COMPANY RESEARCH AND ANALYSIS REPORT

Samty Co., Ltd.

3244

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst
Ikuo Shibata

FISCO Ltd.
http://www.fisco.co.jp

Index

Summary

Results steadily grew in FY11/18 1H, and there were major developments in both the J-REIT and the hotel development businesses

1. Company profile

Samty Co., Ltd. <3244> (hereafter, also "the Company") is a comprehensive real estate company that operates a nationwide business, centered on the Kansai and metropolitan Tokyo regions. Its business is based on the twin axes of its Real Estate Business (development and sales of large-scale leasing condominiums for real estate funds and income condominiums for investors) and Property Leasing Business (including leasing condominiums and commercial facilities), while it also manages business hotels and other related operations. A feature of the Company is that it is able to respond flexibly to changes to its business environment from its balance of realizing stable income from its Property Leasing Business and accelerating growth from its Real Estate Business, and it achieved sustainable growth even while overcoming major financial crises. It also has a superior business model in which it combines both businesses to handle every aspect of the property business, and presently it is continuing to achieve high growth. In June 2015, it entered into the J-REIT business*. So the Company has solidified the foundations of its business model for further business expansion. It is entering a new growth phase supported by a favorable business environment.

* Samty Residential Investment Corporation <3459> (hereafter, "SRR"), which was established in March 2015, is listed on the TSE J-REIT market.

2. Business result for FY11/18 1H

In the FY11/18 1H results, the Company realized major increases in both sales and profits, with net sales rising 22.9% year-on-year (YoY) to ¥46,317mn and operating income growing 31.5% to ¥9,112mn. Moreover, it achieved high rates of progress toward the full fiscal year forecasts, of over 70% of the net sales forecast and more than 80% of each profit item forecast. Benefiting from the favorable conditions in the real estate market, results grew significantly in the Real Estate Business. In particular, centered on properties in the metropolitan Tokyo region, the results for development mobilization (sales of S-RESIDENCE developments under the Company's own brand) and for regeneration real estate (regeneration and sales, including of existing income properties) for which investment demand, such as from overseas funds, continues to be strong, are trending better than expected. In profits also, the costs of sales ratio improved greatly, including due to the upward trend in sales prices. On the other hand, SG&A expenses rose alongside the increases in various expenses, such as advertising expenses and personnel expenses. But despite this, operating income still grew greatly due to the effects of the higher sales and the improvement in the costs of sales ratio. The operating income margin also increased to 19.7% (18.4% in the previous fiscal year). In addition, the status of purchases (and the pipeline), which will lead to growth in the future, is progressing basically according to plan.

3. Major developments in the J-REIT (SRR) and the hotel development businesses

In January 2018, the Daiwa Securities Group Inc. <8601> and the Company subscribed for the third party allotment investment units issued by SRR, and alongside this, the Daiwa Securities Group entered into a sponsor support agreement with SRR. Through this, SRR acquired 33 properties, and while aiming to expand its asset scale, it can also be said to have obtained some major advantages looking toward the future (support, including creditworthiness). At the same time, the Company can be positively evaluated for its major progress towards the growth strategy created centered on SRR.

Also, S-PERIA Hotel Hakata (Hakata-ku, Fukuoka City), which was already under development as the Company's first hotel development project, opened on March 28, 2018. It seems that it has made a steady start with an occupancy rate higher than expected, including thanks to its superior location and levels of comfort.

4. FY11/18 forecast

For the FY11/18 results, the Company has left unchanged its initial forecasts of higher sales and profits, with net sales to increase 5.8% YoY to ¥64,000mn and operating income to rise 8.6% to ¥11,000mn. It is considered that the reason why it has decided to leave the initial forecasts unchanged, despite the high rates of progress it made in the 1H results toward achieving the full fiscal year forecasts (initial forecasts) is that it is carefully observing the final landing place for results, including the possibility of sudden changes to the external environment and the outlook for the FY11/19 results. At FISCO, in addition to the 1H results, when considering the other factors, including the favorable external environment (conditions in the real estate market) and the internal factors (such as the accumulation of pipeline properties, the high evaluation of the Company's development and regeneration properties, and the steady start made by the hotel business), we think it is highly possible that the Company will upwardly revise its results forecasts. So it will be necessary to pay attention to developments in the future.

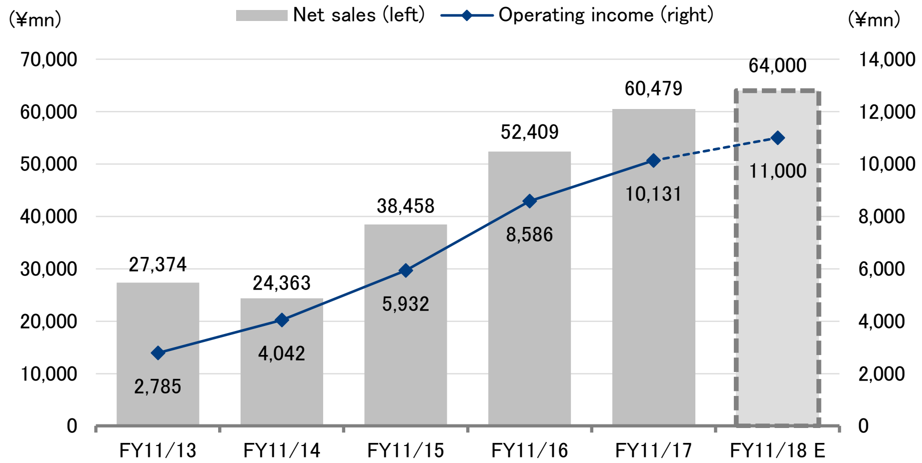
5. Growth strategy

The Company is progressing its medium- to long-term management plan covers the five-year period, which runs from FY11/16 to FY11/20. Through 1) Developing a business model centered on SRR, 2) Strategically investing in regional metropolitan areas, 3) Expanding the hotel development business, and 4) Maintaining capital efficiency and establishing a financial base, it has set the targets for FY11/20 of net sales around the ¥100bn level, ordinary income around the ¥10bn level, EPS of ¥300 or above, ROE of 15% or above, and an equity ratio of 30% or above. However, while the possibility of achieving the quantitative targets (excluding the net sales target) two years ahead of schedule has increased, it seems that the Company has made no major changes to the direction of its growth strategy. We shall be paying attention to its activities toward achieving a further leap forward in the future.

Key Points

- The FY11/18 1H results continued to steadily grow and major progress was made toward achieving the full fiscal year forecasts
- There were major developments in the J-REIT (SRR) and the hotel development businesses, which are the axes of the growth strategy
- Is currently leaving the FY11/18 results forecasts unchanged, but we should be aware of the possibility that they will be upwardly revised
- It is highly likely that the targets in the medium-term management plan, with FY11/20 as its final fiscal year, will be achieved two years ahead of schedule. So going forward, we will be focusing on the results of activities toward even further growth.

