

Mitsui Fudosan (8801)

2Q Results: Potential for Upward Revision in Late FY2013

Mitsui Fudosan reported 2Q results and held a conference call after market hours on November 7. We get the impression it could revise up guidance late in FY2013 on potential upside in real estate brokerage, hotel business and condo sales.

- Leasing business:** Operating profit from leasing rose ¥0.7 billion YoY to ¥55.4 billion. The vacancy rate (parent, Tokyo area) rose from 3.8% in 1Q to 4.5% in 2Q, but guidance points to a fall to 3% in 4Q. The rise in 2Q vacancy rate appears to have been temporary, mainly reflecting mismatches in timing between tenants moving in and out. Management commented during its conference call that office leasing might turn in a small profit increase in FY2014.
- Sales of housing/sales to investors:** Sales of housing (residential portion only) swung from an operating profit of ¥5.2 billion in 1H FY2012 to a loss of ¥1.3 billion in 1H FY2013 due to low bookings of unit sales. Conversely, there was a substantial increase in agreed sales, with contracts signed on 4,714 units in 1H FY2013, up from 3,018 units in 1H FY2012. This strong sales performance should make it easier to generate profits later in FY2013 because it is likely to reduce selling expenses. Agreed sales kept up good progress even in October, suggesting little evidence of a backlash to the introduction of higher consumption tax. Spending on acquisition of land for condo development made good headway, rising from ¥34.5 billion in 1H FY2012 to ¥51.5 billion in 2H.
- Management (brokerage), other business (hotels):** Operating profit from management activities grew 35% YoY to ¥24.2 billion, thanks to strong brokerage to individuals. We see potential upside to full-year guidance of ¥42.0 billion operating profit from management activities. Operating profit from other business rose from ¥50 million in 1H FY2012 to ¥2.1 billion in 1H FY2013 (full-year guidance: ¥1.0 billion) due to strength in hotels. Overall progress looks likely to remain ahead of plan despite costs of opening new hotels in 2H.
- Overweight rating, December 2014 price target of ¥4,000:** We continue to base our price target on NAV (derived from SOTP analysis, using a cap rate of 4.0% and our FY2017 estimates). Downside risks include monetary tightening and rising interest rates.

Overweight

8801.T, 8801 JT

Price: ¥3,210

Price Target: ¥4,000



Japan

Infrastructure (Property, Homebuilder, Construction)

Hirokazu Anai ^{AC}

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Bloomberg JPMA ANAI <GO>

JPMorgan Securities Japan Co., Ltd.

Price Performance



Mitsui Fudosan Co., Ltd. (Reuters: 8801.T, Bloomberg: 8801 JT)

	2012/3	2013/3	2014/3 E	2015/3 E	2016/3 E
Sales (¥ bn)	1,338.1	1,445.6	1,555.0	1,618.0	1,685.0
Operating Profit (¥ bn)	126.0	148.2	170.0	187.0	201.0
Recurring Profit (¥ bn)	102.5	123.1	145.0	162.0	178.0
Net Profit (¥ bn)	50.1	59.5	75.0	91.0	100.0
EPS (¥)	56.9	67.4	85.1	103.2	113.5
P/E (x)	56.4	47.6	37.7	31.1	28.3
P/BV (x)	2.6	2.3	2.2	2.1	2.0
EV/EBITDA (x)	24.6	22.9	20.4	18.9	17.8

Source: Company data, Bloomberg, Morgan estimates.

Company Data

Price (¥)	3,210
Date Of Price	07 Nov 13
Market Cap (¥ bn)	2,829.37
Shares O/S (mn)	881.4
52-week Range (¥)	3,610-1,602
TOPIX	1,184.73
DPS (¥)	22
Dividend Yield	0.7%
ROE	7.5%

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

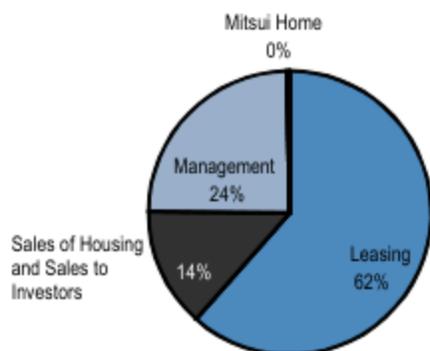
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Mitsui Fudosan (8801)

Company Profile

Part of the Mitsui group, which began in 1673 when Takatoshi Mitsui opened the Echigo-ya clothing store. This later became the Mitsui Company, which established a real estate section in 1914 and spun it off as Mitsui Fudosan in 1941. The company is an integrated real estate firm involved in office leasing, commercial facilities, condominium development, investment property development and REITs.

