY to ¥67.02mil during the six months period to Sept 2021. The REEI reports that the CY2021 supply will be approx. 32,000 units (+17.5% YoY) – exceeding the 30,000-unit level for the first time in two years, though well below the peak in 2000 of 95,635 units. Moreover, in absolute terms, the low level of supply is unlikely to change any time soon, which will also support prices. Consequently, condominium developers are less pressured to reduce prices just to complete a sale. Takara Leben is not concerned with the YoY decline in number of condominium units sold during 1H. It prefers maintaining the segment GPM rather than selling at a reduced price just to move inventory.

EXECUTIVE SUMMARY

- Takara Leben (8897 JP) reported FY21 1H GP of ¥10,408mil and OP of ¥566mil on sales of ¥50,098mil. Despite the low achievement ratio vs FY21 guidance, 1H earnings were largely in line with expectations.
- FY21 1H GP for the New Built-for-Sale Condominium segment fell 56.3% YoY to ¥2,839mil on a 44.4% fall in sales to ¥14,549mil, with the contract ratio for new condos reached 83.7% (1,506 units) of the FY21 planned delivery of 1,800 units. Delivery will be concentrated in Q4.
- In the Liquidation Segment, the firm sold some of its self-developed residential properties, which subsequently boosted the segment profit. As a result, the segment GP reached the full-year target as of the end of 1H.
- Takara Leben is guiding for FY21 GP of ¥29,100mil (-2.8% YoY), OP of ¥7,900mil (-26.8% YoY) on sales of ¥158,600mil (+6.9% YoY). The firm forecasts the Real Estate Sales Business GP to fall 23.3% YoY to ¥19,100mil on sales of ¥107,900mil (-7.9% YoY), reflecting an expected YoY decline of condominiums to be delivered and a fall in the Liquidation business GPM.
- The firm aims to establish another growth pillar with the PPA model in the Energy Business. The PPA market in Japan is a concentrated market as versus the mega solar market that has many players. The firm aims to cultivate the customer base among the municipal governments.
- Potential earnings from the PPA business are not reflected in the current medium-term management plan.

2. Liquidation Segment

The second largest division in the Real Estate Sales business is Liquidation. The sub-segment reported FY21 1H GP of ¥3,147mil (+132.1% YoY) on sales of ¥15,097mil (+181.6% YoY). Compared to last year's lacklustre performance, the liquidation market has returned to pre-COVID levels. During 1H, the firm sold some of the self-developed newly-built residential properties to its affiliated REIT. As of 1H, the firm made investments totalling ¥17,770mil (40.7% of the planned investment of ¥25,000mil in FY21) and generated sales of ¥15,097mil, 68.6% of the planned sales for FY21. As a result, the Liquidation segment earned a GP equivalent to the full-year forecast in the H1 alone.

Real Estate Sales Business Sales & GP by Segment (Cumulative)									
(¥mil)		FY19	FY20		FY21				
		FY	IH	FY	Q1	IH	YoY (%)	FYCE	YoY (%)
New Condos	Sales	77,171	26,148	79,435	4,985	14,549	-44.4	70,000	-11.9
	Gross profit	15,650	6,490	17,339	865	2,839	-56.3	14,000	-19.3
	GPM (%)	20.3	24.8	21.8	17.4	19.5	-5.3pp	20.0	-1.8pp
New Detached	Sales	7,808	2,268	5,329	862	2,237	-1.4	8,900	67.0
	Gross profit	720	203	523	134	325	59.7	900	71.8
	GPM (%)	9.2	9.0	9.8	15.6	14.6	+5.6pp	10.1	+0.3pp
Renewal Resale	Sales	3,431	1,920	3,866	1,271	2,894	50.7	5,900	52.6
	Gross profit	421	293	613	277	618	110.7	900	46.6
	GPM (%)	12.3	15.3	15.9	21.8	21.4	+6.1pp	15.3	-0.6pp
Liquidation	Sales	37,854	5,360	22,376	4,155	15,097	181.6	22,000	-1.7
	Gross profit	4,828	1,355	6,204	1,001	3,147	132.1	3,100	-50.0
	GPM (%)	12.8	25.3	27.7	24.1	20.8	-4.5pp	14.1	-13.6pp
Others	Sales	3,382	4,493	6,193	28	799	-82.2	1,100	-82.2
	Gross profit	997	334	205	3	135	-59.5	200	-2.9
	GPM (%)	29.5	7.5	3.3	11.9	17.0	+9.5pp	18.2	+14.9pp
Segment Total	Sales	129,649	40,190	117,200	11,302	35,578	-11.5	107,900	-7.9
	Gross profit	22,619	8,678	24,887	2,281	7,066	-18.6	19,100	-23.3
	GPM (%)	17.4	21.6	21.2	20.2	19.9	-1.7pp	17.7	-3.5pp

