4 June 2013 | 18 pages

Real Estate (Topix) | Real Estate/Property (Citi)
Japan

Sumitomo Realty & Development (8830)

- Target Price Change
- Estimate Change

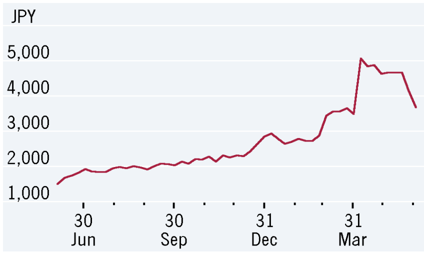
Raising our target price *

- **Conclusion(s)** — We revise our estimates for FY3/14 and beyond. Since we believe there will be further improvement in the office leasing, built-for-sale condo, and real estate investment markets, we reflect this into our target multiple and raise our target price to ¥5,200 from ¥3,400. Our rating remains Buy.
- **External environment** — Economic management by the LDP administration appears to be going smoothly. This has spurred expectations, which are having a positive impact on investment behavior by both companies and individuals. The interest rate volatility that has been talked about of late has stayed within a limited range, and a rise in the expected inflation rate means real interest rates are negative. We think the current strength of condo sales reflects these changes. Economic recovery requires not only monetary easing (to spur private sector investment) but also government expenditure, in our view. Legislation submitted on May 20 to the Lower House designed to help strengthen Japan’s infrastructure is also likely to have a positive impact on the economy. As before, we think the main risk related to the Japanese economy and real estate stocks is measures (like TPP participation or a consumption tax hike) that could prevent improvement in income among lower earners.
- **Medium-term plan**— The assumptions for the company's medium-term business plan strike us as somewhat cautious, as no increase in office rents or housing prices is assumed. However, the company has secured enough land for its office projects and condo developments, and so we see no risk of earnings opportunity losses when prices improve. It has enough land for 1.12mn m^2 of office space (+36% on current office holdings) and some 32,000 condos.
- **Target price** — Our ¥5,200 target price represents an 86% premium to our FY3/14 NAV forecast of ¥2,800 (previously it represented a 31% premium to FY3/13E NAV) and a PER of 31x (adjusted for extraordinary items) and EV/EBITDA of c27.4x on our FY3/15 estimates. Real estate market improvement is accelerating and we think NAV will grow, so we think this level of premium is reasonable.

**Figure 2 in this version was omitted in the previous version.*

Buy	**1**
Price (03 Jun 13)	¥3,680
Target price	¥5,200
from ¥3,400	
Expected share price return	41.3%
Expected dividend yield	0.5%
Expected total return	**41.8%**
Market Cap	¥1,744,700M
	US$17,529M

Price Performance
(RIC: 8830.T, BB: 8830 JP)



Consol.	Sales		OP			RP		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/12A	688,662	-7.5	147,465	6.5	21.4	107,912	1.5	53,236	4.6	100	36.9
3/13A	736,652	7.0	151,345	2.6	20.5	114,916	6.5	59,825	12.4	126	29.2
3/14CE	760,000	3.2	160,000	5.7	21.1	125,000	8.8	68,000	13.7	143	25.7
3/14E	734,900	-0.2	156,300	3.3	21.3	115,300	0.3	66,440	11.1	124	29.6
3/14RE	770,800	4.6	161,700	6.8	21.0	126,700	10.3	69,040	15.4	146	25.3
3/15E	748,800	1.9	160,400	2.6	21.4	119,400	3.6	69,110	4.0	129	28.5
3/15RE	852,600	10.6	170,700	5.6	20.0	136,000	7.3	74,740	8.3	158	23.3
3/16E	882,800	3.5	174,700	2.3	19.8	140,200	3.1	77,310	3.4	163	22.6

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

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8830.T: Fiscal year end 31-Mar — **Price: ¥3,680; TP: ¥5,200; Market Cap: ¥1,744,700m; Recomm: Buy**

Profit & Loss (¥m)	2012	2013	2014E	2015E	2016E
Sales revenue	688,662	736,652	770,800	852,600	882,800
Cost of sales	-490,436	-529,913	-549,560	-608,270	-633,260
Gross profit	198,226	206,739	221,240	244,330	249,540
Gross Margin (%)	28.8	28.1	28.7	28.7	28.3
EBITDA (Adj)	**183,514**	**189,106**	**197,700**	**206,700**	**210,700**
EBITDA Margin (Adj) (%)	26.6	25.7	25.6	24.2	23.9
Depreciation	-36,049	-37,761	-36,000	-36,000	-36,000
Amortisation	0	0	0	0	0
EBIT (Adj)	**147,465**	**151,345**	**161,700**	**170,700**	**174,700**
EBIT Margin (Adj) (%)	21.4	20.5	21.0	20.0	19.8
Net interest	-32,063	-27,799	-26,900	-26,600	-26,400
Non-op/Except	-7,490	-8,630	-8,100	-8,100	-8,100
Recurring profit	**107,912**	**114,916**	**126,700**	**136,000**	**140,200**
Tax	-41,841	-33,925	-45,160	-48,760	-50,390
Extraord./Min.Int./Pref.div.	-12,835	-21,166	-12,500	-12,500	-12,500
Reported net profit	**53,236**	**59,825**	**69,040**	**74,740**	**77,310**
Net Margin (%)	7.7	8.1	9.0	8.8	8.8
Core NPAT	53,236	59,825	69,040	74,740	77,310

Per share data	2012	2013	2014E	2015E	2016E
Reported EPS (¥)	100	126	146	158	163
Core EPS (¥)	100	126	146	158	163
EPS* (¥)	114	126	146	158	163
DPS (¥)	20	20	20	20	20
CFPS (¥)	188	71	185	197	244
FCFPS (¥)	-18	-51	-26	-14	33
BVPS (¥)	1,168	1,323	1,448	1,586	1,729
Wtd avg ord shares (m)	474	474	474	474	474
Wtd avg diluted shares (m)	544	474	474	474	474