Operating Profit Composition by Segment, FY2012



Source: Company data.

Operating Profit Forecasts: J.P. Morgan versus Consensus

¥ billion	J.P. Morgan	Consensus
FY2013E	170.0	162.5
FY2014E	187.0	172.2

Source: J.P. Morgan estimates, Bloomberg.

Assumptions & Sensitivity Metrics (Impact on FY2012 Profits)

Factor	Current Assumption	Change	Impact	
			OP	NP
Vacancy Rate (%)	3.0	+1%	-4.6%	-4.6%
Average Rent (¥/3.3m ²)	25,000	+5%	23.2%	23.2%
Interest rate (%)	1.4	+1%	0.0%	-21.7%

Source: J.P. Morgan estimates.

Peer Valuations Based on Bloomberg Consensus

Company name	Bloomberg		Price	Date	Market Cap (\$mn)	P/E(x)			P/B(x)			ROE(%)
	Ticker	Currency				13E	14E	15E	13E	14E	15E	13E
Mitsui Fudosan Co Ltd	8801 JT	¥	3,210	Nov-07	28,678	41.5	36.9	33.9	2.29	2.19	2.09	5.9
Mitsubishi Estate Co Ltd	8802 JT	¥	2,768	Nov-07	39,009	62.4	57.2	53.2	2.97	2.86	2.75	5.0
Tokyo Tatemono Co Ltd	8804 JT	¥	918	Nov-07	4,029	47.5	40.0	34.4	1.84	1.55	1.49	3.8
Tokyo Fudosan Hold. Corp	3289 JT	¥	943	Nov-07	6,125	23.4	22.1	21.5	1.55	1.47	1.39	7.4
Sumitomo Realty & Dev.	8830 JT	¥	4,580	Nov-07	22,101	31.2	29.6	27.9	3.16	2.89	2.66	10.7
NTT Urban Dev. Corp	8933 JT	¥	1,224	Nov-07	4,083	34.3	33.6	29.8	2.14	2.05	1.97	6.4
Hulic Co Ltd	3003 JT	¥	1,576	Nov-07	9,511	69.2	57.5	51.0	5.84	5.32	4.84	8.7
Sun Hung Kai Properties Ltd	16 HK	HKD	102.00	Nov-06	35,146	12.6	12.7	12.1	0.69	0.66	0.63	5.7
Cheung Kong Holdings Ltd	1 HK	HKD	121.50	Nov-06	36,304	10.2	9.3	8.9	0.79	0.73	0.69	7.9
Hang Lung Properties Ltd	101 HK	HKD	25.85	Nov-06	14,936	26.8	20.1	16.8	0.94	0.93	0.89	4.2
CapitaLand Ltd	CAPL SP	SGD	3.09	Nov-06	10,586	19.3	15.5	14.1	0.84	0.80	0.77	5.2

Source: Bloomberg. Note: Market caps are calculated using forex rates as of November 6.

Investment Thesis Risk Analysis

Upside Scenario to Target Price/Rating

- Earnings improving faster than management's guidance, driven by recovery in demand for commercial facilities and hotels.
- Rise in REIT prices could lead to capital gains on property sales to Nippon Building Fund, Frontier Real Estate Investment Corporation and Nippon Accommodations Fund.
- Full-fledged recovery in office demand owing to improved economic conditions.

Downside Scenario to Target Price/Rating

- Delayed recovery in office demand, increased condominium construction costs.
- Stagnation in POs (public offerings) if REIT unit prices are depressed for long
- Monetary tightening and rising interest rates.

Valuation

We base our December 2014 price target of ¥4,000 on a sum-of-the-parts analysis using a cap rate of 4.0% and our FY2017 forecasts.