Source: Nippon-IBR based on Takara Leben's FY20 and FY21 IH Fact Books

Segments other than Real Estate Sales Business

There are four other segments outside of Real Estate Sales – Real Estate Rental, Real Estate Management, Energy and Others. The business in which the firm invested the most during the current medium-term management plan is the Energy business (which includes Facility Sales and Electricity Sales).

Energy Business

During 1H, no mega solar facilities were sold. The sale of electricity generated tends to have a high seasonality during spring and summer. The firm reported FY21 1H GP of ¥555mil (vs a gross loss of ¥189mil in FY20 1H) on sales of ¥5,034mil (+73.4% YoY). Takara Leben acquired a specialist in the development of small- and medium-sized power generation facilities, ACA Clean Energy. Now named Leben Clean Energy, it is registered as a consolidated subsidiary and has contributed to Electric Power sales. The subsidiary has been marketing clean energy as a main source of power to municipalities in Japan, which are now under pressure to become carbon neutral by 2050 by the central government. 1H GP from the Electricity Sale business has already reached 99.2% progress towards the company's FY21 target.

Sales & GP by Segment – other than Real Estate Sales Business (Cumulative)									
(¥mil)		FY19	FY20		FY21				
		FY	1H	FY	Q1	1H	YoY (%)	FYCE	YoY (%)
Real Estate Rental	Sales	5,965	2,815	5,753	1,441	2,979	5.8	5,400	-6.1
	Gross profit	1,589	575	1,183	272	698	21.3	1,600	35.2
	GPM (%)	26.7	20.5	20.6	18.9	23.4	+2.9pp	29.6	+9.0pp
Real Estate Management	Sales	5,046	2,720	5,446	1,438	2,911	7.0	5,500	1.0
	Gross profit	576	264	518	144	326	23.8	600	15.8
	GPM (%)	11.4	9.7	9.5	10.1	11.2	+1.5pp	10.9	+1.4pp
Sale of Power Facilities	Sales	15,983	0	7,688	0	0	n/a	23,260	202.5
	Gross profit	3,020	0	973	0	0	n/a	3,940	304.6
	GPM (%)	18.9	n/a	12.7	n/a	n/a	n/a	16.9	+4.2pp
Sale of Electricity	Sales	4,999	2,903	5,797	2,646	5,034	73.4	7,740	33.5
	Gross profit	116	-189	-290	394	555	n/a	560	n/a
	GPM (%)	2.3	n/a	n/a	14.9	11.0	n/a	7.2	n/a
Others	Sales	6,850	2,951	6,512	1,508	3,594	21.8	8,800	35.1
	Gross profit	2,593	1,051	2,655	678	1,761	67.4	3,300	24.3
	GPM (%)	37.9	35.6	40.8	45.0	49.0	+13.4pp	37.5	-3.3pp

Source: Nippon-IBR based on Takara Leben's FY20 and FY21 1H Fact Books

FY21 GUIDANCE

Takara Leben is guiding for GP of ¥29,100 (-2.8% YoY) and OP of ¥7,900mil (-26.8% YoY) on sales of ¥158,600mil (+6.9% YoY). The full-year guidance for each segment remains unchanged.