Growth rates	2012	2013	2014E	2015E	2016E
Sales revenue (%)	-7.5	7.0	4.6	10.6	3.5
EBIT (Adj) (%)	6.5	2.6	6.8	5.6	2.3
Core NPAT (%)	4.6	12.4	15.4	8.3	3.4
Core EPS (%)	5.4	26.4	15.4	8.3	3.4

Balance Sheet (¥m)	2012	2013	2014E	2015E	2016E
Cash & cash equiv.	146,475	225,774	169,832	139,590	141,918
Accounts receivables	17,058	17,886	17,886	17,886	17,886
Inventory	586,168	679,494	699,494	719,494	719,494
Net fixed & other tangibles	2,672,524	2,684,200	2,737,200	2,790,200	2,843,200
Goodwill & intangibles	51,587	51,538	51,538	51,538	51,538
Financial & other assets	385,886	446,608	491,608	516,608	531,608
Total assets	**3,859,698**	**4,105,500**	**4,167,558**	**4,235,316**	**4,305,644**
Accounts payable	34,663	38,811	38,811	38,811	38,811
Short-term debt	614,755	560,406	560,406	560,406	560,406
Long-term debt	1,939,360	2,090,300	2,090,300	2,090,300	2,090,300
Provisions & other liab	688,253	767,118	767,118	767,118	767,118
Total liabilities	**3,277,031**	**3,456,635**	**3,456,635**	**3,456,635**	**3,456,635**
Shareholders' equity	553,844	627,010	686,568	751,826	819,654
Minority interests	28,823	21,855	24,355	26,855	29,355
Total equity	**582,667**	**648,865**	**710,923**	**778,681**	**849,009**
Net debt	**2,407,640**	**2,424,932**	**2,480,874**	**2,511,116**	**2,508,788**
Net debt to equity (%)	413.2	373.7	349.0	322.5	295.5

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

Valuation ratios	2012	2013	2014E	2015E	2016E
PE (x)	36.9	29.2	25.3	23.3	22.6
PB (x)	3.2	2.8	2.5	2.3	2.1
EV/EBITDA (x)	19.4	20.2	19.2	18.4	18.0
FCF yield (%)	-0.5	-1.4	-0.7	-0.4	0.9
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5
Payout ratio (%)	20	16	14	13	12
ROE (%)	9.9	10.1	10.5	10.4	9.8

Cashflow (¥m)	2012	2013	2014E	2015E	2016E
EBITDA	183,514	189,106	197,700	206,700	210,700
Working capital	5,682	4,976	0	0	0
Other	-87,794	-160,488	-110,160	-113,460	-94,890
Operating cashflow	**101,402**	**33,594**	**87,540**	**93,240**	**115,810**
Capex	-112,293	-57,623	-100,000	-100,000	-100,000
Net acq/disposals	0	0	0	0	0
Other	40,193	5,092	-45,000	-25,000	-15,000
Investing cashflow	**-72,100**	**-52,531**	**-145,000**	**-125,000**	**-115,000**
Dividends paid	-9,484	-9,482	-9,482	-9,482	-9,482
Financing cashflow	**-30,065**	**102,757**	**1,518**	**1,518**	**1,518**
Net change in cash	**20,451**	**84,532**	**-55,942**	**-30,242**	**2,328**
Free cashflow to s/holders	**-10,891**	**-24,029**	**-12,460**	**-6,760**	**15,810**

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com

Powered by: dataCentral

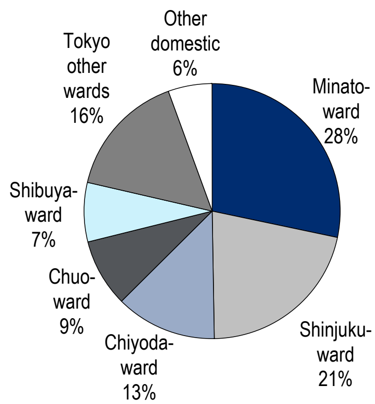
Investment Dashboard

Reasons to Buy

- Impressive business strategy: Cautious land acquisitions, focusing efforts on redevelopment business, concentrated investment in Tokyo offices, avoiding dependence on sales of properties to investment funds
- Involved in a large number of blue-chip office projects. Substantial unrealized gains
- We expect earnings and NAV to expand as improvement in the real estate market accelerates

