

Mirarth (8897, Corporate)

Tight supply/demand

10th September 2024

Share price: ¥502

Market cap: ¥70.4bn

Continued tight condominium supply/demand & rising prices are set to remain key growth drivers following strong 1Q earnings.

Company sector

Real Estate Management & Devel (GICS Industry)

Stock data

Price (¥)	502
Mkt cap (¥bn)/(\$m)	70.4 / 491.1
52-week range (¥)	421 - 595
Shares O/S (m)	140.3
Average daily value (\$m)	5.0
Free float (%)	50.9
Foreign shareholding (%)	11.7
Ticker	8897
Exchange	Tokyo Prime
Net Debt/Equity (%)	237.1



Source: Bloomberg

- **Strong 1Q sales & OP growth was driven by rising condominium sales prices, with the average 1Q price increasing +¥3m YoY versus approx. +¥4m YoY assumed for the FY.**
- **There are a limited number of condominium developers post-Lehman shock & units supplied are declining due to high construction costs, whilst sales prices are rising. The condominium supply/demand balance is therefore favourable.**
- **We note YoY growth was also inflated by a large number of condominium completions scheduled for the 1H, particularly 1Q 3/25, versus a 2H skew in FY 3/24. Delivered units totalled 388 +95.0% YoY.**
- **The 1Q 3/25 progression rate for condominiums contracted for delivery during the FY was similar to 1Q 3/24, which Mirarth believes indicates it is on track to finish the FY in line with expectations. We anticipate condominium sales growth levelling out in FY 3/25 to finish in line or marginally above plan.**
- **Mirarth targets a minimum annual level of 2,000-2,200 condominium unit sales. Currently, it is carefully selecting & procuring locations with added value which can withstand rising sales prices, via which it targets stable growth in its core business.**
- **On 6x FY 3/25 company estimates, with earnings likely to continue to benefit from favourable pricing conditions, 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.

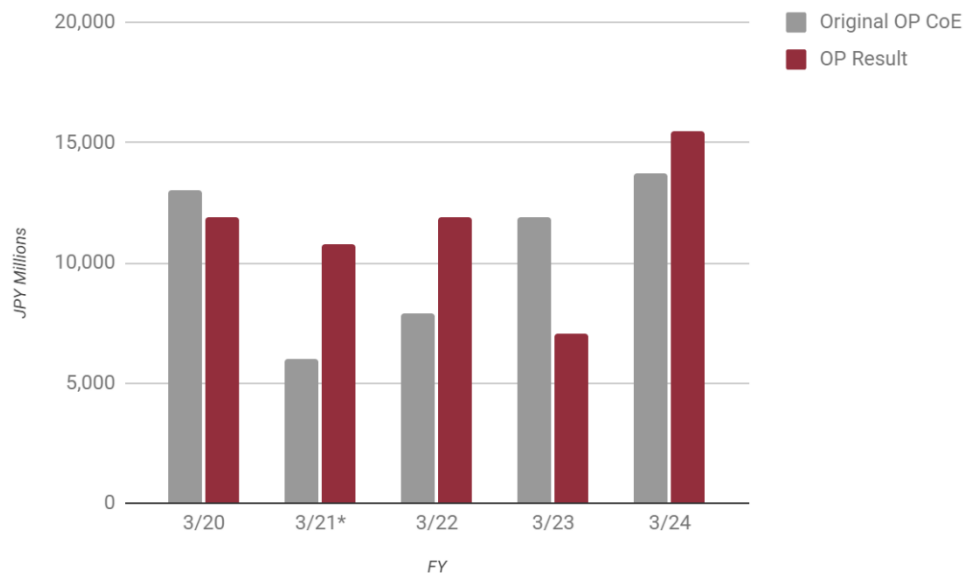
Next event

1H FY 3/2025 results in October 2024
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Year end	3/2023	3/2024	Q1 3/2025	3/2025E
Sales (¥bn)	153.4	185.1	38.9	205.7
OP (¥bn)	7.0	15.4	1.5	17.0
NP (¥bn)	4.5	8.1	0.6	10.7
EPS (¥)	41.9	74.3	5.1	81.9
DPS (¥)	22.0	24.0	n/a	30.0
Sales growth YoY (%)	-5.7	20.7	38.1	+11.1
OP growth YoY (%)	-40.8	119.9	146.5	+10.0
NP growth YoY (%)	-26.2	78.4	n/a	+30.8
EPS growth YoY (%)	-26.6	77.5	n/a	+10.0
PER (x)	13.3	6.2	n/a	6.1
EV/EBITDA (x)	8.5	10.8	11.0	11.1
EV/Sales (x)	1.5	1.2	1.3	1.3
PBR (x)	0.9	0.9	0.9	0.9
ROE (%)	7.5	12.8	13.4	n/a
ROIC (%)	2.3	3.4	3.3	n/a
FCF yield (%)	-28.2	15.7	n/a	n/a
Dividend yield (%)	5.8	5.1	n/a	6.0