FY19~FY20 Earnings Results & FY21 Guidance				
(¥mil)	FY19	FY20	FY21CE	YoY (%)
Sales	168,493	148,397	158,600	6.9
Real Estate Sales Business	129,649	117,200	107,900	-7.9
Real Estate Rental Business	5,965	5,753	5,400	-6.1
Real Estate Management Business	5,046	5,446	5,500	1.0
Energy Business	20,982	13,485	31,000	129.9
Sale of Power Facilities	15,983	7,688	23,260	202.5
Sale of Electricity	4,999	5,797	7,740	33.5
Other Business	6,850	6,512	8,800	35.1
COGS	137,977	118,469	129,500	9.3
Gross Profit	30,516	29,928	29,100	-2.8
GPM (%)	18.1	20.2	18.3	-1.9pp
SG&A	18,614	19,139	21,200	10.8
OP	11,901	10,789	7,900	-26.8
RP	11,201	9,933	7,100	-28.5
NP attributed to the Parent's Shareholders	5,361	4,693	4,800	2.3

Source: Nippon-IBR based on Takara Leben's FY20 Earnings Results Presentation

Real Estate Sales Business

The company is expecting a 23.3% YoY fall in the Real Estate Sales segment GP to ¥19,100mil on sales of ¥107,900mil (-7.9% YoY), to reflect (1) fewer condominiums being delivered compared to FY20, and (2) a fall in the GPM of the Liquidation business. Of the estimated ¥5,787mil decline in the Real Estate Sales Business GP, ¥3,339mil will likely stem from New Built-for-Sale Condominiums and ¥3,104mil from Liquidation Segment.

New Built-for-Sale Condominiums Segment

FY21 guidance for the firm's core business – new built-for-sale condominium sales – calls for GP of ¥14,000mil (-19.3% YoY) on sales of ¥70,000mil (-11.9% YoY). Takara Leben plans to sell 1,800 units of condominiums (1,750 units excluding units under a JV) in FY21 (-329 units YoY). Though the contract ratio is at 83.7% as of Q1, the firm does not intend to aggressively sell condominiums during FY21. The number of condominiums to be supplied will still be limited due to limited numbers of developers. With the price of condominiums remaining high, the firm will likely earn sufficient profit in the segment without the need to aggressively sell more units. Interestingly, while prices of raw materials such as steel products have rapidly surged in recent months, the firm is yet to see an increase in construction costs – the extensive competition among the specialist contractors has seen them cut their own prices in order to win bids.

At the same time, there are only 1,500 units delivery schedule for FY22, 300 units less than estimated sales units in FY21. The firm would rather carry over unit sales into FY22 to even out the segment sales trend. The supply-demand balance of the condominium market will likely remain favourable for developers, thanks to tight supply of condominiums.

Liquidation Segment

Takara Leben is guiding for FY21 segment GP of ¥3,100mil (-50.0% YoY) on sales of ¥22,000mil (-1.7% YoY). The firm plans to invest ¥25,000mil on properties for the Liquidation business, primarily focusing on residential properties. The segment has already achieved the full-year target GP as of 1H, hence the segment earning's downside risk is likely to be limited. Additional sales of property during 2H will boost FY21 segment GP above the guidance.

Segments other than Real Estate Sales Business (Non-sale Segments)

FY21 Segments other than the real estate sales business is expected to generate a GP of ¥10,000mil (+98.4% YoY) on sales of ¥50,700mil (+62.5% YoY). The largest contributor to sales and profit growth will be the Energy Business segment (which underwent a name change from the Electric Power Generation Business Segment from this year), thanks to increase in facility sales.

