COMPANY RESEARCH AND ANALYSIS REPORT

FJ NEXT CO., LTD.

8935

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst
Ikuo Shibata

FISCO

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

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Summary

Developing asset-management type condominiums under the Gala brand
In FY3/17, achieved record highs for net sales, income, and number of units sold for the second consecutive fiscal year

1. Company profile

FJ NEXT <8935> (hereafter, also "the Company) conducts its mainstay business of the development and sales of the Gala Condominium series, which are asset-management type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily for the properties that it has sold. It secures high occupancy rates through planning and design that are based on the residents' perspectives, such as for design features, safety, and comfort. In this way, it has increased the value of the Gala brand and boasts the leading sales performance in the Tokyo metropolitan area. The Company's results are steadily expanding because demand is strong from individuals who feel concerns about the future, such as about receiving a pension, and also who are facing new problems, like the steps to take in response to inheritance tax.

2. Summary of the FY3/17 results

In the FY3/17 results, net sales increased 18.2% year-on-year (YoY) to ¥61,416mn and operating income rose 21.6% to ¥8,015mn, for higher sales and income. Both results greatly exceeded their initial forecasts and the Company achieved record highs for net sales, income, and the number of units sold for the second consecutive fiscal year. Benefitting from the favorable external environment, the real estate development business greatly expanded from the rises in the number of condominium units sold and in sales prices. In terms of income also, even in a situation of rising land purchase prices, construction costs, and other costs, income significantly increased, including because the Company was able to keep down the cost of sales ratio and SG&A expenses. The operating income margin improved to 13.1% (12.7% in the previous fiscal year). Further, the balance of inventory assets (real estate for sale and real estate for sale in process), which will affect the growth of results in the future, increased 16.4% YoY to ¥36,089mn, even while the Company continued to prioritize profitability for its purchases.

3. FY3/18 forecast

For the FY3/18 results, the Company is forecasting that net sales will increase 4.2% YoY to ¥64,000mn and operating income will decrease 25.1% to ¥6,000mn. Net sales will once again achieve a record high from the increase in the number of units sold, but the costs of sales ratio is expected to rise from the higher land-purchase prices and construction costs, so the operating income margin is anticipated to fall to 9.4%. At FISCO, we think that the Company can achieve its results forecasts due to factors including that the external environment is continuing to trend favorably, and that it has been steadily accumulating inventory assets since the end of the previous fiscal year. Rather, it is necessary to be aware that the results may exceed the forecasts from the same factors as in the previous fiscal year, of the increase in the number of units sold from previously-owned condominiums and the cost of sales ratio being kept down. Also, on looking at the balance of results between 1H and 2H, we should be aware that results can be expected to grow as they are concentrated in 2H.

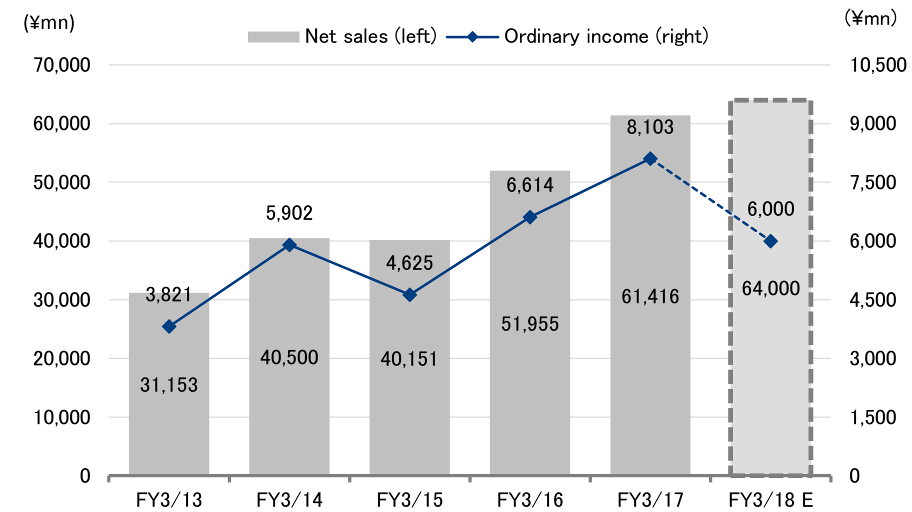
4. Growth strategy

The Company's policy is to realize sustainable growth by playing a social significant role through its asset-management type condominiums business, including by providing high-quality housing in the city-center areas into which the population is regressing, and providing opportunities for long-term asset management, mainly for general salaried workers. Recently, there has been a trend for major developers to enter the market for asset-management type condominiums, and there are some who are expressing concerns about the intensification of competition, including for land purchases. But from another viewpoint, this can be said to be evidence of the fact that this market is recognized to be attractive. If the industry acquires greater recognition and becomes more active from the entry of major developers, it is considered that for the Company, which has competitive advantages, including having the expertise and information capabilities from having cultivated a top niche position, it is highly likely that the development of the industry as a whole will lead to opportunities for its own growth.