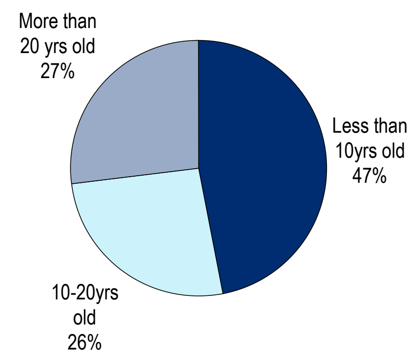
Gross floor area breakdown

By location



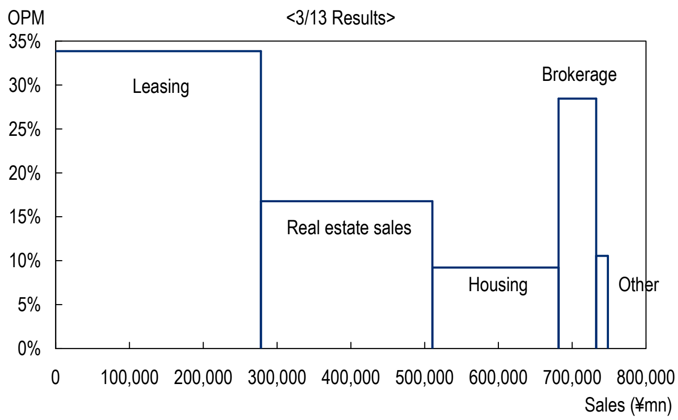
Source: Company data

By age



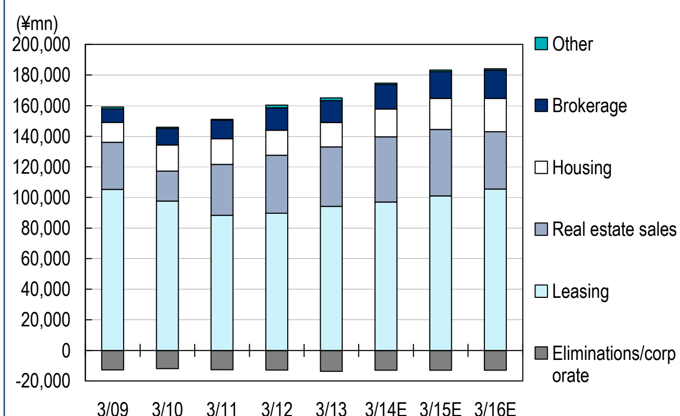
Source: Company data

Business portfolio



Source: Company data

OP by segment

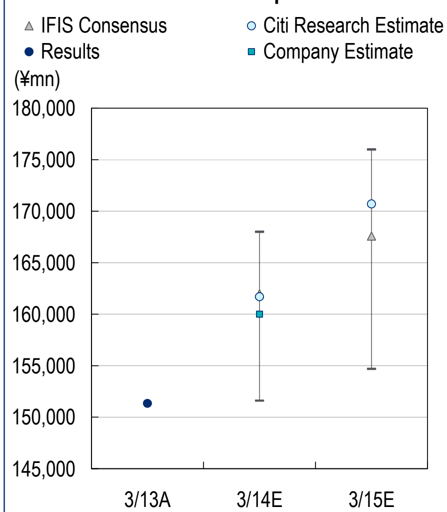


Source: Company data, Citi Research

Alternate scenario: A more bullish case

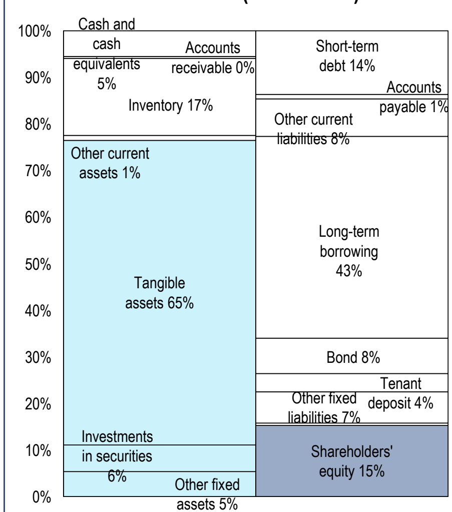
- Should the real estate investment market pick up further
- Should the office leasing market improve faster than we expect
- Should condo sales remain brisk

OP forecast comparison



Source: Company data, IFIS(13/6/3), Citi Research

Balance sheet (end-FY3/13)



Source: Company data

Medium-term business plan

Sumitomo Realty & Development released a three-year medium-term business plan (running through FY3/16) on May 14. The plan targets cumulative OP of ¥500bn (annualized growth of 5%) and RP of ¥400bn (almost 8%). There are no explicit balance sheet targets, but management says it aims to maintain or improve its credit ratings. There are also plans for diversification and expansion. In the four established businesses, Sumitomo is looking to expand in new directions and areas (including overseas expansion) and also aims to try out completely new fields.

Management says that while Abenomics is spurring expectations, the economic outlook is still not particularly solid given the planned two-stage hike to consumption tax. Accordingly, the firm does not expect to factor in increases in office rents and house prices into its earnings forecasts until the subsequent plan. We therefore see a distinct possibility that earnings will beat plan, but the firm's reading of the situation seems typically reasonable.

Although the plan is based on cautious assumptions, the firm has plenty of new office projects and condo development land in the pipeline, so we are not concerned it could miss earnings opportunities if prices improve.

The targets for the sales segment look cautious, so look easily attainable

Figure 1. Medium-term business plan

(¥bn)	4th Management Plan (FY07 – FY09)	5th Management Plan (FY10-FY12)	6th Management Plan (FY10-FY12)	FY12 Actual	FY13CE	FY14E	FY15E	3-year average CAGR	2nd-3rd year CAGR
Sales	**2,106.8**	**2,170.1**	**2,500.0**	**736.7**	**760.0**	**831.1**	**908.9**	**6.3%**	**9.4%**
YoY	167.3	63.3	329.9	--					
Leasing	871.5	843.0	860.0	278.3	280.0	286.6	293.4	1.5%	2.4%
Real estate sales	604.5	670.0	820.0	232.1	235.0	271.4	313.6	8.4%	15.5%
Housing	475.0	500.0	630.0	171.1	185.0	209.0	236.0	10.6%	13.0%
Brokerage	146.3	146.8	170.0	51.0	55.0	56.7	58.3	5.4%	3.0%
Operating profit	**435.0**	**437.3**	**500.0**	**151.3**	**160.0**	**166.6**	**173.4**	**4.9%**	**4.1%**
YoY	85.5	2.3	62.7	--					
Leasing	296.4	272.1	310.0	94.2	97.0	103.2	109.8	4.7%	6.4%
Real estate sales	93.1	110.2	115.0	38.9	41.0	38.3	35.7	-0.8%	-6.7%
Housing	40.2	48.9	60.0	15.8	18.0	19.9	22.1	12.4%	10.7%
Brokerage	39.5	41.2	50.0	14.5	16.0	16.7	17.3	7.1%	4.1%
Operating profit %	20.6%	20.2%	20.0%	20.5%	21.1%	20.0%	19.1%		
Leasing	34.0%	32.3%	36.0%	33.8%	34.6%	36.0%	37.4%		
Real estate sales	15.4%	16.5%	14.0%	16.8%	17.4%	14.1%	11.4%		
Housing	8.5%	9.8%	9.5%	9.2%	9.7%	9.5%	9.3%		
Brokerage	27.0%	28.1%	29.4%	28.4%	29.1%	29.4%	29.7%		
Recurring profit	**339.2**	**329.1**	**400.0**	**114.9**	**125.0**	**133.2**	**141.8**	**7.6%**	**6.5%**
YoY	65.4	-10.1	70.9						
Net D/E ratio	4.8	3.9	--						

Note : FY14E and FY15E reflects a simple estimate of the earnings level needed to clear the medium-term targets based on the company's FY3/14 estimates
Source: Company data, Citi Research

Leasing

FY3/14 guidance calls for leasing segment sales of ¥280bn (+¥1.7bn YoY) and OP of ¥97bn (+¥2.8bn). This implies year 2-3 annual growth of around ¥6.7bn for sales and ¥6.4bn for OP to meet the medium-term targets.

