Sekisui House (1928)

Upgrading to Buy: Core ops doing well, China concerns priced in

- **Exceptional earnings momentum for the sector** — We lower our target price to ¥800 (FY1/14E EV/EBITDA multiple of 5.0x) from ¥850 (FY1/14E EV/EBITDA multiple of 5.5x) to reflect the fall in marketwide multiples but we upgrade to Buy from Neutral. We think Sekisui House can deliver exceptional earnings momentum for the sector as it maintains high margins in the built-to-order detached houses and rental houses segment and eliminates losses in condominiums and overseas operations. We see the shares staging a real rally of their undervalued PBR of 0.6x (FY1/12E) as visibility on China operations improves toward year-end and excess concerns are swept away.
- **Top-line growth in homebuilding** — In the subcontracted homebuilding operations of detached houses and rental houses, which account for approximately 70% of consolidated OP, we see impressive earnings being maintained on top-line growth, especially in the Tohoku region, and a stable cost structure. We model annual OP growth of 12% from FY1/13 to FY1/15, in part aided by condominiums and overseas operations moving into the black.
- **Asset risks in perspective** — We estimate that Sekisui House's unrealized gains/losses on held-for-sale real estate and fixed assets are as follows: 1) –¥10bn on Chinese held-for-sale real estate, 2) –¥15bn on Grand Front Osaka, and 3) +¥17.1bn on leased real estate excluding Grand Front Osaka. Even taking into account ¥27.8bn in pension reserve shortfalls, we pit the maximum impairment risk on FY1/12 net assets of ¥750.4bn at around ¥40bn. Assuming net assets of ¥710bn, BPS would be ¥1,048 and the PBR 0.64x, we consider very low given the extent of earnings improvement.
- **Where are the catalysts?** — We see 1) the announcement of a new medium-term management plan (September 2012) and 2) the easing of uncertainties over China OP on the start of sales (November 2012) as triggers for an advance in the shares.

Consol.	Sales		OP			RP		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	x
1/11A	1,488,369	10.0	56,354	nm	3.8	56,271	nm	30,421	nm	45	14.9
1/12A	1,530,577	2.8	70,897	25.8	4.6	70,075	24.5	28,962	-4.8	43	15.6
1/13CE	1,650,000	7.8	80,000	12.8	4.8	79,500	13.4	42,000	45.0	63	10.7
1/13E	1,628,700	6.4	82,700	16.6	5.1	82,200	17.3	43,510	50.2	64	10.4
1/13RE	1,633,600	6.7	82,800	16.8	5.1	82,300	17.4	43,570	50.4	65	10.4
1/14E	1,699,900	4.4	91,500	10.6	5.4	91,300	11.1	49,900	14.7	74	9.1
1/14RE	1,716,500	5.1	94,200	13.8	5.5	94,700	15.1	51,840	19.0	77	8.7
1/15E	1,750,000	2.9	97,500	6.6	5.6	97,600	6.9	53,490	7.2	79	8.4
1/15RE	1,764,700	2.8	99,500	5.6	5.6	101,000	6.7	55,430	6.9	82	8.1

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

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy	**1**
from Neutral	
Price (13 Jun 12)	¥669
Target price	¥800
from ¥850	
Expected share price return	19.6%
Expected dividend yield	3.7%
Expected total return	**23.3%**
Market Cap	¥449,346M
	US$5,649M

Price Performance
(RIC: 1928.T, BB: 1928 JP)

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

1928.T: Fiscal year end 31-Jan — **Price: ¥660; TP: ¥800; Market Cap: ¥443,301m; Recomm: Buy**

Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E
Sales revenue	1,488,369	1,530,577	1,633,600	1,716,500	1,764,700
Cost of sales	-1,231,161	-1,255,253	-1,331,100	-1,394,600	-1,433,400
Gross profit	257,208	275,324	302,500	321,900	331,300
Gross Margin (%)	17.3	18.0	18.5	18.8	18.8
EBITDA	**72,738**	**88,932**	**101,800**	**115,200**	**120,500**
EBITDA Margin (%)	4.9	5.8	6.2	6.7	6.8
Depreciation	-16,383	-18,034	-19,000	-21,000	-21,000
Amortisation	0	0	0	0	0
EBIT	**56,355**	**70,898**	**82,800**	**94,200**	**99,500**
EBIT Margin (%)	3.8	4.6	5.1	5.5	5.6
Net interest	2,158	2,648	1,800	1,800	1,800
Non-op/Except	-2,242	-3,471	-2,300	-1,300	-300
Recurring profit	**56,271**	**70,075**	**82,300**	**94,700**	**101,000**
Tax	-23,371	-33,217	-35,730	-39,860	-42,570
Extraord./Min.Int./Pref.div.	-2,479	-7,896	-3,000	-3,000	-3,000
Reported net profit	**30,421**	**28,962**	**43,570**	**51,840**	**55,430**
Net Margin (%)	2.0	1.9	2.7	3.0	3.1
Core NPAT	30,421	28,962	43,570	51,840	55,430

Per share data	2011	2012	2013E	2014E	2015E
Reported EPS (¥)	45	43	65	77	82
Core EPS (¥)	45	43	65	77	82
EPS* (¥)	43	41	62	74	79
DPS (¥)	21	20	25	31	33
CFPS (¥)	126	39	41	85	96
FCFPS (¥)	93	-6	-26	18	30
BVPS (¥)	1,091	1,107	1,150	1,199	1,250
Wtd avg ord shares (m)	676	675	675	675	675
Wtd avg diluted shares (m)	676	675	675	675	675

Growth rates	2011	2012	2013E	2014E	2015E
Sales revenue (%)	10.0	2.8	6.7	5.1	2.8
EBIT (%)	nm	25.8	16.8	13.8	5.6
Core NPAT (%)	nm	-4.8	50.4	19.0	6.9
Core EPS (%)	nm	-4.7	50.4	19.0	6.9

Balance Sheet (¥m)	2011	2012	2013E	2014E	2015E
Cash & cash equiv.	151,988	174,524	143,862	139,490	140,074
Accounts receivables	35,545	36,530	40,000	40,000	40,000
Inventory	550,433	616,330	666,786	676,386	685,986
Net fixed & other tangibles	436,520	449,568	473,568	495,568	517,568
Goodwill & intangibles	9,809	14,331	14,330	14,330	14,330
Financial & other assets	157,013	154,545	155,442	157,342	160,242
Total assets	**1,341,308**	**1,445,828**	**1,493,988**	**1,523,116**	**1,558,200**
Accounts payable	149,714	138,537	148,537	148,537	148,537
Short-term debt	27,454	62,103	62,103	62,103	62,103
Long-term debt	184,550	132,660	132,660	132,660	132,660
Provisions & other liab	241,561	362,155	370,879	365,879	365,879
Total liabilities	**603,279**	**695,455**	**714,179**	**709,179**	**709,179**
Shareholders' equity	737,255	744,195	772,631	805,759	839,843
Minority interests	774	6,178	7,178	8,178	9,178
Total equity	**738,029**	**750,373**	**779,809**	**813,937**	**849,021**
Net debt	**60,016**	**20,239**	**50,901**	**55,273**	**54,689**
Net debt to equity (%)	8.1	2.7	6.5	6.8	6.4

Valuation ratios	2011	2012	2013E	2014E	2015E
PE (x)	14.7	15.4	10.4	8.7	8.1
PB (x)	0.6	0.6	0.6	0.6	0.5
EV/EBITDA (x)	6.3	4.7	4.1	3.8	3.6
FCF yield (%)	14.2	-0.9	-3.9	2.8	4.5
Dividend yield (%)	3.2	3.0	3.8	4.7	5.0
Payout ratio (%)	47	47	39	40	40
ROE (%)	4.2	3.9	5.7	6.6	6.7

Cashflow (¥m)	2011	2012	2013E	2014E	2015E
EBITDA	72,738	88,932	101,800	115,200	120,500
Working capital	-8,173	-82,739	-43,926	-9,600	-9,600
Other	20,496	20,113	-30,402	-48,260	-45,970
Operating cashflow	**85,061**	**26,306**	**27,472**	**57,340**	**64,930**
Capex	-21,936	-30,510	-45,000	-45,000	-45,000
Net acq/disposals	0	0	0	0	0
Other	947	-12,418	2,000	2,000	2,000
Investing cashflow	**-20,989**	**-42,928**	**-43,000**	**-43,000**	**-43,000**
Dividends paid	-8,786	-12,165	-15,134	-18,712	-21,346
Financing cashflow	**-60,132**	**38,002**	**-15,134**	**-18,712**	**-21,346**
Net change in cash	**3,354**	**17,541**	**-30,662**	**-4,372**	**584**
Free cashflow to s/holders	**63,125**	**-4,204**	**-17,528**	**12,340**	**19,930**

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

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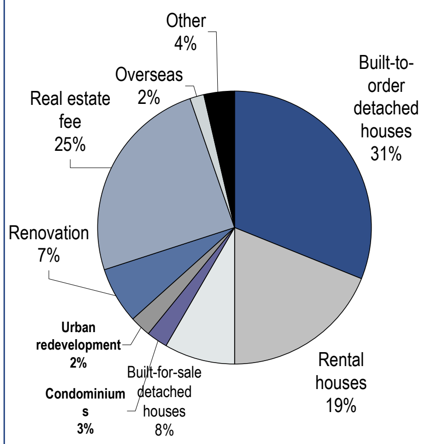
Investment Dashboard