Energy Business (formerly Electric Power Generation Business)

Takara Leben changed the Electric Power Generation Business segment's name to Energy Business because of its plan to build a power purchase agreement [PPA] model. Whereas the remaining mega solar facilities available for sale have a lower FIT price, the shift to a PPA model will likely offer Takara Leben an opportunity to expand the Energy Business. The bilateral trade of electricity, in which a seller and a buyer directly trade electricity under a PPA, enables the seller to make profits without having to rely on FIT prices. Through a newly consolidated subsidiary, Leben Clean Energy Co., Ltd., the firm aims to offer both onsite and offsite electricity to prospective customers.

Unlike the mega solar market, the PPA market has less than handful of competitors in Japan. Moreover, unlike mega solar facilities that generate an output rate of more than 2,000kW (ultra-high voltage) for corporate customers such as manufacturers, the rate under the PPA model is less than 2,000kW. Takara Leben plans to offer both onsite (electricity generation facilities are located at a customer's site) and offsite (electricity generation facilities are located outside a customer's site and supplied via grid) electricity supply primarily to municipal offices. There are approx. 1,700 municipal offices (prefectures, cities, and towns) in Japan which are under pressure from the central government to reduce carbon emissions in accordance with the government's zero carbon target by 2050. Takara Leben initially markets onsite electricity supply to those municipalities; however, onsite facilities will require back-up power source. For the offsite supply, the firm is considering a tie-up with companies that have a Power Producer and Supplier (PPS, i.e., an independent non-utility power producer and supplier) business as they already have a client base. Takara Leben reckons that demand for the PPA business will become another growth pillar for the firm's business portfolio and will bring in long-term recurring revenue based on the 20-year supply contract.

For FY21, the Sales of Power Facilities sub-segment is expected to generate a GP of ¥3,940mil (+304.6% YoY) on sales of ¥23,260mil (+202.5% YoY). The Sale of Electricity sub-segment will likely move into the black with a GP of ¥560mil (vs a loss of ¥290mil in FY20) on sales of ¥7,740mil (+33.5% YoY) from facilities under operation which have generated 250MW (+44MW YoY). The firm does not assume any earnings contribution from the PPA business subsidiary in its FY21 guidance.

Real Estate Rental / Real Estate Management Business

For FY21, the Real Estate Rental business is forecast to generate a GP of ¥1,600mil (+35.2% YoY) on sales of ¥5,400mil (-6.1% YoY) from rental properties before they are sold through the Liquidation business.

The Real Estate Management Business has become even more competitive in pricing as many new entrants, developers as well as companies from other industries, enter the market. In such a competitive market, Takara Leben plans to raise the number of properties under management to 70,000 condominiums (+3,963 units YoY) in FY21, with a target of ¥600mil (+15.8% YoY) in GP on sales of ¥5,500mil (+1.0% YoY), targeting properties from which it can earn other fee income, such as for insurance, and repairs 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 also aiming to obtain property management mandates.

Shareholder return

The FY21 dividend will be ¥14/share (flat YoY). In the previous medium-term management plan ending in FY20, the firm met its target pay-out ratio of between 25~30% per annum. In the new four-year medium-term management plan (from FY21 until FY24), the firm has committed to a 30~35% pay out of EPS annually. In FY21, the estimated pay-out ratio will be 31.7%. Takara Leben also decided to discontinue a shareholder incentive scheme specifically targeting retail investors who own more than 100 shares in a company. As of the end of FY20, it had over 70,000 shareholders of which approx. 42,000 own a minimum round lot of 100 shares. The scheme, which saw Takara Leben provide minimum lot owners with a voucher that can be exchanged to a bag of rice, failed to boost the number of overseas shareholders. The firm reckons that it is important to improve fairness to shareholders by streamlining the allocation of its shareholder return budget. Therefore, by scrapping the vouchers and the resulting possible decrease in number of round lot shareholders, the firm estimates that it could improve the dividend to all shareholders.

by ¥1/share.

