

## Equities

29 November 2011 | 18 pages

# Tokyu Land (8815)

## Earnings to recover steadily toward medium-term targets

- Company Update
- Estimate Change

- **Conclusion** — After reviewing forecasts for FY3/12 and out we raise our OP forecasts as follows: FY3/12 to ¥43.5bn from ¥40bn, FY3/13 to ¥49.2bn from ¥47.3bn, and FY3/14 to ¥58.4bn from ¥52.5bn (mainly to reflect higher leasing earnings forecasts). We maintain our ¥510 target price and reiterate our Buy rating. Our FY3/14 OP forecast is slightly short of company guidance (¥60bn) because of slightly conservative forecasts for the facility operations and real estate agents segments, but there is no change to our view that profit growth will be strong.
- **Medium-term plan** — Tokyu Land announced a medium-term plan on November 4. Under the plan it targets FY3/14 OP of ¥60bn (+40% vs. FY3/12 guidance) and a debt/equity ratio of less than 3.9x. OP is forecast to increase ¥17bn over two years with large contributions from the real estate sales (+¥8.7bn), facility operations (+¥2.5bn) and real estate agents (+¥2.4bn) segments. The real estate sales forecast looks conservative, in our view, as it does not factor in any gains on asset sales. The debt/equity ratio is expected to improve further and we believe concerns about a capital increase remain low.
- **Target price** — Our ¥510 target price is based on a FY3/13E PER of 18x (adjusted for extraordinary items, previously 19x) and a NAV ratio of 1.00x (based on end-FY3/11 estimated NAV, unchanged from before).

<b>Buy</b>	<b>1</b>
Price (28 Nov 11)	¥291
Target price	¥510
Expected share price return	75.3%
Expected dividend yield	2.4%
<b>Expected total return</b>	<b>77.7%</b>
Market Cap	¥154,535M
	US\$1,988M

### Price Performance (RIC: 8815.T, BB: 8815.JP)



Consol.	Sales		OP			RP		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥		X
3/10A	552,067	-3.9	35,469	1.4	6.4	28,174	1.8	11,058	8.5	21		14.0
3/11A	571,443	3.5	62,502	76.2	10.9	54,916	94.9	11,598	4.9	22		13.3
3/12CE	555,000	-2.9	40,000	-36.0	7.2	21,000	-61.8	31,000	167.3	58		5.0
3/12CRE	555,000	-2.9	43,000	-31.2	7.7	27,000	-50.8	31,000	167.3	58		5.0
3/12E	554,500	-3.0	40,000	-36.0	7.2	21,000	-61.8	31,000	167.3	58		5.0
3/12RE	554,200	-3.0	43,500	-30.4	7.8	27,600	-49.7	31,640	172.8	60		4.9
3/13E	579,000	4.4	47,300	18.3	8.2	30,100	43.3	14,250	-54.0	27		10.8
3/13RE	580,700	4.8	49,200	13.1	8.5	34,100	23.6	13,580	-57.1	26		11.4
3/14E	595,900	2.9	52,500	11.0	8.8	35,500	17.9	17,080	19.9	32		9.0
3/14RE	619,100	6.6	58,400	18.7	9.4	43,400	27.3	17,570	29.4	33		8.8

A: Actuals, E: CIRA Ests, CE: Company Ests, RE: CIRA Revised Ests, CRE: Company Revised Ests, NA: Not Available, NM: Not Meaningful

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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	3/10	3/11	3/12E	3/13E	3/14E
<b>Valuation Ratios</b>					
PER(X)	14.0	13.3	4.9	11.4	8.8
EV/EBITDA	7.0	5.0	12.0	15.4	13.2
P/BVPS	0.8	0.7	0.7	0.6	0.6
Dividend yield	2.4	2.4	2.4	2.4	2.4
<b>Per Share Data (¥)</b>					
EPS adjusted	21	22	60	26	33
Reported EPS - diluted	21	22	60	26	33
EPS*	21	22	60	26	33
BPS	382	393	445	464	490
DPS	7	7	7	7	7
<b>Profit &amp; Loss (¥M)</b>					
<b>Net sales</b>	<b>552,067</b>	<b>571,443</b>	<b>554,200</b>	<b>580,700</b>	<b>619,100</b>
Operating expenses	-516,598	-508,941	-510,700	-531,500	-560,700
<b>EBIT</b>	<b>35,469</b>	<b>62,502</b>	<b>43,500</b>	<b>49,200</b>	<b>58,400</b>
Net interest income/expense	-6,948	-7,284	-15,540	-14,740	-14,640
Total other non-operating items	-347	-302	-360	-360	-360
<b>Recurring profit</b>	<b>28,174</b>	<b>54,916</b>	<b>27,600</b>	<b>34,100</b>	<b>43,400</b>
Extraord./Min.Int./Pref.div.	-2,090	-37,069	16,700	-7,200	-8,600
Taxation	-15,026	-6,250	-12,660	-13,320	-17,230
<b>Reported net income</b>	<b>11,058</b>	<b>11,597</b>	<b>31,640</b>	<b>13,580</b>	<b>17,570</b>
Analyst adjusted EBITDA	48,698	77,385	65,100	71,200	80,400
<b>Growth Rates (%)</b>					
Net sales	-3.9	3.5	-3.0	4.8	6.6
EBITDA adjusted	0.9	58.9	-15.9	9.4	12.9
EPS adjusted	8.5	4.9	172.9	-57.1	29.4
<b>Cash Flow (¥M)</b>					
<b>Cash from operations</b>	<b>72,476</b>	<b>66,178</b>	<b>30,690</b>	<b>22,330</b>	<b>42,720</b>
Depreciation and amortization	13,228	14,882	21,600	22,000	22,000
Net change in working capital	8,060	-5,388	0	0	0
<b>Cash from investing activities</b>	<b>-26,697</b>	<b>-146,178</b>	<b>-41,000</b>	<b>49,000</b>	<b>-36,000</b>
Capital expenditure	-36,950	-192,909	-45,000	-50,000	-40,000
Net acquisitions/disposals	0	0	0	0	0
<b>Cash from financing activities</b>	<b>-30,859</b>	<b>78,990</b>	<b>4,177</b>	<b>-57,733</b>	<b>-12,733</b>
Changes in borrowings	-16,391	78,826	6,910	-55,000	-10,000
Dividends paid	-3,984	-3,718	-3,733	-3,733	-3,733
<b>Change in cash</b>	<b>16,271</b>	<b>-2,647</b>	<b>-6,133</b>	<b>13,597</b>	<b>-6,013</b>
<b>Balance Sheet (¥M)</b>					
<b>Total assets</b>	<b>1,055,362</b>	<b>1,161,418</b>	<b>1,741,933</b>	<b>1,702,979</b>	<b>1,714,416</b>
Cash	44,626	42,376	36,243	49,839	43,826
Accounts receivable	14,667	15,340	15,340	15,340	15,340
Net tangible fixed assets	444,486	570,669	1,323,468	1,249,568	1,260,668
<b>Total liabilities</b>	<b>824,377</b>	<b>921,590</b>	<b>1,470,900</b>	<b>1,417,400</b>	<b>1,408,900</b>
Accounts payable	43,552	37,491	37,491	37,491	37,491
Total Debt	478,938	559,790	1,075,000	1,020,000	1,010,000
<b>Shareholders' funds</b>	<b>230,985</b>	<b>239,827</b>	<b>271,034</b>	<b>285,580</b>	<b>305,517</b>
<b>Profitability/Solvency Ratios (%)</b>					
Analyst Adjusted EBITDA Margin	8.8	13.5	11.7	12.3	13.0
Operating ROE	5.5	5.6	14.2	5.6	6.9
Operating ROIC	3.6	9.1	2.9	2.6	3.0
Net debt to equity	188.0	215.7	383.3	339.7	316.2
Debt to total capital	67.5	70.0	79.9	78.1	76.8

