

16/12 Q3 results

Profit guidance hiked; high-rise condos perform well, next focus is on Yoyogi Park development

Investment stance: we lower our target price by 12%, reiterate Buy rating

Tokyo Tatemono released results for 16/12 Q1-3 on 7 November and also issued revised full-year guidance for recurring profits and profits attributable to parent company shareholders, hiking its projections by ¥2.5bn apiece. The revisions reflect the posting of gains on the sale of property, plant, and equipment, as well as equity-method income from overseas operations and increased financial income. We have also revised our forecasts. However, we raise the cap rate we use to calculate our target price from 4.3% to 4.7%, yielding a target price of ¥1,910, to reflect a slower pace of office rent rises in Tokyo's five central wards and increased uncertainty on global financial markets. We reaffirm our Buy rating.

Next high-rise condo after Ueno Ikenohata will be Yoyogi Park in Tomigaya (Shibuya Ward)

Sales of the company's high-rise condos have been strong. All 387 units of the Yaesu development and all 945 units of the Meguro development, both scheduled for completion at end-2017, have already sold out, and management says that contract signings for the 361 units of the Ueno Ikenohata high-rise development due for completion in June 2019 are progressing well. It plans to start selling the 195 units of the Brillia Tower Yoyogi Park Classy, due for completion in February 2019, from April 2017, and says that enquiries have been strong. Condo sales remain lackluster in the greater Tokyo area, especially in suburban areas, raising concerns about earnings at the condo business. That said, we think the company will be able to continue generating high levels of profits at its condo business over the next two to three years.

Focus on approach to refinancing 60-year hybrid financing package

A key point of focus is the refinancing of the ¥36bn in funds the company raised via a 60-year hybrid financing package in September 2012. Up to now, these funds have been subject to an interest rate of Euroyen LIBOR +3.3%, but this will rise to Euroyen LIBOR +4.3% from October 2017. A rating agency has recognized ¥18bn of the loan as equity. We will be interested to see whether the company will succeed in lowering interest charges on the outstanding debt, amid rapidly changing financial conditions.

Global Markets Research

7 November 2016

Rating Remains	Buy
Target Price Reduced from 2,180	JPY 1,910
Closing price 7 November 2016	JPY 1,322
Potential upside	+44.5%

Anchor themes

With rents and real estate prices strengthening, our focus is on how companies can engage in businesses that will boost their corporate value over the longer term.

Catalyst

We will be watching contract signings for luxury condos in the center of Tokyo, office building leasing, and Tokyo Tatemono's involvement in new projects. Properties such as high-rise condo Ueno Ikenohata (scheduled for completion in 2019) are now on sale, and we will therefore be keeping a close eye on sales trends.

Research analysts

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Cons	15/12	16/12E			17/12E		18/12E	
	Actual	Old	New	Co's	Old	New	Old	New
Currency: JPY								
Sales (mn)	260,012	260,000	260,000	260,000	281,000	281,000	284,000	284,000
Ope profits (mn)	34,439	35,000	35,000	35,000	38,000	38,000	40,000	40,000
EPS	75.9	76.1	87.6	87.6	85.3	89.9	89.9	99.1
P/E (x)	17.4	17.4	15.1	N/A	15.5	14.7	14.7	13.3
EV/EBITDA (x)	18.9	19.0	19.8	N/A	18.1	18.6	17.5	17.9
P/B (x)	1.0	0.9	0.9	N/A	0.9	0.9	0.8	0.8
Dividend yield (%)	1.5	1.8	1.8	N/A	1.8	2.0	1.8	2.1

Source: Company data, Nomura estimates

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

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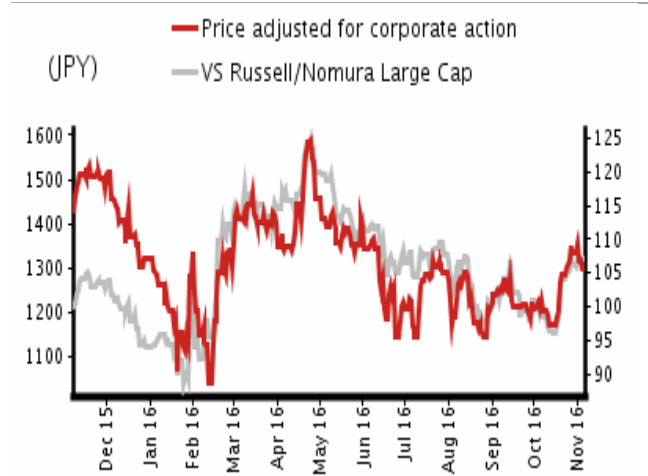
See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Tokyo Tatemono

