

Mirarth (8897, Corporate)

Seasonality

9th Feb 2024

Share price ¥496

Market cap: ¥60.0bn

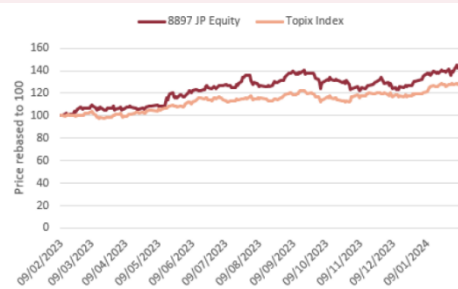
4Q seasonality, the rising appeal of lower priced condos & an emerging energy business leave Mirarth well placed.

Company sector

Real Estate Management Development
(GICS Industry)

Stock data

Price (¥)	496
Mkt cap (¥bn)/(\$m)	60.0 / 402.0
52-week range (¥)	354 - 516
Shares O/S (m)	121.0
Average daily value (\$m)	1.3
Free float (%)	64.0
Foreign shareholding (%)	13.2
Ticker	8897
Exchange	Tokyo Prime
Net Debt/Equity (%)	332.4%



Source: Bloomberg

- **1-3Q sales & OP appeared weak versus Mirarth's FY 3/24 forecast due to condominium completion timing, but earnings were broadly in line given significant 4Q seasonality in both the core Real Estate & Energy divisions.**
- **The consolidated 1-3Q GPM was above plan due to unexpectedly high margin condominium contracts in the New Built-for-sale condominium business & high margin properties in the Liquidation business. Mirarth believes there is potential for strength to persist.**
- **Mirarth's focus on developing condominiums in regional areas with more attractive prices than urban areas has positioned it strongly in an inflationary environment. Robust demand allowed the company to raise prices at the 1Q with potential for further hikes in the medium-term.**
- **In response to higher construction costs, Mirarth is purchasing land lots at prices it deems likely to be profitable, noting that higher costs are set to start impacting condominium prices from 4Q FY 3/25 given the 2 year lag between construction & delivery.**
- **The Energy business remained on track ahead of a likely strong 4Q due to efficient solar energy generation between Feb-May. Mirarth continues to sign PPA contracts as it targets 780MW of capacity by FY 3/30.**
- **The company acknowledges the lack of understanding about its seasonality & is currently considering ways to improve earnings disclosure. With the stock trading on 6x FY 3/24 company estimates, ahead of the seasonally large 4Q, we encourage investors to book time with senior management to explore 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:

FY results in May 2024.