Note: Consolidated data. \* EPS: NP/Est Shares OS.

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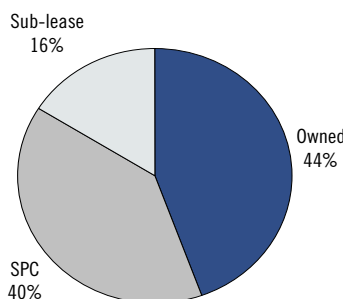
# Investment Dashboard

## Reasons to Buy

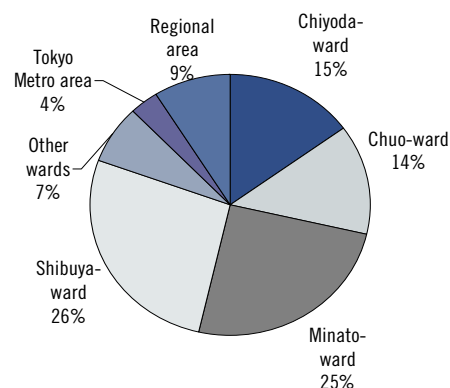
- Valuations are far below NAV
- We anticipate medium-term improvement in earnings
- There are longer-term development possibilities in the Shibuya area and we think Tokyu Land, which links places along the Tokyu tracks and central Tokyo, could find lots of business opportunities

## GFA breakdown (end-FY3/11)

### Ownership



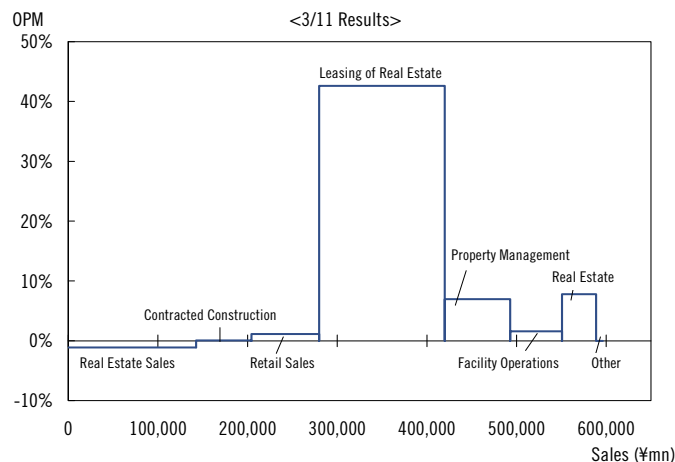
### Office Area



Source: Company data.

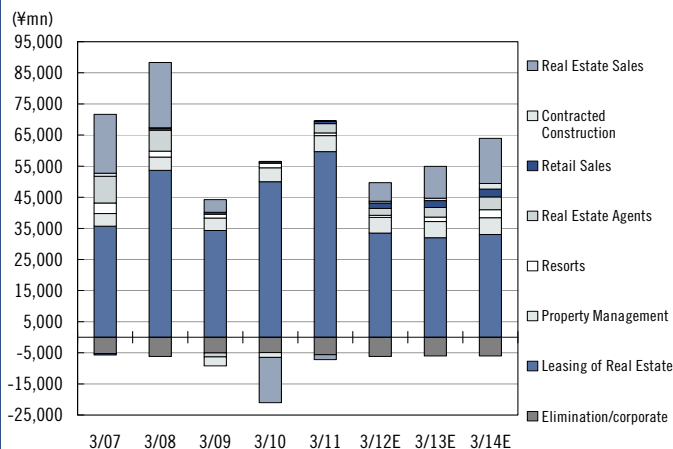
## Business portfolio

<3/11 Results>



Source: Company data.

## OP by segment

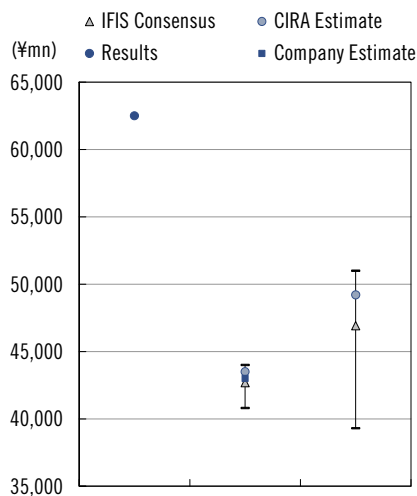


Source: Company data, Citi Investment Research and Analysis.

