

Mirarth (8897, Corporate)

FIT to PPA Transition

30th August 2023

Share price: ¥468

Market cap: ¥56.6bn

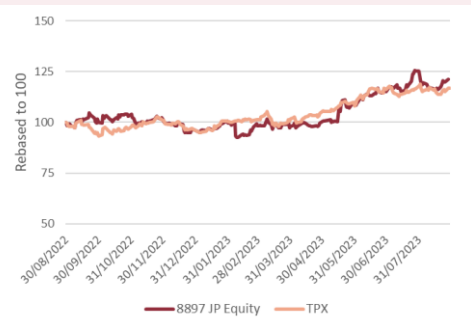
Above plan earnings in the seasonally weak 1Q, allied to continued progress in its FIT to PPA transition, put Mirarth in a strong position for FY 3/24.

Company sector

Real Estate Management (GICS Industry)

Stock data

Price (¥)	468
Mkt cap (¥bn)/(\$m)	56.6 / 386.7
52-week range (¥)	352 - 491
Shares O/S (m)	121.0
Average daily value (\$m)	1.1
Free float (%)	64.0
Foreign shareholding (%)	13.2
Ticker	8897
Exchange	Tokyo Prime
Net Debt/Equity (x)	280.7



Source: Bloomberg

- **1Q sales & OP were above plan due to unit sales strength in the core Real Estate segment. Earnings appear weak versus 1Q 3/23 due to the timing of unit sales & versus the FY forecast due to strong Real Estate seasonality tilted towards the 4Q. As of the 1Q, Mirarth had contracted 81.3% of its FY 3/24 condo delivery forecast, leaving it strongly positioned for the seasonally larger 2H.**
- **Above plan 1Q condominium GPM reflected price increases Mirarth effected to counter rising raw material costs. Although construction costs remain high, we note the rate of increase has slowed.**
- **Energy sales & OP were in line with forecast & Mirarth continued to prepare land & facilities for PPA capacity expansion. There have been delays in connecting new facilities to the network due to limited space, which it aims to resolve in FY 3/24.**
- **Mirarth is planning to build the new PPA business into the core Energy segment driver with continuous capacity expansion. It has signed 1 new PPA customer FYTD, with discussions ongoing with potential new customers, & we are encouraged that competition remains limited.**
- **The Asset Management segment was in line with the FY 3/24 YoY decline Mirarth forecast. Other businesses were similarly in line with plan in the 1Q.**
- **On 6x FY 3/24 company estimates, trading -49% below its Jul 2016 peak, in context of robust Real Estate earnings & an Energy segment building for stock sales expansion, we believe the market has yet to recognise Mirarth's long-term growth potential. We recommend a meeting with senior management to discuss the investment thesis: [here](#).**

BUSINESS OVERVIEW

Mirarth is one of Japan's leading real estate developers with a growing renewable energy business & asset management business.

Next event

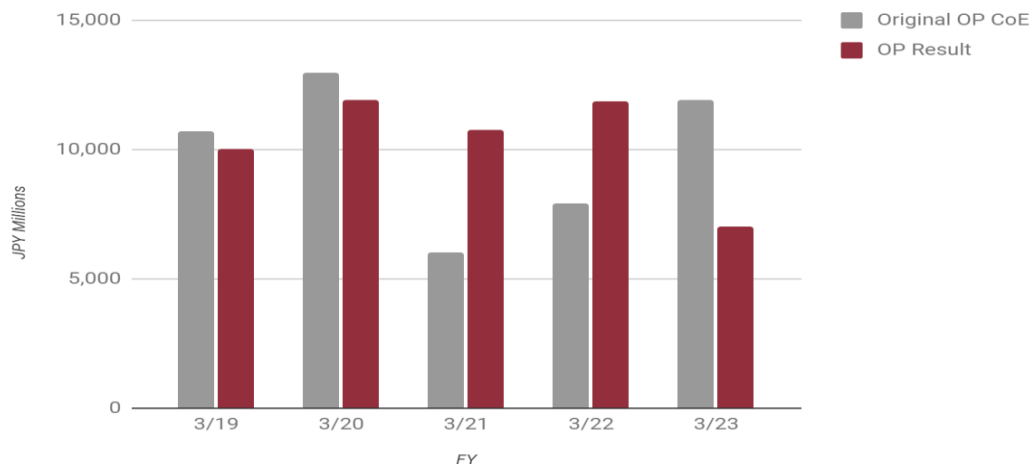
1H FY 3/24 results in October 2023

Storm Corporate: +44 (0) 121 288 3402

info@stormresearch.co.uk[Storm corporate profile page](#)