Results trends



Source: Prepared by FISCO from the Company's financial results

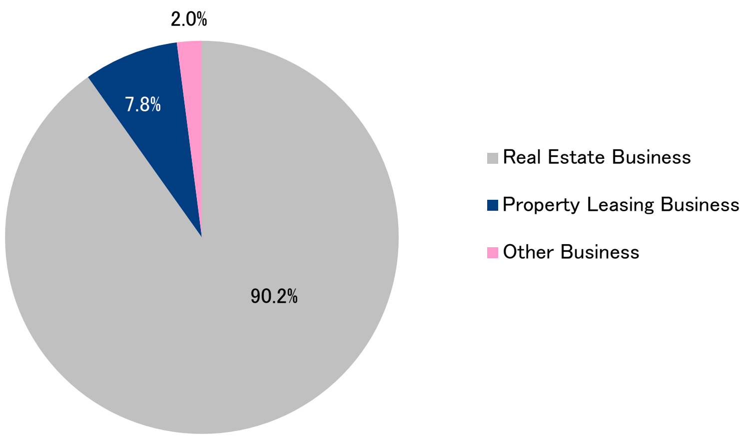
Company profile

Balanced business portfolio based on Real Estate Business and Property Leasing Business
Entered J-REIT market in 2015

1. Business overview

The Company has three business segments; the Real Estate Business, the Property Leasing Business, and the Other Business. The Real Estate Business trended favorably contributing 90.2% of net sales (before adjustment) in FY11/18 1H. However, it is necessary to be aware that in contrast to the steady growth of the Property Leasing Business, results in the Real Estate Business tend to increase and decrease greatly due to various factors, including the business environment. Since its foundation, the Company's strength has been its leasing capabilities in its area of expertise of residential properties (condominiums, etc.), that can be expected to stably maintain high occupancy rates.

Percentages of net sales by business (FY11/18 1H, before adjustment)



Source: Prepared by FISCO from the Company's financial results

Also, in March 2015 it established SRR, which was listed on the TSE J-REIT market in June of the same year. The Samty Group plays the role of sponsor of SRR (supplying it with properties) and is responsible for the subsequent asset management and other operations. SRR's current asset scale is approximately ¥81.5bn* (as of the end of July 2018).

* In January 2018, SRR acquired 33 properties from the third party allotment investment (subscribed by the Daiwa Securities Group and the Company). The asset scale expanded from 49 properties worth approximately ¥52bn to 82 properties worth around ¥81.5bn (described below).

For its sales bases, in addition to its Osaka head office (Yodogawa-ku), it has branch offices in Tokyo (Chiyoda-ku), Fukuoka (Hakata-ku), Sapporo (Chuo-ku) and Nagoya (Nakamura-ku), and it is establishing a nationwide system centered on the major regional cities.

The Samty Group is comprised of the Company and 13 consolidated subsidiaries, including 8 special purpose companies (SPC) and general incorporated associations established and receiving investment in the processes of carrying out for the Real Estate Business and Property Leasing Business in relation to schemes to acquire, own, and develop land, properties, and trust beneficiary rights. The main consolidated subsidiaries include Samty Asset Management Co., Ltd. (asset management, etc.), Suntoa Co., Ltd. (hotel management, etc.), and Samty Property Management Co., Ltd. (property management, maintenance, etc.) (as of the end of May 2018).

Overviews of each business are as follows.

(1) The Real Estate Business

This business supports the Company's growth and is divided into four sub-segments; "development mobilization," "regeneration mobilization," "condominiums for investment," and "asset management."

“Development mobilization” refers to the planning, development, and sales of leasing condominiums for real estate funds (including of the S-RESIDENCE series, which is the brand developed by the Company). Basically, the properties are large-scale, one-room condominiums with a total number of around 200 units, and include features such as stairwell entrances and sophisticated designs. Recently, demand has been considerable from real estate funds and other clients regardless of building size, so sales of medium-sized properties have also increased. The Company has granted SRR preferential transaction negotiating rights (first refusal rights) for the S-RESIDENCE series and mainly supplies properties to SRR.

The S-RESIDENCE series

Source: The Company's website and materials supplied by the Company

“Regeneration mobilization” refers to the regeneration and sales of existing income properties. The Company aims to improve occupancy rates by utilizing its leasing capabilities and expertise for the income properties and upgrading properties through renovating facilities, which generates earnings over the period of ownership. In addition, its final objective is to record gains on sales through selling its holdings and investment properties to real estate funds, business companies, and wealthy individuals. It also carries out warehousing* for SRR. During the ownership period, leasing income is recorded in the Property Leasing Business.

* Properties acquired to incorporate into REIT

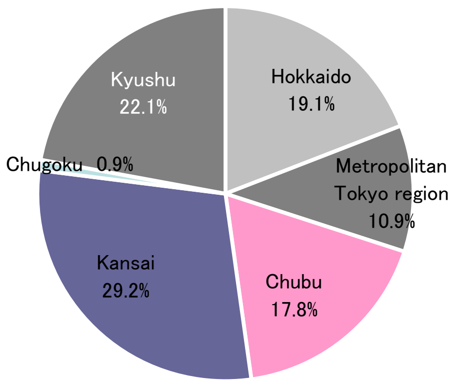
“Condominiums for investment” involves the planning, development, and sales of one-room condominiums for investment, mainly to individual investors. A feature of the Company is that it does not have an in-house sales team, and it conducts wholesales (selling units and entire buildings) to sales companies. Through building a network with sales companies that have a sales track record in the business area and consulting with sales companies at the planning and development stages, it is able to supply properties that meet client (user) needs. Also, excluding the metropolitan Tokyo region, which has an active trend of purchasing before the condominium is ready by sales companies due to their sense of the scarcity of properties, the Company's excellent leasing expertise (wholesale sales after leasing a property) differentiate it from its competitors and results in it being trusted by and having negotiating power with the sales companies.

The objectives of “asset management” are obtaining commission income, from the Company being commissioned (outsourced) to operate and manage real estate as the asset manager by real estate funds, and also dividend income from the Company's own investments in real estate funds. Through the smooth launch of SRR, it would seem that the asset management business will also expand in the future, alongside the expansion in the asset scale of SRR. The revenue structure in this business comprises management commissions (0.45% of the balance of assets under management), acquisition commissions (1.0% of the property acquisition value), sales commissions (0.5% of the property sales value) and other components. Notably, management commissions can be expected to provide a source of steady revenue every fiscal year based on the balance of assets under management.

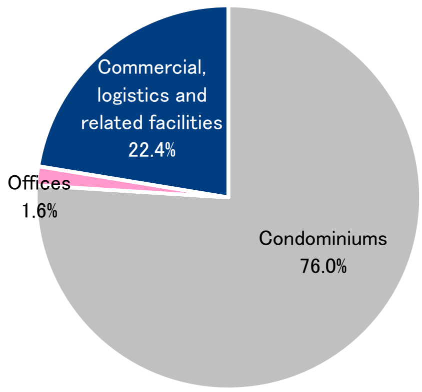
(2) Property Leasing Business

This business is the foundation that ensures stability, and the segment profit margins are also maintaining high levels. It owns around 82 properties nationwide, centered on the Kansai and metropolitan Tokyo region and government ordinance designated cities such as Fukuoka, Sapporo, and Nagoya. In addition, it conducts diversified investment in a variety of assets, including condominiums, office buildings, and commercial facilities. Breaking down its properties according to type of facility, condominiums constitute 76.0% of the total floor space, offices 1.6%, and commercial, logistics and related facilities 22.4%, so the weights are high for condominiums which high occupancy rates can be expected. The Company utilizes its leasing expertise to realize high occupancy rates above 90% when averaged over the year. While the scale of the real estate it owns amounts to around ¥82.9bn (book value), this is divided into ¥28.0bn of inventory assets that it intends to eventually sell (real estate for sale), and ¥54.8bn of property equipment that it intends to continue to own (all results are from the end of May 2018). In addition to its main commercial facilities, such as the historic Amanohashidate Hotel, these assets include properties such as Pieri Moriyama, a large scale commercial facility on Lake Biwa that was reopened in December 2014.