Storm Corporate: +44 (0) 121 288 3402

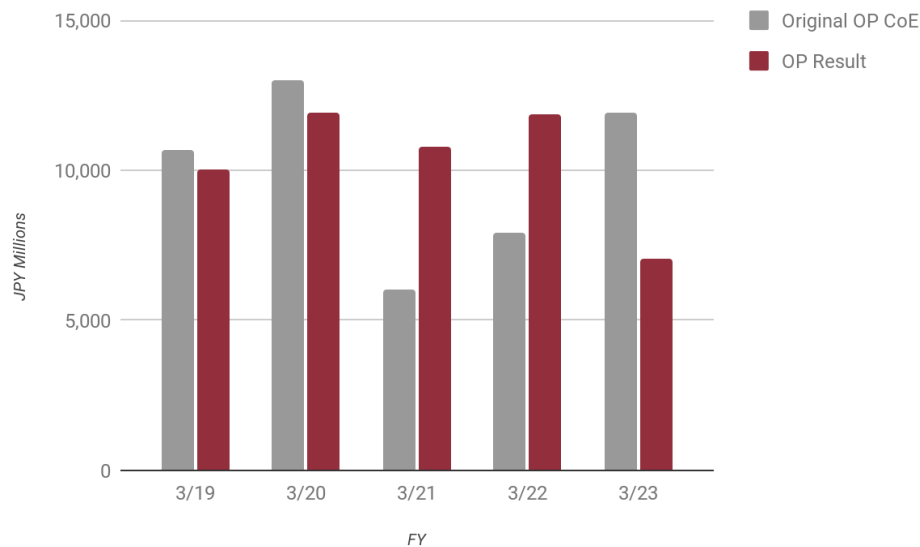
info@stormresearch.co.uk

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Year end	3/2021	3/2022	3/2023	1-3Q 3/24	3/2024E
Sales (¥bn)	148.3	162.7	153.4	93.3	188.7
OP (¥bn)	10.7	11.8	7.0	2.3	13.7
NP (¥bn)	4.6	6.2	4.5	-1.5	8.5
EPS (¥)	43.2	57.1	41.9	-13.3	77.4
DPS (¥)	14	18	22	n/a	24
Sales growth YoY (%)	-11.9	+9.7	-5.7	-1.9	+23.0
OP growth YoY (%)	-9.3	+10.1	-40.8	+5.9	+94.9
NP growth YoY (%)	-12.5	+32.4	-26.2	n/a	+85.4
EPS growth YoY (%)	-12.6	+32.2	-26.6	n/a	+84.7
PER (x)	8.6	5.2	9.0	n/a	6.4
EV/EBITDA (x)	9.4	8.5	21.8	n/a	n/a
EV/Sales (x)	0.8	0.8	1.5	1.8	1.8
PBR (x)	0.8	0.6	0.7	0.9	1.0
ROE (%)	9.0	11.0	7.6	2.3	n/a
ROIC (%)	4.3	4.4	2.3	0.7	n/a
FCF yield (%)	1.4	n/a	n/a	n/a	n/a
Dividend Yield (%)	3.8	6.0	5.8	n/a	4.8

Source: Bloomberg.

RESULTS VS
FORECAST HISTORY

* 3/21 original OP CoE released with 1H results.

EARNINGS

1-3Q sales were broadly in line with plan, appearing weak due to the timing of condo completion in the Real Estate division. Given significant seasonality in both the Real Estate & Energy divisions, Mirarth projects 4Q earnings bringing sales & OP in line with forecast.

- *GPM*: The 1-3Q GPM was 21.6% +1.2ppt YoY, above the 20.7% FY forecast due mainly to unexpectedly high GPM in the Liquidation business & high GPM condo contracts. The company sees a possibility of the FY GPM finishing above plan as it expects Liquidation margin strength to continue, as well as **a large number of high margin condos that are due to be delivered in the 4Q.**

- *Costs*: 1-3Q SG&A was Y17.8bn +3.9%YoY, rising largely on personnel costs due to increased recruitment & an approx. +2% salary base increase from the 1H. Other large costs included condo sales expenses which rose with condo sales.

- *NP*: 1-3Q 3/24 NP was a -Y1.4bn net loss, mainly due to a Y1bn YoY increase in interest expenses to Y2.2bn from the acquisition of the Takara Leben Infrastructure Fund in Nov 2023 & an extraordinary write down of -Y448m. In light of expected 4Q strength, Mirarth believes its FY 3/24 forecast is achievable.

- *Stock vs flow*: Ahead of a likely Energy division sales acceleration from FY 3/25, we note the stock/flow sales ratio remained weighted towards flow at approx. 73% of the total.

REAL ESTATE

JPY Millions	1H 3/24 Results	YoY	1-3Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	50,340	-24.2%	80,108	-6.0%	165,550	19.0%	179,930	176,970	6.9%
GP	11,407	-20.3%	16,994	-6.7%	33,370	11.4%	35,730	36,130	8.3%
GPM	22.7%	1.1ppt	21.2%	-0.2ppt	20.2%	-1.3ppt	19.9%	20.4%	0.3ppt
OP	1,396	-70.5%	1,650	-44.1%	10,440	32.0%	14,620	13,420	28.5%
OPM	2.8%	-4.3ppt	2.1%	-1.4ppt	6.3%	0.6ppt	8.1%	7.6%	1.3ppt

* Revised with FY 3/23 results.