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Year end	3/2022	3/2023	Q1 3/2024	3/2024E
Sales (¥bn)	162.7	153.4	28.1	188.7
OP (¥bn)	11.8	7.0	0.6	13.7
NP (¥bn)	6.2	4.5	-0.2	8.5
EPS (¥)	57.1	41.9	-2.0	77.4
DPS (¥)	18	22	n/a	24
Sales growth YoY (%)	+9.7	-5.7	-0.7	+23.0
OP growth YoY (%)	+10.1	-40.8	+4.0	+94.9
NP growth YoY (%)	+32.4	-26.2	n/a	+85.4
EPS growth YoY (%)	+32.2	-26.6	n/a	+84.7
PER (x)	5.2	9.0	n/a	6.0
EV/EBITDA (x)	8.5	21.8	n/a	n/a
PBR (x)	0.6	0.7	n/a	0.9
ROE (%)	11.0	7.6	7.1	n/a
ROIC (%)	4.4	2.3	1.6	n/a
FCF yield (%)	n/a	n/a	n/a	n/a
Dividend yield (%)	6.0	5.8	n/a	5.1

RESULTS VS
FORECAST HISTORY

EARNINGS

- *1Q 3/24 earnings*: 1Q sales & OP were slightly above internal company expectations at 14.9% & 4.5% of the FY forecasts respectively, due to marginally higher than expected core Real Estate sales. 1Q Real Estate sales & OP are seasonally weak, typically skewing heavily towards the 4Q.

- *FY 3/24 outlook*: With 1Q sales & OP slightly above plan, & >80% of the FY 3/24 condo delivery forecast contracted, **Mirarth is confident of achieving its FY forecast**. It expects c.20% stock sales in 1H 3/24, improving slightly to 20–25% in FY 3/24, with a temporary YoY decrease due to TOB costs that Mirarth expects to recover from in FY 3/25 & remain stable thereafter. It anticipates non-FIT stock energy sales expanding from FY 3/26, driving sales & OP growth significantly thereafter.

REAL ESTATE

(JPY Millions)	3/23 Results	YoY	1Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	139,110	11.9%	23,908	-3.7%	165,550	19.0%	179,930	176,970	6.9%
GP	29,954	13.4%	4,998	-8.3%	33,370	11.4%	35,730	36,130	8.3%
GPM	21.5%	0.3%	20.9%	-1.0%	20.2%	-1.4%	19.9%	20.4%	0.3%
OP	7,906	3.2%	73	-91.0%	10,440	32.1%	14,620	13,420	28.5%
OPM	5.7%	-0.5%	0.3%	-3.0%	6.3%	0.6%	8.1%	7.6%	1.3%

* Revised with FY 3/23 results

- *1Q 3/24 earnings*: The Real Estate segment was marginally stronger than forecast due to **above plan 1Q unit sales in the core condominium business**. Liquidation sales & OP also saw robust growth & other, smaller, businesses were according to the company forecast.

New Built-For-Sale Condominiums

(JPY Millions)	3/23 Results	YoY	1Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	76,110	10.4%	8,924	-41.5%	92,700	21.8%	101,500	101,500	9.5%
GP	16,724	15.3%	2,136	-33.3%	20,400	22.0%	21,500	21,500	5.4%
GPM	22.0%	0.9%	23.9%	3.0%	22.0%	0.0%	21.2%	21.2%	-0.8%
Units	1,861	1.7%	199	-51.9%	2,200	18.2%	2,600	2,200	0.0%

* Revised with FY 3/23 results

Whilst 1Q unit growth was -215 YoY at 199 due to changes in delivery timing, it slightly exceeded expected progress towards the FY 3/24 plan of 2,200. As of June, Mirarth had contracted 81.3% +0.8ppt YoY of its FY 3/24 condo delivery forecast.

The 23.9% 1Q GPM was above the FY 3/24 forecast of 22%, as **Mirarth raised prices to accommodate increased CoGS from rising raw material prices**. 1Q construction costs remained high, with no sign of dropping, but Mirarth believes cost increases have slowed.

Due to the 2-year construction time lag, Mirarth expects high FY 3/23 & FY 3/24 construction costs to impact unit numbers from 2H FY 3/25 onwards, but for higher prices to continue to grow sales. Mirarth is considering how to continue expanding sales & unit numbers whilst maintaining a 21%–22% GPM.

- **Market conditions:** Mirarth does not foresee a major risk of demand downturn from rising fixed-rate mortgage rates as a large majority of its condo buyers are on variable rates. It is also shielded from condo tax rule changes from Jan 2024 as it specialises in less central, lower tax areas.