Distribution of properties owned by area
(based on total floor area)



Distribution of properties owned
by use
(based on total floor area)



Source: Prepared by FISCO from the Company's results briefing materials

(3) Other Business

This business mainly involves the ownership and management of hotels, the condominium management business, and the construction and renovation business. In the hotel business, in addition to Center Hotel Tokyo (Chuo-ku, Tokyo, 107 rooms)*1, S-PERIA Hotel Nagasaki (Nagasaki, 153 rooms), and GOZAN HOTEL (Higashiyama-ku, Kyoto, 21 rooms), the Company also owns S-PERIA Hotel Hakata (Fukuoka, 287 rooms)*2, which opened on March 28, 2018, as its first hotel developments project, and SMART HOTEL kutchan (Kutchan, Hokkaido, 67 rooms)*3. In addition, its subsidiary Suntoa manages Center Hotel Osaka (Chuo-ku, Osaka, 84 rooms), which it sold (and leased back) in FY11/17. Other than conducting the hotel business, the subsidiary Samty Property Management also conducts condominium management (including external properties, but mainly the Company's condominiums), construction and renovation, and other work.

*1 In FY11/16, it was temporarily sold (and then leased back) and managed by the subsidiary Suntoa, but the Company repurchased it as part of its strategy of upgrading itself the values of properties in favorable locations and effectively utilizing them (it is currently being renovated).

*2 The details are given below.

*3 The details are given below.

2. Features

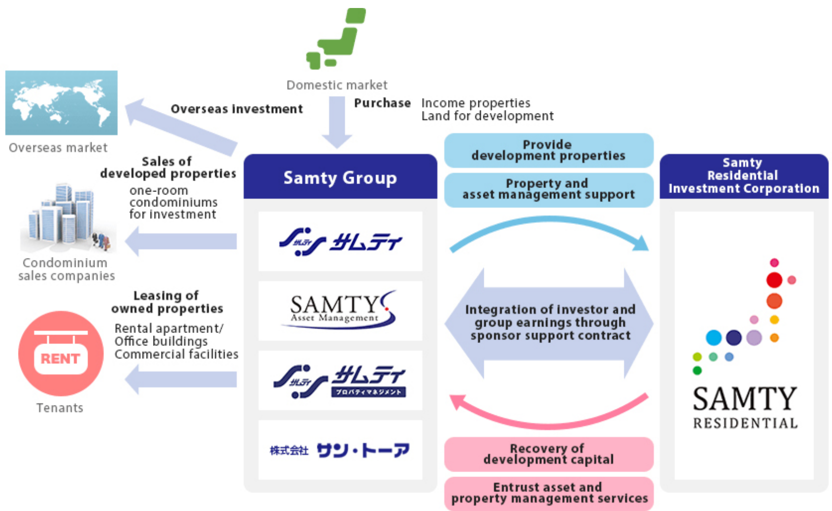
A feature of the Company is that it handles all aspect of the property business with its business model combining two businesses, the Real Estate Business and the Property Leasing Business. This forms its strength in terms of the superiority of its business and revenue structure.

(1) A superior business model

A feature of the Company's business model is that every phase of the property business, of land purchases, development, leasing, sales, and after-sales, are conducted within the Group, and by connecting these respective functions, it creates value (a value chain) that is unique to the Company. In particular, it utilizes its sophisticated leasing expertise, which it has cultivated in the Property Leasing Business, in the Real Estate Business also. In addition to improving the value of income properties, this has positive effects for the superiority of its bargaining power when purchasing land, as well as for establishing relationships based on trust and negotiating with buyers.

The Company also has a competitive advantage for its business model, centered on SRR. SRR will become a stable supply destination, and in addition, the expansion of the after-sales fee business (commissioned asset management operations and contract management operations) can be expected to become a stable source of revenue in the future.

Business model overview



Source: The Company's website

(2) The profit structure as a strength

One of the Company's strengths is that it can respond flexibly to changes to its business environment while maintaining a balance between stable income from its Property Leasing Business (a stock-type business) and growth acceleration from its Real Estate Business (a flow-type business). In other words, during a period of economic recession, its results can be supported by its Property Leasing Business, and then during a period of economic expansion (recovery), it can accelerate its growth through its Real Estate Business. In addition, its ability to withstand periods of recession is strengthened by the fact that it keeps down fixed costs by not having an in-house sales team and instead utilizing external resources (it has networks and expertise to do so). The reasons why in the financial crises up to the present time (such as following the collapse of the bubble economy and from the impact of the 2008 financial crisis), its results deteriorated comparatively little, is due to the fact that they were supported by its Property Leasing Business and the fact that it kept its fixed costs down. On the other hand, in the current situation of a continuingly favorable business environment, the Real Estate Business is the main driving force behind the growth in the Company's results.

3. History

The Company was established in December 1982 in Higashiyodogawa-ku, Osaka, as Samty Development Co., Ltd. (it changed to its current company name in June 2005). Centered on three people, Mr. Shigeru Moriyama (current chairman), Mr. Ichiro Matsushita (current vice chairman), and Mr. Kiyoharu Taniguchi, it launched a real estate sales, leasing, and management business. It initially started from consignment sales of condominiums, but subsequently it steadily accumulated results in areas such as sales of entire condominium buildings for investment and sales of units in condominium buildings for families.

After launching sales in May 2001 of its Samty series of one-room condominiums for investment, in March 2005 it launched sales of its S-RESIDENCE series of leasing properties for real estate funds, which spurred on its business expansion. In August 2006, it entered into the hotels business by acquiring the shares of Suntoa, which owns and manages business hotels. In July 2007, it was listed on the Osaka Hercules market (now the TSE JASDAQ market).

Next, in order to further expand its business and disperse it over different regions, it opened branch offices in Tokyo in February 2011, in Fukuoka in June 2012, in Sapporo in May 2015, and in Nagoya in March 2016, and over this 5-year period it steadily expanded the regions in which it does business.

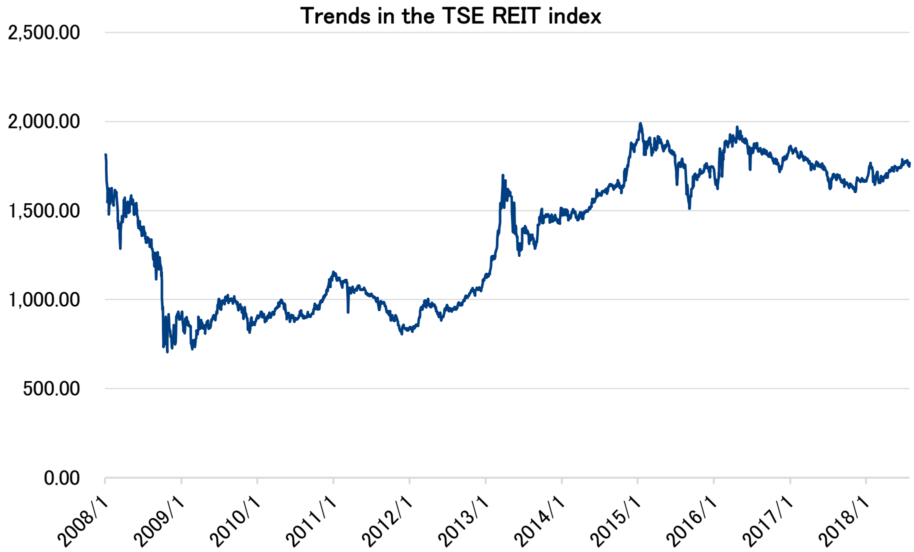
The Company has also actively taken steps to expand its business area. In August 2006, it acquired the shares of Suntoa, which owns and manages business hotels to enter into the hotels business. In December 2011, it established Samty Kanri (now Samty Property Management) to enter into the property management business; in November 2012, it made Samty Asset Management a wholly owned subsidiary to enter into the asset management business; and in June 2015, Samty Residential Investment Corporation was listed on the TSE J-REIT market. In such ways, it has established a system for growth to accelerate in the future. Its listing was changed to the TSE First Section in October 2015.