## Alternate scenario: A more bearish case

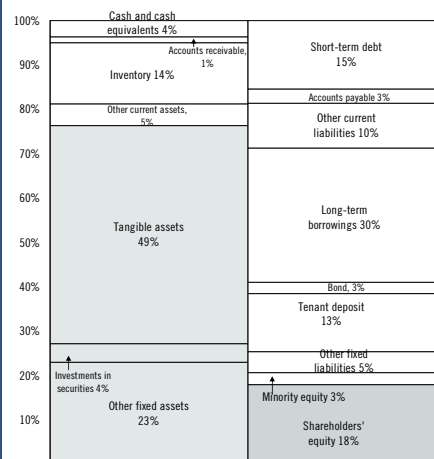
- A faltering economy leading to a rise in vacancy rates, a slowdown in condominium sales, and weakness in the real estate investment market
- Resultant earnings deterioration and valuation declines

## OP forecast comparison



Source: Company data, IFIS (November 25), Citi Investment Research and Analysis.

## Balance sheet (end-FY3/11)



Source: Company data.

## Medium-term plan

### Targeting OP of ¥60bn in FY3/14

Tokyu Land announced a medium-term plan, which ends in FY3/14, at the same time as it released Q2 results on November 4. Quantitative targets are OP of ¥60bn (+40% on the FY3/12 company plan) and a debt/equity ratio of below 3.9x. Focal strategies will be 1) strengthening its balance sheet platform and groupwide management platform, 2) moving into the REIT (fund) business, 3) reforming and strengthening core businesses with an eye to changes in the business environment, and 4) developing new businesses for the future.

### OP target of +¥17bn (+40%) in two years

The OP target of ¥60bn is far ahead of our old forecast of ¥52.5bn. OP is forecast to increase ¥17bn over two years with large contributions from the real estate sales (+¥8.7bn), facility operations (+¥2.5bn) and real estate agents (+¥2.4bn) segments. Leasing, which accounts for some 50% of profits, is expected to be flat.

### Balance sheet improvement: No need for a capital increase

Tokyu Land is aiming to reduce the debt/equity ratio to 3.9x or under at end-FY3/14 versus 4.6x at end-FY3/11. While it may be a “medium-term” plan, effectively it covers only just over two years and we see Tokyu Land’s trajectory toward improvement in its balance sheet health over the medium term as more important than the numerical target of 3.9x itself. The company sees as debt/equity ratio in the 2x-3x range as being in prospect in the future. Tokyu Land raised ¥10bn in issuing an unsecured corporate bond with a five-year duration on September 15 at the low rate of 0.70% (+20bps versus the swap rate) and its access to debt not just via borrowing but in the direct capital markets too. We take no issue at all, given this, with the comment by President Kiyoshi Kanazashi at the briefing that Tokyu Land would not need to raise capital over the course of the medium-term plan.

Below is the outlook for the main segments.

Figure 1. Tokyu Land: Medium-term management plan

(¥mn)	3/2011A (A)	3/2012CE (B)	3/2014CE (C)	difference (C-A)	% change (C/A)
<b>Sales</b>	<b>571,443</b>	<b>555,000</b>	<b>NA</b>		
Real Estate Sales	142,650	119,800	--		
Contracted Construction	61,620	66,500	--		
Retail Sales	75,628	87,400	--		
Leasing of Real Estate	140,067	123,600	--		
Property Management	72,907	74,000	--		
Resorts	57,916	59,800	--		
Real Estate Agents	37,911	37,900	--		
Other	7,459	8,000	--		
Elimination/corporate	-24,719	-22,100	--		
<b>Operating profit</b>	<b>62,502</b>	<b>43,000</b>	<b>60,000</b>	<b>17,000</b>	<b>40%</b>
Real Estate Sales	-1,619	5,900	14,600	8,700	147%
Contracted Construction	36	500	2,000	1,500	300%
Retail Sales	847	1,600	2,500	900	56%
Leasing of Real Estate	59,682	33,000	33,000	0	0%
Property Management	5,077	4,900	5,400	500	10%
Resorts	924	700	3,200	2,500	357%
Real Estate Agents	2,953	2,500	4,900	2,400	96%
Other	213	0	500	500	--
Elimination/corporate	-5,613	-6,200	-6,000	200	--
<b>Operating margin(%)</b>	<b>10.9%</b>	<b>7.7%</b>	<b>NA</b>		
Real Estate Sales	-1.1%	4.9%	--		
Contracted Construction	0.1%	0.8%	--		
Retail Sales	1.1%	1.8%	--		
Leasing of Real Estate	42.6%	26.7%	--		
Property Management	7.0%	6.6%	--		
Resorts	1.6%	1.2%	--		
Real Estate Agents and Other Businesses	7.8%	6.6%	--		
Other	2.9%	0.0%	--		
<b>Debt equity ratio</b>	<b>4.6x</b>	<b>Below 3.9x</b>			

Source: Company data, Citi Investment Research and Analysis.

## Real estate sales

### Condominiums: Volumes growing, prices rising

Built-for-sale condominiums are set to contribute to earnings growth in real estate sales. Tokyu Land is aiming for 3,000 units in FY3/14, up 22% on the 2,459 it expects to book in FY3/12 (sales of ¥92.3bn, unit price of ¥37.5mn). The sales target by value is unclear, but we understand it expects the ASP to rise to ¥45mn-¥50mn on an increase in projects in central Tokyo. If we assume an ASP of ¥47mn and 3,000 units, then sales would come to around ¥140bn, up 50% on the FY3/12 plan.