Liquidation

(JPY Millions)	3/23 Results	YoY	1Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	30,631	18.4%	7,803	160.7%	30,000	-2.1%	36,000	30,600	2.0%
GP	6,707	29.2%	1,431	64.1%	5,410	-19.3%	5,100	5,500	1.7%
GPM	21.9%	1.8%	18.4%	-10.7%	18.0%	-3.9%	14.2%	18.0%	-0.1%

* Revised with FY 3/23 results

1Q Liquidation sales & OP were broadly on track due to liquidation numbers & prices remaining in line with plan. In the 1Q, Mirarth had ¥54.9bn in Liquidation assets, -5.7% versus FY 3/23, with ¥20.7bn in residences & ¥20.7bn in offices. It does not plan to adjust its focus away from residences & offices.

- **Other:** The 5 other real estate businesses were broadly in line with plan in 1Q 3/24.

ENERGY

(JPY Millions)	3/23 Results	YoY	1Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	9,045	-73.6%	2,798	5.9%	13,790	52.5%	19,200	12,700	-7.9%
GP	826	-84.7%	1,126	369.2%	4,520	447.2%	1,300	4,730	4.6%
GPM	9.1%	-6.6%	40.3%	31.2%	32.8%	23.6%	6.8%	37.2%	4.5%
OP	-956	n/a	676	n/a	3,050	n/a	600	3,160	3.6%
OPM	n/a	n/a	24.2%	n/a	22.1%	n/a	3.1%	24.9%	2.8%

* Revised with FY 3/23 results

- *1Q 3/24 earnings*: 1Q sales & OP were broadly as per company expectations. OPM was above the FY 3/24 plan due to 1H seasonal strength that Mirarth expects to continue in the 2Q but dissipate in the 2H, as Apr–Jun is the strongest season for solar energy production.

- *Capacity*: Operational 1Q FIT MW capacity did not increase, in line with Mirarth's plan to stop expanding the business. Operational PPA (non-FIT) MW capacity also did not increase significantly from the approx. 2MW capacity it had in May & **Mirarth does not expect major growth in FY 3/24 as it continues to build & prepare PPA facilities.**

- *PPA progress*: As of the 1Q, Mirarth is acquiring land for facilities & is negotiating with power companies to be put on the electricity network, although the process is slow due to limited network space. Mirarth aims to speed up the process such that delays do not hinder its **long-term goal of reaching 300MW of non-FIT power capacity by FY 3/30.**

For 1MW of capacity, land typically costs c.¥30m & construction, installation & other costs are c.¥140m, totalling ¥170m. Mirarth estimates 1MW generates ¥16m sales annually at ¥14/kW, with a GPM of 45–50%. It expects to release guidance on its outlook for the Energy business growth & costs at 1H results.

- *PPA customers*: As of the 1Q, it had 5 PPA customers, +1 FYTD, & is in talks with potential new customers. Competition is not tight, with Mirarth's customers' demand typically in the 100MW–1GW level. Whilst it acknowledges the possibility of competitors taking some demand, it does not believe any competitor could fully meet demand.

- *Future outlook*: **PPA projects are unlikely to significantly contribute to total sales & OP before FY 3/26**, as Mirarth continues to build & prepare PPA solar power generation facilities. As of 1Q 3/24, it sees **no notable obstacles to reaching its long-term goal of attaining equal Real Estate & Energy EBITDA by 2030.**

In addition to solar power, Mirarth is progressing discussion of supplying new biomass energy in 1Q 3/24 which is likely to result in contracts in FY 3/24.

ASSET MANAGEMENT
BUSINESS

(JPY Millions)	3/23 Results	YoY	1Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	1,096	-16.7%	79	-68.4%	820	-25.2%	1,570	1,070	30.5%
GP	963	-21.3%	51	-76.2%	610	-36.7%	1,270	810	32.8%
GPM	87.9%	-5.1%	65.3%	-22.6%	74.4%	-13.5%	80.9%	75.7%	1.3%
OP	322	-45.7%	-87	n/a	10	-96.9%	430	110	1000.0%
OPM	29.4%	-15.7%	n/a	n/a	1.2%	-28.2%	27.4%	10.3%	9.1%

* Revised with FY 3/23 results

No 1Q purchases were made in the Asset Management segment, hence sales growth was in line with plan by fees alone. AuM remained c.¥250bn as at the end of FY 3/23.

The hiring market for asset management staff is tight & although Mirarth is raising its salary offers, 1Q recruitment was below plan as in FY 3/23. Increasing offers further to attract hires could suppress FY segmental OP below the company plan, but due to the small scope of the business the impact on total OP would be negligible.