Source: Bloomberg

RESULTS VS
FORECAST HISTORY

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

EARNINGS

- 1Q 3/25: 1Q results were broadly in line with company expectations, with YoY sales growth driven by strong condominium sales as tight supply/demand resulted in continued average price increases.

In FY 3/25, Mirarth estimates the average condo unit price increasing approx. +¥4m (8.9%) YoY to ¥49m; as of the 1Q, the average price had already reached ¥48m. There are still a limited number of developers able to add condominium capacity following the Lehman shock, with high construction costs likely deterring remaining operators from substantial new developments.

- FY 3/25 outlook: 1Q YoY sales & OP growth appeared particularly strong versus the FY CoE, largely due to a significant number of condominiums delivered in the 1Q. The company notes its 1Q contract rate, which details the number of condominiums scheduled for delivery within the FY, is similar to that of 1Q 3/24. It expects actual deliveries to level out in the FY & finish according to its original outlook.

REAL ESTATE

(JPY Millions)	3/24 Results	YoY	1Q 3/25 Results	YoY	3/25 Original MTP	YoY	3/25 1 st Revised MTP*	YoY	3/25 2 nd Revised MTP**	YoY
Sales	162,804	17.0%	34,228	43.2%	179,930	10.5%	176,970	8.7%	184,860	13.5%
GP	35,608	18.9%	6,967	39.4%	35,730	0.3%	36,130	1.5%	36,260	1.8%
GPM	21.9%	0.3ppt	20.4%	-0.6ppt	19.9%	-2.0ppt	20.4%	-1.5ppt	19.6%	-2.3ppt
OP	13,790	74.4%	1,187	1526%	14,620	6.0%	13,420	-2.7%	13,800	0.1%
OPM	8.5%	2.8ppt	3.5%	3.2ppt	8.1%	-0.3ppt	7.6%	-0.9ppt	7.5%	-1.0ppt

* Revised with FY 3/23 results. ** Revised with FY 3/24 results.

- **New Built-for-sale Condominiums:**

(JPY Millions)	3/24 Results	YoY	1Q 3/25 Results	YoY	3/25 Original MTP	YoY	3/25 1 st Revised MTP*	YoY	3/25 2 nd Revised MTP**	YoY
Sales	93,474	22.8%	17,517	96.3%	101,500	8.6%	101,500	8.6%	106,000	13.4%
GP	21,003	25.6%	4,128	93.3%	21,500	2.4%	21,500	2.4%	22,100	5.2%
GPM	22.5%	0.5ppt	23.6%	-0.4ppt	21.2%	-1.3ppt	21.2%	-1.3ppt	20.8%	-1.7ppt
Units	2,214	19.0%	388	95.0%	2,600	17.4%	2,200	-0.6%	2,200	-0.6%

* Revised with FY 3/23 results ** Revised with FY 3/24 results

- **Contracts secured:** As Mirarth is able to drive growth by increasing sales prices, it has set a broadly flat target of 2,200 condominium units contracted for delivery within FY 3/25 (versus 2,214 delivered in FY 3/24).

As of the 1Q, Mirarth had 1,754 -1.9%YoY condominiums contracted for delivery within the FY, or 79.7% of its target, a similar level to the 81.3% recorded in 1Q 3/24, despite higher sales prices. Mirarth believes the progression rate suggests contracts are proceeding as expected.

- **New contracts:** In the 1Q, newly contracted condominiums increased +55 (+10.3%) YoY to 590, as the company began to record strong orders for units to be sold from FY 3/26.

Mirarth is currently developing its new MTP from FY 3/26, which is likely to include further detail on its sales growth outlook.

- **Costs:** There is a time lag of approx. 2-2.5 years for condo development. Mirarth anticipates high construction costs dating back to FY 3/23 gradually impacting earnings with unit deliveries in the 4Q 3/25 but aims to pass additional costs on in sales prices. Given the tight supply/demand environment, along with domestic awareness of inflation & the need for price hikes, **we expect it to be successful in mitigating any margin impact.**

Should inflation significantly drive up costs & prices, the company will need to factor this situation into its product planning, & limit land procurement to areas where construction costs are not so high as to substantially impact profitability.