Rating

Stock	Buy
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Relative performance chart



Source: ThomsonReuters, Nomura research

Performance

(%)	1M	3M	12M
Absolute	9.8	11.0	-7.5
Relative to Russell/Nomura Large Cap	9.1	5.0	6.4

Stock price data

Current stock price (JPY)	1,322
Market capitalization (JPY bn)	286.8
52-week low stock price (JPY)	1,036
52-week high stock price (JPY)	1,608
Shares out (mn)	217.0

Source: ThomsonReuters, Nomura research

Valuation and ratio analysis

(JPY)	15/12	16/12E	17/12E	18/12E
EPS	75.9	87.6	89.9	99.1
BPS or NAV per share	1,390.1	1,434.6	1,500.5	1,573.6
DPS	20.0	24.0	26.0	28.0
ROE (%)	5.6	6.2	6.1	6.4

Income statement

(JPY mn)	15/12	16/12E	17/12E	18/12E
Sales	260,012	260,000	281,000	284,000
Operating profits	34,439	35,000	38,000	40,000
EBITDA	50,368	51,100	54,100	56,100
Interest & dividend income	1,429	1,500	1,500	1,500
Interest expense	8,850	7,500	7,500	7,500
Recurring profits	24,796	28,500	31,000	33,000
Pretax profits	21,962	30,500	31,000	33,000
Minority interest	540	500	500	500
Profits attributable to owners of parent	16,359	19,000	19,500	21,500
(Equity in net income of affiliates)	842	1,500	1,000	1,000

Balance sheet

(JPY mn)	15/12	16/12E	17/12E	18/12E
Current assets	238,215	248,991	238,991	238,991
Operating receivables	8,190	10,000	10,000	10,000
Inventories	153,785	160,000	150,000	150,000
Long-term assets	1,058,897	1,125,018	1,140,018	1,155,018
Total assets	1,297,112	1,374,009	1,379,009	1,394,009
Operating payables (Current)	7,942	10,000	10,000	10,000
Interest-bearing debt	700,990	769,625	760,332	759,472
Total liabilities	984,581	1,055,268	1,045,975	1,045,115
Net assets	312,530	318,741	333,034	348,894
Shareholders' equity	301,571	311,241	325,534	341,394

Cash flow statement

(JPY mn)	15/12	16/12E	17/12E	18/12E
Operating cash flow	21,762	28,533	45,000	37,000
Profits attributable to owners of parent	16,359	19,000	19,500	21,500
Depreciation	14,799	15,000	15,000	15,000
Change in working capital	-41,974	-5,967	10,000	0
Investment cash flow	-21,250	-81,682	-30,000	-30,000
Capex	-40,929	-82,000	-30,000	-30,000
Free cash flow	512	-53,149	15,000	7,000
Financial cash flow	-40,177	62,928	-15,434	-7,434
Change in interest-bearing debt	-43,764	68,635	-9,293	-859
Dividend payments	-2,991	-5,207	-5,641	-6,075
Change in cash & equivalents	-39,689	2,753	0	0