### Envisioning a margin of 9% on condos

Tokyu Land has commented that it is envisioning an operating margin of around 9% in the built-for-sale condominium operations; if sales come to ¥140bn OP would amount to around ¥12.5bn. In the built-for-sale operations there are other operations besides built-for-sale condominiums—subdivision lots and built-for-sale housing, holiday homes, and subsidiaries—and if their earnings contributions are included, we do not think the company target of ¥14.6bn represents such a formidable hurdle. The built-for-sale condominium business (anticipated parent sales of ¥92.3bn) is expected by the company to account for just under 80% of targeted segment sales of ¥119.8bn in FY3/12.

Condominiums that can be booked as sales in FY3/13 and out (i.e., condominiums for which land has been acquired) amounted to 5,500 units as of end-September. In

**Aiming to raise volumes further over the medium term**

H1, Tokyu Land acquired condominium-use lots for the equivalent of 1,262 units at a cost of ¥17.0bn and for H2 it has a budget of ¥35.5bn.

Tokyu Land is aiming for annual sales of around 3,600 units in built-for-sale condos in FY3/15 and out, when the business reaches cruising speed, forecast which around 700 units a year are expected to be from the redevelopment and rebuild operations.

**Not anticipating gains on sales**

The medium-term plan does not incorporate gains on the sale of assets. However, we think Tokyu Land will be able to generate a certain amount of profit when selling properties to J-REITs and funds, so in this respect we feel the plan is a little conservative. The company takes the development risk and develops for-profit real estate, so it is only natural to expect a certain level of capital gains to emerge in the segment over the longer run.

**Our forecasts**

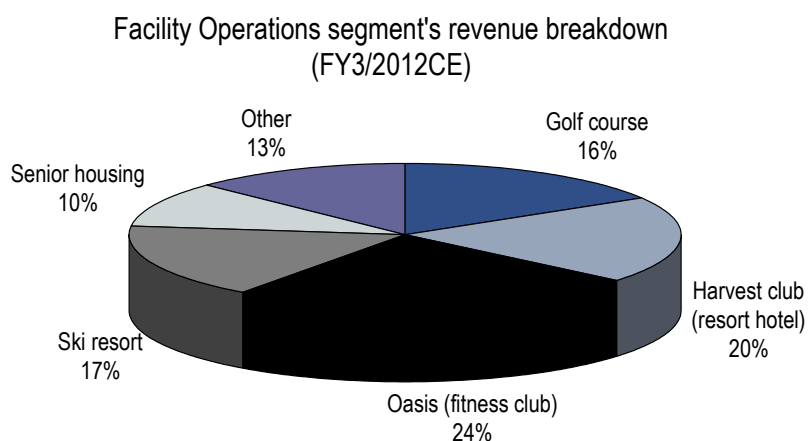
We forecast FY3/13 condominium sales of around ¥112bn (2,900 units booked as sales, unit price of ¥38.5mn) and FY3/14 sales of around ¥138bn (3,000 units, unit price of ¥46mn). We model segment OP of ¥6.0bn in FY3/12, ¥10.2bn in FY3/13, and ¥14.5bn in FY3/14.

**Room for growth in Harvest Club and senior-citizen residential operations**

## Facility operations

Tokyu Land is aiming for OP growth of ¥2.5bn versus the FY3/12 company plan of ¥0.7bn for facility operations. The period-start target of OP of ¥0.3bn was impacted by the eastern Japan earthquake and the FY3/12 segment plan includes anticipated negative impacts of ¥2.8bn to sales and ¥2.1bn to OP, so this is a segment in which Tokyu Land would in normal circumstances have been aiming at OP of ¥2bn or more in FY3/12, so Tokyu Land is aiming first to restore earnings to their normal level in each subsegment rather than aiming for earnings growth. Over the medium term, we think there is lots of room to improve earnings at Harvest Club, which sells resort memberships and which was hit by the disaster, and in senior-citizen housing, on growth in the number of units under management and greater efficiencies in management structures.

**Figure 2. Tokyu Land: Facility operations segment sales**



Source: Company data, Citi Investment Research and Analysis.

**Earnings growth on subcontracted sales  
and retail brokerage**

## Real estate agents

Tokyu Land is aiming for ¥2.4bn profit growth in the real estate agents segment versus the FY3/12 company plan of ¥2.5bn in OP. The medium-term plan of Tokyu Livable, the subsidiary that is the mainstay of the segment, calls for profit growth of around ¥0.9bn in consignment sales and around ¥0.7bn in real estate agents. In real estate agents, it is aiming for 11% revenue growth versus the FY3/12 company plan on growth in the number of transactions in retail brokerage. In wholesale brokerage, however, it envisions a 4% revenue decline. We think the wholesale brokerage target is rather conservative.

Recently the transaction volume in retail brokerage has been falling due to sluggish customer demand and the earnings outlook is increasingly murky. We factor in earnings running below company estimates from FY3/12 through FY3/14.

For more detail on recent developments at Tokyu Livable, please see our November 22 memo, [Tokyu Livable \(8879; NR\) - Results briefing—trends in retail brokerage in spotlight](#).

**Profits can be kept flat even on  
scheduled office sales**

## Leasing of real estate

Tokyu Land is aiming for FY3/14 OP of ¥33bn in this segment, unchanged from the FY3/12 target. Activia Properties, a retail and office J-REIT, is scheduled to list in FY3/13, and Tokyu Land expects to sell some of its leasing assets to the J-REIT. For instance, if it were to sell assets of ¥100bn to the J-REIT at a cap rate of 5.0%, it would lose out on NOI of around ¥5bn and OP of around ¥3.5bn. However, we believe that asset sales will not lead to a decline in OP, as 1) we think properties that are currently under construction will be included in assets sold, 2) Tokyu Land may sell properties acquired from outside, and 3) we expect fee revenue to grow on the expansion of assets held in trust.

As far as (2) is concerned, Tokyu Land acquired the JT Ebisu Minami Building in FY3/12 Q2 and some media reports suggest that it has signed a contract with Kirin Holdings to acquire a retail facility, Cocoe, in Amagasaki City.

Among new projects (Figure 4), Tokyu Land expects an aggregate OP contribution from projects completed in FY3/12 of c¥1.0bn and of c¥3.5bn (at normal occupancy rates) from those completed in FY3/13.