- New Built-for-sale Condominiums:

JPY Millions	1H 3/24 Results	YoY	1-3Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	19,179	-30.5%	39,068	4.6%	92,700	21.8%	101,500	101,500	9.5%
GP	4,684	-17.0%	8,539	12.1%	20,400	22.0%	21,500	21,500	5.4%
GPM	24.4%	3.9ppt	21.9%	1.5ppt	22.0%	0.0ppt	21.2%	21.2%	-0.8ppt
Units	448	-37.0%	885	-7.1%	2,200	18.2%	2,600	2,200	0.0%

* Revised with FY 3/23 results.

The condo business performed in line with plan in the 1-3Q 3/24, with 2,168 contracts secured versus a FY 3/24 delivery forecast of 2,200. Mirarth delivered 885 -7.1%YoY units in the 1-3Q, an acceleration versus 448 -37%YoY in the 1H. As it expects the bulk of condo deliveries & sales to fall in the 4Q, it has no concerns about reaching its FY sales & OP forecasts.

Robust demand continued from the 1H, as **Mirarth specialises in affordable condos in both urban & regional areas where demand exists, making its condominiums more attractive in an inflationary environment.** Strong demand means Mirarth does not need to lower prices to achieve sales targets, having successfully raised prices at the 1Q to pass on high material costs.

- **Construction costs:** Although construction costs are high, Mirarth is mitigating the impact by choosing land at prices it believes will make a profit rather than focusing on increasing the number of lot acquisitions. A 2 year time lag between construction & delivery means that higher costs will only become apparent in condos from 4Q FY 3/25.

Mirarth concedes that the 2024 Problem (the limiting of overtime from April 2024 in industries such as construction) may negatively impact its condo development but believes this is likely to be via longer lead-times rather than higher construction costs.

- Liquidation:

JPY Millions	1H 3/24 Results	YoY	1-3Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	15,798	-35.6%	15,892	-39.1%	30,000	-2.1%	36,000	30,600	2.0%
GP	3,731	-34.8%	3,739	-37.7%	5,410	-19.3%	5,100	5,500	1.7%
GPM	23.6%	0.3ppt	23.5%	0.5ppt	18.0%	-3.9ppt	14.2%	18.0%	0.0ppt

* Revised with FY 3/23 results.

Mirarth prioritises GP over sales in the Liquidation segment. It notes that high margin properties developed & sold to REITs & bridge funds in the 1-3Q left the GPM above plan & believes that its FY 3/24 GP forecast is achievable, with likely GPM upside.

It sees a possibility that high GPM properties remain popular in the medium term, which would make the FY 3/25 GPM forecast look conservative.

- **Other Real Estate:** Mirarth reports that its other Real Estate businesses were in line with plan.

ENERGY

JPY Millions	1H 3/24 Results	YoY	1-3Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	5,682	13.1%	7,846	15.9%	13,790	52.4%	19,200	12,700	-7.9%
GP	2,066	497.8%	2,716	413.5%	4,520	446.8%	1,300	4,730	4.6%
GPM	36.4%	29.5ppt	34.6%	26.8ppt	32.8%	23.7ppt	6.8%	37.2%	4.5ppt
OP	1,061	n/a	830	n/a	3,050	n/a	600	3,160	3.6%
OPM	18.7%	n/a	10.6%	n/a	22.1%	n/a	3.1%	24.9%	2.8ppt

* Revised with FY 3/23 results.

Mirarth considers the Energy segment in line with plan as of the 1-3Q given its seasonality. **Solar energy generation is most efficient between Feb-May**, whereas winters tend to be less efficient due to lower levels of sunlight, & summers less efficient as hot temperatures negatively impact electronics within solar panels.

With Feb & March projected to be strong for production, Mirarth believes its FY plan is achievable.

The company continues to obtain PPA contracts with a view to achieving its long-term forecast of 780MW FIT & PPA energy by FY 3/30. Delays in being added to energy networks has left it slightly behind plan, but it believes these are surmountable.