Source: Company data, Nomura estimates

Fig. 1: Tokyo Tatemono [8804]: consolidated financial data

	(¥mn, except where noted)								
	10/12	11/12	12/12	13/12	14/12	15/12	16/12E	17/12E	18/12E
Sales	198,274	166,943	194,161	220,026	237,049	260,012	260,000	281,000	284,000
Building business	79,123	43,570	67,499	66,475	109,283	96,942	106,000	103,000	106,000
Leasing of buildings	35,469	33,293	32,561	31,851	62,043	63,542	63,500	68,500	70,500
Real estate sales	31,450	1,080	5,400	800	22,983	8,902	18,500	11,000	11,000
Building maintenance	7,870	7,231	10,860	21,899	24,136	24,311	23,500	23,000	24,000
Dividend income	4,332	1,966	18,678	11,924	119	186	500	500	500
Housing business	85,613	83,904	86,612	113,523	87,674	98,076	84,000	100,500	97,500
Sales	65,424	64,334	66,755	92,950	65,573	78,841	65,300	80,000	80,000
Rental	7,318	7,954	7,737	6,267	4,379	4,083	2,700	3,000	3,000
Other	12,868	11,614	12,118	14,303	15,844	15,150	16,000	17,500	14,500
Brokerage , other	33,537	39,468	40,048	40,027	43,526	64,992	70,000	77,500	80,500
Real estate brokerage					15,542	30,846	30,000	30,000	30,000
Parking					13,072	16,943	19,000	21,000	23,000
Leisure facilities/nursing care					13,544	15,907	20,000	25,500	26,500
Other					1,367	1,295	1,000	1,000	1,000
Operating profits	24,055	-678	30,892	29,361	30,559	34,439	35,000	38,000	40,000
Buildings, etc	22,480	7,303	33,164	25,493	29,444	27,222	30,000	31,000	31,500
Housing	5,868	-1,317	983	7,667	3,714	10,465	6,500	7,500	8,000
Other	2,771	-189	2,866	3,682	3,922	3,024	4,500	5,500	6,500
Eliminations/companywide	-7,065	-6,475	-6,122	-7,482	-6,521	-6,273	-6,000	-6,000	-6,000
Net nonoperating income	-10,368	-10,197	-9,151	-7,402	-13,242	-9,642	-6,500	-7,000	-7,000
Net interest income	-8,047	-7,585	-7,724	-6,843	-10,937	-7,421	-6,000	-6,000	-6,000
Recurring profits	13,687	-10,875	21,741	21,959	17,317	24,796	28,500	31,000	33,000
Extraordinary income	-1,156	-65,014	-3,933	-678	125,011	-2,834	2,500	0	0
Pretax profits	12,530	-75,889	17,808	21,281	142,328	21,962	30,500	31,000	33,000
Tax rate (%)	(47.4)	(5.9)	(40.7)	(50.2)	(6.3)	(23.0)	(36.1)	(35.5)	(33.3)
Minority interests gains/losses	271	399	309	471	50,419	540	500	500	500
Profits attributable to owners of parent	6,316	-71,774	10,243	10,121	82,944	16,359	19,000	19,500	21,500
Balance sheet									
Current assets	161,238	167,804	162,445	195,964	242,629	238,215	248,991	238,991	238,991
Cash & deposits	20,941	32,925	39,468	52,272	86,908	47,247	50,000	50,000	50,000
Short-term securities	2,409	97	5	0	10	0	0	0	0
Receivables	6,056	6,603	10,202	19,678	5,867	8,190	10,000	10,000	10,000
Inventories	113,526	103,581	89,173	101,222	112,837	153,785	160,000	150,000	150,000
Other current assets	18,306	24,598	23,597	22,792	37,005	28,991	28,991	28,991	28,991
Plant, property & equipment	447,422	458,710	437,027	412,666	773,983	758,018	825,018	840,018	855,018
Intangible long-term assets	28,139	28,218	28,389	17,419	112,582	112,559	112,000	112,000	112,000
Investment etc	291,124	243,283	267,434	312,111	190,269	188,318	188,000	188,000	188,000
Total assets	927,925	898,017	895,296	938,161	1,319,465	1,297,112	1,374,009	1,379,009	1,394,009
Accounts payable	9,796	6,460	9,307	9,598	6,645	7,942	10,000	10,000	10,000
Interest-bearing debts	454,535	507,540	474,553	430,434	744,754	700,990	769,625	760,332	759,472
Other liabilities	200,996	191,916	198,944	235,852	262,251	275,643	275,643	275,643	275,643
Total liabilities	665,327	705,916	682,804	675,884	1,013,657	984,581	1,055,268	1,045,975	1,045,115
Net assets	262,597	192,101	212,491	262,276	305,808	312,530	318,741	333,034	348,894
Shareholders' equity	233,297	159,788	166,584	172,098	206,918	215,080	229,741	244,034	259,894
Valuation and translation adjustments	22,823	25,149	38,489	78,362	78,905	86,490	81,500	81,500	81,500
Minority interests	6,476	7,163	7,417	11,815	19,984	10,959	7,500	7,500	7,500
Financial indicators									
ROA (%)	2.6	0.0	3.5	3.3	2.8	2.7	2.7	2.9	3.0
ROE (%)	2.5	-32.5	5.3	4.4	30.9	5.6	6.2	6.1	6.4
Net assets to total assets ratio (%)	28.3	21.4	23.7	28.0	23.2	24.1	23.2	24.2	25.0
Per-share indicators									
EPS (¥)	29.3	-333.3	47.6	47.1	386.2	75.9	87.6	89.9	99.1
DPS (¥)	16.0	0.0	10.0	10.0	12.0	20.0	24.0	26.0	28.0
CFPS (¥)	67.4	-291.6	88.4	85.8	451.5	144.6	156.7	159.0	168.2
BPS (¥)	1,189.5	858.9	952.5	1,166.2	1,331.0	1,390.1	1,434.6	1,500.5	1,573.6