Reasons to Buy

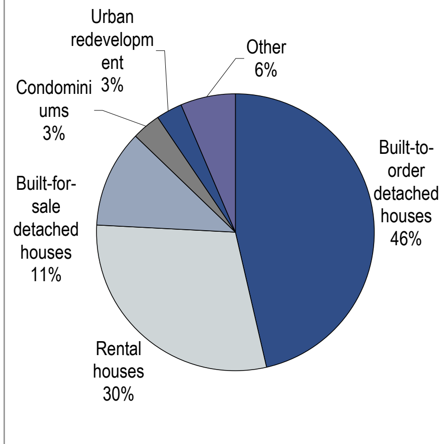
- We think Sekisui House can deliver exceptional earnings momentum for the sector (annual FY1/13-FY1/15 growth rate of 12%) as it maintains high margins in the built-to-order detached houses and rental houses segment and eliminates losses in condominiums and overseas operations
- We see RoE improving to 5.7% in FY1/13 and 6.6% in FY1/14 from 3.9% in FY1/12. Given this, we think the shares are being too undervalued at an FY1/12A PBR of 0.60x and an FY1/14E PER of 8.7x

Consolidated sales breakdown (FY1/12)



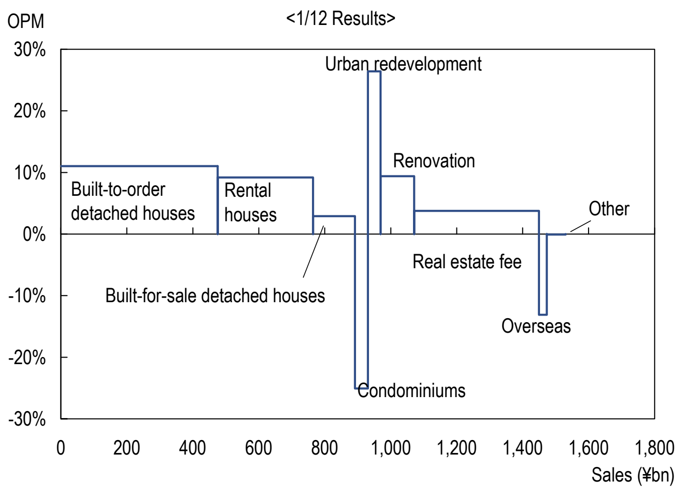
Source: Company data.

Parent sales breakdown (FY1/12)



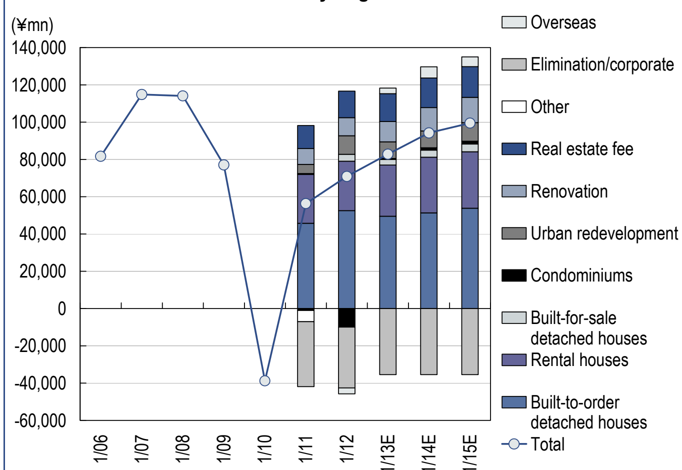
Source: Company data.

Business portfolio



Note: Does not include eliminations. Source: Company data.

OP by segment

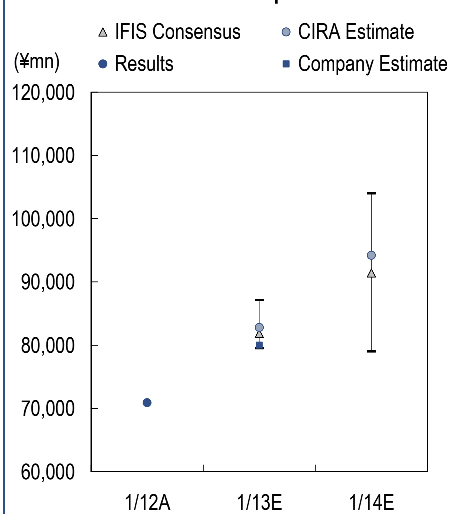


Source: Company data, Citi Investment Research and Analysis.

Alternate scenario: A more bullish case

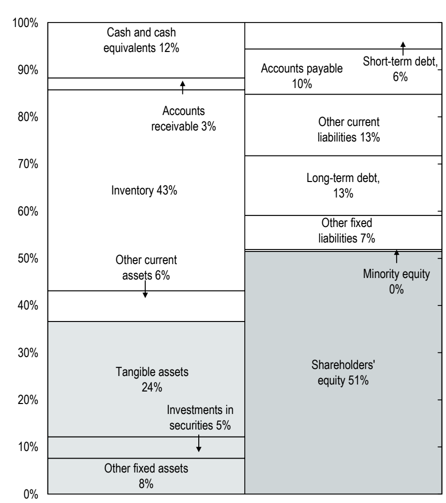
- If new housing starts overshoot our assumption
- If deterioration in Chinese real estate conditions is only slight and the Chinese operations contribute to earnings growth in line with the company plan
- If the above scenarios materialize, we would raise our earnings forecasts and target multiple and derive a theoretical share price of ¥900

OP forecast comparison



Source: Company data, IFIS (June 11), Citi Investment Research and Analysis.

Balance sheet (end-FY1/12)



Source: Company data.

Investment points

1) Why are you upgrading to Buy now?

In recent years, the shares have persistently underperformed peers

We initiated coverage of Sekisui House in our June 9, 2010 report, Housing sector: Initiation of coverage - Buy Daiwa House as housing industry enters new era, with a Neutral rating, citing its low levels of profitability versus past years. The shares are down 13% over the last year, in line with TOPIX. We believe this lackluster share price performance has been partly due to the company's inadequate explanation of the risks associated with the Chinese operations, which have been a concern for market participants. The shares have significantly underperformed peers Daiwa House and Daito Trust Construction.

Earnings are strong but valuations are too low

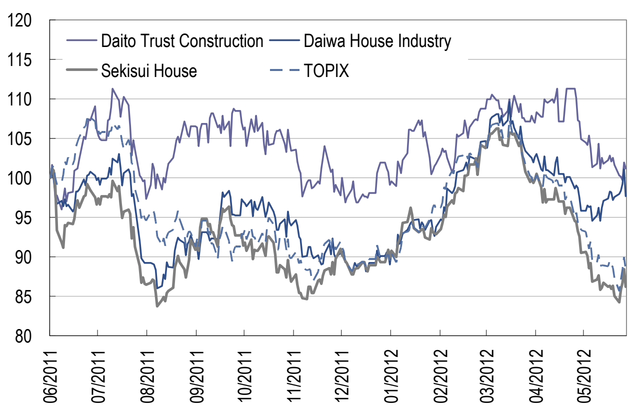
However, we think Sekisui House can deliver exceptional earnings momentum for the sector (we model an annual FY1/13-FY1/15 growth rate of 12%) as it maintains high margins in the built-to-order detached houses and rental houses segment and eliminates losses in condominiums and overseas operations.

As a result, we see RoE improving to 6.6% in FY1/14 from 3.9% in FY1/12 and the 10-year historical average of 5.2% (excluding FY1/10, when the company posted a net loss). Given this, we think the shares are being extremely undervalued at an FY1/12A PBR of just 0.6x and an FY1/14E PER of 8.7x.

One catalyst could be improved visibility on the Chinese operations

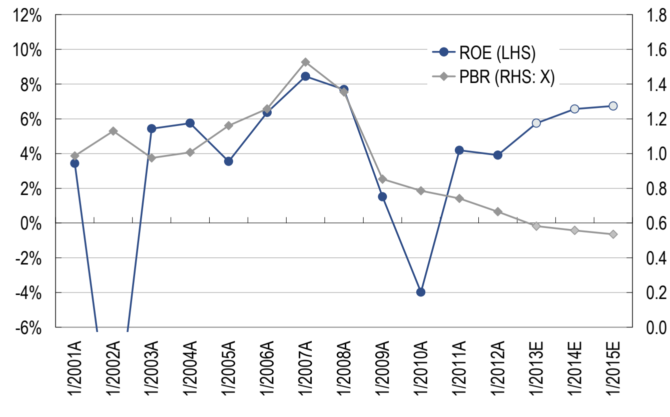
We anticipate improved visibility on the Chinese operations by year-end on the commencement of sales at Suzhou and Taicang. We conservatively put selling prices at Suzhou, Taicang, and Wuxi at 30% below where they would have been at the time of the lot acquisitions and Shenyang at 20% below, but we see the impact on net assets as being limited. Some market players are fretting that the total investment in China of around ¥100bn will all be impaired but we see these excessive concerns as being swept away when sales actually start.