The new Four-Year Medium-term Management Plan

FY21 is the start of the new medium-term management plan that lasts four years to FY24. During the previous three-year management plan (FY18~FY20), revenues overshoot the company's targets in the first two years but fell short in the final year due to COVID. For the details of the Plan, please refer to our report published on 2 July 2021 via the following link: https://www.leben.co.jp/en/pdf/e2021_3_4qsponsoredreport.pdf

Medium-term Management Plan (FY21~FY24) by Business Segment														
(¥mil)	FY21~24 Medium-term management plan													
	FY21			FY22			FY23			FY24			4-yr CAGR (%)	
	Sales	GP	GPM (%)	Sales	GP	GPM (%)	Sales	GP	GPM (%)	Sales	GP	GPM (%)	Sales	GP
Real Estate Sales	107,900	19,100	17.7	114,400	20,200	17.7	149,800	27,600	18.4	160,500	30,000	18.7	8.2	4.8
New Condos	70,000	14,000	20.0	58,000	12,000	20.7	93,500	19,500	20.9	101,500	21,500	21.2	6.3	5.5
New Detached	8,900	900	10.1	11,000	1,500	13.6	12,200	1,600	13.1	13,500	1,800	13.3	26.2	36.2
Renewal Resale	5,900	900	15.3	6,400	1,000	15.6	7,100	1,100	15.5	8,500	1,300	15.3	21.8	20.6
Liquidation	22,000	3,100	14.1	38,000	5,400	14.2	36,000	5,100	14.2	36,000	5,100	14.2	12.6	-4.8
Others	1,100	200	18.2	1,000	300	30.0	1,000	300	30.0	1,000	300	30.0	-36.6	9.9
Real Estate Rental	5,400	1,600	29.6	6,500	2,000	30.8	7,100	2,200	31.0	8,100	2,600	32.1	8.9	21.7
Real Estate Management	5,500	600	10.9	5,900	600	10.2	6,300	700	11.1	6,700	800	11.9	5.3	11.5
Energy	31,000	4,500	14.5	19,900	1,900	9.5	15,200	900	5.9	19,200	1,300	6.8	9.2	17.4
Facilities Sales	23,260	3,940	16.9	11,000	1,400	12.7	6,000	400	6.7	10,000	800	8.0	6.8	-4.8
Electricity Sales	7,740	560	7.2	8,900	500	5.6	9,200	500	5.4	9,200	500	5.4	12.2	n/a
Others	8,800	3,300	37.5	8,500	3,700	43.5	8,700	3,800	43.7	9,200	4,000	43.5	9.0	10.8

Source: Nippon-IBR based on Takara Leben's Medium-term Management Plan (FY21~FY24)

FY21~FY24 Medium-term Management Plan Earnings Target Summary						
(¥mil)	FY20 (Result)	Medium-term Management Plan				
		FY21	FY22	FY23	FY24	CAGR (%)
Sales	148,397	158,600	155,200	187,100	203,700	8.2
GP	29,928	29,100	28,400	35,200	38,700	6.6
GPM (%)	20.2	18.3	18.3	18.8	19.0	n/a
OP	10,789	7,900	8,000	13,200	15,700	9.8
OPM (%)	7.3	5.0	5.2	7.1	7.7	n/a
RP	9,933	7,100	7,400	12,500	15,000	10.9
NP for the parent's shareholders	4,693	4,800	5,000	8,500	10,000	20.8

Source: Nippon-IBR based on Takara Leben's Medium-term Management Plan FY21~24

KPIs under the medium-term management plan (FY21~24)				
	Prev plan target	FY20 result	New Target	Target
Shareholder equity ratio (%)	30.0	26.5	>30.0	30% (by the end of FY24)
LTV (%)	<60%	58.0	<60%	less than 60% (end of each year)
D/E Ratio (x)	<3x	2.2x	<2.5x	less than 2.5x (end of each year)
ROE (%)	15.0	9.0	>13.0	13% (after FY23)

Source: Takara Leben's Medium-term Management Plan FY21~24

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