Industry environment

Conditions continue to be favorable in the real estate market

The J-REIT market will have an important influence on the Company's growth strategy in the future. As of the end of May 2018, its market capitalization stood at around ¥12,380.1bn, and there were 59 J-REITs listed. Although there was a phase in which the market was temporarily sluggish due to the impact of the credit tightening and related factors following the 2008 financial crisis, since 2012 it has steadily trended upward thanks to the recovery of the domestic economy and the effects of long-term monetary easing. Although we currently see sluggish growth in property acquisition due to the rise in real estate prices, there has been a diversification of investment targets, such as hotels and commercial facilities with an eye to the increase in inbound demand, long-term care facilities that are being built in response to the aging of society, and logistics facilities and infrastructure (solar power plants, etc.) So a variety of investment opportunities are being created, yet at the same time there remains considerable room for the market to grow.

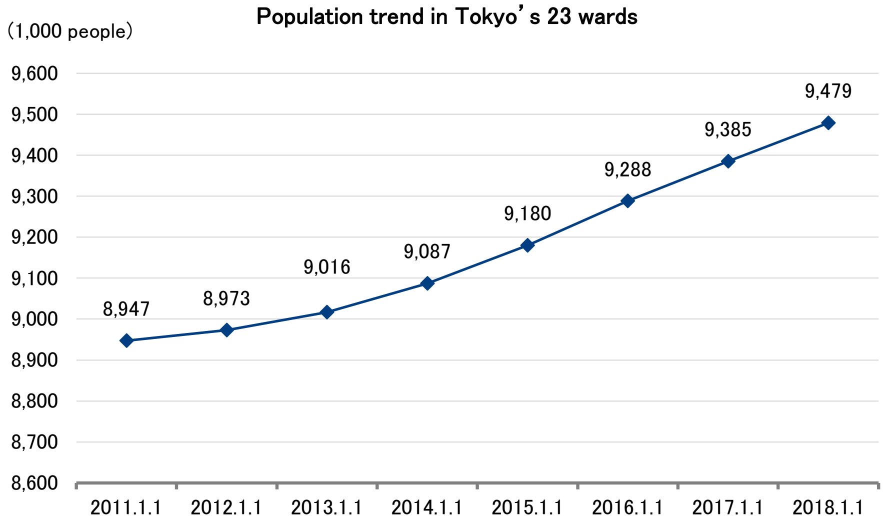
The TSE REIT index is trending firmly due to a robust domestic real estate market (rising rents, etc.) More specifically, demand for J-REITs remains strong from domestic and overseas institutional investors seeking strong yields and relatively stable cash flow based on the view that the Bank of Japan will maintain its policy of monetary easing and the expectation that office demand will rise going forward. In addition, the medium-term outlook for J-REITs looks strong amid continued monetary easing and a strong real estate market (improving vacancy rates and rising rents).



Source: Prepared by FISCO from various materials

The market for condominiums for investment is also trending favorably, supported by the strong demand from both tenants (users) and investors. According to data published by the Tokyo Metropolitan Government Bureau of General Affairs, the population of Tokyo's 23 wards, which constitutes most of the region to which the Company supplies properties, is continuing to increase against the backdrop of the large number of people moving to metropolitan Tokyo. In particular, there has been an noticeable increase in the number of single-person households, including among the young, which is occurring in the context of later marriages and the increase in the divorce rate, and it is thought that this will also support lease demand for one-room condominiums in the future. This trend can also be seen not only in Osaka and Nagoya, but also in regional metropolitan areas such as Fukuoka and Sapporo, and while on one hand the population of Japan is declining, on the other hand it continues to be concentrated into cities. On the investor side also, demand is increasing from individual investors in their twenties and thirties who are anxious about their futures in terms of their pensions and lives in their old age, and also from the elderly as an inheritance-tax measure following the reduction in the basic exemption amount. In addition, we also see intensified demand from overseas funds and other investors for properties in Tokyo's prime locations with many inquiries about entire buildings rather than individual unit purchases.

Population trend in Tokyo's 23 wards



Source: Prepared by FISCO based on materials issued by the Tokyo Metropolitan Government Bureau of General Affairs

The problems that the industry is facing include that it has become more difficult to purchase land in city centers, the rise in land prices, soaring construction costs and insufficient personnel numbers.

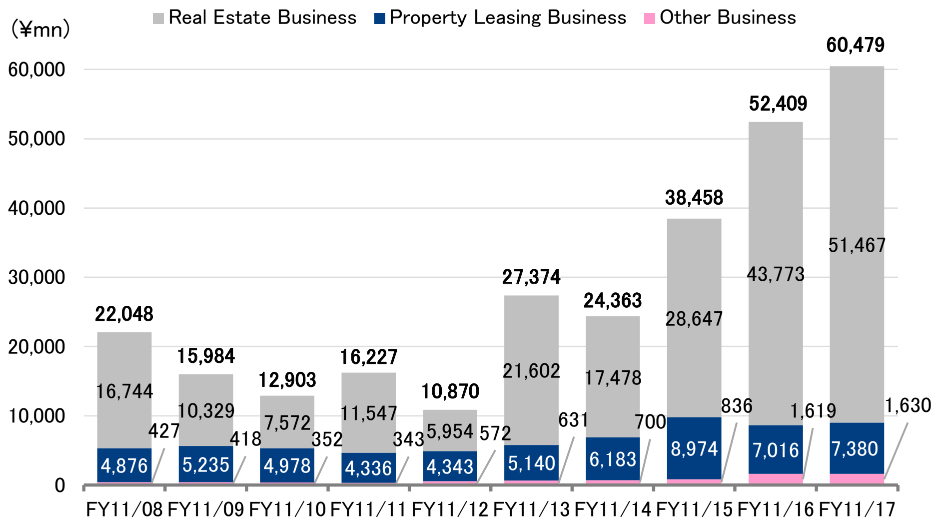
Results trends

Substantial growth in Real Estate Business amid strong real estate market

1. Past results trends

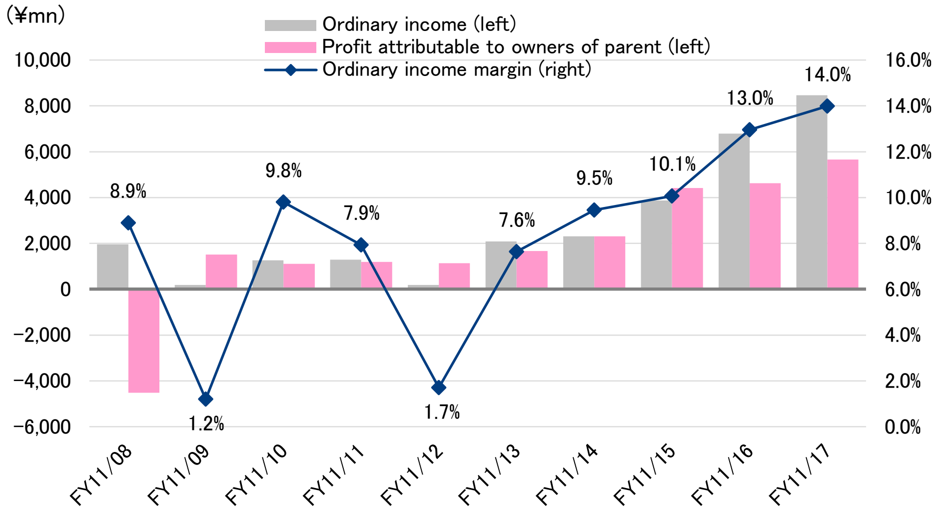
Looking back on the Company's results since FY11/07, which was the year it listed on the Osaka Stock Exchange Hercules market (currently, the TSE JASDAQ market), immediately after it listed it was impacted by the 2008 financial crisis, and there was a period in which its results trended at a low level. The major contraction of its Real Estate Business due to the credit tightening by financial institutions had a particularly adverse impact on its results. However, the points we should focus on are that results in the Property Leasing Business have trended stably even when within a severe industry environment, which has supported the results of the Company as a whole. The fact that it does not have its own in-house sales team and has kept down fixed costs has also had a positive effect, and it can be highly evaluated on the point that it has secured profits in every fiscal year expect FY11/08, when it recorded a net loss due to declaring impairment.