Figure 1. Sekisui House: Share price performance (June 13, 2011 = 100)
Share price has been underperforming peers recently



Source: Nikkei Quick, Citi Investment Research and Analysis.

Figure 2. Sekisui House: PBR and RoE
RoE to steadily improve but PBR below historical levels



Note: PBR = Month-end share price average / period-end BPS. For FY1/13 and out we use the June 13 close of ¥669 / our period-end forecast BPS.
Source: Company data, Citi Investment Research and Analysis.

2) Can high profitability in the domestic subcontracted housing operations be maintained?

Operating margin improved to over 10%

We estimate that the operating margin in Sekisui House's subcontracted housing operations (formerly the built-to-order housing segment, currently the built-to-order detached houses and rental houses segments combined) improved to 10.7% in FY1/12 from 8.2% in FY1/10. In FY1/12, the operations' consolidated OP weighting rose to 76%. Moving forward, we expect the operations to maintain their impressive earnings power, supported by top-line growth, especially in Tohoku, and the stable cost structure.

Forecasting gradual growth in new housing starts

We model new housing starts of 858,000 (up 1.9% YoY) in FY3/13 and 883,000 (up 3.0%) in FY3/14. In FY3/13, while we anticipate gradual emergence of post-quake reconstruction demand, home-purchase support measures are being scaled back somewhat, so we foresee only a slight increase in new housing starts. In FY3/14, we expect disposable incomes to fall due to tax hikes to fund reconstruction and are concerned that home-purchasing ability will decline. However, we expect the YoY growth rate in housing starts to rise as reconstruction demand intensifies.

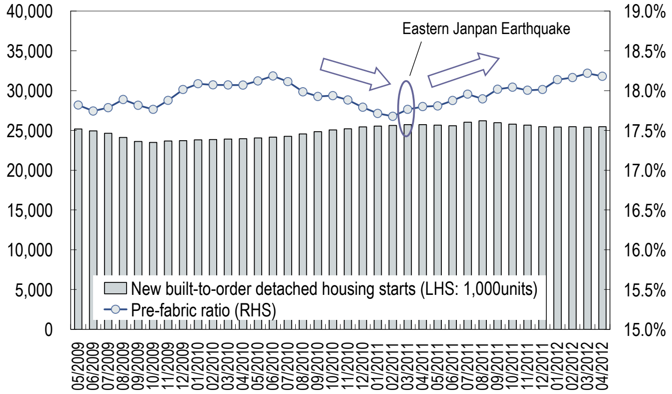
Majors' market share on an uptrend

Moreover, in the post-quake detached housing market, the share of the major homebuilders is rising. The percentage of owner-occupied (i.e., subcontracted detached housing) starts accounted for by the prefab construction method, which is a good proxy for the majors' market share, was on a downtrend in late 2010, as owner-occupied housing starts were recovering broadly, but since March 2011, when the eastern Japan earthquake occurred, it has been rising, albeit slowly. We expect it to rise moving forward, too, as 1) differences in procurement abilities with regard to building materials and construction personnel open up on confusion in supply chains in the wake of the earthquake and 2) increasing preference for the majors on the part of consumers, who are stressing quake-resistance.

Raising market share in Tohoku, benefitting from reconstruction demand

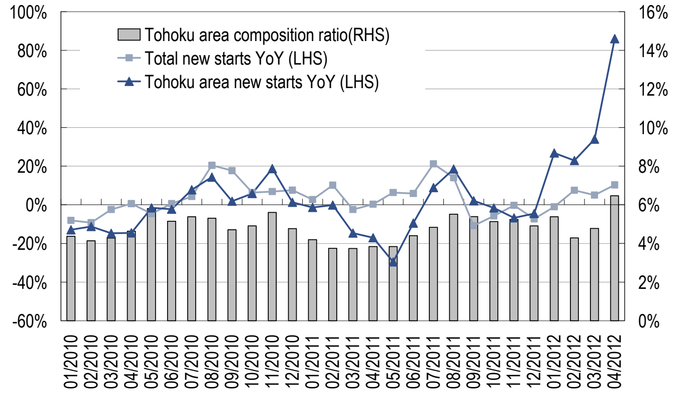
We see the Tohoku order ratio rising rapidly, to 9.5% in FY1/13 from 8.3% in FY1/12 and approximately 5% in FY1/11, with Sekisui House gaining market share. We believe the company's competitive edge is rising, on 1) the solid construction abilities of consolidated subsidiary Sekiwa Kensetsu and 2) the trustworthiness it garners as the largest homebuilder. We also think that the company's proactive support for reconstruction from soon after the quake, in part stemming from the fact that company president Toshinori Abe attended Tohoku Gakuin University and hails from the Tohoku marketing division. New housing starts in the Tohoku region have been rising rapidly since the start of 2012 and we think Sekisui House is likely to smoothly capture reconstruction demand, which has started to intensify.

Figure 3. Prefab ratio in owner-occupied starts: Majors' market share on an uptrend



Note: All 12MMAs.
Source: MLIT, Citi Investment Research and Analysis.

Figure 4. New housing starts in the six prefectures of Tohoku: Reconstruction demand gets going



Source: MLIT, Citi Investment Research and Analysis.

Margins likely to remain unusually high

As we noted in our January 10 report Housing sector - 2012 investment strategy: Caution on slowing profit growth in new housing businesses, tight labor supply/demand is likely to mean an increase in outsourcing costs at housing makers, which would likely be negative for margins. However, Sekisui House has construction capacity via its consolidated subsidiary Sekisui Construction, so it is relatively resistant to changes in the labor market. As such, we think margins will likely remain high.

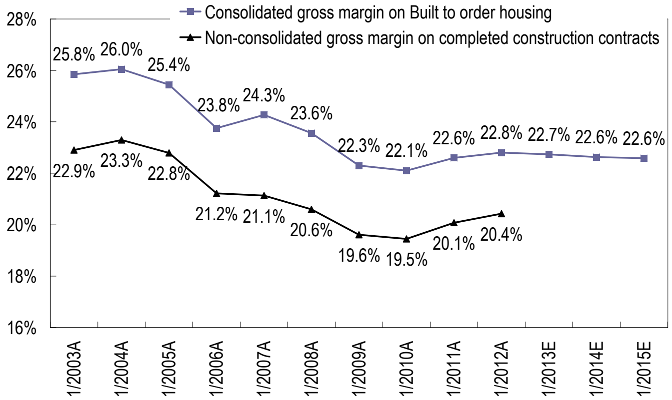
Historically the outsourcing cost weighting has seen little change

The profit margin for subcontracted housing operations (built-to-order detached housing + rental housing) is closely related to the parent completed construction margin. The latter peaked in FY1/04 and fell thereafter, but bottomed in FY1/10 and then improved for two consecutive years through FY1/12 (Figure 5). However, during that time the CoGS weighting for outsourcing (mainly construction costs), which makes up the largest portion of CoGS, was more or less unchanged. The reason the margin fell through FY1/10 was a rise in material costs and higher fixed costs via a decline in demand (Figure 6).

We look for the subcontracting margin to be flat from FY1/13

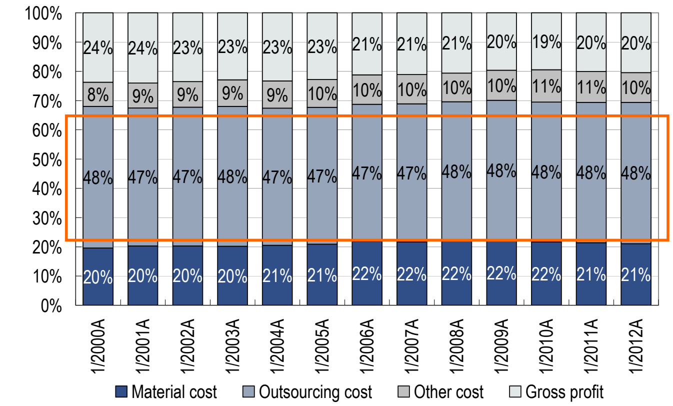
We believe the subcontracting margin will be more or less flat from FY1/13 for three key reasons. First, fixed costs have declined because the Shiga plant, one of the company's five main plants (with annual production capacity of about 7,600 units, or c20% of overall production capacity at the time), was closed in March 2009. Second, we anticipate gradual growth for the new build market owing to reconstruction demand. Finally, prices for materials like steel and cement do not look excessively overpriced.

Figure 5. Sekisui House: Parent gross margin on completed construction and consolidated gross margin for subcontracting operations—should be more or less flat going forward



Note: Figures for consolidated gross margin for subcontracting operations in FY1/12 and out are our estimates.
Source: Company data, Citi Investment Research and Analysis.