Figure 1: Mitsui Fudosan (8801): Sales and Operating Profit by Business Segment

¥ million

	1Q	2Q	1H	2H	Full Yr	3/14E	3/15E	3/16E	3/17E	3/18E
	3/14		3/14 CoE							
Sales										
Leasing	108,644	113,285	221,929	234,071	456,000	470,000	492,000	515,000	534,000	553,000
YoY % chg.	0.5	2.9	1.7	8.4	3.2	6.4	4.7	4.7	3.7	3.6
Composition (%)	38.2	32.2	34.9	26.2	29.8	30.2	30.4	30.6	31.3	32.0
Sales of Housing and Sales to Investors	47,787	70,914	118,701	317,299	436,000	441,200	479,500	531,000	518,200	506,500
YoY % chg.	-6.7	-2.8	-4.4	13.0	10.8	12.1	8.7	10.7	-2.4	-2.3
Composition (%)	16.8	20.2	18.7	35.5	28.5	28.4	29.6	31.5	30.4	29.3
Management	73,557	77,107	150,664	158,336	309,000	309,000	316,000	323,000	331,000	340,000
YoY % chg.	3.1	6.9	5.0	5.2	3.7	3.7	2.3	2.2	2.5	2.7
Composition (%)	25.9	21.9	23.7	17.7	20.2	19.9	19.5	19.2	19.4	19.7
Mitsui Home	29,883	34,434	64,317	159,683	224,000	225,000	220,000	200,000	200,000	200,000
YoY % chg.	26.9	-36.3	-17.1	15.4	7.2	7.6	-2.2	-9.1	0.0	0.0
Composition (%)	10.5	9.8	10.1	17.9	14.6	14.5	13.6	11.9	11.7	11.6
Others	24,576	25,962	50,538	54,462	105,000	109,800	110,500	116,000	121,800	130,500
YoY % chg.	-4.4	-2.2	-3.3	-7.3	1.4	6.1	0.6	5.0	5.0	7.1
Composition (%)	8.6	7.4	7.9	6.1	6.9	7.1	6.8	6.9	7.1	7.5
Consolidated net sales	284,450	351,701	636,151	893,849	1,530,000	1,555,000	1,618,000	1,685,000	1,705,000	1,730,000
YoY % chg.	1.6	4.7	3.3	5.9	5.8	7.6	4.1	4.1	1.2	1.5
Operating Profit by Business Segment										
Leasing	27,380	28,075	55,455	49,545	105,000	110,000	113,000	115,000	120,900	130,000
YoY % chg.	0.1	2.8	1.4	14.4	0.6	5.4	2.7	1.8	5.1	7.5
Composition (%)	85.5	59.0	69.7	48.9	58.0	57.3	53.8	51.6	50.8	51.0
Margin (%)	25.2	24.8	25.0	21.2	23.0	23.4	23.0	22.3	22.6	23.5
Sales of Housing and Sales to Investors	334	1,974	2,308	28,692	31,000	34,000	44,000	49,000	56,000	63,000
YoY % chg.	-87.6	-51.5	-65.9	88.3	34.4	47.4	29.4	11.4	14.3	12.5
Composition (%)	1.0	4.1	2.9	28.3	17.1	17.7	21.0	22.0	23.5	24.7
Margin (%)	0.7	2.8	1.9	9.0	7.1	7.7	9.2	9.2	10.8	12.4
Management	10,526	13,665	24,191	17,809	42,000	45,000	49,000	54,000	56,000	57,000
YoY % chg.	35.6	35.4	35.5	17.6	1.0	8.2	8.9	10.2	3.7	1.8
Composition (%)	32.9	28.7	30.4	17.6	23.2	23.4	23.3	24.2	23.5	22.3
Margin (%)	14.3	17.7	16.1	11.2	13.6	14.6	15.5	16.7	16.9	16.8
Mitsui Home	-7,059	2,644	-4,415	6,415	2,000	2,000	3,000	4,000	4,000	4,000
YoY % chg.	-13.4	371.3	-41.8	-48.2	253.4	253.4	50.0	33.3	0.0	0.0
Composition (%)	-22.1	5.6	-5.5	6.3	1.1	1.0	1.4	1.8	1.7	1.6
Margin (%)	-23.6	7.7	-6.9	4.0	0.9	0.9	1.4	2.0	2.0	2.0
Others	825	1,232	2,057	-1,057	1,000	1,000	900	1,000	1,100	1,100
YoY % chg.	NM	NM	NM	NM	NM	-1276.5	-10.0	11.1	10.0	0.0
Composition (%)	2.6	2.6	2.6	-1.0	0.6	0.5	0.4	0.4	0.5	0.4
Margin (%)	3.4	4.7	4.1	-1.9	1.0	0.9	0.8	0.9	0.9	0.8
Subtotal	32,006	47,590	79,596	101,404	181,000	192,000	209,900	223,000	238,000	255,100
Eliminations	-5,426	-4,964	-10,390	-10,610	-21,000	-22,000	-22,900	-22,000	-22,000	-22,100
Operating Profit	26,580	42,627	69,207	90,793	160,000	170,000	187,000	201,000	216,000	233,000
YoY % chg.	8.3	16.3	13.1	23.0	8.0	14.7	10.0	7.5	7.5	7.9