Improved contributions from existing buildings and the start of contributions from new projects are expected to boost earnings in FY3/15 and beyond. Management is expecting vacancy rates to improve by around 2% during the term of the new plan. Segment operating revenue was ¥278.3bn in FY3/13, and we understand almost ¥170bn was from rents and common expense charges. Accordingly, a 2% improvement in the vacancy rate would boost revenue over the term by around ¥3-4bn (¥1.0-1.3bn per year). In addition to vacancy improvement, existing buildings should benefit from improved incidental revenue and contributions from subsidiaries. In terms of new projects, we expect contributions in the last two years of the plan from buildings completed in FY3/14 and FY3/15 (we estimate sales of almost ¥14bn and OP of around ¥7bn).

Based on this we think the year 2-3 sales targets can be attained. For OP, we look for earnings to be boosted by the expiration of sub-leases (it is around 20 years since the property bubble), while lower depreciation should help margins.

Sales

FY3/14 guidance calls for segment sales of ¥235.0bn (+¥2.9bn) and OP of ¥41.0bn (+¥2.1bn). Accordingly, the plan's targets will be met with year 2-3 annual sales of ¥292.5bn (+¥57.5bn vs. FY3/14 guidance), OP of ¥37bn (-¥4bn), and OPM of 12.6%.

Management expects to book sales on over 5,000 condos and single-family houses in FY3/14 (+382 YoY). This implies an annual average of 6,500 in years 2-3 to meet the plan target of around 18,000.

Housing construction

FY3/14 guidance calls for segment sales of ¥185bn (+¥13.9bn or +8% YoY) and OP of ¥18bn (+¥2.2bn). This implies year 2-3 annual growth of over ¥26bn for sales and around ¥2bn for OP to meet the medium-term plan targets.

We understand FY3/16 order volume targets are 10,000 for the *Shinchiku Sokkurisan* remodeling service (+31% vs. the FY3/13 result) and 3,000 (+26%) for custom home construction.

FY3/14 guidance targets sales volume of 7,600 (+340 or +5% YoY) for the *Shinchiku Sokkurisan* remodeling service and 2,200 (+331 or +18%) for custom home construction.

Brokerage

FY3/14 guidance calls for brokerage segment sales of ¥55bn (+4bn YoY) and OP of ¥16.0bn (+¥1.5bn). This implies year 2-3 annual growth of around ¥1.7bn for sales and ¥0.7bn for OP to meet the medium-term plan targets.

New project pipeline

The total GFA of the new buildings scheduled for completion during the new (sixth) medium-term plan is around 140,000 *tsubo* (463,000 m^2). This is equivalent to roughly 11% of total floor area at end-FY3/13 (4.15mn m^2) and 15% of the floor area held by the firm (3.14mn m^2).

Sumitomo has also secured development land for around 200,000 *tsubo* (around 660,000 m^2) for the subsequent (seventh and after) medium-term plan, including in Osaki, Mita, and Takadanobaba. This puts the total GFA that can be developed during the sixth and seventh medium-term plans at around 1.12mn m2, 27% of total

GFA at end-FY3/13 (4.15mn m^2) and around 36% of the GFA held by the firm (3.14mn m^2).

During the sixth medium-term plan, we assume rental revenue (steady operation basis) from nine properties of around ¥30bn, with OP of just over ¥16bn. Assuming that rental revenue can improve to around ¥43bn and OP to around ¥23bn in the seventh medium-term plan and beyond (total floor area of around 660,000 m^2), we see potential for overall OP to grow around ¥40bn medium-term. In fact, considering the potential for an improved contribution from established buildings (improved occupancy and rent increases), medium-term growth of around ¥60bn would not be unusual.

Figure 2. New projects

Project name	Completion	GFA (m2)
Moto-Akasaka Project	10/2013	6,000
Jimbo-cho Project	1/2014	9,000
Onarimon Project	1/2014	9,000
FY3/14 total	**--**	**24,000**
Hanzomon Reconstruction Project	11/2014	12,000
Mita Reconstruction Project	2/2015	24,000
Nihonbashi 2-chome Project	2/2015	139,000
FY3/15 total	**--**	**175,000**
Nibancho Project	9/2015	20,000
Roppongi 3-chome Project	3/2016	201,000
3 other projects	--	43,000
FY3/16 total	**--**	**264,000**
Sixth medium-term plan total	**--**	**463,000**
Takadanobaba	--	--
Osaki	--	--
Mita	--	--
Others	--	--
FY3/17 and after total		**660,000**

Source: Company data, Citi Research

Unrealized gains and NAV

The market value of the firm's leasing real estate portfolio was ¥3.68trn at end-FY3/13 (vs. ¥3.64trn a year earlier). The difference between this and the book value of ¥2.68trn (vs. ¥2.67trn), i.e. unrealized gains, was ¥1.00trn (vs. ¥976bn). Adding the unrealized gains to end-FY3/13 BPS of ¥1,323 (+13% YoY) gives NAV of around ¥3,400 pretax and around ¥2,600 after tax. The market value is largely calculated by the firm itself based on MLIT's Real Property Appraisal Standards. The ¥2.68trn book value includes roughly ¥500bn of assets which are yet to start operation.

Profit from leasing assets was ¥83.1bn in FY3/12, while leasing segment depreciation was ¥34bn, and estimated NOI was around ¥117.1bn (it is planned to release FY3/13 figures in official securities filings). This NOI figure equates to 3.7% of the ¥3.14trn figure obtained by subtracting the book value of development assets (¥500bn) from the leasing portfolio market value (¥3.64trn). If we consider properties under development and newly completed properties which are not making a full-year contribution, as well as temporary dips in earnings from existing buildings, we assume a cap rate of around 4.5% is being used for the market price valuation.