- **Procurement:** The company aims to split land procurement evenly between major cities & regional areas. Whilst both Mirarth & its competitors are selective about locations due to construction costs, competition for procurement remains broadly stable.

- **Interest rates:** As residential property interest rates remain <1% & are unlikely to rise rapidly, the company does not regard this factor as a significant risk to demand.

- **Liquidation:**

(JPY Millions)	3/24 Results	YoY	1Q 3/25 Results	YoY	3/25 Original MTP	YoY	3/25 1 st Revised MTP*	YoY	3/25 2 nd Revised MTP**	YoY
Sales	30,661	0.1%	6,736	-13.7%	36,000	17.4%	30,600	-0.2%	36,000	17.4%
GP	6,621	-1.3%	1,196	-16.4%	5,100	-23.0%	5,500	-16.9%	6,200	-6.4%
GPM	21.6%	-0.3ppt	17.8%	-0.6ppt	14.2%	-7.4ppt	18.0%	-0.1ppt	17.2%	-4.4ppt

* Revised with FY 3/23 results ** Revised with FY 3/24 results

1Q Liquidation sales & GP decreased YoY due to relatively low building sales, but Mirarth continues to expect sufficient deliveries within the FY to achieve its FY sales & GP CoEs. We note the company anticipates a -4.4ppt YoY GPM decline to 17.2% in FY 3/25, which we consider conservative given likely demand for high margin properties.

- **Other Real Estate:** Mirarth reports that its Other Real Estate businesses were in line with plan. As real estate rental & management are largely stock businesses, earnings are comparatively stable.

ENERGY

(JPY Millions)	3/24 Results	YoY	1Q 3/25 Results	YoY	3/25 Original MTP	YoY	3/25 1 st Revised MTP*	YoY	3/25 2 nd Revised MTP**	YoY
Sales	13,849	53.1%	2,743	-2.0%	19,200	38.6%	12,700	-8.3%	12,700	-8.3%
GP	4,361	428.0%	1,082	-3.9%	1,300	-70.2%	4,730	8.5%	4,430	1.6%
GPM	31.5%	22.4ppt	39.5%	-0.8ppt	6.8%	-24.7ppt	37.2%	5.8ppt	34.9%	3.4ppt
OP	2,026	n/a	609	-9.9%	600	-70.4%	3,160	56.0%	3,000	48.0%
OPM	14.6%	n/a	22.2%	-2.0ppt	3.1%	-11.5ppt	24.9%	10.3ppt	23.6%	9.0ppt

* Revised with FY 3/23 results **Revised with FY 3/24 results

- **1Q results:** 1Q Energy sales & GP declined YoY as there were no facility sales for the quarter. As a result, the company only recorded volatile electricity sale income, which typically fluctuates depending on the weather.

- **FY 3/25 outlook:** Mirarth aims for ¥2bn facility sales by the FY-end, representing a -45.6%YoY decrease. On the other hand, it targets +5.2%YoY growth in electricity sales to ¥10.7bn, equating to ¥12.7bn -8.3%YoY overall divisional sales.

The company's biomass projects are still scheduled for completion within the FY, but are unlikely to have an impact on the P&L.

ASSET MANAGEMENT BUSINESS

(JPY Millions)	3/24 Results	YoY	1Q 3/25 Results	YoY	3/25 Original MTP	YoY	3/25 1 st Revised MTP*	YoY	3/25 2 nd Revised MTP**	YoY
Sales	734	-33.0%	66	-16.5%	1,570	113.9%	1,070	45.8%	900	22.6%
GP	594	-38.3%	26	-49.0%	1,270	113.8%	810	36.4%	700	17.8%
GPM	80.9%	-6.9ppt	40.2%	-25.2ppt	80.9%	0.0ppt	75.7%	-5.2ppt	77.8%	-3.1ppt
OP	-34	n/a	-130	n/a	430	n/a	110	n/a	20	n/a
OPM	n/a	n/a	n/a	n/a	27.4%	n/a	10.3%	n/a	2.2%	n/a

* Revised with FY 3/23 results ** Revised with FY 3/24 results

1Q sales & GP in the Asset Management business declined YoY, with an operating loss of -¥130m, as Mirarth booked management & acquisition fees in the 1Q, in addition to investing in hiring & strengthening its staff structure to accommodate future AUM expansion. The company expects this business to return to profitability for the full year.

