

Sumitomo Real Estate Sales (8870; NR)

Alert: Non-rated—Holds FY3/13 results briefing

■ Industry Overview

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- **Business environment** — Sumitomo Real Estate Sales held a results briefing on May 24. Previous to this, on May 13 the company announced a three-year medium-term plan that will run through FY3/16. In this plan, the company anticipates annual OP growth of nearly 15% (Figure 1). The retail brokerage was the main reason for a guidance undershoot in FY3/13 (OP was ¥1bn below plan) and has been slow to recover. The company says this was due to 1) a poorly conceived advertising strategy and 2) front-line managers being insufficiently motivated. In response, Sumitomo Real Estate Sales is considering measures like the implementation of a region-specific advertising strategy and organizational reforms. The company also noted that it expects recovery for its wholesale brokerage unit as it has received large-scale orders, including from the public sector.
- **Brokerage results** — In FY3/13 the core brokerage business posted operating revenue of ¥46.8bn (+2% YoY, guidance was ¥48.6bn and the initial plan was ¥50.6bn). This breaks down to 33,180 transactions (+5.5% YoY), an average price of 25.9mn (-9%), a transaction value of ¥858.9bn (-4%), and a commission rate of 5.45% (versus 5.15% a year earlier). Parent operating revenue breaks down to ¥45bn for retail (+¥3.6% YoY) and ¥1.7bn for wholesale (-29%). The decline in average price was due to lower wholesale revenue.
- **Brokerage forecasts** — For FY3/14 the company expects operating revenue of ¥50.5bn (+8% YoY). This assumes 5.3% growth in transactions, 3.0% growth in the average price (+8.4% for transaction value), and a commission rate of 5.42%. Parent operating revenue breaks down to ¥48.1bn for retail (+7.0%) and ¥2.2bn for wholesale (+29.6%). Retail transactions (contract base), a leading indicator for earnings, were up 5.2% in March and 11.2% in April.
- **Brokerage assumptions in medium-term plan** — The aggregate target in the three-year plan is 0.11mn transactions at an average price of ¥27.4mn (transaction value of ¥3.02trn). Based on FY3/13 results average annualized growth rates would work out to 5.1% for transactions and 2.9% for the average price (8.1% for transaction value).
- **Share price** — On the May 23 close of ¥5,560 the shares are trading on a PER of 19.2x FY3/14CE EPS of ¥290, a PBR of 2.16x FY3/13A BPS of ¥2,588, and a dividend yield of 1.8% (on FY3/14CE DPS of ¥100). RoE (FY3/14CE NP/FY3/13A shareholders' equity) is 11%.

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Figure 1 1. Sumitomo Real Estate Sales medium-term plan

(¥mn)	3/08-3/10 Actual	3/11-3/13 Actual (A)	3/14-3/16 CE (B)	(B)-(A)	(B)/(A)-1	CAGR	3/13 Actual	3/14 CE
Sales	177,400	174,169	201,500	27,331	16%	8.3%	57,191	61,800
Brokerage	133,500	136,134	163,100	26,966	20%	7.6%	46,835	50,527
Consignment sales	17,000	13,902	14,300	398	3%	7.0%	4,161	4,341
Leasing	7,500	5,993	5,900	-93	-2%	7.0%	1,977	1,955
Real estate sales	18,500	17,730	18,000	270	2%	20.1%	4,114	5,000
Other	1,900	1,769	1,600	-169	-10%	-4.2%	581	545
(elimination/corporate)	-1,000	-1,359	-1,400	-41	3%	-1.2%	-478	-487
	34,600	35,572	47,500	11,928	34%	14.6%	11,991	13,600
OPM	19.5%	20.4%	23.6%				21.0%	22.0%
Brokerage	37,700	39,013	51,200	12,187	31%	12.5%	13,429	15,174
Consignment sales	2,500	2,359	2,800	441	19%	6.4%	823	825
Leasing	4,100	2,975	2,800	-175	-6%	-2.7%	985	920
Real estate sales	600	815	900	85	10%	—	-29	150
Other	800	765	600	-165	-22%	-11.8%	256	220
(elimination/corporate)	-11,100	-10,355	-10,800	-445	4%	1.8%	-3,473	-3,665
RP	35,500	35,476	47,500	12,024	34%	14.5%	11,994	13,600
NP	20,500	20,572	29,300	8,728	42%	15.0%	7,331	8,300

Note: CAGR based on FY3/13 actuals.

Source: Company data, Citi Research.

Appendix A-1

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