FY3/14 guidance

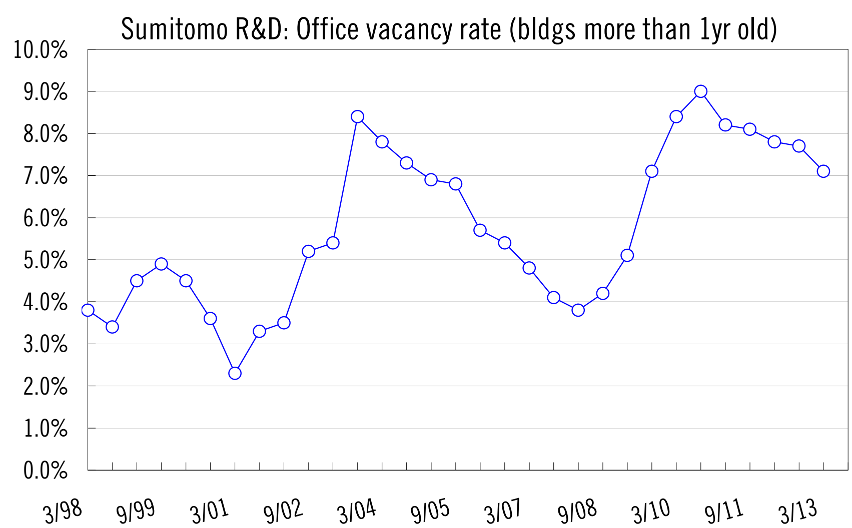
FY3/14 guidance targets YoY growth for both revenue and profit. The housing construction segment is expected to account for ¥13.9bn of the ¥23.3bn revenue growth target, but sales growth is expected at all four mainstay segments. OP growth of ¥8.7bn is forecast on contributions from all segments, including leasing (+¥2.8bn), construction (+¥2.2bn), and sales (+¥2.1bn). RP is expected to grow ¥10.1bn, including thanks to a decline in interest payments on lower rates (the firm repaid a ¥120bn perpetual subordinated loan in a lump-sum payment in FY3/13).

The capex budget is ¥100bn (FY3/13 spending was ¥57.6bn), but only just over 50% has been allocated. Interest-bearing debt is expected to be roughly flat YoY at ¥2.65trn. The net D/E ratio was 3.87 at end-FY3/13. The net D/E ratio adjusted for unrealized gains on leasing assets (after tax) was around 1.9.

Leasing

FY3/14 guidance calls for leasing segment sales of ¥280bn (+¥1.7bn YoY) and OP of ¥97bn (+¥2.8bn). The projected YoY sales growth breaks down to +¥1.5bn for new/first full-year contribution properties, -¥1bn for existing buildings (FY3/13 result: -¥3bn), and +¥1.2bn for construction work and others. OP is expected to grow more sharply than sales thanks to lower depreciation. The vacancy rate was 7.1% at end-FY3/13, and management looks for improvement toward end-FY3/14.

Figure 3. Real estate leasing : Vacancy rate improving



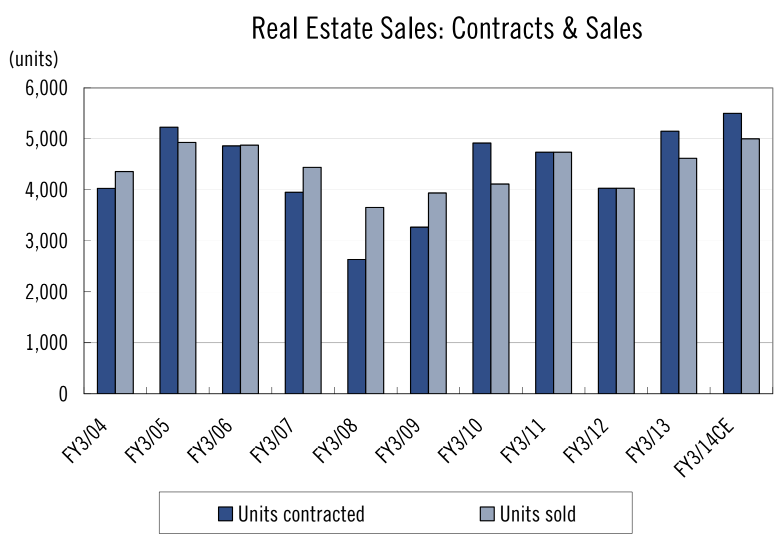
Source: Company data, Citi Research

Real estate sales

Management expects to book sales of 5,000 condos and single-family houses in FY3/14 (+382 units or +8% YoY), and contracts had been signed on around 40% of this target at the start of the financial year (vs. around 30% a year earlier). The firm targets segment sales of ¥235bn (+1% YoY) and OP of ¥41bn (+5%), for a high OPM of 17.4% (vs. 16.8% in FY3/13).

The firm has secured development land for around 32,000 units (including those expected to be booked in FY3/14). Enough land for around 8,000 units was secured in FY3/13 (vs. 6,000 a year earlier).

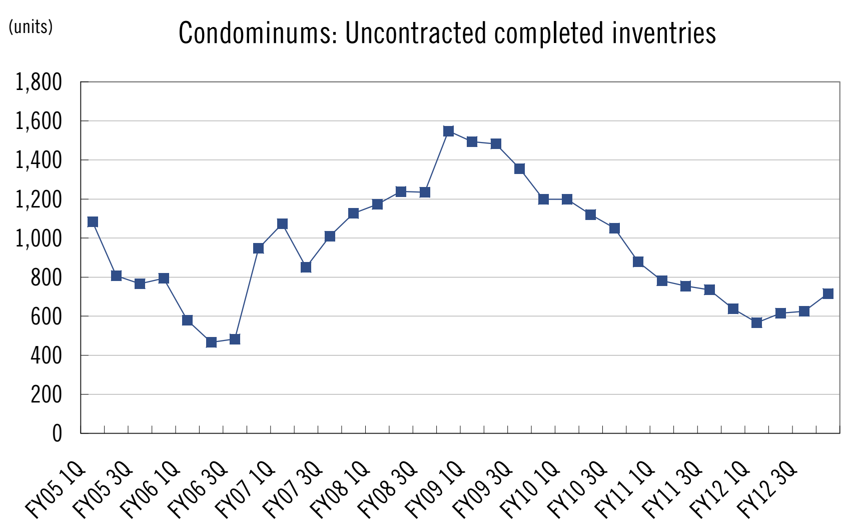
Figure 4. Real estate sales: Aiming for YoY growth in units sold and units contracted in FY3/14



Note: Contracted units are condos and units booked as sales are condos and detached houses. CE: Company estimates.