Key Points

- In FY3/17, achieved record highs for net sales, income, and number of units sold for the second consecutive fiscal year
- In addition to the expansion in rental demand in the Tokyo metropolitan area, the Company's growth is being supported by the appeal of its products as an asset-management method.
- Sales are forecast to continue to increase in FY3/18 (but income is forecast to decline because of the rise in the cost of sales ratio)
- Is pursuing a niche top strategy, in which the development of the market as a whole leads to its own growth

Results trends



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

Company profile

Focuses on an asset-management type condominiums business based in central Tokyo

1. Business overview

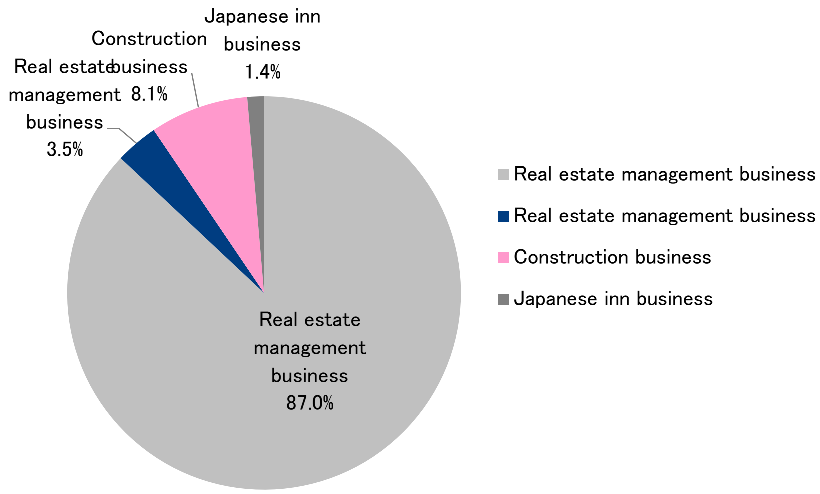
The Company's mainstay business is the development and sales of the Gala Condominium series, which are asset-management type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily of the properties that it has sold. It has four business segments; "the real estate development business," "the real estate management business," "the construction business," and "the Japanese inn business." The mainstay real estate development business contributes 87.0% of net sales.

Business content by segments

Real estate development business	The Company plans, develops, and conducts sub-lot sales of the studio condominium Gala Condominium series, which are mainly for asset management, and the family condominium Gala Residence series. It also conducts sub-lot sales, sales, and a brokerage business for land and properties in the Izu region. It is actively working to expand purchases and sales of previously-owned condominiums.
Real estate management business	The Company mainly conducts a rental building management business of its sub-lot condominiums. It is conducted by the Company's consolidated subsidiary, FJ Community Co., Ltd.
Construction business	It mainly conducts the design, construction, inspection, and renovation of condominiums and other buildings. It is conducted by the Company's consolidated subsidiary Resitec Corporation.
Japanese inn business	It manages the Ito Yukitei and Ito Yukitei Kawana Bettei hot spring ryokans (Japanese inns) in Ito City, Shizuoka Prefecture, and the Gyokuhokan hot spring ryokan in Kawazu Town, Kamo District, Shizuoka Prefecture. The Company's consolidated subsidiary in this segment is FJ Resort Management Co., Ltd.

Source: Prepared by FISCO from the Company materials

Sales ratios by segment (FY3/17)



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

2. History

Mr. Yukiharu Hida, the Company's current President and CEO, has said that "We want to support customers' asset management and increase the value of their real estate by creating high-level living spaces that people will enjoy living in, and by building a comprehensive asset management and management system in order to maintain asset value over the long term," while its management philosophy is "Contributing to the formation of an affluent society through taking on the challenge of creating urban living spaces." Based on these philosophies, the Company was established in July 1980 as Fudo Juhan Co., Ltd.

In 1991, it changed its company name to FJ NEXT Co., Ltd. (with the "FJ" written in Japanese characters. In 2007, it changed how "FJ" was written to using Western characters). In 1994, it launched sales of the Gala Condominium series, which is its own brand, and its results have steadily expanded against the backdrop of the growth in rental demand for asset-management type condominiums and also the demand for purchases. In particular, the Company's results have been supported by the improvement in the trust placed in and the awareness of the Gala brand, which prioritizes profitability with an approach of returning income to investors.

After being listed on JASDAQ in 2004, its creditworthiness, financial strength and other attributes from being a listed company further increased its advantages in the areas of sales, and purchases and development. This was in addition to its track record of supplying properties up to that time, and they accelerated the Company's growth. In 2005, it achieved first place for the first time in the ranking of the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.). Its listing was changed to the Tokyo Stock Exchange (TSE) 2nd Section in March 2007, and then it was designated onto the 1st Section in October 2013.

For two consecutive years, in 2015 and 2016, it was first in the ranking of the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.), and it has established an immovable, leading position in the industry.

Characteristics of the Company

Leveraging its position in the industry, its strengths are creditworthiness, financial strength, and information volume

1. Growth model

The Company's growth model is comprised of two growth drivers; expanding the asset-management type condominiums market itself, and maintaining and improving its market share. In other words, to understand its growth potential, it is important to ascertain two aspects; how will the asset-management type condominiums market in the Tokyo metropolitan area (particularly the city center) develop, and within this development, how will the Company be able to demonstrate its competitive advantages?