Source: Company data, Nomura estimates

Appendix A-1

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Tokyo Tatemono	8804 JP	JPY 1,322	07-Nov-2016	Buy	N/A	A6,A11

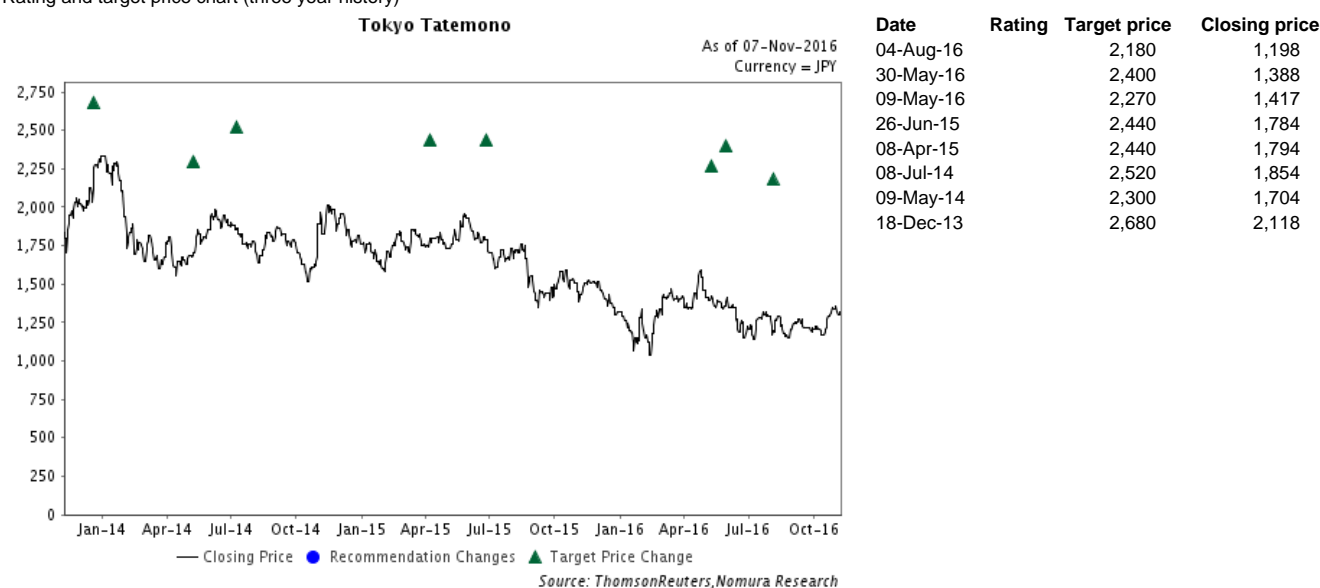
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Tokyo Tatemono (8804 JP)

JPY 1,322 (07-Nov-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 ¥1,910 from NAV per share, calculated using a cap rate of 4.7% and a corporation tax rate of 29%.

Risks that may impede the achievement of the target price Interest-bearing liabilities stood at ¥701.0bn at end-15/12, giving a D/E ratio of 2.3x. Rises in interest rates would therefore pose a risk for Tokyo Tatemono unless it can generate considerably higher cash flow. However, we do not expect interest rates to rise substantially. We also think the company's limited real estate development pipeline could hamper profit growth through 2020.

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As at 30 September 2016.

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STOCKS

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SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

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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.

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