ASSET MANAGEMENT

JPY Millions	1H 3/24 Results	YoY	1-3Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	276	-56.7%	371	-54.4%	820	-25.2%	1,570	1,070	30.5%
GP	218	-62.0%	266	-62.3%	610	-36.7%	1,270	810	32.8%
GPM	79.1%	-11.1ppt	71.9%	-15.2ppt	74.4%	-13.4ppt	80.9%	75.7%	1.3ppt
OP	-83	n/a	-171	n/a	10	-96.9%	430	110	1000.0%
OPM	n/a	n/a	n/a	n/a	1.2%	-28.2ppt	27.4%	10.3%	9.1ppt

* Revised with FY 3/23 results.

Whilst continued slow growth in 1-3Q Asset Management earnings was due to a lack of public offerings, Mirarth expects to catch up in the 4Q to achieve the company forecast.

Hiring continues to be tough given tight competition.

OTHER

JPY Millions	1H 3/24 Results	YoY	1-3Q 3/24 Results	YoY	3/24 CoE	YoY	3/25 Original MTP	3/25 Revised MTP*	YoY
Sales	2,879	104.0%	4,952	117.4%	8,550	102.6%	3,000	9,260	8.3%
GP	95	n/a	192	n/a	500	n/a	400	630	26.0%
GPM	3.3%	n/a	3.9%	n/a	5.8%	n/a	13.3%	6.8%	1.0ppt
OP	-4	n/a	25	n/a	200	n/a	50	310	55.0%
OPM	n/a	n/a	0.5%	n/a	2.3%	n/a	1.7%	3.3%	1.0ppt

* Revised with FY 3/23 results.

Other businesses were broadly in line for the 1-3Q. Mirarth's hotel chain, HOTEL THE LEBEN, benefited from a post-COVID tourism rebound despite Chinese tourism not yet returning to pre-COVID levels, with its Osaka flagship recording 80% capacity. The hotel business sales contribution remains small at <2% of the total.

SHAREHOLDER
RETURNS

Despite achieving a negative RoE in the 1-3Q, Mirarth expects to achieve its 13% FY 3/24 target via increased Real Estate sales in the 4Q.

It attributes the stock price's negative reaction to 1-3Q results as the market being unaware of the extent of its seasonality.

PREVIOUS
REPORTS

- 1st December 2023: ['New energy model'](#)
- 30th August 2023: ['FIT to PPA Transition'](#)
- 23rd June 2023: Initiating coverage - ['Condos & the rise of renewable energy'](#)