2. An overview of asset-management type condominiums and their future development potential

In order to judge the future development potential of asset-management type condominiums, it is necessary to understand their mechanism, product characteristics, and social significance.

(1) Mechanism

The objective for asset-management type condominiums is not for the purchaser (the owner) to live in them, but to earn rental income by renting them to a third party. Therefore, the Company stably generates rental income, and thereby builds the trust of the owners, by securing high occupancy rates through the development of condominiums that ascertain the needs of residents, in addition to having good locations.

(2) Their aim and merits for the owners

Following the increased awareness of its products, many owners in recent years have been general salaried workers, and in most cases they purchase with the aim of conducting asset management for the future. While securing the funds for the purchase from a home loan, generally, the monthly repayments are within the range of rental income and the owners' plan is to complete the repayments by the time they retire. Therefore, in principle, they can carry out asset management for the future from a long-term perspective without it affecting their daily lives. Also, in addition to the fact that stable rental income plays the role of a private pension in old age, a feature of the products is that they has various other merits, including replacing life insurance from the purchase of a home loan as a set with group credit life insurance, responding to inheritance tax measures (which has the effect of keeping down the inheritance tax valuation amount), and they also have the effect of diversifying investments. In particular, in addition to the introduction of a negative interest rate policy and concerns about receiving a pension in the future, the need for new measures to respond to inheritance tax means that asset-management type condominiums are attracting attention.

(3) Social significance

The main customer group for asset-management type condominiums is general salaried workers, and the business has the social significance of providing opportunities for long-term asset management, and at the same time, of providing high-quality rental properties in city center areas into which the population is regressing. In the future also, it is forecast that the trends of an increase in the number of single-person households and the regression of the population to city centers will continue. In particular, it is highly likely that these trends will be further accelerated in the period up to the holding of the Tokyo Olympic Games, so it considered that the importance of providing infrastructure to support single persons living in city centers will increase more and more.

3. The Company's features (competitive advantages)

The Company continues to boast the highest number of units sold in the Tokyo metropolitan area, and its competitive advantages can be arranged as follows.

(1) Provides high-quality living environments based on a clear product concept

The Company is developing the asset-management type Gala Condominium series and the family-condominium type Gala Residence series as its own brands. It conducts planning and development from the perspective of residents, which has increased the value of the Gala brand, and this is demonstrated by its track record of supplying properties and high occupancy rates up to the present time. In particular, the features of its mainstay, asset-management type Gala Condominium series are entrances with a feeling of luxury, an external appearance featuring excellent designs, safety, and facilities specifications that emphasize comfort. In April 2017, Gala Precious Kawasaki won the National Association of Living Industries'*1 7th Excellent Project Award*2. In addition, based on the expertise that the Company has cultivated for asset-management type condominiums, the features of the family-condominiums Gala Residence series are easy traffic access, a surrounding environment that is rich in amenities and convenience, and advanced design features with high basic performance.

*1 This organization has 1,500 companies in all Japan in the real estate industry, mainly consisting of mid-sized companies but also including listed companies.

*2 With the aim to promote quality housing provision and development of living environments, etc., this award is given to an excellent project selected out of projects by members from the National Association of Living Industries, that excels in creativity to form good living environments, with sociability, product planning, residential performance and designing, as well as harmony with the townscape and the surrounding environment, etc.

Gala condominium series

(Gala Yokohama-kannai Grand Stage (200 units))

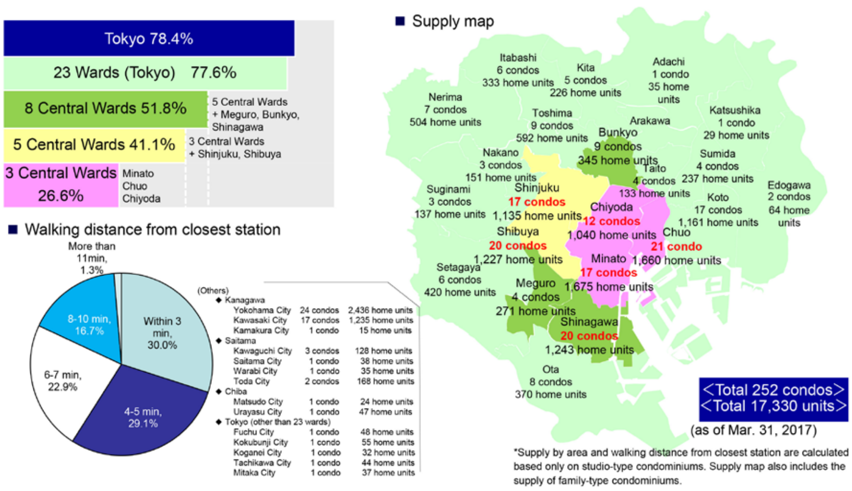
* Left: Exterior, Top right: windbreak room, Bottom right: *entrance*

Source: Reprint from the Company's results briefing materials

(2) Focuses on good locations and information capabilities

It goes without saying that the most important element in the evaluation of the asset value of rental housing is a good location. Therefore, whether a company is able to purchase land in good locations will greatly influence its competiveness. On the other hand, there is a tendency for location information to gather in companies with a track record of results and financial strength, so there is an industry structure in which the strong become even stronger. In the case of the Company, it has industry-leading sales results, strong brand power, and a stable financial base. It also has a competitive advantage in terms of information capabilities, and it is considered that this is producing a virtuous circle, as it further improves its sales results and brand power, which in turn increases its information capabilities. The Company specializes in areas in which the need for housing is high, particularly in central Tokyo, Yokohama, and Kawasaki. In addition, it carefully selects and provides locations; for example, more than 98% of its properties are within 10 minutes of their nearest station.