Source: Company data, Citi Research.

Figure 5. Real estate sales: Completed inventory



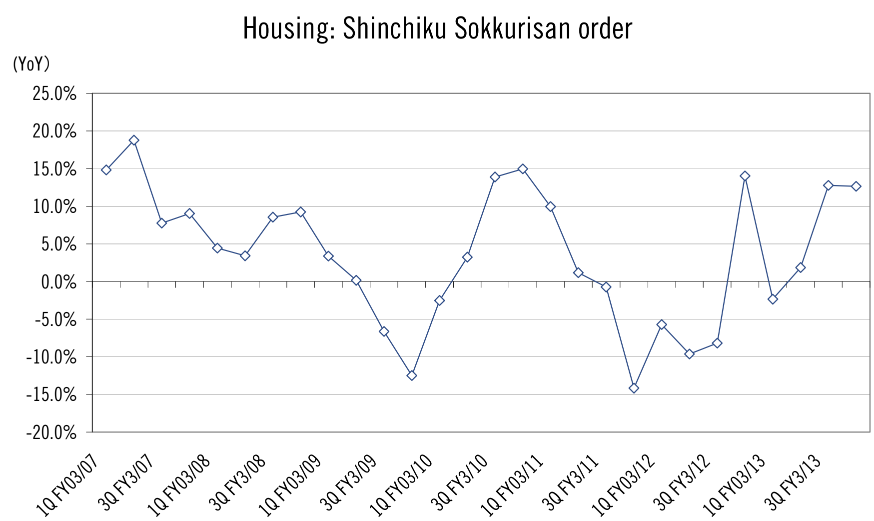
Source: Company data, Citi Research.

Housing construction

FY3/14 guidance calls for segment sales of ¥185bn (+¥13.9bn) and OP of ¥18bn (+¥2.2bn). The sales target breaks down to ¥95bn (+¥2.2bn) for the *Shinchiku Sokkurisan* remodeling service, ¥63.0bn (+¥10.3bn) for custom home construction, and ¥27bn (+¥1.4bn) for others.

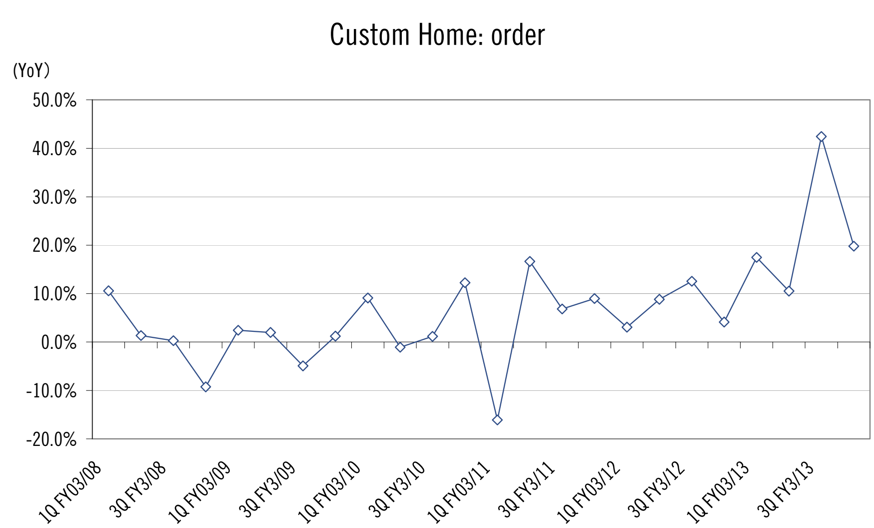
The custom home business, which is expected to drive sales growth, is doing well. Order volume grew 21% to 2,389 in FY3/13, compared to 6% growth to 7,651 units for the *Shinchiku Sokkurisan* remodeling business.

Figure 6. Housing : *Shinchiku Sokkurisan* orders



Source: Company data, Citi Research.

Figure 7. Housing: Built-to-order housing

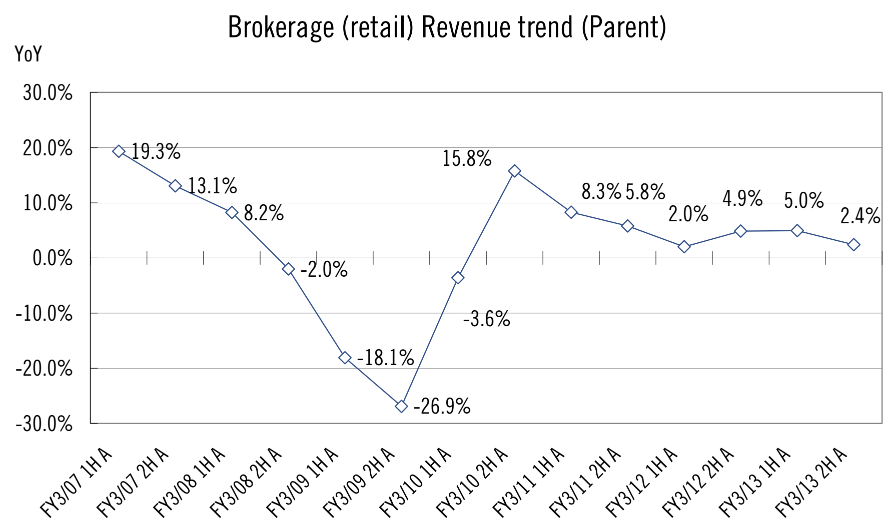


Source: Company data, Citi Research.