Source: Company data and J.P. Morgan estimates

Figure 2: Mitsui Fudosan (8801): Consolidated Income Statement

¥ million

	1Q	2Q	1H	2H	Full Yr	3/14E	3/15E	3/16E	3/17E	3/18E
	3/14			3/14 CoE						
Revenue from operations	284,450	351,701	636,151	893,849	1,530,000	1,555,000	1,618,000	1,685,000	1,705,000	1,730,000
YoY % chg.	1.6	4.7	3.3	5.9	5.8	7.6	4.1	4.1	1.2	1.5
Cost of goods sold	222,580	274,183	496,763	-	-	1,256,000	1,305,500	1,352,500	1,362,500	1,387,500
As % of sales	78.2	78.0	78.1	-	-	80.8	80.7	80.3	79.9	80.2
Gross Profit	61,870	77,517	139,387	-	-	299,000	312,500	332,500	342,500	342,500
Margin (%)	21.8	22.0	21.9	-	-	19.2	19.3	19.7	20.1	19.8
SG&A	35,289	34,890	70,179	-	-	129,000	125,500	131,500	126,500	109,500
SG&A/sales (%)	12.4	9.9	11.0	-	-	8.3	7.8	7.8	7.4	6.3
Operating profit	26,580	42,627	69,207	90,793	160,000	170,000	187,000	201,000	216,000	233,000
Margin (%)	9.3	12.1	10.9	10.2	10.5	10.9	11.6	11.9	12.7	13.5
YoY % chg.	8.3	16.3	13.1	23.0	8.0	14.7	10.0	7.5	7.5	7.9
Nonoperating balance	-6,230	-6,158	-12,388	-15,612	-28,000	-25,000	-25,000	-23,000	-22,000	-20,000
Financial balance	-5,417	-7,080	-12,497	-18,503	-31,000	-27,000	-27,000	-27,000	-27,000	-27,000
Interest and dividends received	1,953	394	2,347	-	-	3,000	3,000	3,000	3,000	3,000
Interest expenses	7,370	7,474	14,844	-	-	30,000	30,000	30,000	30,000	30,000
Average interest rate						1.4	1.4	1.4	1.4	1.4
Equity in net income of affiliates	452	350	802			2,000	2,000	4,000	5,000	7,000
Other revenue and expenditure	-1,265	572	-693	3,693	3,000	0	0	0	0	0
Recurring profit	20,350	36,469	56,819	75,181	132,000	145,000	162,000	178,000	194,000	213,000
Recurring margin %	7.2	10.4	8.9	8.4	8.6	9.3	10.0	10.6	11.4	12.3
YoY % chg.	20.9	20.5	20.7	21.4	7.3	17.8	11.7	9.9	9.0	9.8
Extraordinary profit	8,796	0	13,188	0	0	0	0	0	0	0
Extraordinary loss	0		2,371	17,629	20,000	20,000	10,000	10,000	10,000	10,000
Pretax profit	29,147	38,489	67,636	44,364	112,000	125,000	152,000	168,000	184,000	203,000
Corporate tax, local inhabitant tax, business tax	14,266	13,367	27,633	18,367	46,000	50,000	60,800	67,200	73,600	81,200
Income taxes-deferred					0	0	0	0	0	0
Tax rates (%)	48.9	34.7	40.9	41.4	41.1	40.0	40.0	40.0	40.0	40.0
Minority interests	-1,893	2,043	150	850	1,000	0	200	800	400	800
Net Income	16,773	23,079	39,852	25,148	65,000	75,000	91,000	100,000	110,000	121,000
Margin (%)	5.9	6.6	6.3	2.8	4.2	4.8	5.6	5.9	6.5	7.0
YoY % chg.	84.8	29.6	48.3	-10.6	9.3	26.2	21.3	9.9	10.0	10.0