Supply area of Gala condominiums series



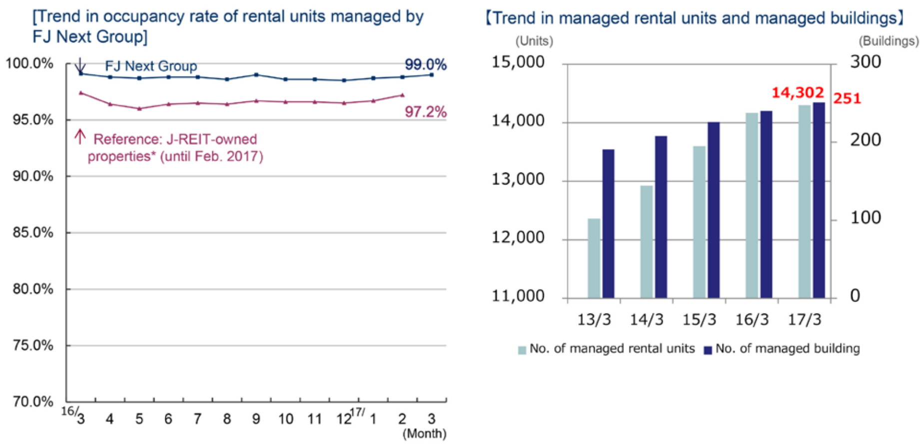
Source: Reprint from the Company's results briefing materials

(3) High level rental management expertise and extensive after-sales support

The Company aims to maintain its occupancy rates through maintaining its assets by conducting real estate management of the properties it sells, and through providing services that are useful for the residents' lives (concierge services). In addition, it offers complete after-sales support, such as reviewing asset management plans and providing consultations on selling properties, which earns it the strong trust of owners. Looking at the results for the number of managed rental units, this number has grown steadily year by year alongside the results for the supply of its own-brand properties, and by the end of FY3/17, it had increased to 14,302 units. On the other hand, the occupancy rates have trended stably at extremely high levels, averaging approximately 99% in FY3/17, due to the Company's strict selection of good locations and its accumulation of management expertise.

* For your reference, the occupancy rate for properties included in J-REIT is an average of approximately 97% (from the Investment Trusts Association), so the Company's occupancy rate is above this average.

Trend in occupancy rate and number of managed rental units



Source: Reprint from the Company's results briefing materials

(4) Attributes of owners and residents

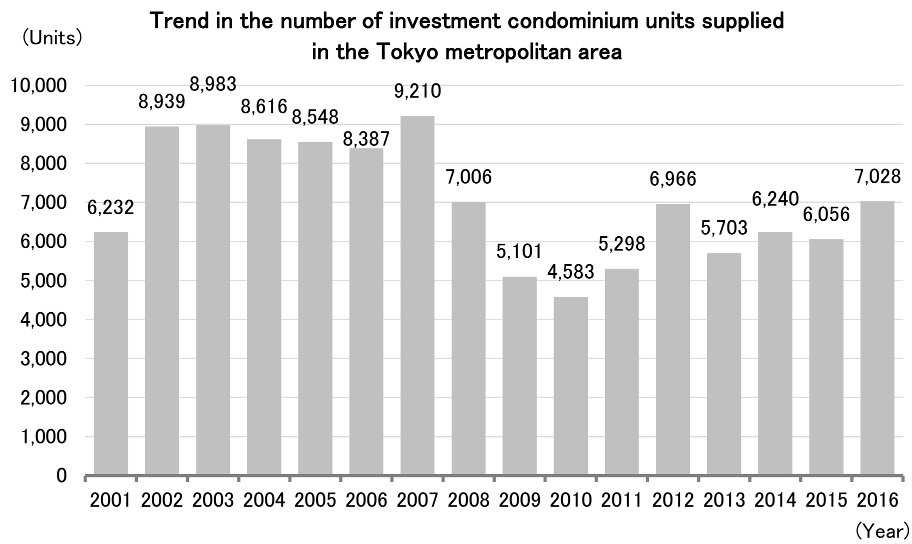
The owners are nearly all general salaried workers, with approximately 60% aged in their thirties and forties. Also, even though the locations of the properties are in the Tokyo metropolitan area, the owners live throughout the country, showing that their objective for their purchase is long-term asset management. On the other hand, the residents are often single company workers in their twenties and thirties, because the properties have excellent locations, facilities, and specifications, so there is strong demand for them as company housing. They are also very popular among women thanks to their high-level security and kitchen and bathroom facilities.