Real estate brokerage

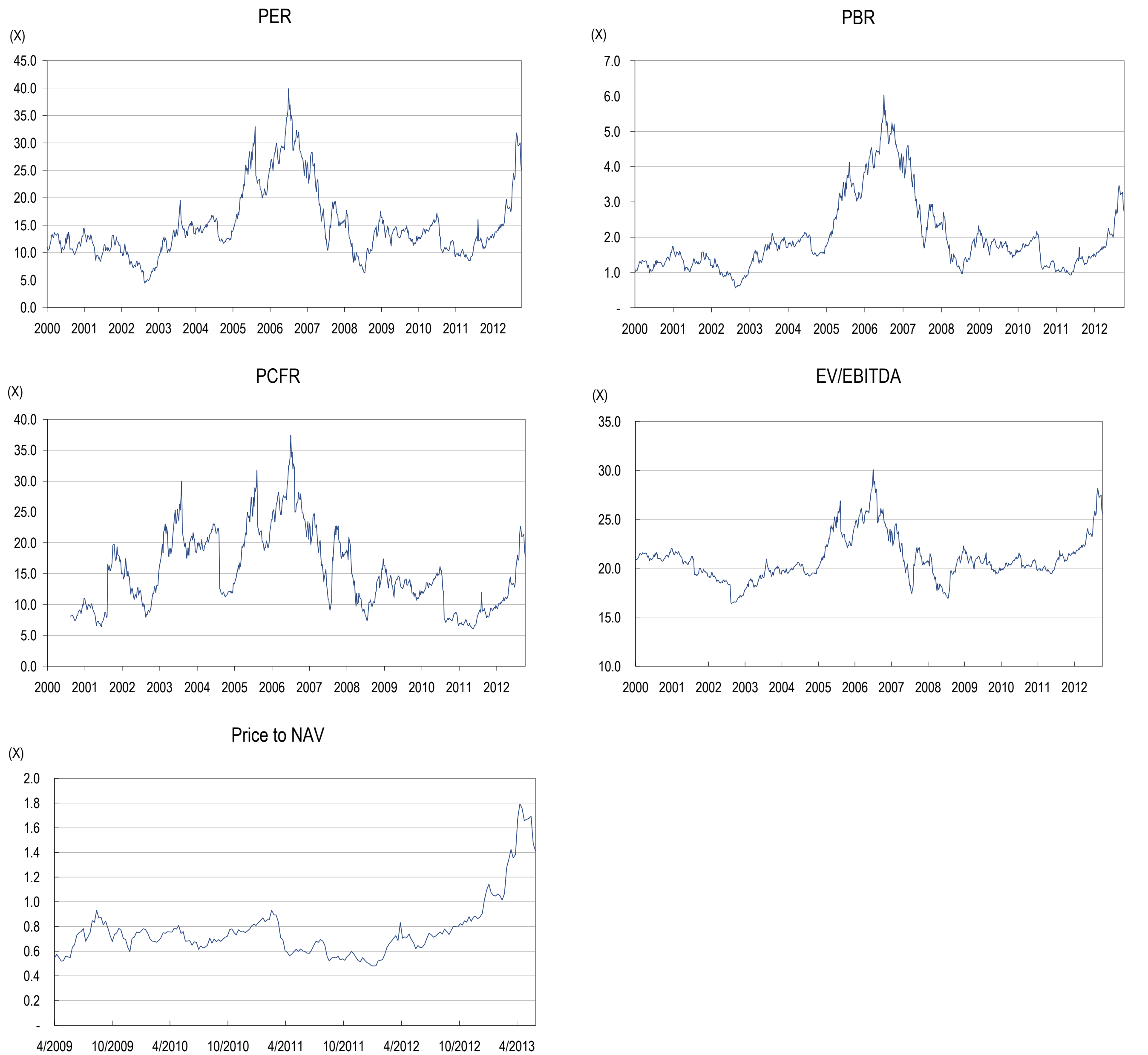
FY3/14 guidance calls for brokerage segment sales of ¥55bn (+4bn YoY) and OP of ¥16.0bn (+¥1.5bn). Brokerage volume and unit prices are expected to rise at the brokerage business of Sumitomo Real Estate sales, which handles this segment. For details of earnings trends at that company, please refer to our May 24 report Sumitomo Real Estate Sales (8870; NR) - Non-rated—Holds FY3/13 results briefing

Figure 8. Brokerage: Sumitomo Real Estate Sales targeting 7% YoY growth in retail brokerage in FY3/14



Source: Company data, Citi Research.

Figure 9. Sumitomo Realty & Development: Valuations



Note: NP used in PER calculations = RP x (1-effective tax rate); cash flow used in PCFR calculations = NP + depreciation; EV/EBITDA = (total liabilities + market cap-cash and deposits)/EBITDA.
Source: Company data, Nikkei Quick, Citi Research.