**Aiming for revenue growth in  
refurbishment**

## Contracted construction

Tokyu Land is aiming to raise OP in contracted construction, which is engaged in built-to-order housing, refurbishment, and landscaping, to ¥2.0bn from ¥0.5bn. The company plan for the segment is for FY3/12 sales of ¥66.5bn (+8% YoY) and OP of ¥0.5bn (¥36mn in FY3/11) but recently orders have been firm, rising 11% YoY in H1 (up 9% in built-to-order housing, up 3% in refurbishment, and up 18% in landscaping and other). The Kurashi Up refurbishment operations handled by Tokyu Homes have been expanding steadily and the company is aiming for further growth in the medium-term plan.

**Expects to continue to open new stores**

## Retail sales

In retail sales, Tokyu Land is aiming to raise OP to ¥2.5bn from ¥1.6bn. It expects to continue to open new Tokyu Hands stores and Hands Be compact outlets. As of end-September 2011, there were 21 Tokyu Hands stores and 15 Hands Be stores. For FY3/12, Tokyu Land is targeting same-store sales growth of 1.5% (down 0.4% in H1) but we believe it is anticipating only slight growth in the medium-term plan.



**We are modeling FY3/14 NP of over ¥17bn**

## NP levels

Tokyu Land is targeting FY3/12 NP of ¥31bn, but if we strip out ¥21.9bn in net extraordinary gains related to SPC consolidation (extraordinary gains of ¥48.3bn, extraordinary losses of ¥26.4bn), then only ¥9.1bn is left. While we expect OP to rise over the course of the medium-term plan, assuming that the interest rate burden will be almost flat and that Tokyu Land keeps extraordinary items below a certain scale (extraordinary losses of ¥5.0bn have already been factored into the FY3/12 plan), then we estimate that FY3/14 NP excluding minority interest will exceed ¥17bn in FY3/14.

**Plans investments of ¥300bn**

## Investment and interest-bearing debt

Tokyu Land is planning investment of around ¥300bn over the three years of the medium-term plan, of which the company has commented that around ¥200bn will be in real estate sales and ¥100bn in leasing of real estate and facility operations, etc. The real estate sales investment budget for FY3/12 is ¥72bn (¥52.5bn in condominiums and ¥19.5bn in built-for-sale office buildings) and we think it assumes that largely similar levels of investment will continue. This ¥300bn figure is what the company has decided and will not necessarily equate to the cash outflow.

**Investments can be provided for via profits and investment returns**

If we assume that in the three years of the medium-term plan NP will amount to an annual average of around ¥13bn and annual depreciation to around ¥22bn, then Tokyu Land should be able to generate around ¥100bn in cash flow. We think that investment in built-for-sale operations, when looked at net of fund recovery on an annual basis, will not result in big cash outflows and given this and the recovery of funds from the sale of assets to the J-REIT (over ¥100bn), we think Tokyu Land will be fully able to invest while paying down interest-bearing debt.

We assume interest-bearing debt of ¥1.0trn at end-FY3/14, versus ¥1.075trn at end-FY3/12 on the company's assumption.

**NP to rise in FY3/12 on SPC consolidation**

## FY3/12 earnings outlook

The FY3/12 company plan anticipates YoY declines in sales, OP, and RP. However, Tokyu Land is budgeting for a rise of approximately 2.7x YoY in NP, on the booking of net extraordinary gains related to SPC consolidation (¥48.9bn in extraordinary gains and ¥27.0bn in extraordinary losses).

**Full-year plan revised up at H1**

Tokyu Land announced H1 results on November 4 and at the same time revised up its full-year earnings targets. It lifted its full-year OP target to ¥43bn from ¥40bn and its RP target to ¥27bn from ¥21bn, with contributions to the ¥3bn OP hike coming from leasing of real estate (+¥2.1bn), facility operations (¥0.4bn), and retail sales (¥0.3bn).

**Drop-out of gains on SPC sale in FY3/11 the main cause of the decline in earnings**

## Leasing of real estate segment

The anticipated ¥26.7bn YoY decline in earnings in this segment mainly breaks out as follows: 1) the drop-out of gains on the sale of an SPC in FY3/11 (-¥34.0bn, of which ¥30.2bn comes from SPC consolidation), 2) lower profits on lower revenue from existing properties (-¥2.2bn), 3) lower loss disposals than in FY3/11 (+¥1.4bn<sup>1</sup>), 4) SPC consolidation (+¥8.7bn<sup>2</sup>), 5) new and full-year operations of new projects,

<sup>1</sup> Loss of ¥1.6bn booked in FY3/11, loss of ¥0.2bn anticipated for FY3/12

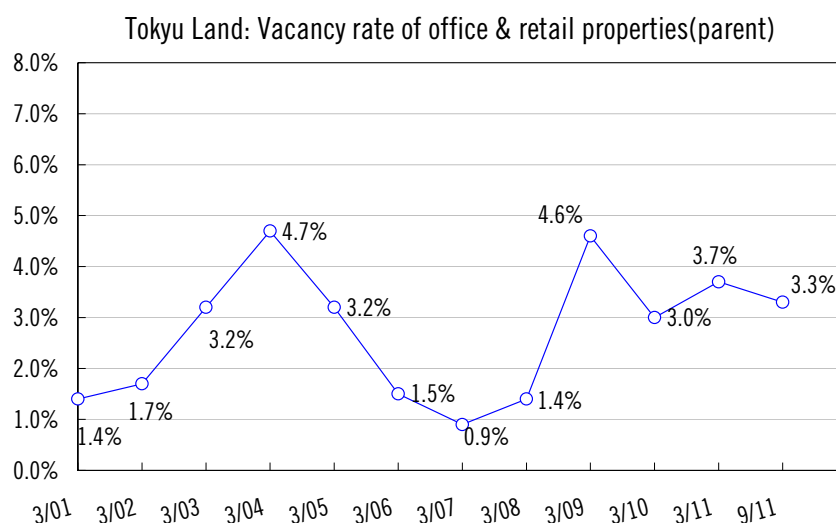
<sup>2</sup> Previously, the company recorded dividends from its equity stake in its SPCs as sales or OP. As a result of consolidation, however, it now records leasing income or cost of revenue from operations (as it would for a regularly owned building). However, with the consolidation of the SPCs, liabilities and interest payments rise, so there will be no change at the RP level.



chiefly Futako Tamagawa and Abeno (+¥1.5bn, we estimate), and 6) lower subsidiary earnings (¥2.0bn, we estimate). The decline in profits from existing properties includes the Uchisaiwaicho Tokyu Building and the Ebisu Tokyu Building, from which major tenants have departed, but Tokyu Land is making steady progress with the leasing of both properties.