Industry environment

The condominiums market is trendy strongly due to firm demand

1. Sales environment

The number of investment condominiums supplied in the Tokyo metropolitan area steadily grew from the second half of the 1990s to the first half of the 2000s. However, it subsequently trended downward due to the bankruptcies and withdrawals of a succession of businesses because of the effects of soaring land prices and the economic crisis triggered by the Lehman Brothers bankruptcy in 2008. But this decline bottomed-out in 2010, and in the last few years, rental demand in the Tokyo metropolitan area has been growing against the backdrop of the increase in the number of single-person households and the regression of the population to the city center. Furthermore, in addition to the continuing low interest rates and concerns about receiving a pension in the future, a new need has emerged for measures to respond to inheritance tax (which was increased by lower the basic deduction), and so this number has trended strongly, supported by the robust demand for purchases from individuals. The background to this is considered to be that as an asset management method for the future, compared to other methods, such as stocks, investment trusts, and bonds, purchasing an investment condominium can be expected to have tax-saving effects and an insurance function, while it also offers a sense of security from providing a stable cash flow and as an investment in a tangible asset.



Source: Prepared by FISCO from Real estate Economic Institute materials

2. The purchase and development environment

On the other hand, in terms of purchases and development, as land-purchase prices and construction costs remain at high levels, it has become even more important to ascertain which sites will be profitable, and it is increasingly likely that business results will be determined by the outcomes of land purchases. The Company utilizes its credit-worthiness, financial strength, and abundant information capabilities, and its consistent policy since its establishment has been to purchase sites while prioritizing profitability.

3. Competitive environment

Its industry peers are mostly specialists in investment condominiums, and the industry structure is that there are many companies that are comparatively small scale. In this situation, the Company has constantly achieved the leading sales results* in the ranking of the number of investment condominium units supplied in the Tokyo metropolitan area. Very recently, there has been a movement toward entry by major developers that have an eye on the market's expansion.

* In the most recent ranking of the supply of investment condominium units in the Tokyo metropolitan area, the Company ranked first for the second consecutive year, for the full year for 2016 and the 2017 1H (Real estate Economic Institute Co., Ltd.).

Results trends

Results are steadily expanding, benefiting from the favorable external environment
Secures a stable and high-level financial base

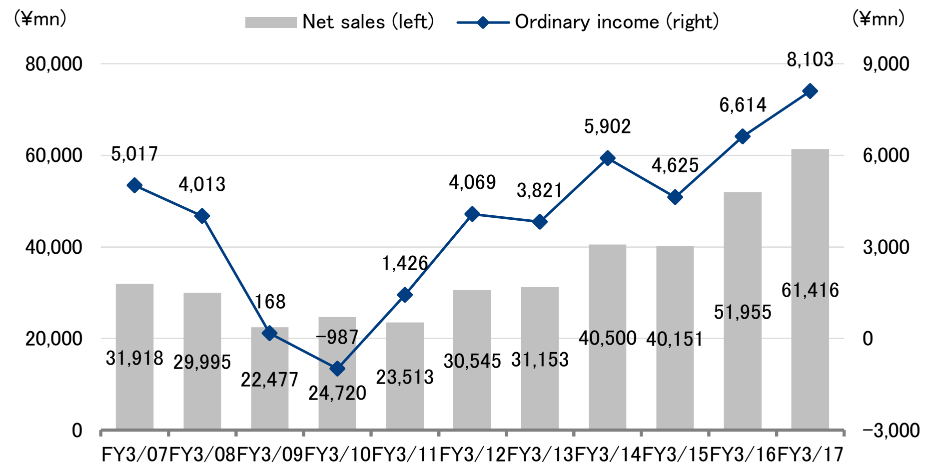
1. Trends in past results

On looking back on past results, we see that as a whole they have trended steadily, supported by the growth in rental demand and the demand for purchases of asset-management type condominiums in the Tokyo metropolitan area. The results hit bottom in FY3/09 due to the effects of the economic recession following the Lehman Shock. But based on its policy of not simply pursuing a balance of purchases and instead continuing to purchase land that matched its profitability standard, by steadily advancing property development, the Company was able to ride-out the recession with a comparatively small decline compared to the real estate industry as a whole, which suffered greatly. Subsequently, its results expanded steadily alongside the economic recovery. In FY3/15, there was a temporary levelling-off of results due to the timing of the completion of construction works, but since FY3/16, its sales and income have continued to increase significantly, and each of net sales, income, and the number of units sold achieved record highs for two consecutive periods. This shows that even though the Company is now quite experienced as a company, it is still in a growth process.

Financially, the interest bearing debt balance has increased alongside the growth in the results, while the equity ratio is also being maintained at a high level due to the accumulation of internal reserves, and there are no concerns about the stability of its financial base.