Source: Company data and J.P. Morgan estimates

Mitsui Fudosan (8801): Summary of Financials

Income statement ¥ in billions	2013/3	2014/3E	2015/3E	2016/3E	Cash Flow statement ¥ in billions	2013/3	2014/3E	2015/3E	2016/3E
Revenues	1,445.6	1,555.0	1,618.0	1,685.0	Operating CF	100	102	148	157
Cost of revenue	-	-	-	-	Net change in working capital	59	66	66	66
Operating expenses	-	-	-	-	Investment CF	(64)	0	(9)	(10)
EBITDA	207	236	253	267	Capex	(71)	(150)	(107)	(107)
Depreciation	(59)	(66)	(66)	(66)	Net change in investments	(77)	(160)	(150)	(150)
Operating profit (EBIT)	148	170	187	201	Free cash flow	-	-	-	-
Other income	23	25	25	23	Financing CF	86	(30)	48	57
Other expenses	(25)	(25)	(25)	(23)	Net debt (cash)	(8)	59	(120)	(70)
Pretax income	111	125	152	168	Change in Net debt (cash)	2,019	2,087	2,066	2,027
Abnormal items (net)	(12)	(20)	(10)	(10)		337	68	(21)	(39)
Income taxes	(50)	(50)	(61)	(67)					
Minorities	(1)	0	(0)	(1)					
Net income - GAAP	59	75	91	100					
Diluted shares outstanding (mn)	881	881	881	881					
Balance Sheet ¥ in billions	2013/3	2014/3E	2015/3E	2016/3E	Ratio Analysis	2013/3	2014/3E	2015/3E	2016/3E
Total assets	4,390	4,534	4,581	4,660	Gross Margin	-	-	-	-
Cash and cash equivalents	102	113	84	93	EBITDA margin	14.3%	15.2%	15.6%	15.8%
Trade receivable	-	-	-	-	ROCE	2.8%	3.3%	3.3%	3.5%
Other current assets	177	253	263	272	Return on equity (ROE)	6.1%	7.5%	7.6%	7.9%
Net Tangible fixed assets	2,464	2,598	2,649	2,700	D/E ratio	171.9%	170.7%	158.1%	147.2%
Net intangible fixed assets	40	30	30	30	Div payout ratio	32.6%	25.9%	21.3%	19.4%
Investments/other assets	-	-	-	-					
Total liabilities	3,157	3,246	3,221	3,220					
Short term debt	266	330	290	260					
Other short term liabilities	285	313	331	354					
Long term debt	1,854	1,870	1,860	1,860					
Other long term liabilities	651	628	633	638					
Minority interests	-	-	-	-					
Total Equity	1,233	1,288	1,360	1,440					

Source: Company data and J.P. Morgan estimates

Note: ¥ in billions (except per-share data). Fiscal year ends Mar

JPM Q-Profile

Mitsui Fudosan Co., Ltd. (JAPAN / Financials)

As Of: 01-Nov-2013

Global Equity Quantitative Analysis

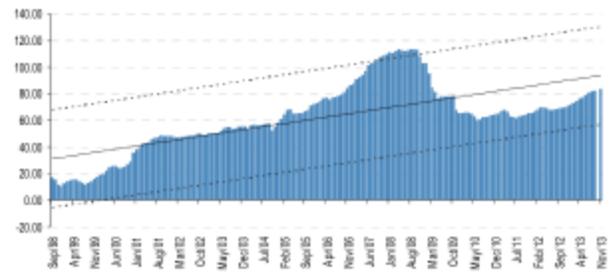
Local Share Price

Current: 3305.00



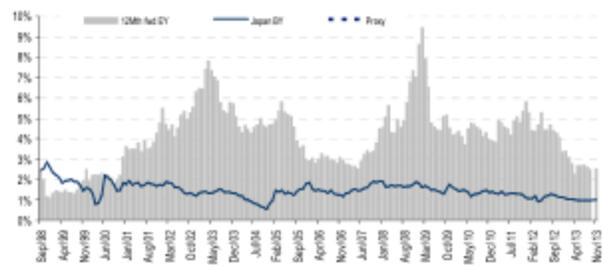
12 Mth Forward EPS

Current: 83.57



Earnings Yield (& local bond Yield)