Trends in net sales (by business)



Note: Excluding internal sales
Source: Prepared by FISCO from the Company's financial results

Trends in ordinary income, profit attributable to owners of parent, and the ordinary income margin

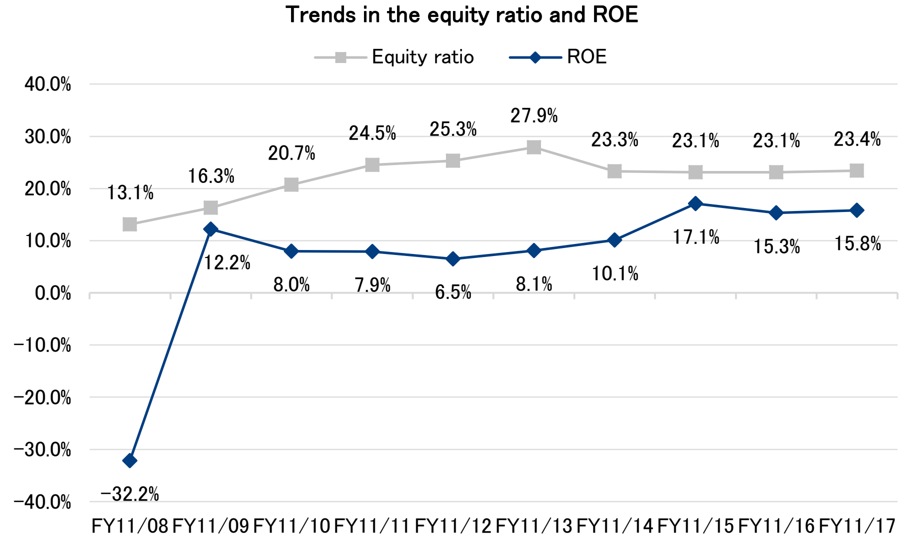


Source: Prepared by FISCO from the Company's financial results

Since FY11/13, the Real Estate Business has greatly recovered due to the change in financial institutions' attitude toward financing, which has occurred against the backdrop of the recovery of the domestic economy and monetary easing, and the Company's results have entered an expansion phase. In terms of profit and loss also, the ordinary income margin has been improving year by year thanks to the progress in the highly profitable development mobilization, and in FY11/17 it reached the high level of 14.0%.

The equity ratio has trended at a level of around 25%. In FY11/13, it rose to 27.9% following the implementation of a capital increase through a public offering (approximately ¥2bn), but since FY11/15, it has fallen to a level of around 23% due to the Company's active accumulation of assets and other factors. One issue it will need to address in the future would seem to be strengthening its financial base toward growth.

On the other hand, ROE, which indicates capital efficiency, has trended upward alongside the improvement in the profit margin. In FY11/17, it had reached the high level of 15.8%.



Source: Prepared by FISCO from the Company's financial results

The FY11/18 1H results continued to steadily grow and major progress was made toward achieving the full fiscal year forecasts

2. Overview of FY11/18 1H results

In the FY11/18 1H results, the Company realized major increases in both sales and profits, with net sales rising 22.9% YoY to ¥46,317mn, operating income growing 31.5% to ¥9,112mn, ordinary income climbing 29.3% to ¥7,908mn, and profit attributable to owners of parent increasing 31.3% to ¥5,655mn. Moreover, it achieved high rates of progress toward the full fiscal year forecasts, of over 70% of the net sales forecast and more than 80% of each profit item forecast.

Net sales grew significantly in the Real Estate Business from the strong sales of properties. In particular, centered on properties in the metropolitan Tokyo region, the number of properties sold increased for development mobilization (sales of S-RESIDENCE, developments under the Company's own brand) and regeneration real estate (regeneration and sales, including of existing income properties) for which investment demand, such as from overseas funds, continues to be strong. In addition, the sales prices were higher than expected, which seems to have contributed to the major increase in sales. Elsewhere, results in the Property Leasing Business and the Other Business that is centered on the hotel business, which are stable sources of revenue, also trended strongly.

In profits, the costs of sales ratio improved greatly, including due to the upward trend in sales prices (down 1.8 percentage points YoY). On the other hand, SG&A expenses grew alongside the increases in various expenses, such as advertising expenses (including for TV commercials and digital signage toward improving name recognition) and personnel expenses (in addition to for recruiting more personnel, in order to raise wages and to hike-up the level of bonuses, against the backdrop of the strong results). But despite this, operating income still increased greatly due to the effects of the higher sales and the improvement in the costs of sales ratio. The operating income margin also rose to 19.7% (18.4% in the previous fiscal year).

For the status of purchases, which will lead to growth in the future, the Company acquired 11 development sites (estimated net sales of around ¥14bn, acquisition price of approximately ¥4.9bn) and 15 income properties (acquisition price, around ¥11.5bn), and purchases are progressing basically according to plan, including for properties scheduled to be acquired in the future.

For the financial condition, due to the steady progress made in the sales of properties owned, real estate for sale (current assets) and property and equipment (non-current assets) decreased, and total assets were down 7.0% on the end of the previous fiscal year to ¥154,859mn. Conversely, shareholders' equity rose 12.3% to ¥43,797mn because of the accumulation of internal reserves, and as a result, the equity ratio improved to 28.3% (23.4% at the end of the previous fiscal year). Also, interest-bearing debt was reduced by 14.1% compared to the end of the previous fiscal year to ¥98,560mn. Within this amount, 81.1% is long-term debt, so there are no concerns about the Company's financial stability.

Overview of operating results

(¥mn)

	FY11/17 1H		FY11/18 1H		Change		FY11/18		
	Result	% of net sales	Result	% of net sales		%	Forecast	% of net sales	Achievement rate
Net sales	37,692		46,317		8,624	22.9%	64,000		72.4%
Real Estate Business	33,457	88.8%	41,869	90.4%	8,412	25.1%	54,300	84.8%	77.1%
Property Leasing Business	3,537	9.4%	3,616	7.8%	78	2.2%	7,400	11.6%	48.9%
Other Business	918	2.4%	946	2.0%	27	3.0%	2,600	4.1%	36.4%
Adjustment	-221	-	-115	-	105	-	-300	-	-
Cost of sales	28,206	74.8%	33,822	73.0%	5,616	19.9%	-	-	-
SG&A expenses	2,558	6.8%	3,382	7.3%	824	32.2%	-	-	-
Operating income	6,928	18.4%	9,112	19.7%	2,183	31.5%	11,000	17.2%	82.8%
Real Estate Business	7,137	21.3%	9,608	22.9%	2,470	34.6%	11,700	21.5%	82.1%
Property Leasing Business	977	27.6%	1,046	28.9%	68	7.0%	2,300	31.1%	45.5%
Other Business	155	16.9%	-42	-4.4%	-198	-	400	15.4%	-
Adjustment	-1,343	-	-1,500	-	-157	-	-3,400	-	-
Ordinary income	6,115	16.2%	7,908	17.1%	1,793	29.3%	8,900	13.9%	88.9%
Profit attributable to owners of parent	4,307	11.4%	5,655	12.2%	1,347	31.3%	6,500	10.2%	86.9%
Breakdown of Real Estate Business net sales	33,457		41,869		8,412	25.1%			
Development mobilization	4,902		16,250		11,348	231.5%			
Regeneration mobilization	20,129		21,940		1,810	9.0%			
Condominiums for investment	8,202		3,051		-5,150	-62.8%			
Asset management	154		620		465	300.6%			

Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

Financial position

(¥mn)

	End of November 2017	End of May 2018	Change	
Current assets	98,558	93,401	-5,157	
Cash and deposits	25,857	32,811	6,953	
Real estate for sale	37,059	28,056	-9,002	
Real estate for sale under construction	34,456	30,638	-3,818	
Non-current assets	67,797	61,387	-6,409	
Property and equipment	61,887	54,860	-7,026	
Intangible assets	140	160	20	
Investments and other assets	5,769	6,366	596	
Total assets	166,449	154,859	-11,590	-7.0%
Current liabilities	39,182	26,830	-12,352	
Short-term borrowings	11,883	3,237	-8,645	
Current portion of long-term debt	18,795	15,371	-3,424	
Non-current liabilities	87,906	83,398	-4,507	
Long-term debt	84,108	79,951	-4,157	
Net assets	39,360	44,630	5,269	
Total liabilities and net assets	166,449	154,859	-11,590	
Interest-bearing debt	114,787	98,560	-16,227	-14.1%
Shareholders' equity	39,017	43,797	4,780	12.3%
Equity ratio	23.4%	28.3%	4.9pt	

Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

The results according to each business are as follows.

(1) Real Estate Business

Net sales increased 25.1% YoY to ¥41,869mn and segment income rose steadily, up 34.6% to ¥9,608mn. Within these amounts, development mobilization net sales grew significantly, up 231.5% to ¥16,250mn, from the sales of 11 S-RESIDENCE properties (compared to 3 properties in the previous fiscal year). In particular, investment demand continues to be strong from overseas funds, and the upward trend in sales prices also contributed to the growth in the results. Moreover, the Company sold 39 regeneration mobilization properties* (19 properties in the previous fiscal year), and it seems that these sales, which were mainly to business corporations, contributed greatly to profits. Among them, the Company supplied 24 properties to SRR. On the other hand, the reason for the decrease in sales of condominiums for investment was due to the impact from selling off one development mobilization property for which purchasing demand was strong with high sales efficiency and profitability. Therefore it seems reasonable to evaluate this result after totaling both these elements. Also, the growth in asset management sales was due to the previously mentioned supply of properties to SRR (acquisition fees) and the growth in the SRR asset balance (management and administration fees).

* Among the 39 properties sold, sales from real estate for sale (current assets) for which net sales are recorded were from 21 properties, and sales from property and equipment (non-current assets) for which a gain (loss) on the sale (extraordinary profit or loss) only is recorded was from 18 properties.

The Company also realized a major increase in profits, as in addition to the upward trend in sales prices, the segment income margin improved to 22.9% (21.3% in the previous fiscal year) due to the increase in direct sales to overseas funds (improved sales efficiency).

(2) Property Leasing Business

Net sales increased 2.2% YoY to ¥3,616mn and the segment income trended stably, up 7.0% to ¥1,046mn. Although rental income grew only slightly due to the steady sales of properties owned, the Company was still able to secure higher sales and profits, including because it made steady progress in acquiring income real estate*, that occupancy rates were maintained at high levels, and that results grew at Pieri Moriyama, a large scale commercial facility (a rise in rent associated with tenant sales).

* In non-current assets, 18 properties were sold but 15 properties were acquired, so at the end of the fiscal period, the Company owned 82 properties (71 rental condominiums, 2 office buildings, and 9 commercial, logistics, and related facilities).

(3) Other Business

Net sales increased 3.0% YoY to ¥946mn and the segment loss was ¥42mn (compared to income of ¥155mn in the same period in the previous fiscal year), so sales increased but profits decreased and a segment loss was recorded. The growth in the hotel business contributed to the increase in net sales. Although the occupancy rate at Center Hotel Tokyo temporarily declined due to repair work, the Company still secured higher sales, including from the GOZAN HOTEL (Kyoto) that it acquired in the previous fiscal period, which contributed from the beginning of the current fiscal year. S-PERIA Hotel Hakata (part of its in-house hotel developments phase one), which was opened on March 28, 2018, also made a steady start*.

* It seems that it is currently maintaining an occupancy rate of 85% or above (target, 75%).

Conversely, in profits, in addition to the costs of opening S-PERIA Hotel Hakata, upfront costs grew, including the costs to repair Center Hotel Tokyo and the costs for hotels currently being developed, which resulted in the segment loss.

3. The development plan (pipeline) situation

The development status of the S-RESIDENCE series is that 1 building (43 units) was completed in 2017 and 5 buildings (435 units) will be completed in 2018. In addition, the Company has also secured the 10 buildings (893 units) to be completed in 2019 and the 1 building (105 units) to be completed in 2020, for which it is currently progressing the purchasing, for a total of 17 buildings (1,476 units). The estimated sales price is also being steadily accumulated, at an estimated ¥24bn. In terms of regions, 5 buildings are in the metropolitan Tokyo region (2 in Tokyo, 1 in Kanagawa, and 2 in Chiba), 5 buildings are in Kansai (Osaka), 6 buildings are in Aichi (Nagoya), and 1 building is in Hokkaido (Sapporo).

S-RESIDENCE development plan (at the end of May 2018)

Year of completion	Property name or project name	Location	No. of units
2017	S-RESIDENCE Kawasaki Kaizuka	Kawasaki, Kanagawa Prefecture	43
	Total 1 property		43
2018	S-RESIDENCE Shin-Osaka Garden (Kikawa-higashi 4)	Yodogawa-ku, Osaka	177
	S-RESIDENCE Shin-Osaka Ridente (Nishimiyahara 2 II)	Yodogawa-ku, Osaka	90
	S-RESIDENCE Tsukishima	Chuo-ku, Tokyo	45
	S-RESIDENCE Kuramae	Taito-ku, Tokyo	28
	S-RESIDENCE Higashi-ku Aoi 2-chome	Higashi-ku, Nagoya	95
	Total 5 properties		435
2019	S-RESIDENCE Esaka 1-chome II	Esakacho, Suita	153
	S-RESIDENCE Kita-ku Nishitenma 3-chome	Kita-ku, Osaka	180
	S-RESIDENCE Nishi-ku Minamihorie 3-chome	Nishi-ku, Osaka	55
	S-RESIDENCE Matsudo-shi Honcho	Matsudo-shi, Chiba Prefecture	52
	S-RESIDENCE Minamiyawata 5-chome	Ichikawa-shi, Chiba Prefecture	100
	S-RESIDENCE Kita-ku Shigahondori	Kita-ku, Nagoya	88
	S-RESIDENCE Chikusa-ku Uchiyama 3-chome	Chikusa-ku, Nagoya	44
	S-RESIDENCE Hongo 3-chome	Meito-ku, Nagoya	77
	S-RESIDENCE Kita-ku Shigahondori 1-chome Shinmeicho	Kita-ku, Nagoya	108
	S-RESIDENCE Asahigaoka	Chuo-ku, Sapporo	36
	Total 10 properties		893
2020	S-RESIDENCE Kita-ku Kurokawa Hondori 2-chome	Kita-ku, Nagoya	105
	Total 1 property		105
Total 17 properties			1,476

Source: Prepared by FISCO from the Company's results briefing materials

On the other hand, the status of the development projects for condominiums for investment is that 1 building was completed in 2017 (96 units), 3 buildings (188 units) will be completed in 2018, 11 buildings (575 units) will be completed in 2019, and 6 buildings (298 units) will be completed in 2020, for a total of 21 buildings (1,157 units). The estimated sales price is ¥25bn and it is accumulating, and when combined with the previously mentioned S-RESIDNCE buildings, the total becomes 38 buildings (2,633 units) and the estimated sales price rises to ¥39bn.