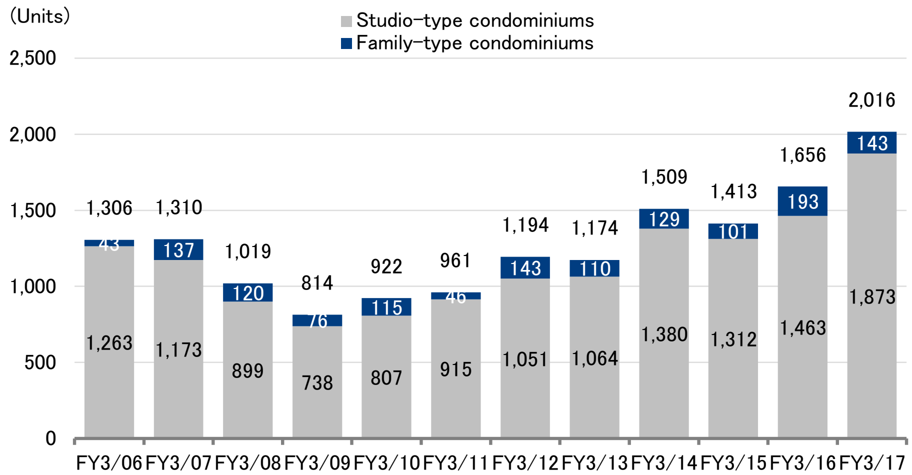
The reasons why the Company was able to ride-out the severe market environment that followed the economic crisis triggered by the Lehman Brothers bankruptcy comparatively smoothly can be said to be as follows; the high asset value of the Gala brand that prioritizes profitability from an approach of returning income to investors, including by the strict selection of good locations, and the stability of its financial base.

Trends in net sales and ordinary income

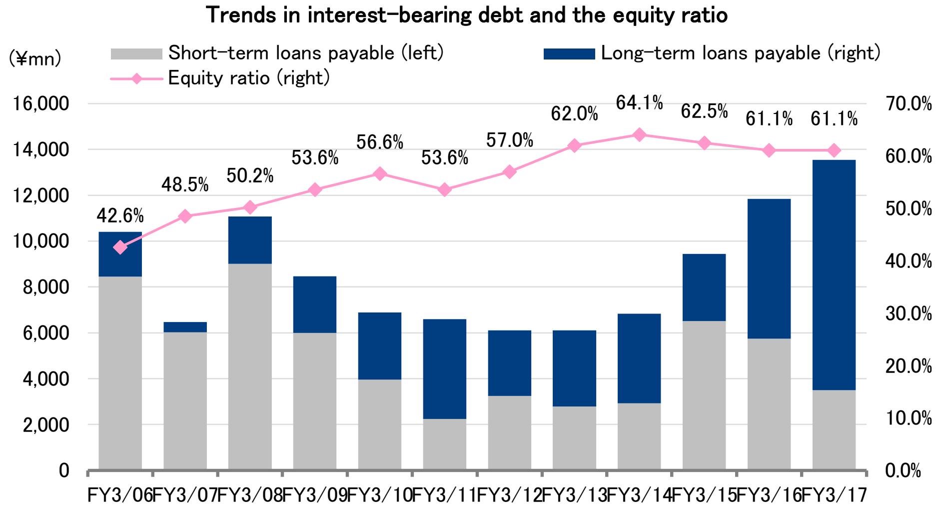


Source: Prepared by FISCO from the Company's financial results

Trend in condominium sales



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



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

Sales and income exceeded the initial forecasts and increased greatly, and records highs were achieved for net sales, income, and the number of units sold for the second consecutive fiscal year

2. Summary of the FY3/17 results

In the FY3/17 results, net sales increased 18.2% YoY to ¥61,416mn, operating income rose 21.6% to ¥8,015mn, ordinary income grew 22.5% to ¥8,103mn, and net income attributable to shareholders of parent company climbed 31.8% to ¥5,474mn. The results exceeded the initial forecasts for major increases in sales and income, with record highs being achieved for net sales, income, and the number of units sold for the second consecutive fiscal year.

Benefitting from the positive external environment, the real estate development business greatly expanded from the rises in the number of condominium units sold and in sales prices. In particular, the main factor causing results to exceed the forecast was the increase in the number of units sold from sales of previously-owned condominiums. In the construction business also, external orders climbed significantly, supported by demand for the construction of condominiums and other factors. Results in the real estate management business rose steadily from the growth in the number of units managed. Conversely, the Japanese inn business struggled somewhat because of the decrease in the number of customers following the unseasonable weather in the summer, although it can be said that its results trended basically unchanged YoY.

Even in the context of the soaring land-purchase prices and construction costs, income increased significantly, including due to the cost of sales ratio and SG&A expenses being kept down, while the operating income margin also improved to 13.1% (12.7% in the previous fiscal year).

In addition, with regards to the balance of inventory assets, which will affects the growth of results in the future, real estate for sale (completed condominiums) fell by 9.4% on the end of the previous fiscal year to ¥15,615mn, due to solid sales. On the other hand, the Company was able to accumulate real estate for sale in process, which increased 48.9% to ¥20,474mn, despite the fact that it continues to purchase land while prioritizing profitability (inventory assets as a whole rose 16.4% to ¥36,089mn on the end of the previous fiscal year). At the end of FY3/17, within the real estate for sale (total, 891 units), 636 units were previously-owned condominiums (the previously-owned condominiums stock was 407 units at the end of the previous fiscal year). These are strategically held units and the Company plans to sell them sequentially while coordinating with the schedule for the completion of newly constructed properties in the future. They also have the aspect of being a stock business, with rental income being obtained during the period in which they are held. At FISCO, we are focusing on the point that these efforts for previously-owned condominiums are securing opportunities for income, which means that the Company is not reliant only on newly constructed properties. Moreover, for the owners, the activation (the depth of the liquidity) of the previously-owned condominiums market can be evaluated as having significant merits, for as and when they are needed.