Current: 3%



Implied Value Of Growth*

Current: 57.88%



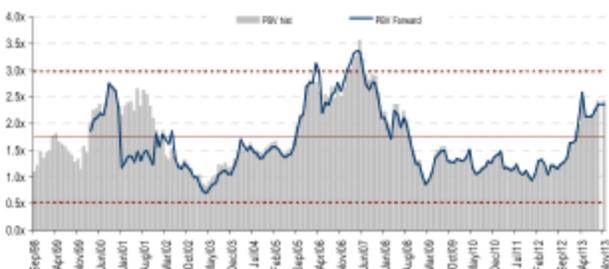
PE (1Yr Forward)

Current: 39.5x



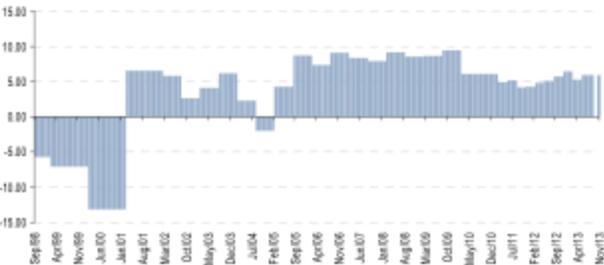
Price/Book Value

Current: 2.4x



ROE (Trailing)

Current: 5.92



Dividend Yield (Trailing)

Current: 0.67



Summary

Mitsui Fudosan Co., Ltd.		SEDOL		6597603		As Of:		1-Nov-13			
JAPAN						Local Price:		3,305.00			
Financials						EPS:		83.57			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D.-	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	39.55x	10.56	75.00	23.22	28.90	57.27	0.52	-73%	90%	-41%	-27%
P/BV (Trailing)	2.43x	0.84	3.57	1.53	1.75	2.98	0.53	-65%	47%	-37%	-28%
Dividend Yield (Trailing)	0.67	0.31	2.19	0.67	0.86	1.78	-0.06	-54%	229%	0%	28%
ROE (Trailing)	5.92	-13.16	9.46	5.92	3.53	16.10	-9.05	-322%	60%	0%	-40%
Implied Value of Growth	57.9%	-0.43	0.85	0.34	0.36	0.84	-0.12	-175%	47%	-41%	-38%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* implied Value Of Growth = (1 - EY)/Cost of equity where cost of equity = Bond Yield + 5.0% (ERP)

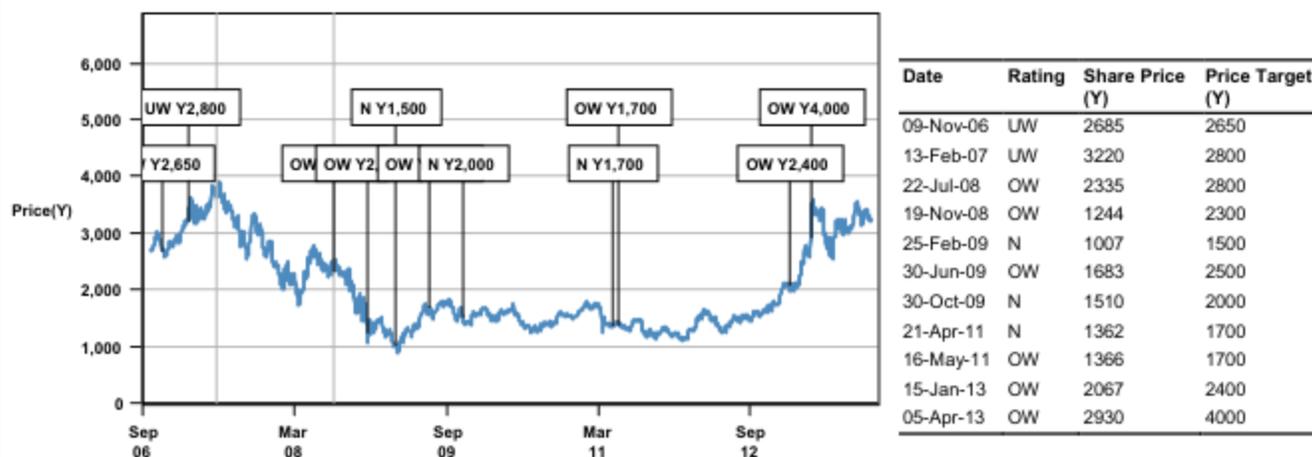
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Mitsui Fudosan (8801) (8801.T, 8801 JT) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Nov 09, 2006.

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