Figure 10. Sumitomo Realty & Development: Key financial data

(¥mn)	3/2011A	3/2012A	3/2013A	3/2014E	3/2015E	3/2016E	3/2014CE
Sales	**744,755**	**688,662**	**736,652**	**770,800**	**852,600**	**882,800**	**760,000**
YoY	3.5%	-7.5%	7.0%	4.6%	10.6%	3.5%	3.2%
Operating profit	**138,462**	**147,465**	**151,345**	**161,700**	**170,700**	**174,700**	**160,000**
YoY	3.3%	6.5%	2.6%	6.8%	5.6%	2.3%	5.7%
Leasing	88,240	89,636	94,186	97,000	101,000	106,500	97,000
Real estate sales	33,418	37,892	38,923	42,600	43,900	40,000	41,000
Housing	16,698	16,476	15,758	18,100	20,200	21,700	18,000
Brokerage	12,202	14,539	14,494	16,000	17,600	18,500	16,000
Other	520	1,756	1,666	1,000	1,000	1,000	
(Elimination/corporate)	-12,617	-12,836	-13,684	-13,000	-13,000	-13,000	
Nonoperating income	4,341	4,442	4,724	4,500	4,500	4,500	
Nonoperating expense	36,508	43,995	41,153	39,500	39,200	39,000	
Recurring profit	**106,295**	**107,912**	**114,916**	**126,700**	**136,000**	**140,200**	**125,000**
YoY	5.8%	1.5%	6.5%	10.3%	7.3%	3.1%	8.8%
Extraordinary gains	727	449	1,827	1,000	1,000	1,000	
Extraordinary loss	19,264	11,194	20,681	11,000	11,000	11,000	
Net pretax profit	87,757	97,167	96,062	116,700	126,000	130,200	115,000
Net profit after tax	**50,908**	**53,236**	**59,825**	**69,040**	**74,740**	**77,310**	**68,000**
YoY	-3.3%	4.6%	12.4%	15.4%	8.3%	3.4%	13.7%
EPS (diluted) (¥)	94.7	99.8	126.2	145.6	157.6	163.1	
DPS (¥)	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Margin (%)							
-Operating profit	18.6	21.4	20.5	21.0	20.0	19.8	21.1
Leasing	30.1	33.0	33.8	34.6	35.3	36.3	34.6
Real estate sales	13.9	19.1	16.8	17.4	14.5	13.0	17.4
Housing	10.2	9.9	9.2	9.7	10.0	10.0	9.7
Brokerage	26.3	29.4	28.4	29.1	30.4	30.5	29.1
-Recurring profit	14.3	15.7	15.6	16.4	16.0	15.9	16.4
-Net profit after tax	6.8	7.7	8.1	9.0	8.8	8.8	8.9
Cash flow							
Cash flow from operations	14,441	101,402	33,594	87,540	93,240	115,810	80,000
(Depreciation)	23,704	36,049	37,761	36,000	36,000	36,000	36,000
Cash flow from investment	-75,512	-72,100	-52,531	-145,000	-125,000	-115,000	-180,000
(Capex)	-98,058	-112,293	-57,623	-100,000	-100,000	-100,000	-100,000
Cash flow from finance	31,835	-30,065	102,757	1,518	1,518	1,518	-5,800
(Net increase/decrease of debt)	86,433	764	124,409	0	0	0	
Cash and cash equivalent of end of year	149,315	119,748	224,732	168,790	138,548	140,876	120,000
Profitability							
ROA	4.4%	3.9%	3.8%	4.0%	4.1%	4.2%	
ROE	10.0%	9.9%	10.1%	10.5%	10.4%	9.8%	
Balance sheet							
Total shareholders' equity	545,328	582,666	648,865	710,923	778,681	849,009	
Total assets	3,234,202	3,859,698	4,105,500	4,167,558	4,235,316	4,305,644	
Interest-bearing debt	2,021,598	2,554,115	2,650,706	2,650,706	2,650,706	2,650,706	2,650,000
BPS	1,110	1,168	1,323	1,448	1,586	1,729	
NAV per share (¥)	3,200	3,200	3,400	3,600	3,700	3,800	
NAV per share (¥, after tax)	**2,400**	**2,400**	**2,600**	**2,800**	**3,000**	**3,100**	

Source: Company data, Citi Research.

Sumitomo Realty & Development

Investment strategy

We rate the shares of Sumitomo Realty & Development Buy (1), with a ¥5,200 target price. Sumitomo Realty is the most aggressive of the Big 3 real estate companies in new building development, and we believe it has the highest potential for profit growth from new projects in the medium term. The company stands out for its careful land acquisitions, focus on redevelopment, concentration of investment in Tokyo offices, and lack of dependence on property sales to funds. We recommend buying the shares of Sumitomo Realty due to its superior development abilities.

Valuation

Our ¥5,200 target price is based on a 86% premium to our estimate of FY3/14 NAV. Our target price equates to an FY3/15E PER of 31x (adjusted for extraordinary gains/losses) and an EV/EBIDTA multiple of 27.4x. These seem appropriate in light of the current improvement in real estate market conditions and historical trading levels.

Risks

Risks associated with our target price include 1) trends for the office rental market, 2) trends for the real estate investment market, and 3) trends for interest rates and the credit market. If the impact of these factors diverges from our forecasts, the share price could diverge from our target price.

Appendix A-1

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Sumitomo Realty & Development (8830)

Ratings and Target Price History

Fundamental Research

Analyst: Yoshizumi Kimura

	Date	Rating	Target Price	Closing Price
1	9-Jun-10	1M	*2,300	1,528
2	7-Oct-11	Stock rating system changed		
3	7-Oct-11	*1	2,300	1,471
4	28-Feb-12	1	*2,400	1,901
5	15-Jan-13	1	*3,400	2,803

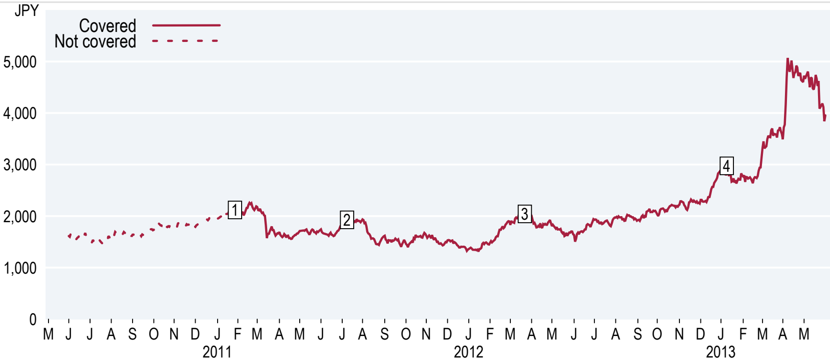
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sumitomo Realty & Development (8830)

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

Analyst: Yoshizumi Kimura



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD MP	-	2,057
2	8-Jul-11	*REM MP	-	1,907
3	22-Mar-12	*ADD MP	-	1,956
4	9-Jan-13	*REM MP	-	2,844

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating			Relative Rating		
Data current as of 31 Mar 2013	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	48%	39%	12%	7%	87%	7%
% of companies in each rating category that are investment banking clients	53%	49%	43%	65%	49%	51%

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