Tokyu Land expects the vacancy rate to be more or less flat at end-FY3/12 from 3.3% at end-September 2011.

**Figure 3. Tokyu Land: Vacancy rate**



Source: Company data, Citi Investment Research and Analysis.

**Figure 4. Tokyu Land: Major projects**

Project	Opening	Type	GFA (m2)
Totsuka Tokyu Plaza	4/2010	Owned	71,000
Kasumigaseki Tokyu Bldg.	11/2010	SPC	19,000
Futakotamagawa RISE Office	12/2010	Owned	28,000
Shibuya Center Piece	2/2011	SPC	7,000
Futakotamagawa RISE Shopping Center	3/2011	Owned	116,000
Osaka Komatsubara Project	3/2011	SPC	20,000
Abeno Q's MALL	4/2011	Sublease/Owned	184,000
Luogo Shiodome	FY3/2012	SPC	9,000
Ikebukuro Higashiguchi Tokyu Bldg.	FY3/2012	Owned	5,000
Omotesando Project	FY3/2013	SPC	12,000
Minami Aoyama 3-chome 1ban Project	FY3/2013	SPC	8,000
Meguro 1-chome Project	FY3/2013	NA	22,000
Ginza	Undecided	SPC	Undecided
<b>Total</b>			<b>501,000</b>

Note: GFA includes parts of projects owned by other parties. The Osaka Komatsubara Project was sold in March.  
Source: Company data, Citi Investment Research and Analysis.

## Real estate sales segment

### Earnings growth despite valuation losses

FY3/12 guidance calls for real estate sales segment sales of ¥119.8bn and OP of ¥5.9bn (operating margin of 4.9%). The company expects segment OP growth, thanks to a reduction in the valuation loss on inventory assets to ¥2.2bn from ¥8.1bn in FY3/11, although it also projects a 7% decline in condo sales volume (to 2,459 units from 2,637 units). Tokyu Land expects condo sales (the main source of segment revenue) to amount to ¥92.3bn (2,459 units booked as sales with an average price of ¥37.5mn). This includes 483 units to be sold in single blocks. The contract rate on the remaining, normal built-for-sale units stood at 76% as of end-September.

## Other segments

The real estate for leasing and real estate sales segments account for around 80% of the company's FY3/12 OP forecast of ¥43bn (prior to factoring in eliminations or corporate). OP guidance for the other segments are ¥4.9bn for property management, ¥2.5bn for real estate agents, ¥1.6bn for retail sales, ¥0.5bn for contracted construction, and ¥0.7bn for facility operations.

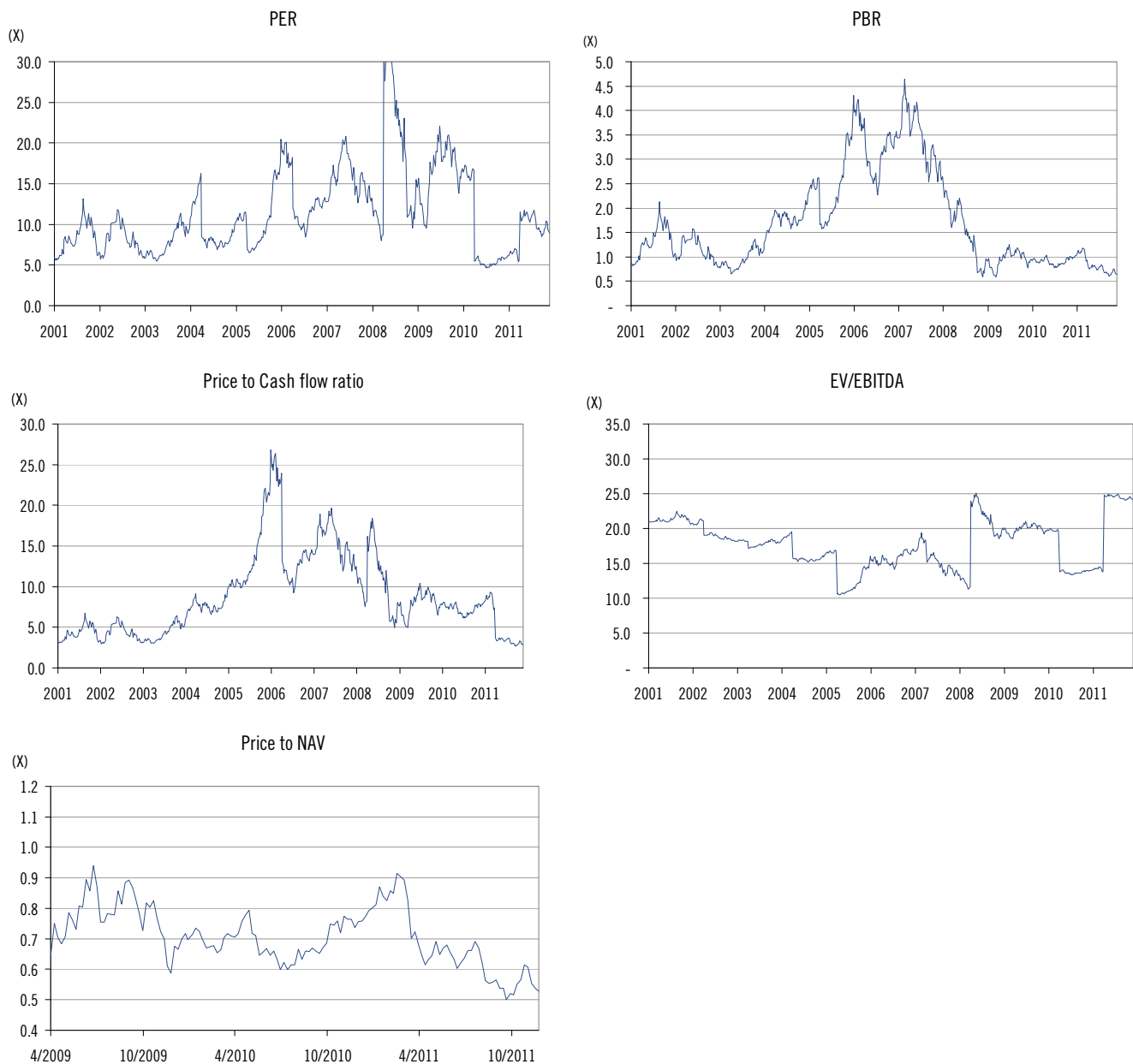
The company foresees higher sales but lower profits from property management (higher sales thanks to an increase in the number of units managed, lower profits owing to costs to improve service quality), lower sales and lower profits from real estate agents (owing to a reduced number of consignment sales), higher sales and higher profits from retail sales (thanks to the opening of new branches and increased sales at existing branches), and higher sales and higher profits from contracted construction (thanks to the transfer of the Tokyu Community renovation project to this segment from property management).