Figure 6. Sekisui House: Breakdown of parent completed construction costs—weighting for outsourcing costs saw little change in the past



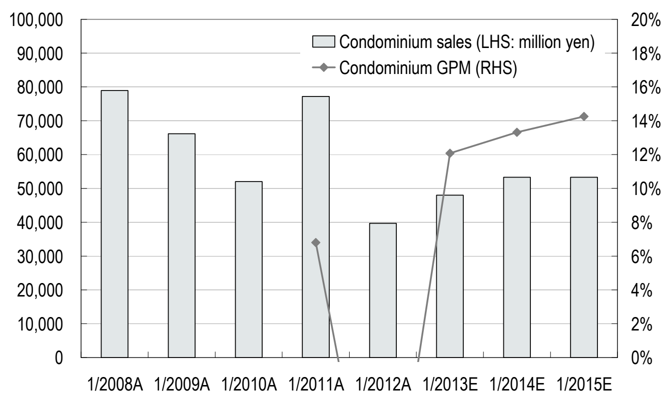
Source: Company data, Citi Investment Research and Analysis.

3) Will losses in the domestic built-for-sale condo business be eliminated?

We anticipate a return to profitability for the first time in four years

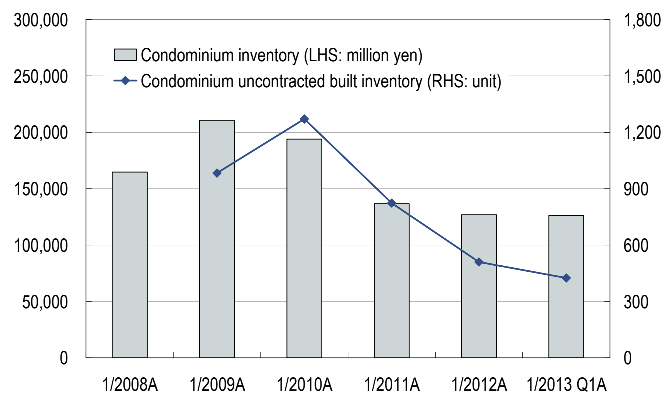
Operating losses in the condominium business came to ¥10bn in FY1/12, but we look for a profit of ¥0.5bn in FY1/13 and ¥1.3bn in FY1/14. That is, in FY1/13 we anticipate a return to profitability for the first time in four years as 1) the gross margin should improve gradually owing to progress in inventory adjustments and 2) sales look set to increase (Figures 7, 8).

Figure 7. Sekisui House: Condo earnings



Note: Parent gross margin for the condo business was not disclosed in FY1/10 and before, and sales for that period are our estimates.
Source: Company data, Citi Investment Research and Analysis.

Figure 8. Sekisui House: Condo inventory



Source: Company data, Citi Investment Research and Analysis.

Continued operating losses due to lack of inventory adjustment post-GFC

Sekisui House was hesitant to adjust prices even after the global financial crisis broke out in 2008 and condo prices weakened. As such, it was left with excessive inventory relative to its business size (for instance, end-FY1/09 inventory of real estate for sale was ¥210.7bn, while FY1/10 condo sales came to ¥52bn). In addition, purchasing volume was low after 2008 because Sekisui House was

involved in too many projects, in our view, so inventory reshuffling to bring in high-margin projects was delayed. As a result, while competitors saw V-shaped recoveries for their built-for-sale condo businesses in FY1/11 and FY1/12, Sekisui House continued to post valuation losses and losses on sales, forcing it to post operating losses in its condo operations.

With recent progress on posting valuation losses and reshuffling properties, we think gross margin improvement is likely

However, inventory now looks to be in line with that at competitors: inventory of real estate for sale as of end-FY1/12 was ¥126.9bn, while the company expects FY1/13 condo sales of ¥48bn. We expect gradual improvement in the gross margin for three reasons: 1) the firm has posted a total of ¥19bn in valuation losses since FY1/10; 2) we estimate that about 40% of current inventory was purchased in 2009 or later, after prices had fallen; and 3) the number completed units in stock for which there are no contracts as of yet is falling.

Sales likely to rise thanks to Grand Front Osaka

In addition, we forecast sales volume of about 1,050 units in FY1/13 and then 1,600 in FY1/14 (Grand Front Osaka accounts for 525 units of this total, and we anticipate the posting of sales on Sekisui House's 10% stake only). Sekisui House has purchased 100% of the land it needs for projects set to be posted to sales in FY1/14. The contract rate for units scheduled to be posted to sales in FY1/13 was about 35% at end-Q1, good progress relative to the c25% progress posted in Q1 the previous year.

4) What is the risk of deterioration in net assets?

Risk of deterioration seems limited; PBR looks low even with losses

We estimate unrealized gains/losses on real estate held for sale and fixed assets at Sekisui House at 1) losses of ¥10bn on Chinese real estate held for sale, 2) losses of ¥15bn for Grand Front Osaka, and 3) gains of ¥17.1bn on domestic real estate used in leasing (excluding Grand Front Osaka). Even with the ¥27.8bn pension shortfall, we think at most the firm will see a decline of about ¥40bn on the ¥750.4bn in net assets as of end-FY1/12. Assuming net assets of ¥710bn would suggest BPS of ¥1,048, and based on this Sekisui House's PBR is 0.64x. This looks markedly low in light of the company's earnings power.

China business a concern

We think Sekisui House valuations are low because of the significant concern in the market regarding China operations. Market participants would like to see a risk scenario in light of weakness for Chinese real estate prices, but thus far management and IR representatives have said in briefings and interviews that "we supply properties with significantly better specs than others in the surrounding area, so prices will not decline" or "we were able to purchase land cheaply with support from local governments, so we do not anticipate losses".

Bullish comments evoking history of losses

In the past, Sekisui House posted large losses in its domestic condo and urban development businesses despite bullish comments. Sekisui House's consistently bullish statements are not in accord with how many market participants view the external environment, and we think this has evoked the firm's history of posting development losses in the past. As a result, we have heard some extremely pessimistic views to the effect that Sekisui House could end up writing down the entire ¥100bn it has invested in China.

A replay of FY1/10?

However, we think current valuations suggest the shares have already priced in a decline of ¥100bn or more in net assets (Figure 9). If sales of units in China projects begin in Q4, we believe excessive concerns will be dispelled and share prices will likely correct. In the latter half of 2009, Sekisui House shares were in decline due to widely-held concerns about the same kind of asset risk, but when the firm posted a loss of about ¥65bn on real estate held for sale in January 2010 the shares rose sharply, apparently on the assumption that bad news had been exhausted.

Figure 9. Sekisui House: Implied BPS at different levels of net asset deterioration

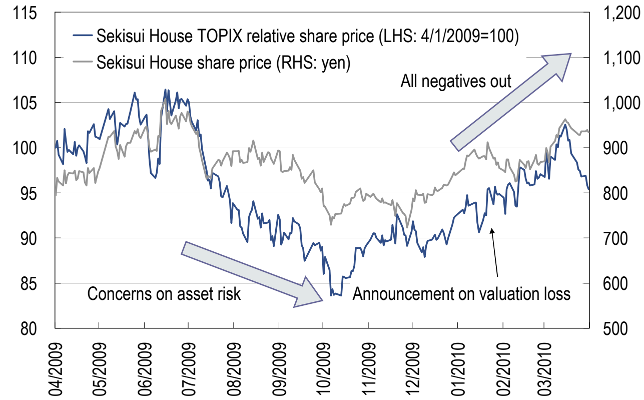
BPS (¥) (FY1/2012 Actual)	1,107
Share price (¥) (June 13)	

Appropriate PBR (X)	1.0	0.9	0.8	0.7
Implied BPS (¥)	**669**	**743**	**836**	**956**
Implied BPS — Actual BPS (¥)	-438	-364	-271	-152
Expected loss on net assets (¥mn)	**-294,481**	**-244,553**	**-182,143**	**-101,902**

※If we assume appropriate PBR as 0.8x, implied BPS is calculated as ¥828 based on current share price ¥669. Given the gap between implied BPS ¥836 and actual BPS ¥1,107, the market participants seem to factor in ¥182bn.loss on net assets.

Source: Company data, Citi Investment Research and Analysis.

Figure 10. Sekisui House: Share price between April 2009 and March 2010



Source: Nikkei Quick, Citi Investment Research and Analysis.

China: Total spending likely to rise to ¥80bn-¥100bn at end-FY1/13

Total spending in China came to ¥68.3bn at end-April 2012, which includes development projects in Suzhou, Wuxi, Taicang, and Heping (Shenyang) as well as a materials plant in Shenyang (opened in April 2012, total capex of ¥8bn). Sekisui House is expected to acquire land needed for the Beiling and Hunnan New District projects in Shenyang in FY1/13, which we estimate will push up total spending in China to ¥80bn-¥100bn.

Figure 11. Sekisui House: Main projects in China

Project	Suzhou	Taicang	Wuxi	Shengyan: Beiling	Shengyan: Hun Nan	Shengyan: Heping
Location	Suzhou	Taicang	Wuxi	Shengyan	Shengyan	Shengyan
Purpose	Condominium, Detached house	Condominium	Condominium, Detached house	Condominium, Detached house	Condominium, Detached house	Condominium, Hotel
Acquisition	FY1/2012 H1	FY1/2012 H1	FY1/2013 Q1	FY1/2013 H2	FY1/2013 Q2	FY1/2012
Construction start	04/2012	07/2012	12/2012	FY1/2013	FY1/2013	08/2011
Marketing start	FY1/2013 Q4	FY1/2013 Q4	FY1/2014	FY1/2014	FY1/2014	FY1/2014
Completion	FY1/2014～	FY1/2014～	FY1/2015～	FY1/2014～	FY1/2014～	FY1/2014～
Number of total units	Condo: 3,070 Detached house: 74	530	Condo: 720 Detached house: 100	Condo: 2,000 Detached house: 200	Condo: 1,450 Detached house: 150	Condo: 300 Hotel: 1 building

Note: Development schedules include our estimates in some cases.
Source: Company data, Citi Investment Research and Analysis.