Financially, total assets increased to ¥58,631mn (up 14.1% on the end of the previous fiscal period) due to the rise in inventory assets, while shareholders' equity grew to ¥35,804mn (up 14.0%) because of the accumulation of internal reserves. As a result, the equity ratio was 61.1% (unchanged on the end of the previous fiscal year), maintaining its previous high level. Interest-bearing debt rose to ¥13,553mn (up 14.3% on the end of the previous fiscal year) alongside the accumulation of inventory assets, but the current ratio increased to 560.3% (434.6% at the end of the previous fiscal year) due to the rise in long-term borrowing, and the Company's financial stability improved even more. On the other hand, ROE, which shows capital efficiency, rose to 16.3% (14.0% in previous fiscal year) and it can be said that its finances are extremely well balanced.

Increase in sales expected to continue in FY3/18

3. FY3/18 forecast

For the FY3/18 results, the Company is forecasting that net sales will increase 4.2% YoY to ¥64,000mn, operating income will decrease 25.1% to ¥6,000mn, ordinary income will fall 26.0% to ¥6,000mn, and net income attributable to shareholders of parent company will decline 28.8% to ¥3,900m. So the forecasts are for the increase in sales to continue, but for income to decline.

Net sales are forecast to trend strongly in each of the businesses. In particular, in the real estate development business, the number of units sold is expected to reach a record high of 2,071 units (up 55 units YoY)*. The high-level results are also expected to be maintained in both the real estate management business, as based on its policy of strengthening the stock business, the Company is aiming to increase the number of managed units, including from external orders, and also in the construction business from the acquisition of strong external orders. The Japanese inn business is forecast to trend steadily due to stable operations.

* Among them, it plans to increase family-type condominiums to four buildings (two buildings in the previous fiscal year).

Conversely, in income, continuing from the previous fiscal year, land-purchase prices and construction costs will remain at high levels, so the Company is conservatively estimating that the cost of sales ratio will rise. Therefore, it expects the operating income margin to fall to 9.4% (13.1% in the previous fiscal year), and the forecast is for a decline in operating income, despite the higher sales.

At FISCO, we think that, despite the intensifying competition for land purchases, it is fully possible that the Company will achieve the net sales forecast, as the external environment (rental demand and purchase demand) will continue to trend stably, and it had steadily accumulated inventory assets by the end of the previous fiscal year. Rather, it is necessary to be aware of the potential for an increase in the number of units sold from previously-owned condominiums, the same as in the previous fiscal year. In addition, the forecasts are for declines in the income items, but we should pay attention to the possibility that the results may exceed the forecasts from sales prices reflecting the condition of the real estate market and trending favorably, the same as in the previous fiscal year. In addition, on looking at the balance between the 1H and 2H, we need to be aware that the growth in results is expected to be concentrated in 2H (the forecasts are for major decreases in sales and income in 1H compared to the same period in the previous fiscal year).

The 1Q results were that net sales decreased 3.1% YoY to ¥14,442mn, operating income fell 9.6% to ¥1,595mn, ordinary income declined 12.8% to ¥1,591mn, and net income attributable to shareholders of parent company decreased 25.8% to ¥877mn. However, as previously explained, it is expected that the growth in results will be concentrated in 2H, and in addition, with regards to the 1H forecasts, the rates of progress in 1Q were 51.6% of net sales and 69.3% of operating income, so it would seem that the Company is making smooth progress.

Growth strategy

A niche top strategy, of the expansion of the market as a whole leading to growth for the Company

The Company's growth strategy would seem to be to further improve management efficiency and its competitive advantages by specializing in asset-management type condominiums in the Tokyo metropolitan area (particularly in the city center), and also a top niche strategy, of the expansion of the market as a whole leading to its own growth. Looking at this from the opposite direction, we can see there is a growth bottleneck (constraint), in which growth is determined by market trends. Therefore, a key point for the Company itself, which leads its industry, would seem to be how it will promote the sound development of the asset-management type condominiums market. Including through partnerships with other companies, it is creating a database of prospective customers who have expressed an interest in its products (potential owners) and it is focusing its efforts into expanding the market base from a long-term perspective by aiming to increase awareness and understanding of asset-management type condominiums through various measures, including by regularly providing potential and actual customers with information by email and other means, and these CRM operations are conducted through Gala Navi*. In April 2016, it newly established its own seminar room, and every month it holds seminars on themes in accordance with the various needs of customers, from beginner investors through to owners, including in a seminar format and as individual consultation sessions. We will also be paying attention to the results of other activities, like organizing seminars in collaboration with financial institutions. Moreover, the Company is progressing measures to respond to new needs, including the establishment of a local subsidiary in Taiwan (October 2014), whose role is to quickly and accurately ascertain the needs of Taiwanese investors.

* A site for disseminating information on asset-management type condominiums, with more than 100,000 members.

In addition, while focusing on asset-management type condominiums, the Company is aiming to further expand the scope of its business and acquire earning opportunities, while its policy for its family condominiums business is to steadily accumulate a track record of results.

