

Completion of rental properties not until 20/3 Near-term earnings likely to depend on real estate sales and condo business

Investment stance: some properties for future sale emerging; reaffirm Buy

Tokyu Fudosan Holdings has no major projects under development for long-term holding and rental until the planned completion of the Shibuya Dogenzaka 1-chome and Shibuya Nanpeidai projects in 20/3 and the Takeshiba and Shibuya Station Sakuragaoka Exit projects in 21/3. We expect the company to sell Yokohama Minatomirai 21-32, which is being developed near condominiums and slated for completion in 18/3. After completion, we expect a stable contribution to profit growth from the sale of the Higashi Ikebukuro 1-chome Cinema Complex, a project in which the company disclosed its involvement on 9 August 2016, as well as retail stores, restaurants, and business hotels in Futako Tamagawa, Ginza 1-chome, Shimbashi 3-chome, and Osaka Shinsaibashi 2-chome. Our views are unchanged, and we maintain our forecasts, target price, and Buy rating. Our target price is based on NAV calculated from a cap rate of 4.3%, and the shares look undervalued considering the implied cap rate of 5.3% based on the 8 September closing price.

Gains from real estate sales one growth driver in the next medium-term plan

The second half of the company's longer-term business plan through 21/3 (in which it targets operating profits of ¥100bn and a D/E ratio of 2-2.5x) begins in 18/3, and the company is currently drawing up its next medium-term plan. As mentioned above, the company's pipeline for rental real estate intended for long-term holding is largely set, and we believe earnings growth in the next medium-term plan will depend largely on gains from the sale of income-generating real estate, the condominium business, and non-asset management and agency business. Another longer-term issue for the company will be the extent to which it will be able to increase its resort, hotel, senior living facility, and overseas projects. While we do not expect any major change in management's policies, new real estate has become more difficult to acquire as real estate market conditions improve, and we expect attention to focus on the company's profit growth targets. The abovementioned Higashi Ikebukuro 1-chome project is scheduled to open in FY19, while the Futako Tamagawa, Ginza 1-chome, Shimbashi 3-chome, and Shinsaibashi 2-chome projects are scheduled to open in 2017. Total investment in these projects was relatively inexpensive at roughly ¥30bn, and with little risk of vacancies given their prime locations, we expect the company to be able to sell these properties at favorable conditions.

| Cons | 16/3 | | 17/3E | | 18/3E | | 19/3E | |
|---------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Actual | Old | New | Co's | Old | New | Old | New |
| Currency: JPY | | | | | | | | |
| Sales (mn) | 815,479 | 840,000 | 840,000 | 840,000 | 810,000 | 810,000 | 830,000 | 830,000 |
| Ope profits (mn) | 68,750 | 73,000 | 73,000 | 73,000 | 74,000 | 74,000 | 78,000 | 78,000 |
| EPS | 47.2 | 51.7 | 51.7 | 51.7 | 54.2 | 54.2 | 59.1 | 59.1 |
| P/E (x) | 12.2 | 11.1 | 11.1 | N/A | 10.6 | 10.6 | 9.7 | 9.7 |
| EV/EBITDA (x) | 15.1 | 14.7 | 14.7 | N/A | 14.9 | 14.9 | 14.6 | 14.6 |
| P/B (x) | 0.8 | 0.8 | 0.8 | N/A | 0.7 | 0.7 | 0.7 | 0.7 |
| Dividend yield (%) | 2.1 | 2.3 | 2.3 | N/A | 2.3 | 2.3 | 2.4 | 2.4 |

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

Global Markets Research

9 September 2016

| | |
|--|------------|
| Rating Remains | Buy |
| Target Price Remains | JPY 800 |
| Closing price 8 September 2016 | JPY 576 |
| Potential upside | +38.9% |

Anchor themes

A growing number of real estate companies are focusing on generating stable rental income by rebalancing their portfolios in collaboration with REITs and/or branching into non-asset businesses instead of excessively expanding their balance sheets.

Catalyst

Tokyu Fudosan Holdings' current office building developments are projects in Shibuya not scheduled for completion until 20/3 or later. Until that time, earnings are likely to depend on the development of commercial facilities for sale incorporating retail stores, restaurants, and hotels, and we intend to closely monitor trends in such development.