For the facility operations segment, the company foresees a ¥1.9bn increase in sales but a ¥0.2bn decline in OP. It expects revenues from senior-citizen housing to increase ¥1.4bn, and also projects modest growth in revenues from golf clubs and Tokyu Sports Oasis sports clubs. It projects that revenues from Harvest Club (resort memberships) will decline 3% YoY, to ¥11.7bn from ¥12bn.

## Establishing J-REITs

Tokyu Land I has announced that it is looking at listing a retail/office J-REIT and a residential JREIT. It plans to list the retail/office J-REIT, Activia Properties, in FY3/13. It expects this J-REIT to have ¥100-200bn in assets by the time it lists. Tokyu Land is now preparing for the listing of its residential J-REIT, Comforia Residential.

**Figure 5. Tokyu Land: Valuations**



Note. NP used in calculating PER =  $(RP \times (1 - \text{effective tax rate}) - \text{minority interests})$ , CF used in calculating PCFR = NP + depreciation, EV/EBITDA =  $(\text{gross liabilities} + \text{market cap} - \text{cash and deposits}) / \text{EBITDA}$ .

Source: Company data, Nikkei Quick, Citi Investment Research and Analysis.

Figure 6. Tokyu Land: Key financial data

(¥mn)	3/2009A	3/2010A	3/2011A	3/2012E	3/2013E	3/2014E	3/2012CE
<b>Sales</b>	<b>574,361</b>	<b>552,067</b>	<b>571,443</b>	<b>554,200</b>	<b>580,700</b>	<b>619,100</b>	<b>555,000</b>
YoY	-9.3%	-3.9%	3.5%	-3.0%	4.8%	6.6%	-2.9%
<b>Operating profit</b>	<b>34,990</b>	<b>35,469</b>	<b>62,502</b>	<b>43,500</b>	<b>49,200</b>	<b>58,400</b>	<b>43,000</b>
YoY	-57.4%	1.4%	76.2%	-30.4%	13.1%	18.7%	-31.2%
Real Estate Sales	4,074	-14,564	-1,619	6,000	10,200	14,500	5,900
Contracted Construction	-2,898	-1,550	36	600	800	1,800	500
Retail Sales	588	237	847	1,700	2,200	2,500	1,600
Leasing of Real Estate	34,331	49,999	59,682	33,500	32,000	33,000	33,000
Property Management	3,945	4,435	5,077	5,000	5,200	5,400	4,900
Resorts	1,266	1,448	924	700	1,400	2,600	700
Real Estate Agents and Other Businesses	-1,241	416	2,953	2,200	3,100	4,100	2,500
Other	--	--	213	0	300	500	0
(Elimination/corporate)	-5,077	-4,953	-5,613	-6,200	-6,000	-6,000	-6,200
Nonoperating income	1,222	1,102	1,034	1,000	1,000	1,000	
Nonoperating expense	8,537	8,397	8,619	16,900	16,100	16,000	
<b>Recurring profit</b>	<b>27,674</b>	<b>28,174</b>	<b>54,916</b>	<b>27,600</b>	<b>34,100</b>	<b>43,400</b>	<b>27,000</b>
YoY	-63.3%	1.8%	94.9%	-49.7%	23.6%	27.3%	-50.8%
Extraordinary gains	2,978	3,630	2,225	49,000	500	500	
Extraordinary loss	6,876	3,750	35,582	29,000	3,000	3,000	
Net pretax profit	23,776	28,054	21,559	47,600	31,600	40,900	
<b>Net profit after tax</b>	<b>10,192</b>	<b>11,058</b>	<b>11,597</b>	<b>31,640</b>	<b>13,580</b>	<b>17,570</b>	<b>31,000</b>
YoY	-64.5%	8.5%	4.9%	172.8%	-57.1%	29.4%	167.3%
EPS (diluted) (¥)	19.2	20.8	21.8	59.6	25.6	33.1	
DPS (¥)	8.0	7.0	7.0	7.0	7.0	7.0	7.0
Margin (%)							
-Operating profit	6.1	6.4	10.9	7.8	8.5	9.4	7.7
Real Estate Sales	2.6	-12.3	-1.1	5.0	7.3	8.7	4.9
Contracted Construction	-4.7	-2.6	0.1	0.9	1.2	2.5	0.8
Retail Sales	0.7	0.3	1.1	1.9	2.3	2.5	1.8
Leasing of Real Estate	30.7	37.1	42.6	27.1	27.1	27.7	26.7
Property Management	5.4	5.9	7.0	6.7	6.9	7.0	6.6
Resorts	2.1	2.5	1.6	1.2	2.3	4.3	1.2
Real Estate Agents and Other Businesses	-3.0	1.0	7.8	6.0	8.0	10.1	6.6
Other	--	--	2.9	0.0	3.8	6.3	0.0
-Recurring profit	4.8	5.1	9.6	5.0	5.9	7.0	4.9
-Net profit after tax	1.8	2.0	2.0	5.7	2.3	2.8	5.6
<b>Cash flow</b>							
Cash flow from operations	13,354	72,476	66,178	30,690	22,330	42,720	
(Depreciation)	13,291	13,228	14,882	21,600	22,000	22,000	21,600
Cash flow from investment	-82,971	-26,697	-146,178	-41,000	49,000	-36,000	
(Capex)	-47,106	-36,950	-192,909	-45,000	-50,000	-40,000	
Cash flow from finance	68,029	-30,859	78,990	4,177	-57,733	-12,733	
(Net increase/decrease of debt)	75,342	-16,391	78,826	6,910	-55,000	-10,000	
Cash and cash equivalent of end of year	30,337	46,609	43,963	37,830	51,426	45,413	
<b>Profitability</b>							
ROA	3.5%	3.5%	5.7%	3.0%	2.9%	3.5%	
ROE	5.2%	5.5%	5.6%	14.2%	5.6%	6.9%	
<b>Balance sheet</b>							
Net assets	222,480	230,986	239,828	271,035	285,581	305,518	
Total assets	1,035,731	1,055,364	1,161,419	1,741,936	1,702,982	1,714,419	
Interest-bearing debt	477,033	478,938	559,790	1,075,000	1,020,000	1,010,000	1,075,000
Book value per share (¥)	368	382	393	445	464	490	
NAV per share (¥)	--	480	480	540	550	580	
<b>NAV per share (¥, after tax)</b>	<b>--</b>	<b>490</b>	<b>510</b>	<b>540</b>	<b>560</b>	<b>580</b>	