China: real estate prices falling, but . . .

Demand is weak because of unprecedented efforts by the Chinese government to rein in the real estate market, and developers are aggressively cutting prices. As a result, in the July-September and October-December quarters of 2011 the housing ASP fell 7%-8%. In addition, our China real estate team says that prices are likely to continue declining due to increased supply and moves by developers to secure assets, resulting in a 10% ASP decline and 10%-15% decline in floor space sold in major urban markets between end-2011 and end-2012.

. . . government measures are easing and real demand is firm

However, right now the Chinese central government is taking a balanced approach between cutting housing prices and maintaining economic growth. While we think measures designed to rein in speculation like home-purchase restrictions (HPR) will continue going forward, we look for easing of measures on first-time homebuyers and those looking to upgrade (Figure 12). Also, there has been a marked recovery in sales volume in regions where developers have boldly cut prices, suggesting that latent demand (mostly real demand) is high even if real estate-related restrictions are not eased. Therefore, we think a scenario wherein the real estate market will

collapse, with prices falling 40%-50%, is unrealistic. For more, please see our May 29 report China Property - Twin Tailwinds; Sector Outperformance to Continue.

Figure 12. Recent moves by local governments to ease real estate restrictions

Date	Local Government	Measures
04/2012	Hohhot	Hohhot raised mortgage loan cap from public housing fund from RMB300k to RMB400k for individuals and from RMB400k to RMB500k for couples effective from 1 April
04/2012	Nanchang	Nanchang raised mortgage loan cap from public housing fund from RMB400k to RMB500k for individuals and from RMB500k to RMB600k for couples effective from 1 April
04/2012	Bengbu	Bengbu raised mortgage loan cap from public housing fund to RMB350k for individuals
04/2012	Karamay	Karamay raised mortgage loan cap from public housing fund from RMB 500k to RMB700k for individuals
04/2012	Zhongshan	Zhongshan set new average transaction price criteria at RMB7,696 psm for new homes in urban area and RMB6,290 psm in town area. Ordinary housing has to fulfill three criteria for preferential treatments, including: 1) development plot ratio >1; 2) transmission size below 120 sqm or total GFA below 144 sqm; and 3) actual transaction price lower than 1.44*required average transaction price. Hence, the new price cap for luxury housing shall be RMB11,082 psm for new homes in urban Zhongshan with immediate effect
04/2012	Wuhan	Wuhan allows some first-time home buyers to pay 20% downpayment with loans from the public housing fund, aiming to support first-time home purchases with the lowered downpayment requirement, and the new policy is limited to purchases of homes of no more than 90sqm and local residents who pay into the housing fund.
05/2012	Shenyang	Shortened min. contributory period to the public housing fund from previously 12 months to 6 months in order to be eligible for obtaining loans from the fund
Early May	Local governments	A number of local governments raised mortgage loan cap from public housing fund including Shandong Binzhou, Liaoning Shenyang, Henan Zhengzhou and Xinyang.
05/2012	Guangzhou	Guangzhou allows some first-time home buyers to pay 20% downpayment with loans from the public housing fund. Guangzhou aims to support first-time home purchases with the lowered downpayment requirement, and the new policy is limited to purchases of homes of no more than 90sqm and local residents who pay into the housing fund. The loan amount is capped at RMB500k for individuals or RMB800k per couple.
05/2012	Yangzhou	Yangzhou government delivered an incentive package which states homebuyers shall be receiving 0.6% subsidy should they buy flats with deco sized 90sqm or below, 0.5% for flats sized 90 - 120 sqm, or 0.4% for homes sized 120 - 144 sqm.
05/2012	Yingkou	City government of Yingkou in Liaoning province will spend >50m yuan this year to subsidize private home purchases by city officials as per China Business Journal reports. Subsidies are to produce ~400m yuan of housing sales in Yingkou City to be paid directly to developers. City's finance bureau declined to comment without superior's instructions.
05/2012	Xiamen	Local press reported the broadening the qualified buyers for home purchase in Xiamen but the local government finally denied.

Source: Hexun, Soufun, Citi Investment Research and Analysis.

China: Concerns ASP could decline even with start of sales for Suzhou and Taicang projects

Among the projects listed in Figure 11, sales of units at two projects are scheduled to begin in FY1/13 (Suzhou and Taicang). When it acquired land for the two projects, Sekisui House projected an average gross margin of 35% and operating margin of 20% for the two.

In our forecasts for the Suzhou and Taicang projects (scheduled to go on sale this year) as well as the Wuxi project, we conservatively assume ASPs 30% below what was expected when land was acquired, with average operating margins 10% lower and total losses about ¥10bn higher (with completion and the posting of earnings scheduled for FY1/14 and out). There are two main reasons for this: 1) Sekisui House acquired land for the Suzhou and Taicang projects when Chinese real estate pries were at their peak in FY1/12 H1; and 2) the HPR and other real estate restrictions were strictly applied at the Suzhou project in particular.

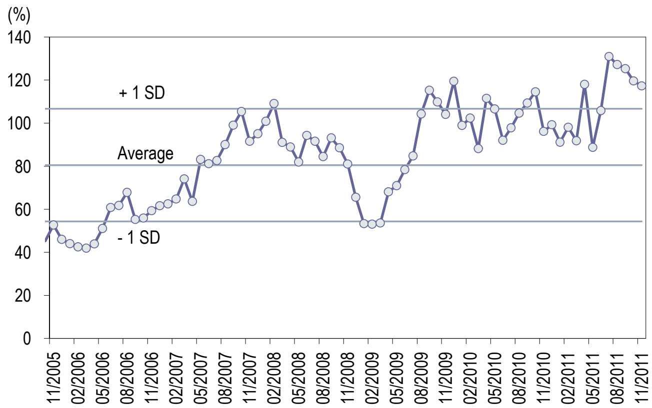
China: Although we expect a profit contribution from Shenyang projects, we do not factor in properties for which land has not been acquired

Sekisui House has yet to acquire land for its Beiling and Hunnan New Disctrict projects in Shenyang, and at this point there is no clear schedule for when units will go on sale or when construction will be completed. We understand the firm aims to begin posting sales from FY1/14. In Shenyang the home-purchasing restrictions are limited to the area inside the Second Ring Road, so real estate restrictions are not as strict as in Suzhou or Wuxi. In addition, home loan interest payments as a percentage of household disposable income is lower in Shenyang than in Suzhou, so we see relatively little downward pressure on sales prices (Figures 13, 14).

Accordingly, we think ASP for the Beiling and Hunnan projects, both of which lie outside of the Second Ring Road, are likely to stay at the level envisioned at the time of investment. As such, they should contribute to overall Sekisui House profits. However, we only factor the Heping project (inside of the Second Ring Road) into

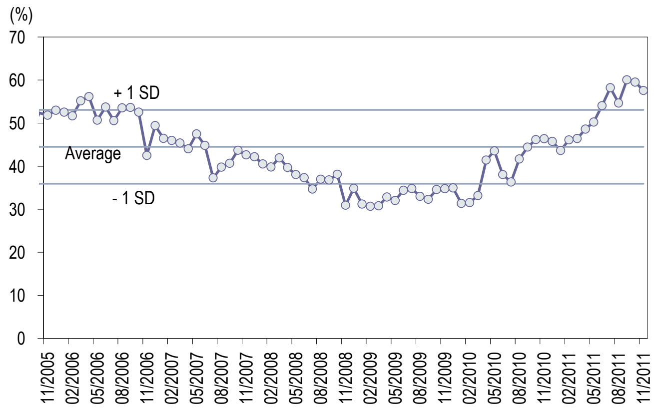
our forecasts, as Sekisui House has acquired the necessary land for it already. We assume the ASP for Heping project units will be 20% lower than expected when the land was purchased, with OP at breakeven.

Figure 13. Suzhou: Housing affordability



Note: Housing affordability = monthly home loan interest payments divided by monthly disposable income per household.
Source: NBS, Citi Investment Research and Analysis.

Figure 14. Shenyang: Housing affordability



Note: Housing affordability = monthly home loan interest payments divided by monthly disposable income per household.
Source: NBS, Citi Investment Research and Analysis.

Domestic real estate for leasing: Unrealized gains on condos for lease

The market value of Sekisui House's real estate for leasing came to ¥273.1bn at end-January 2012, ¥17.1bn above the ¥256bn book value. We believe the unrealized gains have been generated mainly by condos for lease like the Prime Maison series. We note that the above market value figure includes Grand Front Osaka, although since this has yet to be completed the book value is used.