OTHER

(JPY Millions)	3/23 Results	YoY	1Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	4,219	45.7%	1,351	127.1%	8,550	102.7%	3,000	9,260	8.3%
GP	-35	n/a	19	n/a	500	n/a	400	630	26.0%
GPM	n/a	n/a	1.4%	n/a	5.8%	n/a	13.3%	6.8%	1.0%
OP	-241	n/a	-40	n/a	200	n/a	50	310	55.0%
OPM	n/a	n/a	n/a	n/a	2.3%	n/a	1.7%	3.3%	1.0%

* Revised with FY 3/23 results

Other businesses were broadly in line with plan in 1Q 3/24. GP was positive versus -¥66m in 1Q 3/23 due to the post-COVID hotel rebound, although high personnel costs resulted in a -¥40m operating loss versus -¥122m in 1Q 3/23. Mirarth believes lower hiring costs after April & contributions from the construction business are likely to bring FY OP broadly in line with the forecast.

PREVIOUS REPORTS

- [23rd June 2023: Initiating coverage - 'Condos & the rise of renewable energy'](#)

J GAAP Financial statements

Income statement (¥bn)	FY 3/21	FY 3/22	FY 3/23
Sales	148.4	162.7	153.5
COGS	118.5	129.6	121.8
Gross profit	29.9	33.1	31.7
Gross profit margin (%)	20.2	20.3	20.7
Operating expense	19.1	21.2	24.7
Total OP	10.8	11.9	7.0
OP margin (%)	7.3	7.3	4.6
Non-Op Income (Loss)	3.6	2.4	1.3
Pretax Income	7.2	9.4	5.7
Tax	2.5	3.2	1.3
Effective tax rate (%)	34.6	33.6	22.0
Net income	4.7	6.2	4.6

Cash flow statement (¥bn)	FY 3/21	FY 3/22	FY 3/23
Net income/pre-tax profit	4.7	6.2	4.6
Depreciation/amortization	2.0	3.2	3.4
Other non-cash items	-0.4	0.3	(0.2)
Changes in working capital	20.0	16.3	-7.0
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Operating Activities	26.3	23.2	-0.7
Change in fixed & intangible assets	-25.0	-25.7	-17.6
Net change in long-term investments	0.0	-0.6	-1.8
Net cash from acquisitions & divestitures	-0.1	-2.7	-26.9
Other investing activities	0.0	1.1	0.0
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Investing Activities	-25.1	-27.9	-46.4
Dividends paid	-1.8	-1.5	-2.0
Cash from (repayment) debt	4.5	0.4	63.6
Cash from (repurchase) of equity	0.0	0.0	0.0
Other financing activities	0.0	0.0	0.0
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Financing Activities	2.7	-1.1	61.5
FX impact	0.0	0.0	0.0
Net cash flow	3.9	-5.8	14.5
Free cash flow	0.6	-2.1	-20.1
EBITDA	12.8	15.0	10.4

Balance sheet (¥bn)	FY 3/21	FY 3/22	FY 3/23
Cash & equivalents	37.3	33.4	44.5
Accounts & notes receivable	2.1	2.6	3.2
Inventories	73.0	91.7	120.2
Other short-term assets	13.3	14.9	20.8
Current assets	125.7	142.6	188.7
Property, plant & equipment (net of depreciation)	64.1	63.7	125.4
Long term investments & receivables	5.2	5.8	3.2
Other long-term assets	9.4	11.3	24.4
Total non-current assets	78.6	80.8	152.9
Total assets	204.3	223.5	341.7
Payables & accruals	15.6	17.5	20.7
Short-term debt	26.9	41.7	118.3
Other short-term liabilities	13.2	15.8	23.2
Total current liabilities	55.6	75.0	162.2
Long term debt	91.7	86.3	109.1
Other long-term liabilities	2.3	2.6	5.3
Total non-current liabilities	94.0	88.9	114.4
Total liabilities	149.7	163.9	276.5
Share capital & APIC	9.8	9.8	9.9
Treasury stock	4.6	4.5	4.2
Retained earnings	48.7	53.4	56.0
Other equity	0.5	0.5	-0.1
Equity before minority interest	54.4	59.3	61.6
Total equity	54.6	59.6	65.1
Total liabilities & equity	204.3	223.5	341.7

Key metrics	FY 3/21	FY 3/22	FY 3/23
Profitability			
Gross margin (%)	20.2	20.3	20.7
Operating margin (%)	7.3	7.3	4.6
Net margin (%)	3.2	3.8	3.0
ROIC (%)	4.3	4.4	2.3
Liquidity			
Current ratio (x)	2.3	1.9	1.2
Quick ratio (x)	0.7	0.5	0.3
Leverage			
Debt/Equity ratio	218.0	215.8	369.1
Net Debt/Equity ratio	145.3	158.6	-104.1

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