Research analysts

Japan housing & real estate

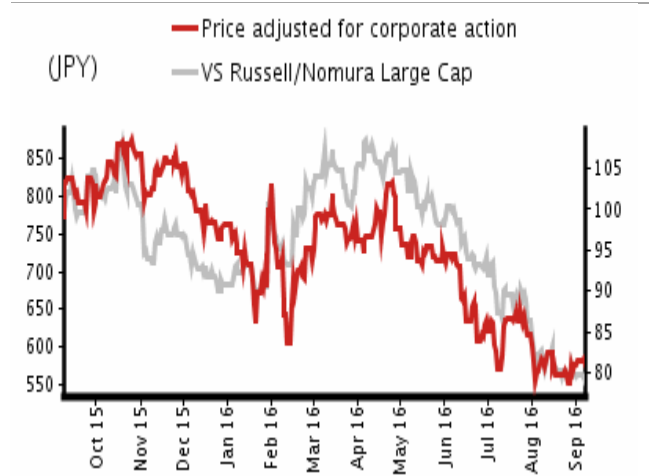
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Key data on Tokyu Fudosan Holdings

Rating

| | |
|-------|-----|
| Stock | Buy |
|-------|-----|

Relative performance chart



Source: ThomsonReuters, Nomura research

Performance

| (%) | 1M | 3M | 12M |
|--------------------------------------|------|-------|-------|
| Absolute | -1.5 | -20.2 | -25.5 |
| Relative to Russell/Nomura Large Cap | -4.7 | -20.3 | -19.9 |

Stock price data

| | |
|--------------------------------|-------|
| Current stock price (JPY) | 576 |
| Market capitalization (JPY bn) | 369.1 |
| 52-week low stock price (JPY) | 545 |
| 52-week high stock price (JPY) | 890 |
| Shares out (mn) | 640.8 |

Source: ThomsonReuters, Nomura research

Valuation and ratio analysis

| (JPY) | 16/3 | 17/3E | 18/3E | 19/3E |
|----------------------|-------|-------|-------|-------|
| EPS | 47.2 | 51.7 | 54.2 | 59.1 |
| BPS or NAV per share | 687.9 | 727.7 | 768.9 | 815.0 |
| DPS | 12.0 | 13.0 | 13.0 | 14.0 |
| ROE (%) | 7.1 | 7.3 | 7.2 | 7.5 |

Income statement

| (JPY mn) | 16/3 | 17/3E | 18/3E | 19/3E |
|--|---------|---------|---------|---------|
| Sales | 815,479 | 840,000 | 810,000 | 830,000 |
| Operating profits | 68,750 | 73,000 | 74,000 | 78,000 |
| EBITDA | 94,306 | 100,500 | 101,500 | 106,000 |
| Interest & dividend income | 870 | 1,000 | 1,000 | 1,000 |
| Interest expense | 9,609 | 9,000 | 9,000 | 9,000 |
| Recurring profits | 56,379 | 61,000 | 62,000 | 66,000 |
| Pretax profits | 46,774 | 51,000 | 52,000 | 56,000 |
| Minority interest | 231 | 500 | 500 | 500 |
| Profits attributable to owners of parent | 28,718 | 31,500 | 33,000 | 36,000 |
| (Equity in net income of affiliates) | -792 | -1,000 | -1,000 | -1,000 |

Balance sheet

| (JPY mn) | 16/3 | 17/3E | 18/3E | 19/3E |
|------------------------------|-----------|-----------|-----------|-----------|
| Current assets | 491,942 | 490,635 | 490,635 | 490,635 |
| Operating receivables | 24,217 | 25,000 | 25,000 | 25,000 |
| Inventories | 376,816 | 375,000 | 375,000 | 375,000 |
| Long-term assets | 1,492,440 | 1,583,725 | 1,646,225 | 1,708,225 |
| Total assets | 1,984,382 | 2,074,360 | 2,136,860 | 2,198,860 |
| Operating payables (Current) | 37,281 | 50,000 | 50,000 | 50,000 |
| Interest-bearing debt | 1,106,114 | 1,159,180 | 1,196,594 | 1,230,508 |
| Total liabilities | 1,562,001 | 1,627,785 | 1,665,199 | 1,699,113 |
| Net assets | 422,381 | 446,575 | 471,661 | 499,747 |
| Shareholders' equity | 418,785 | 442,979 | 468,065 | 496,151 |

Cash flow statement

| (JPY mn) | 16/3 | 17/3E | 18/3E | 19/3E |
|--|----------|----------|---------|---------|
| Operating cash flow | 87,922 | 68,752 | 56,500 | 60,000 |
| Profits attributable to owners of parent | 28,718 | 31,500 | 33,000 | 36,000 |
| Depreciation | 21,008 | 23,000 | 23,000 | 23,500 |
| Change in working capital | 15,717 | 13,752 | 0 | 0 |
| Investment cash flow | -112,372 | -118,788 | -90,000 | -90,000 |
| Capex | -90,713 | -120,000 | -90,000 | -90,000 |
| Free cash flow | -24,450 | -50,036 | -33,500 | -30,000 |
| Financial cash flow | -30,518 | 46,030 | 29,500 | 26,000 |
| Change in interest-bearing debt | -19,264 | 53,066 | 37,414 | 33,914 |
| Dividend payments | -6,392 | -7,305 | -7,914 | -7,914 |
| Change in cash & equivalents | -54,084 | -272 | 0 | 0 |