Development and sales plan for investment condominium sales (at the end of May 2018)

Year of completion	Property name or project name	Location	No. of units
2017	Samty Osaka GRAND EAST II	Higashinari-ku, Osaka	96
	Total 1 property		96
2018	Nishiyodogawa-ku Himesato 2-chome	Nishiyodogawa-ku, Osaka	85
	Nishi-ku Edobori 3-chome II	Nishi-ku, Osaka	50
	STAGE GRANDE Akihabara	Taito-ku, Tokyo	53
	Total 3 properties		188
2019	Nishi-ku Honden 1-chome	Nishi-ku, Osaka	140
	Yodogawa-ku Nishinakajima 4-chome	Yodogawa-ku, Osaka	54
	Toshima-ku Takada 2-chome	Toshima-ku, Tokyo	36
	Toshima-ku Ikebukurohoncho 1-chome	Toshima-ku, Tokyo	31
	Chuo-ku Nihonbashi-bakurocho 1-chome	Chuo-ku, Tokyo	35
	Kita-ku Shimo 2-chome	Kita-ku, Tokyo	28
	Taito-ku Kojima 1-chome (EAST)	Taito-ku, Tokyo	34
	Taito-ku Kojima 1-chome (WEST)	Taito-ku, Tokyo	38
	Nishikamata 7-chome	Ota-ku, Tokyo	42
	Sumida-ku Higashimukojima 1-chome	Chuo-ku, Tokyo	76
	Nerima-ku Asahicho 3-chome	Nerima-ku, Tokyo	61
	Total 11 properties		575
2020	Taito-ku Torigoe 1-chome	Taito-ku, Tokyo	49
	Taito-ku Imado 2-chome	Taito-ku, Tokyo	49
	Chiyoda-ku Higashikanda 2-chome	Chiyoda-ku, Tokyo	50
	Minato-ku Shiba 5-chome	Minato-ku, Tokyo	29
	Taito-ku Taito 2-chome II	Taito-ku, Tokyo	74
	Taito-ku Kuramae 2-chome	Taito-ku, Tokyo	47
	Total 6 properties		298
Total 21 properties			1,157

Source: Prepared by FISCO from the Company's results briefing materials

Topics

Major developments in both the J-REIT and the hotel development businesses

1. Developments in the J-REIT business (SRR)

In January 2018, the Company and the Daiwa Securities Group subscribed for the third party allotment investment units*1 issued by SRR, and the Daiwa Securities Group entered into a sponsor support agreement with SRR*2.

*1 Within the 173,600 new investment units issued by SRR, the Daiwa Securities Group subscribed 161,700 units (after the capital increase, investor ratio of 35.4%), while the Company subscribed 11,900 units (5.3%), and SRR raised funds of approximately ¥15.1bn.

*2 Together with the capital increase, out of the 4,200 shares of Samty Asset Management (the Company's wholly owned subsidiary), which is an asset management company of SRR, 1,386 shares (33% of voting rights) were transferred from the Company to the Daiwa Securities Group.

As a result, from the funds raised, SRR acquired 33 properties (of which, the Company supplied 24 properties), and total assets grew from ¥52bn to ¥81.5bn. In addition, it can be said that it has acquired powerful support (such as improved creditworthiness) from the participation of the Daiwa Securities Group. At the same time, this can be understood to be a major development for the Company as well, whose growth strategy is centered on SRR (increasing fee income through supplying properties to SRR and outsourcing of management and administration services).

2. Expansion of the hotel business

S-PERIA Hotel Hakata (Hakata-ku, Fukuoka City), which the Company has been developing since the past as its first hotel development project, was opened on March 28, 2018. As its location is extremely convenient, as it is only a three-minute walk from the Hakata JR and Fukuoka City Subway Station. When considering its high levels of comfort and safety, it seems to have made a steady start for its main target customers of business people and inbound tourists.

The Company has positioned expanding the hotel development business, in which it is involved from developments and which can be expected to be highly profitable, to be one growth strategy. Besides this, it is currently progressing the development of buildings throughout the country (five buildings in total), and of these, one building (Chuo-ku, Tokyo) is scheduled to open during 2018.

Hotel development plan

Fiscal year it will open	Project name (provisional)	Location	No. of rooms
2018	Nihonbashi Nakasu hotel project	Chuo-ku, Tokyo	114
	Total 1 property		114
2019	Nishihonmachi hotel project	Nishi-ku, Osaka	125
	Chudoji Mibugawacho hotel project	Shimogyo-ku, Kyoto	165
	Total 2 properties		290
Undecided	Aburanokoji hotel project	Shimogyo-ku, Kyoto	225
	Nagoya Station-front hotel project	Nakamura-ku, Nagoya	284
	Total 2 properties		509
Total 5 properties			913

Source: Prepared by FISCO from the Company's results briefing materials

Also, in May 25, 2018, the Company acquired SMART HOTEL kutchan (Kutchan, Hokkaido), which is a business hotel. Its location is extremely excellent, as it is only a one-minute walk to JR Kutchan Station, while the famous ski resort of Niseko United can be accessed by car in about 10 minutes. The Company has conducted renovations, and in addition to the existing rooms, it has newly established a guesthouse section targeting young and inbound customers.

Earnings outlook

The Company has left unchanged the initial full year forecasts for FY11/18. But judging from the progress made in the 1H results, it is highly possible that it will upwardly revise them.

For FY11/18, the Company has left its initial forecasts unchanged of increases in sales and profit, with net sales of ¥64,000mn, up 5.8% YoY, operating income of ¥11,000mn, up 8.6%, ordinary income of ¥8,900mn, up 5.2%, and profit attributable to owners of parent of ¥6,500mn, up 14.8%. Although the sales-increase rate will remain at a moderate level, the Company can be highly evaluated for its forecasts that prioritize profit growth.

For net sales, within the continuing favorable sales environment, the Real Estate Business will maintain its sales growth from the previous fiscal year, while sales in the Other Business are also expected to increase significantly, mainly due to the expansion of the hotel business.

The growth in profits is also forecast to be maintained, as the profit margin will improve against the backdrop of the favorable conditions in the real estate market (sales prices, rental prices, occupancy rates, etc.) in addition to the effects of the higher sales.

On the other hand, the scheduled investments are for approximately ¥21bn in development sites (¥17bn in previous fiscal year) and ¥23bn in income properties (¥32bn). The total for both is approximately ¥44bn (¥49bn), which can be said to be somewhat restrained compared to the previous fiscal year, but this is because the Company is taking a slightly cautious stance about the trends in the real estate market in the future. It also seems that the Company is taking steps to strengthen its financial base in FY11/18.

The reason why the Company has decided to leave the initial forecasts unchanged, despite the high rates of progress it made in the 1H results toward achieving the full fiscal year forecasts (initial forecasts), is considered to be that it is carefully observing the final landing place for results, including the possibility of sudden changes to the external environment and the outlook for the FY11/19 results.