Grand Front Osaka: We estimate a ¥15bn unrealized loss

Work on Grand Front Osaka (a joint project in the Osaka Station north district development area) began in March 2010, with completion scheduled for March 2013. There are 12 firms participating in the project, including Mitsubishi Estate and Orix Real Estate, and we estimate Sekisui House's share at 10%. As of end-FY1/12, Sekisui House's investment totaled ¥38.4bn, with this expected to rise to ¥50.9bn (with c¥5bn of this for built-for-sale condos) by the time the project is completed.

Other participants like Tokyo Tatemono, Obayashi, and Hankyu Hanshin Holdings have already posted impairment losses on their stakes, so in light of Sekisui House's stake we estimate unrealized losses at a maximum of ¥15bn.

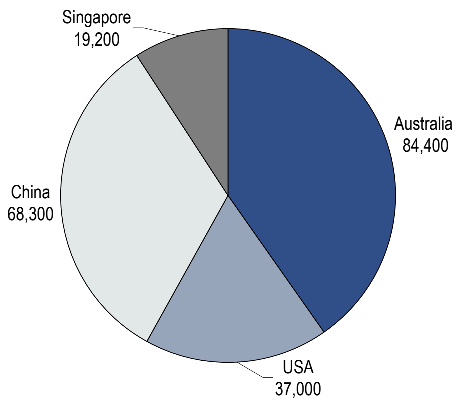
5) How are international operations ex-China doing?

Summary: One should keep an eye on sales in China, but we look for steady profit contributions from Australia and the US as well

As of end-April 2012, Sekisui House had invested ¥208.9bn abroad, including ¥84.4bn in Australia, ¥68.3bn in China, ¥37bn in the US, and ¥19.2bn in Singapore. According to Sekisui House, total overseas investment is likely to rise to about ¥220bn at end-FY1/13 due to construction spending in Australia and additional land acquisition in China.

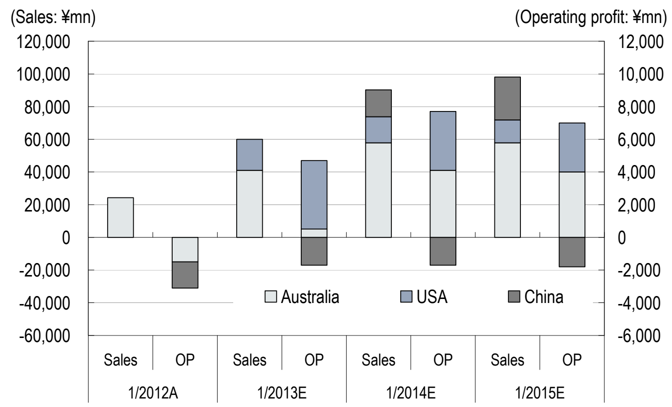
The company posted a ¥2.3bn operating loss from international operations in FY1/12, but in FY1/13 we anticipate a profit of ¥3bn, followed by a ¥6bn profit in FY1/14 and ¥5.2bn in FY1/15. The built-for-sale business is doing well in Australia and the US, so we think it likely that international operations will turn profitable.

Figure 15. Sekisui House: Overseas investment (end-April 2012, ¥mn)



Source: Company data, Citi Investment Research and Analysis.

Figure 16. Sekisui House: Earnings forecast for international operations



Source: Company data, Citi Investment Research and Analysis.

Australia: Engaged in development and subcontracting businesses

As noted above, investment in Australia totaled ¥84.4bn at end-April 2012, which includes the Wentworth Point, Central Park, and Camden development projects. Sekisui House acquired the home builder AVJennings in August 2010. Of the ¥41bn in sales the firm forecasts for Australia in FY1/13, ¥27bn is expected to come from development and ¥14bn from subcontracting.

Australia: Sales and margins good in development business

Sekisui House announced it was getting into the Australian development business in July 2009. Land for the major Wentworth Point and Camden projects was acquired in CY09 H1, when land prices were low, so profitability is good. Sales are strong, and contracts have been inked on more than 90% of the ¥27bn in sales Sekisui House expects for the Australian development business in FY1/13. We estimate sales of ¥43.1bn in FY1/14, and we understand contracts are in place for more than 80% of this.

Australia: Subcontracting business remains in the red

We understand construction volume remains weak at the home building contractor AVJennings and that it continues to be in the red at the operating line. Sekisui House thinks construction volume will rise going forward thanks to growth in housing orders for the Camden development, which is mainly a residential project.

Figure 17. Sekisui House: Major projects in Australia

Project	Wentworth Point	Central Park	Camden	Hyatt Coolum	Serrata
Location	New South Wales	New South Wales	New South Wales	Queensland	Victoria
Purpose	Condominium	Condominium	Detached house	Detached house	Condominium
Acquisition	FY1/2010	FY1/2012	FY1/2010	FY1/2012	FY1/2011
Construction start	04/2010	12/2010	FY1/2012	NA	NA
Marketing start	10/2009	10/2010	FY1/2012	FY1/2012	FY1/2012
Completion	FY1/2012～	FY1/2013～	FY1/2013～	FY1/2013～	FY1/2013～
Number of total units	c1,800	2,232	c1,800	448	144

Note: Development schedule includes our estimates in some cases.
Source: Company data, Citi Investment Research and Analysis.

US: Acquires bulk projects from CalPERS

At end-April 2012, total investment in the US came to ¥37bn, and we believe most of this comprises projects acquired (jointly, with the Newland Real Estate Group) in bulk from the California Public Employees' Retirement System (CalPERS). Unlike Australia, where Sekisui House has acquired a homebuilder, and China, where it

has built a materials plant, business in the US is limited to investment in development.

US: Transaction details suggest margins are good

The acquisition from CalPERS covers 28 projects in 11 states (16,300 detached housing and multidwelling housing units and 2,338ha of land, including projects in which CalPERS had a stake). About 50% are in Texas. According to a number of media reports, CalPERS decided to sell one-fifth of its investment housing assets because of weak housing prices. We believe CalPERS was under pressure to clean up unrealized losses and that margins will therefore likely be good for Sekisui House and Newland.

US: Has already posted Q1 OP of ¥1.5bn

In FY1/13, Sekisui House forecasts sales of ¥19bn and OP of ¥4.2bn for its US business (for an operating margin of 22%). In Q1, the firm has already posted sales of ¥4bn and OP of ¥1.5bn. We understand interest from local builders in acquiring multiple sections is strong and we expect a stable profit contribution over the medium term.

Figure 18. Sekisui House: Major projects in the US

Project	One Loundoun	Tehaleh	Cinco Ranch	CalPERS
Location	Washington DC	Seattle	Texas	Across America
Purpose	Compositive development	Compositive development	Compositive development	Compositive development (Bulk deal)
Acquisition	FY1/2011	FY1/2012	FY1/2011	FY1/2012
Marketing start	08/2011	01/2012	01/2012	FY1/2013～
Completion	FY1/2013～	FY1/2013～	FY1/2013～	FY1/2013～
Number of total units	c1,000	c6,000	c1,200	c16,000

Note: Development schedule includes our estimates in some cases.
Source: Company data, Citi Investment Research and Analysis.

Singapore: Involved in three projects as a minority partner

As of end-April 2012, total investment in Singapore came to ¥19.2bn, all of which is accounted for by minority stakes in joint development projects with local developers. At the Hougang and Punggol projects a total of 1,381 units (Sekisui House's stake) are already on sale, and at end-April contracts had been inked on 94.8% of these. Earnings in the Singapore built-for-sale condo business are posted on a percentage-of-completion basis, so we look for equity in earnings (non-operating income) to increase from FY1/14.

Figure 19. Sekisui House: Major projects in Singapore

Project	Hougang	Punggol (Water Town)	Choa Chu Kang
Purpose	Condominium	Condominium	Condominium, Detached house
Acquisition	FY1/2012	FY1/2012	FY1/2012
Construction start	01/2012	05/2012	09/2012
Marketing start	08/2011	01/2012	03/2012
Completion	FY1/2014～	FY1/2014～	FY1/2014～
Number of total units	494	992	Condo: 396 Detached house: 20
Sekisui House share	25%	33%	40%

Note: Development schedule includes our estimates in some cases.
Source: Company data, Citi Investment Research and Analysis.

Earnings forecasts

FY1/13

Profitability in formerly money-losing segments to contribute to major profit increase, subcontracting margins likely to remain high

We forecast sales of ¥1.63trn (+6.7% YoY) and OP of ¥82.8bn (+16.8% YoY). Our OP growth forecast of ¥11.9bn YoY assumes the money-losing condominium and overseas segments return to profitability and contribute ¥10.5bn and ¥6.2bn to growth, respectively. For the built-to-order housing segments (detached and rental housing), we expect the top-line to be almost flat due to temporary housing-related revenue in FY1/12 (¥16.2bn) and sluggish order growth, but as Sekisui House has a construction system largely immune to labor market tightening, we believe the gross margin could remain high.

We expect sales to miss guidance by ¥16.4bn. Guidance calls for detached house and renovation orders to increase 5.9% and 30.4%, respectively, but we think overall market growth will be modest and forecast order growth of 2.4% and 15.3%. However, we expect OP to beat plan by ¥2.8bn. Our impression is that cost assumptions are conservative in rental housing and corporate/eliminations.