Source: Company data, Nomura estimates

Appendix A-1

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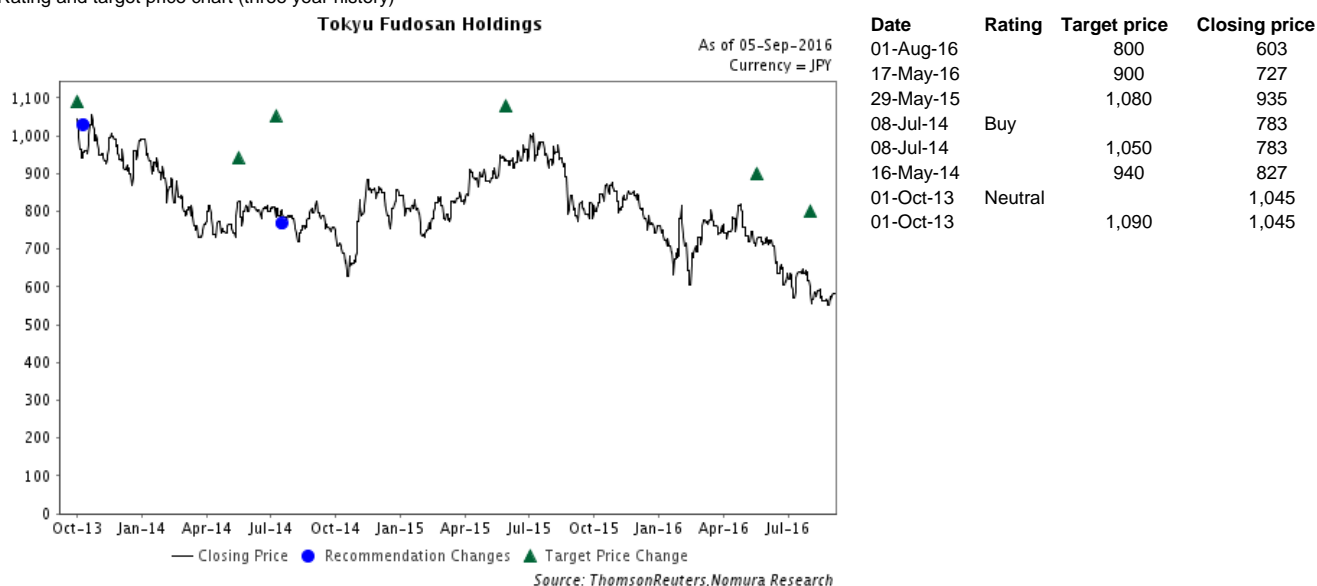
| Issuer | Ticker | Price | Price date | Stock rating | Sector rating | Disclosures |
|------------------------|---------|---------|-------------|--------------|---------------|-----------------|
| Tokyu Fudosan Holdings | 3289 JP | JPY 576 | 08-Sep-2016 | Buy | N/A | A4,A5,A6,A7,A11 |

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Tokyu Fudosan Holdings (3289 JP)

JPY 576 (08-Sep-2016) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We obtain our target price of ¥800 from NAV per share of ¥803, which we calculate using a cap rate of 4.3% and a corporation tax rate of 29%.

Risks that may impede the achievement of the target price Profits at the core urban segment are likely to be weak in 2016-18 as the only major Tokyu Fudosan Holdings development scheduled for completion during this period is Yokohama Minatomirai 21-32. It will be up to the housing segment to make up for this. Moreover, three major redevelopments are scheduled for completion in Shibuya from 2020 onwards, and although they are likely to give rise to expectations of sharp growth in profits, the share price could equally react negatively to difficulties in finding tenants for them.

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Transactions involving convertible bonds are subject to a sales commission of up to 1.08% of the transaction amount (or a commission of ¥4,320 if this would be less than ¥4,320). When convertible bonds are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Convertible bonds carry the risk of losses owing to factors such as interest rate fluctuations and price fluctuations in the underlying stock. In addition, convertible bonds denominated in foreign currencies also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When bonds are purchased via public offerings, secondary distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. Bond prices may also fall below the invested principal as a result of such factors as changes in the management and financial circumstances of the issuer, or changes in third-party valuations of the bond in question. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used. When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For J17 and subsequent issues, the maturity value shall not undercut the face amount. Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.4% of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.4% (annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors.

No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,800 per issue transferred depending on volume.

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