At FISCO, we think that it is highly likely that the Company will achieve sustainable growth. This judgment is because, despite the concerns about the effects of rising land-purchase prices and construction costs, the demand from residents and owners for asset-management type condominiums in the Tokyo metropolitan area is strong and there remains sufficient room for growth in the future. It is also because the Company is deploying a comparatively robust business model (such as a conservative purchasing policy and financial strength, and a focus on high-quality rental housing) and a stock business (for example, rental management operations and asset management operations, including for the properties of other companies).

Recently, there has been a trend for major developers to enter-into the asset-management type condominiums market, and there are some who are expressing concerns about the intensification of competition, including for land purchases. But from another viewpoint, this can be said to be evidence of the fact that this market is recognized to be attractive. If the industry acquires greater recognition and becomes more active from the entry of major developers, it is considered that for the Company, which has competitive advantages, such as having the expertise and information capabilities from having cultivated a top niche position, it is highly likely that the development of the industry as a whole will lead to opportunities for its own growth.

CSR and information security measures

Actively practicing CSR as the leading company

As the leading company representing its industry, the Company is actively conducting corporate social responsibility (CSR) activities and environmental measures. Specifically, it is adopting various environmentally friendly equipment, including LED lighting and environmentally friendly plywood (including sustainable timber supplied from forests with permission for afforestation from the government of the producing country), new material hybrid wallpaper (which reduces CO2 emissions by 56% in the production process compared to the usual vinyl cloth, and which also does not use the substances that cause sick building syndrome), air conditioners that are compliant with energy-saving standards (installed as standard), and water-saving toilets. It is also advancing the greening of the roofs of its condominiums as part of its measures to respond to the heat island effect.

Moreover, the Company is participating in the “Fun to Share” activities to prevent global warming that are being promoted by the Ministry of the Environment, and it is conducting various in-Company eco-activities, including implementing Cool Biz and Warm Biz, converting office lighting to LED, effectively using vinyl umbrellas (the shared used within the Company of umbrellas that are not being used), and establishing an in-Company library (recycling of unwanted books and magazines as an in-Company library). In addition, it supports the environmental conservation activities being conducted in Akagi Nature Park (Shibukawa City, Gunma Prefecture), and it is planting trees in developing countries (in Africa and Asia).

On the other hand, the Company is implementing measures to strengthen information security, including the management of personal information, which is its greatest corporate social responsibility. In November 2006, it acquired the ISO/IEC 27001 certification, which is the international standard for information security management systems. In addition, it is working to build a strict management system through rotating the PDCA cycle.

Shareholder returns and share price valuation

In addition to increasing dividends according to income growth, it is actively acquiring its own shares.
Selected as a constituent issue in the JPX-Nikkei Mid and Small Cap Index

The Company's basic policy for returning income to shareholders is to "Stably and continuously pay dividends according to income after comprehensively considering various factors, including internal reserves for active business development and maintaining a financial balance." It upwardly revised the initial dividend forecast for FY3/17 and paid an annual dividend of ¥20 (including a special dividend of ¥2), which was an increase of ¥4 YoY (dividend payout ratio, 12.3%). At the current point in time, it plans to pay a dividend of ¥20 for FY3/18 also (dividend payout ratio, 17.0%), which will be an increase of ¥2 on an ordinary-dividend basis. Going forward, we can expect continuous dividends alongside the Company's income growth, based on the relatively stability of its business and its high level of income.

In FY3/17, the Company acquired approximately 830,000 of its own shares (total acquisition price, around ¥500mn). In FY3/18 also, it is proceeding with the acquisition of its own shares, and from June 23 to December 29, 2017, it will acquire up to 900,000 shares with an upper limit for the total acquisition price of ¥900mn. As of September 30, 2017, it had acquired a total of 162,900 of its own shares.

Also, the Company has introduced a shareholder benefits program for vouchers that can be used at the Company Group's hot spring ryokans, as a measure for individual shareholders and to promote greater understanding of its business.

The current share price (closing price on October 18, ¥961) is at the levels of PER (forecast) of 8.17 times, PBR (actual) of 0.88 times, and a dividend yield of 2.08%. It is not possible to conduct a simple comparative analysis, as there are no similar listed companies with the same growth model. But starting with the fact that the TSE 1st Section average PER (forecast) is 16.02 times and the PBR (actual) is 1.34 times, and also in consideration of various factors, such as the strong demand for asset-management type condominiums in the Tokyo metropolitan area, the future development potential, the Company's comparatively robust business model, and its recent results, there is the sense that its current share price level is still undervalued. Therefore, as its industry's leading company, it is considered that there is plenty of room for its share price to rise from asset-management type condominiums becoming further recognized as a long-term investment product. Also, in August 2017, it was newly selected as a constituent issue in the JPX-Nikkei Mid and Small Cap Index* (included from August 31).

* A stock price index compiled by Tokyo Stock Exchange, Inc., and NIKKEI Inc. This index applies the concept of the JPX-Nikkei Index 400, which is an index comprised of highly attractive listed companies, to mid and small cap equities by selecting companies that focus on capital efficiency and investor-oriented management, and aim to foster greater awareness of such issues among corporate executives. It is comprised of 200 issues selected from the main markets of the TSE 1st Section, 2nd Section, Mothers, and JASDAQ.

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