Steady progress toward plan in Q1

Q1 OP declined ¥1.3bn YoY to ¥6.9bn. Profit was down mainly because of a ¥3.1bn decline in the urban redevelopment segment (as gains on the sale of Daiba Garden City dropped out) and a ¥1.1bn decline in the built-to-order detached housing segment (due to the normalization of SG&A expenses, which were held in check in FY1/12). These negatives more than offset gains of ¥1.3bn in the overseas segment (on the booking of sales in built-for-sale projects) and ¥1bn gain in the condominium segment (as unprofitable inventory was sold off).

Order growth versus targets was good, coming in at +7% YoY for detached housing (full-year guidance: +6%) and +9% for rental houses (+2%). We believe an early return to profitability in overseas and condominium segments is reassuring and that the probability of the full-year profit target being achieved is high.

FY1/14

Overseas and built-to-order housing segments to contribute to growth

We forecast sales of ¥1.72trn (+5.1% YoY) and OP of ¥94.2bn (+13.8% YoY). By segment, we forecast profit growth of ¥3.5bn for the overseas segment on an increase in completed construction in Australia as well as growth of ¥1.8bn for detached housing and ¥2.4bn for rental housing due to top-line expansion.

Raising our forecasts

We raise our OP forecast by ¥2.7bn, from ¥91.5bn to ¥94.2bn, mainly for the detached housing (+¥1.7bn) and rental housing (+¥1.1bn) segments to reflect strong orders. We raise our forecast at the non-operating line to a ¥0.5bn profit from a ¥0.2bn loss as we newly factor in a profit contribution from the Singapore business (posted to equity in earnings).

Medium-term profit targets look too optimistic

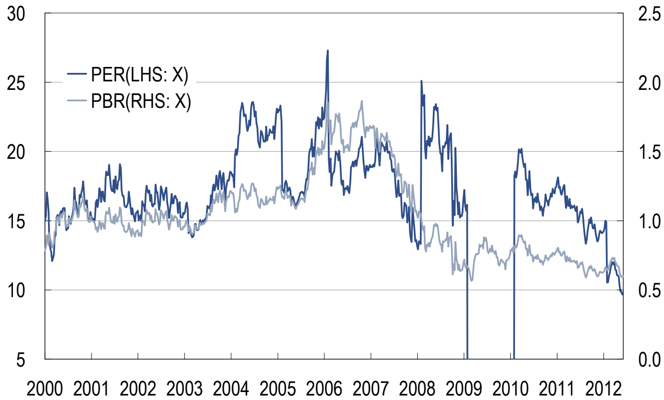
At the management plan briefing on March 9, Chairman and CEO Isami Wada mentioned the following as unofficial targets for FY1/14: sales of ¥1.8trn, OP of ¥110bn, and NP of ¥65bn. We understand the ¥110bn OP target includes a ¥22bn contribution from the overseas segment (¥6.8bn from Australia, ¥13.8bn from China, ¥1.4bn from the US). We see profitability deterioration caused by a falling ASP as a risk, particularly for the China business.

Valuations

Target EV/EBITDA of 5.0x

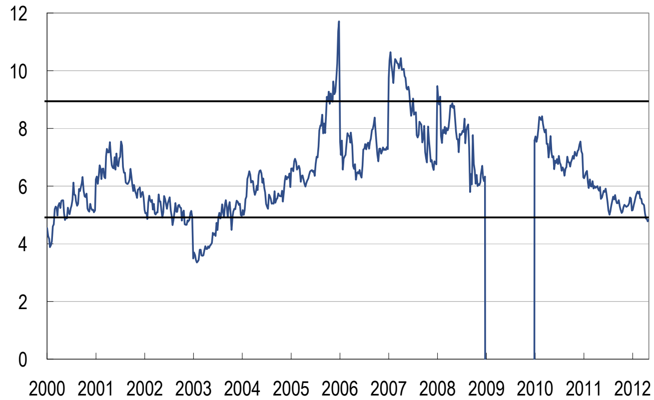
We base our ¥800 target price on a FY1/14E EV/EBITDA of 5x but also reference other valuation metrics. This target price equates to a PBR of 0.7x on our FY1/13 forecasts and a PER of 10.9x on our FY1/14 forecasts.

Figure 20. Sekisui House: PER and PBR



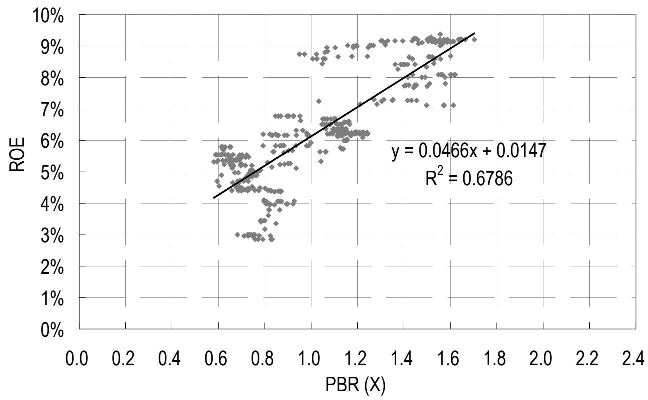
Note: PER excludes extraordinary items.
Source: Nikkei Quick, Citi Investment Research and Analysis.

Figure 21. Sekisui House: EV/EBITDA



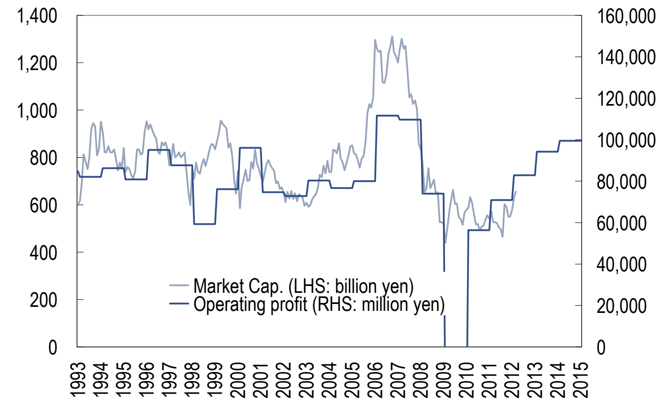
Note: EV/EBITDA =(market cap+interest bearing debt- cash and deposits-marketable/investment securities)/(OP+depreciation + interest and dividend income).
Source: Nikkei Quick, Citi Investment Research and Analysis.

Figure 22. Sekisui House: PBR and RoE (weekly, 2003/12/30-2012/5/31)



Note 1: PBR= week-end share price ÷period BPS (our forecast for FY1/13)
Note 2: ROE= next-period consensus NP ÷(average of previous period and current period net assets).
Source: IFIS, Nikkei Quick, Citi Investment Research and Analysis.

Figure 23. Sekisui House: OP and market cap



Source: Nikkei Quick, Citi Investment Research and Analysis.

Figure 24. Sekisui House: Key consolidated data (¥mn)