Source: Company data, Citi Investment Research and Analysis.

## Tokyu Land

### Investment strategy

We rate the shares of Tokyu Land Buy (1), with a ¥510 target price. Office leasing is the company's mainstay business, and its office properties (held mainly by SPCs) are concentrated mainly in highly competitive central Tokyo. We see significant scope for Tokyu Land to leverage the infrastructure along the Tokyu railway lines and for its involvement in the longer-term development of the Shibuya Station area. We think the shares are currently undervalued vis-à-vis medium-term earnings growth potential.

### Valuation

Our ¥510 target price is based on an FY3/13E PER of 18.0x (excluding extraordinary items). It also corresponds to a NAV multiple of 1.00x (on FY3/11A NAV). We think this share price appropriate given 1) PER tends to be 15x or more in periods of earnings recovery and 2) balance with NAV.

### Risks

We believe potential risks to investing in Tokyu Land include earnings deterioration resulting from sluggishness in the office leasing and condo sales markets and the potential for short-term valuation fluctuations in response to changes in financial market conditions.

If the impact from any of these factors differs from our expectations, the share price could diverge from our target price.

## Appendix A-1

### Analyst Certification

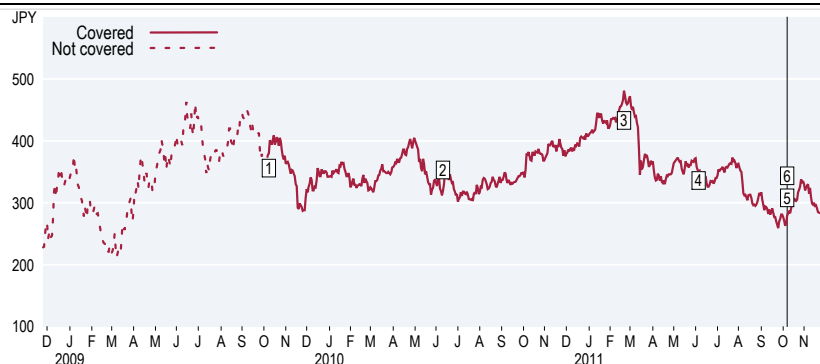
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#### Tokyu Land (8815)

#### Ratings and Target Price History Fundamental Research

Analyst: Yoshizumi Kimura  
Covered since October 8 2009



	Date	Rating	Target Price	Closing Price
1	8-Oct-09	*1M	*550	380
2	10-Jun-10	1M	*500	319

	Date	Rating	Target Price	Closing Price
3	21-Feb-11	1M	*530	481
4	6-Jun-11	1M	*510	351

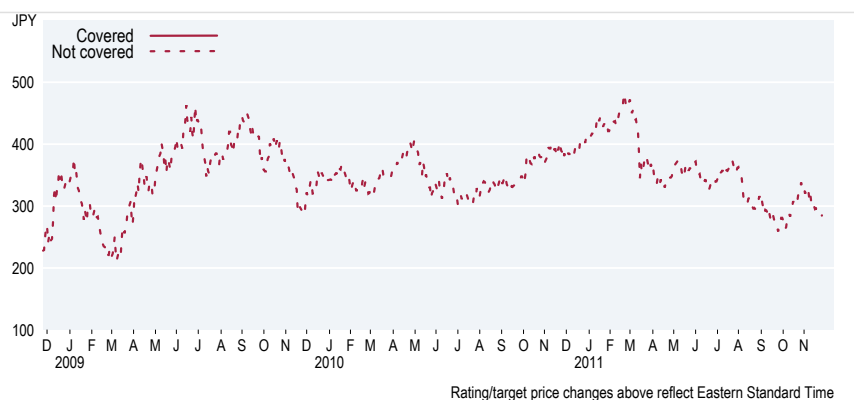
	Date	Rating	Target Price	Closing Price
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*1	510	279

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

**Tokyu Land (8815)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Yoshizumi Kimura  
Covered since October 8 2009



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45%	42%	37%	50%	43%	46%

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10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

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