COMPANY INFORMATION

1972	Established Takara Komuten Co., Ltd. (currently MIRARTH HOLDINGS) Started sales of detached houses
1982	Launched the Real Estate Rental business
1988	Established Takara Management Co., Ltd. (currently Leben Community) Launched the Real Estate Management business
1994	Started sales of 'Leben Heim' condominiums
2000	Changed company name to Takara Leben Co., Ltd.
2001	Established TAFUKO Co., Ltd. Launched the Financial Brokering business Listed on the JASDAQ market
2003	Listed on the Second Section of the Tokyo Stock Exchange
2004	Listed on the First Section of the Tokyo Stock Exchange Established Relivel Leben Co., Ltd. (previously Takara West Japan Co., Ltd.) Launched the trustee division for real estate sales Established AS Partners Co., Ltd. Launched the Nursing Care For Seniors business
2006	Moved the main office to Shinjuku Sumitomo Building
2008	Made Marunouchi Servicer a subsidiary Released new Takara Leben Brands
2010	Launched the Detached Housing business (built by Takara Leben) Capital increase based on Japan's first rights offering
2011	Joined an open house and began sales of custom-built houses
2012	Introduced new condominium brands Established the Yokohama branch Made Takara Housing Co., Ltd. (previously Takara Property Co., Ltd.) a subsidiary for the Real Estate Rental business
2013	Entry to the Mega-Solar business Established Takara Asset Management Co., Ltd. Launched the Investment Management business Established Takara Investments Co., Ltd. Launched the Real Estate Investment business Made Sunwood Corporation an associated company accounted for by the equity method
2014	Established the Hokuriku sales office Established the Tohoku sales office Made Oasis Co., Ltd. (currently Takara Leben Realnet Co., Ltd.) a subsidiary Made Nikko Kensetsu Co., Ltd. (currently Leben Home Build Co., Ltd.) a subsidiary
2015	Made Live Net Co., Ltd. (previously Takara Leben West Japan Co., Ltd.) a subsidiary Made Jyutakujiyouhoukan Co., Ltd. (currently Takara Leben Co., Ltd.) a subsidiary
2016	Made Nikko Property Co., Ltd. (currently Leben Trust Co., Ltd.) a subsidiary Changed the company name of Nikko Kensetsu Co., Ltd. to Nikko Takara Corporation Co., Ltd. (currently Leben Home Build Co., Ltd.) Takara Leben Infrastructure Fund, Inc. was the first to be listed on the infrastructure fund market
2017	Introduced a new condominium brand Established the Osaka branch Established the Sapporo sales office Changed the company name of Jyutakujiyouhoukan Co., Ltd. to Takara Leben West Japan Co., Ltd. Main office moved to Tekko Building, Marunouchi, Chiyoda-ku
2018	Changed the company name of TAFUKO Co., Ltd. to Leben Zestock Co., Ltd. Made PAG Investment Management Ltd. (currently Takara PAG Real Estate Advisory Ltd.) a subsidiary Established a representative office in Hanoi City Takara Leben Real Estate Investment Corporation was listed on the Tokyo Stock Exchange
2019	Changed the company name of Nikko Property Co., Ltd. to Leben Trust Co., Ltd. Leben Trust Co., Ltd. merged with Takara Property Co., Ltd.
2021	Established Leben Funding LLC. Made ACA Clean Energy Co., Ltd. a subsidiary Established the Nagoya sales office Changed the company name of ACA Clean Energy Co., Ltd. to Leben Clean Energy Co., Ltd. Sunwood Corporation became a non-subsiary due to the transfer of shares

2022	<p>Changed the company name of Nikko Takara Corporation Co., Ltd. to Leben Home Build Co., Ltd.</p> <p>Established Takara Leben (Thailand) Co., Ltd. in Bangkok</p> <p>50 year anniversary</p> <p>Established MIRARTH HOLDINGS, Inc. (changed company name from Takara Leben Co., Ltd. to MIRARTH HOLDINGS, Inc.)</p> <p>Changed the company name of Takara Leben West Japan Co., Ltd. to Takara Leben Co., Ltd., merged with Takara Leben West Japan Co., Ltd., and moved the head office to Marunouchi, Chiyoda-ku, Tokyo.</p>
2023	Delisted Takara Leben Infrastructure Fund, Inc. through a tender offer

Company contact details

Tekko Building 16F
 1-8-2, Marunouchi Chiyoda-ku
 Tokyo 100-0005
 Japan

Website: <https://mirarth.co.jp/en/>

E-mail: irinfo@mirarth.co.jp

Major shareholders	Stake %
General Incorporated Association Murayama Asset Management	23.32
The Master Trust Bank of Japan, Ltd. (for trust account)	10.91
Morgan Stanley MUFG Securities, Co., Ltd.	4.18
Custody Bank of Japan, Ltd. (for trust account)	3.03
Murayama Kikaku Co., Ltd.	1.82
RUDEN HOLDINGS Co., Ltd.	1.66
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	1.55
MIRARTH HOLDINGS Business Partner Shareholding Association	1.35
Sumitomo Mitsui Banking Corporation	1.08
SSBTC CLIENT OMNIBUS ACCOUNT	1.02

Source: Company.

J GAAP Financial statements

Income statement (¥bn)	FY 3/21	FY 3/22	FY 3/23
Sales	148.39	162.74	153.47
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	10.79	11.88	7.03
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	4.69	6.21	4.58

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	47.9
Accounts & notes receivable	2.1	2.6	3.2
Inventories	73.0	91.7	120.2
Other short-term assets	13.3	14.9	17.4
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	280.7

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