	1/2008A	1/2009A	1/2010A	1/2011A	1/2012A	1/2013E	1/2014E	1/2015E	1/2013CE
P/L									
Sales	**1,597,807**	**1,514,172**	**1,353,186**	**1,488,369**	**1,530,577**	**1,633,600**	**1,716,500**	**1,764,700**	**1,650,000**
YoY	0.1%	-5.2%	-10.6%	10.0%	2.8%	6.7%	5.1%	2.8%	7.8%
Built-to-order detached houses	--	--	381,000	455,239	475,330	475,100	485,000	494,100	485,000
Rental houses	--	--	236,000	277,659	289,027	288,500	300,600	305,900	285,000
Built-for-sale detached houses	--	--	197,000	146,470	127,123	127,000	127,500	127,500	127,000
Condominiums	--	--	52,000	77,185	39,681	48,000	53,600	51,600	48,000
Urban redevelopment	--	--	15,000	22,208	37,720	58,000	56,000	57,000	58,000
Renovation	--	--	78,000	91,443	102,180	120,000	130,800	141,300	130,000
Real estate fee	--	--	348,000	361,988	378,247	395,000	410,800	427,200	395,000
Overseas	--	--	--	--	24,264	60,000	90,200	98,100	60,000
Other	--	--	46,000	56,173	57,002	62,000	62,000	62,000	62,000
GPM	**20.6%**	**19.2%**	**11.6%**	**17.3%**	**18.0%**	**18.5%**	**18.8%**	**18.8%**	**18.2%**
Built-to-order detached houses	--	--	--	22.9%	23.6%	23.6%	23.5%	23.5%	23.8%
Rental houses	--	--	--	21.3%	21.5%	21.4%	21.3%	21.1%	21.6%
Built-for-sale detached houses	--	--	--	12.0%	14.2%	14.2%	14.7%	15.0%	14.2%
Condominiums	--	--	--	6.8%	-13.9%	12.1%	13.2%	14.3%	12.1%
Urban redevelopment	--	--	--	28.6%	29.5%	17.2%	17.9%	19.3%	15.5%
Renovation	--	--	--	22.8%	22.6%	22.0%	22.0%	22.0%	19.7%
Real estate fee	--	--	--	11.0%	11.7%	11.5%	11.5%	11.5%	11.5%
Overseas	--	--	--	--	17.3%	24.7%	26.3%	24.8%	24.7%
Other	--	--	--	9.4%	15.8%	13.7%	13.7%	13.7%	13.7%
Operating profit	**109,726**	**73,959**	**-38,754**	**56,354**	**70,897**	**82,800**	**94,200**	**99,500**	**80,000**
YoY	-1.7%	-32.6%	--	--	25.8%	16.8%	13.8%	5.6%	12.8%
Built-to-order detached houses	--	--	--	45,772	52,476	49,500	51,300	53,800	51,000
Rental houses	--	--	--	26,195	26,595	27,500	29,900	30,300	25,500
Built-for-sale detached houses	--	--	--	516	3,685	3,000	3,800	4,100	3,000
Condominiums	--	--	--	-1,009	-9,947	500	1,300	1,600	500
Urban redevelopment	--	--	--	4,812	9,974	9,000	9,000	10,000	8,000
Renovation	--	--	--	8,530	9,624	10,800	12,500	13,500	10,500
Real estate fee	--	--	--	12,429	14,260	15,000	15,900	16,500	15,000
Overseas	--	--	--	--	-3,176	3,000	6,000	5,200	3,000
Other	--	--	--	-6,016	-35	0	0	0	0
Elimination / Corporate	--	--	--	-34,876	-32,560	-35,500	-35,500	-35,500	-36,500
OPM	**6.9%**	**4.9%**	**-2.9%**	**3.8%**	**4.6%**	**5.1%**	**5.5%**	**5.6%**	**4.8%**
Built-to-order detached houses	--	--	--	10.1%	11.0%	10.4%	10.6%	10.9%	10.5%
Rental houses	--	--	--	9.4%	9.2%	9.5%	9.9%	9.9%	8.9%
Built-for-sale detached houses	--	--	--	0.4%	2.9%	2.4%	3.0%	3.2%	2.4%
Condominiums	--	--	--	-1.3%	-25.1%	1.0%	2.4%	3.1%	1.0%
Urban redevelopment	--	--	--	21.7%	26.4%	15.5%	16.1%	17.5%	13.8%
Renovation	--	--	--	9.3%	9.4%	9.0%	9.6%	9.6%	8.1%
Real estate fee	--	--	--	3.4%	3.8%	3.8%	3.9%	3.9%	3.8%
Overseas	--	--	--	--	-13.1%	5.0%	6.7%	5.3%	5.0%
Other	--	--	--	-10.7%	-0.1%	0.0%	0.0%	0.0%	0.0%
Recurring profit	**114,086**	**77,072**	**-38,758**	**56,271**	**70,075**	**82,300**	**94,700**	**101,000**	**79,500**
Extraordinary profit	175	0	6	134	0	0	0	0	--
Extraordinary loss	4,830	49,448	7,668	2,592	7,874	2,000	2,000	2,000	--
Net profit after tax	**60,352**	**11,516**	**-29,277**	**30,421**	**28,962**	**43,570**	**51,840**	**55,430**	**42,000**
Major indicators									
EPS (¥)	87.7	17.0	-43.3	45.0	42.9	64.5	76.8	82.1	62.5
EPS (Fully diluted) (¥)	87.7	17.0	-43.3	45.0	41.1	61.9	73.6	78.7	--
BPS (¥)	1,140	1,115	1,059	1,091	1,107	1,150	1,199	1,250	--
DPS (¥)	24	24	10	21	20	25	31	33	25
ROE	7.7%	1.5%	-4.0%	4.2%	3.9%	5.7%	6.6%	6.7%	5.7%
ROA	8.3%	5.5%	-2.7%	4.4%	5.1%	5.7%	6.3%	6.5%	5.6%
Shareholder's equity ratio	57.1%	54.3%	52.9%	54.9%	51.4%	51.7%	52.9%	53.9%	--
Debt Equity ratio (X)	0.21	0.33	0.37	0.29	0.35	0.34	0.33	0.31	--
Net Debt Equity ratio (X)	0.13	0.17	0.16	0.08	0.13	0.16	0.16	0.15	--

Note: A: Actual CE: Company estimates E: CIRA estimates NM: Not meaningful.
Source: Company data, Citi Investment Research and Analysis.

Sekisui House

Investment strategy

We rate the shares of Sekisui House Buy (1) with a target price of ¥800. We model annual OP growth of 12% from FY1/13 to FY1/15 as we think the firm will 1) maintain high margins in detached and rental housing and 2) eliminate losses in condo and overseas operations. This would be exceptional earnings momentum for the sector.

As a result, we see RoE improving to 6.6% in FY1/14 from 3.9% in FY1/12 and the 10-year historical average of 5.2% (excluding FY1/10, when the company posted a net loss). Given this, we think the shares are excessively undervalued at an FY1/12A PBR of 0.60x and an FY1/14E PER of 8.7x.

In addition, we anticipate improved visibility on Chinese operations by year-end due to the commencement of sales at Suzhou and Taicang. We conservatively put selling prices at Suzhou, Taicang, and Wuxi at 30% below where they would have been at the time of the lot acquisitions and Shenyang at 20% below, but we see the impact on net assets as being limited. Some market players are fretting that the total investment in China of around ¥100bn will all be impaired but we see these excessive concerns as likely to be swept away when sales actually start.

Valuation

We use adjusted EV/EBITDA to value integrated housing makers. We calculate this as (market cap + interest bearing debt - cash on hand - marketable and investment securities)/(OP + depreciation + interest and dividend income).

We adopt EV/EBITDA for two reasons: 1) it measures real profit strength as it strips out the impact of extraordinary losses and 2) it reduces the impact of different accounting standards for things like retirement benefits.

We derive our ¥800 target price by applying an EV/EBITDA of 5.0x (Sekisui House has a 10-year range of 5.0x-9.0x) to our FY1/14 estimates.

Risks

Downside risks to our target price are 1) a larger-than-expected increase in materials and labor outsourcing costs; 2) lower-than-expected new housing starts, 3) rapid Chinese real estate market deterioration, giving rise to significant losses in built-for-sale condo projects.

If impacts from the above factors are larger than we expect, the share price could fail to achieve our target price.

Appendix A-1

Analyst Certification

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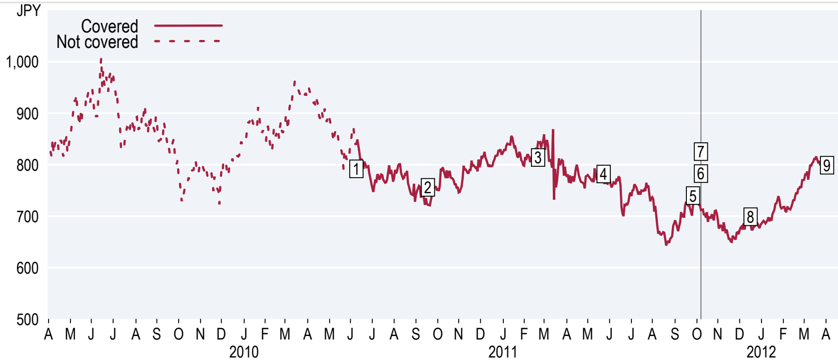
IMPORTANT DISCLOSURES

Sekisui House (1928)

Ratings and Target Price History
Fundamental Research

Analyst: Shusuke Terada
Covered since June 9 2010



	Date	Rating	Target Price	Closing Price
1	9-Jun-10	2M	*900	841
2	17-Sep-10	2M	*800	722
3	21-Feb-11	2M	*850	844
4	24-May-11	2M	*800	766
5	27-Sep-11	2M	*780	722
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*2	780	712
8	16-Dec-11	2	*760	685
9	3-Apr-12	2	*850	803

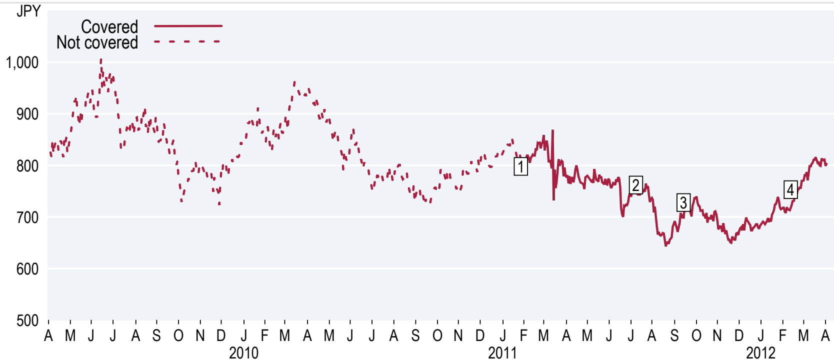
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sekisui House (1928)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Shusuke Terada
Covered since June 9 2010



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD LP	-	809
2	8-Jul-11	*REM LP	-	756
3	14-Sep-11	*ADD LP	-	697
4	13-Feb-12	*REM LP	-	718

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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% of companies in each rating category that are investment banking clients	44%	42%	40%	47%	42%	43%

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