At FISCO, in addition to the 1H results, when considering the other factors, including the favorable external environment (conditions in the real estate market) and internal factors (such as the accumulation of pipeline properties, the high evaluation of the Company's development and regeneration properties, and the steady start made by the hotel business), we think it is highly possible that the Company will upwardly revise its results forecasts. So it will be necessary to pay attention to developments in the future.

FY11/18 forecast

(¥mn)

	FY11/17		FY11/18		Change	
	Results	% of net sales	Forecast	% of net sales		%
Net sales	60,479		64,000		3,521	5.8%
Real Estate Business	51,522	85.2%	54,300	84.8%	2,778	5.4%
Property Leasing Business	7,386	12.2%	7,400	11.6%	14	0.2%
Other Business	1,885	3.1%	2,600	4.1%	715	37.9%
Adjustment	-315	-	-300	-	15	-
Operating income	10,131	16.8%	11,000	17.2%	869	8.6%
Real Estate Business	10,600	20.6%	11,700	21.5%	1,100	10.4%
Property Leasing Business	2,094	28.4%	2,300	31.1%	206	9.8%
Other Business	243	12.9%	400	15.4%	157	64.6%
Adjustment	-2,806	-	-3,400	-	-594	-
Ordinary income	8,461	14.0%	8,900	13.9%	439	5.2%
Profit attributable to owners of parent	5,661	9.4%	6,500	10.2%	839	14.8%

Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

Growth strategy

Aiming for steady medium- to long-term growth by expanding development in regional metropolitan areas

1. Medium-term management plan

The Company's current medium-term management plan covers the five-year period from FY11/16 to FY11/20. The plan for FY11/20 targets net sales at the ¥100bn level, ordinary income at the ¥10bn level, EPS of ¥300 or above, ROE of 15% or above, and an equity ratio of 30% or above, based on the external environment (implementation of negative interest rate policy, growth in inbound demand) and factoring in the impact of measures taken by the Company (expansion of area of operations, entry into J-REIT business). In particular, its policy is to prioritize growth in profits rather than in sales.

The "Challenge 40" medium-term management plan

	FY11/16 targets	FY11/18 targets	FY11/20 targets
Net sales	¥57bn	¥85bn	¥100bn level
Ordinary income	¥7bn	¥9bn	¥10bn level
EPS	¥194.4	¥240	¥300 or more
ROE	14.9%	15.0%	15% or more
ROA	7.0%	7.0%	7% or more
Equity ratio	23.0%	27.0%	30% or more

Source: Prepared by FISCO based on the Company's medium-term management plan

Nevertheless, due to the steady progress made in recent results, the likelihood that it will achieve the targets two years ahead of schedule, in FY11/18, is high, except for the net sales target. So the Company can be evaluated as making very steady progress.

2. Future direction and progress

As its growth strategy for the future, the Company has set the following three key strategies: (1) Development of a business model centered on SRR, (2) Strategic investment in regional metropolitan areas, and (3) Expansion of the hotel development business. Also, as its financial targets, it is aiming to maintain its capital efficiency and establish a financial base.

(1) Development of a business model centered on SRR

The Company's policy is to further evolve its business model, in which it handles every aspect of the property business, from land purchasing and development through to leasing, sales, and after-sales, centered on SRR, which has been smoothly launched. Specifically, in addition to supplying development properties preferentially to SRR, it is aiming to establish a stable fee business through conducting commissioned asset management and property management after it has supplied the properties. In other words, its strategy can be described as connecting the growth of SRR to the growth of the Company. SRR's asset scale of ¥100bn is within its range owing to the implementation of the third-party allotment investment in January 2018, however, the Company plans to continue supplying properties to SRR with the aim of further growth in conjunction with expanding steady asset management fees.

(2) Strategic investment in regional metropolitan areas

The Company plans to invest a total of approximately ¥300bn (land + construction expenses) in five years. The specific details of its measures are as follows. Purchases of development sites and income properties amounted to about ¥40.5bn in FY11/16 and ¥49.0bn in FY11/17, with purchases of about ¥44.0bn planned for FY11/18. Going forward, the Company plans to accelerate the pace of investment further.

a) Expansion of development areas

Up to the present time, developments have been focused in the metropolitan Tokyo region and the Kansai region, but it will expand its development into each branch office region, including Hokkaido, Chubu, and Kyushu.

b) Diversification of development assets

SRR, which targets accommodation assets (rental housing, and real estate in areas adjacent to rental housing, such as hotels and health care facilities), will be able to incorporate hotels (up to 20% of its assets-held balance), and will actively conduct measures for hotel development, centered on each branch office region.

c) Income properties and regeneration real estate

For income properties and regeneration real estate, in addition to working to discover properties with high yields in regional metropolitan areas, it will secure cash flow through facilitating turnover.

Investment plans according to area and asset

(¥bn)

	Income properties	Regeneration real estate	S-RESIDENCE (for funds and REIT)	1R for investors	S-PERIA hotels	Total
Hokkaido	16	7	3	-	5	31
Metropolitan Tokyo region	-	11	10	43	19	83
Chubu	21	7	4	3	5	40
Kansai	27	11	17	23	13	91
Kyushu	27	7	6	4	11	55
Total	91	43	40	73	53	300

Source: Prepared by FISCO based on the Company's medium-term management plan

(3) Expansion of the hotel development business

Within the previously mentioned total investment amount of approximately ¥300bn, the Company plans to invest around ¥53bn in its hotel development business (land + construction expenses). Specifically, it plans to invest ¥5bn in the Hokkaido region (from 2 to 3 properties), ¥19bn in the metropolitan Tokyo region (around 10 properties), ¥5bn in the Chubu region (from 2 to 3 properties), ¥13bn in the Kansai region (from 5 to 6 properties), and ¥11bn in the Kyushu region (around 5 properties). In addition to developing S-PERIA hotels as a new brand name, it intends to capture both business and inbound demand. S-PERIA Hotel Hakata opened on March 28, 2018. The Company plans to proceed cautiously with investments in the hotel development business only after carefully selecting properties based on the area.

(4) Financial strategy

The Company's policy is to realize sustainable growth while maintaining a certain level of financial soundness. Specifically, for FY11/20, it is aiming for an equity ratio of 30% or more on the one hand, while on the other hand it intends to maintain capital efficiency with ROE of 15% or more and ROA of 7% or more. It also targets cutting the cost of interest-bearing debts and a net D/E ratio of 2.0 or less.

(5) Other

The Company will also work to enter overseas businesses. As part of these efforts, in September 2016, the Company made an investment (US$5 million) in a fund targeting investments in real estate companies undertaking real estate development and leasing businesses in Ho Chi Minh City, a major city in Vietnam. Using this investment as a foothold for its overseas businesses, the Company will strive to drive further overseas business expansion primarily in the ASEAN countries, which offer prospects for high growth, with the view to conducting joint development with local companies and other partners, purchasing and owning leasing properties and opening overseas branches or setting up subsidiaries.

Returns to shareholders

There is considerable room to increase the dividend from both the aspects of growing profits and raising the dividend payout ratio

The Company is aware that returning profits to shareholders is one of its most important management issues. Its policy is to pay dividends that reflect its business results and also based on a comprehensive consideration of its future business plans and financial condition.

For the FY11/18 year-end dividend, the Company plans to pay a dividend per share of ¥52 (dividend payout ratio, 20.1%), which will be an increase of ¥5 YoY.

The Company is targeting a dividend payout ratio of 30%. At FISCO, we think that there is still considerable room for the Company to increase dividends through profit growth and raising the dividend payout ratio going forward. It also aims to improve shareholder value by increasing EPS.

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