OTHER BUSINESSES

(JPY Millions)	3/24 Results	YoY	1Q 3/25 Results	YoY	3/25 Original MTP	YoY	3/25 1 st Revised MTP*	YoY	3/25 2 nd Revised MTP**	YoY
Sales	7,805	85.0%	1,826	35.2%	3,000	-61.6%	9,260	18.6%	7,240	-7.2%
GP	25	n/a	-12	n/a	400	1500.0%	630	2420.0%	910	3540.0%
GPM	0.3%	n/a	n/a	n/a	13.3%	13.0ppt	6.8%	6.5ppt	12.6%	12.3ppt
OP	-325	n/a	-134	n/a	50	n/a	310	n/a	180	n/a
OPM	n/a	n/a	n/a	n/a	1.7%	n/a	3.3%	n/a	2.5%	n/a

* Revised with FY 3/23 results ** Revised with FY 3/24 results

- *1Q results:* The construction side of Mirarth's Other businesses was marginally below forecast due to inflated CoGS, but occupancy in its hotel business was above plan. It has not disclosed the precise sales mix between construction & the higher margin hotel business but has confirmed it recorded steady progress in the 1Q.

- *Michelin Key:* On 9th July, Mirarth group company Takara Leben announced its Nasu Mukunone hotel had been awarded a Michelin Key, a new hotel award system launched in April 2024 by the Michelin Guide. The Nasu Mukunone hotel has also only been in operation since April & the company has limited visibility as to the extent the Michelin Key will increase occupancy but believes there is potential for upside versus plan in this area.

BALANCE SHEET

Mirarth considers its key financial metrics to be the equity ratio, loan to value ratio, & debt/equity ratio. It views its 2.7x debt/equity ratio as appropriate given its business model & does not regard interest rate hikes as a major risk, as a 1ppt increase would not substantially raise annual repayments.

The next MTP is likely to include a detailed capital allocation policy.

PREVIOUS REPORTS

- 13th June 2024: [‘Strategic property acquisitions’](#)
- 9th February 2024: [‘Seasonality’](#)
- 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	<p>Delisted Takara Leben Infrastructure Fund, Inc. through a tender offer</p> <p>Establishment of MIRARTH Green Tech Co., Ltd.</p> <p>Launched Renewable Energy Business</p> <p>Establishment of MIRARTH Agri Tech Co., Ltd.</p> <p>Launched Biofuel business</p>
2024	<p>Takara PAG Real Estate Investment Management Co., Ltd. Changed company name from MIRARTH Real Estate Advisory Inc.</p> <p>Leben Clean Energy Co., Ltd. Changed company name from MIRARTH Energy Solutions Inc.</p> <p>Takara Asset Management Co., Ltd. Changed company name from MIRARTH Asset Management Inc.</p>

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Major shareholders	Stake %
General Incorporated Association Murayama Asset Management	21.18
The Master Trust Bank of Japan, Ltd. (for trust account)	9.21
MIRARTH HOLDINGS	9.01
Custody Bank of Japan, Ltd. (for trust account)	2.46
Morgan Stanley MUFG Securities, Co., Ltd.	1.79
Murayama Kikaku Co., Ltd.	1.65
RUDEN HOLDINGS Co., Ltd.	1.43
JP Morgan Securities	1.26
MIRARTH HOLDINGS Business Partner Shareholding Association	1.20
Sumitomo Mitsui Banking Corporation	0.98

Source: Company

J GAAP Financial statements

Income statement (¥bn)	FY 3/22	FY 3/23	FY 3/24
Sales	162.74	153.47	185.19
COGS	129.6	121.8	144.6
Gross profit	33.1	31.7	40.6
Gross profit margin (%)	20.3	20.7	21.9
Operating expense	21.2	24.7	25.1
Total OP	11.88	7.03	15.46
OP margin (%)	7.3	4.6	8.3
Non-Op Income (Loss)	2.4	1.3	2.5
Pretax Income	9.4	5.7	13.0
Tax	3.2	1.3	4.7
Effective tax rate (%)	33.6	22.0	36.3
Net income	6.22	4.58	8.18

Balance sheet (¥bn)	FY 3/22	FY 3/23	FY 3/24
Cash & equivalents	33.4	44.5	40.5
Accounts & notes receivable	2.6	3.2	8.1
Inventories	91.7	120.2	124.1
Other short-term assets	14.9	20.8	19.3
Current assets	142.6	188.7	191.9
Property, plant & equipment (net of depreciation)	63.7	125.4	117.8
Long term investments & receivables	5.8	3.2	2.8
Other long-term assets	11.3	24.4	25.0
Total non-current assets	80.8	152.9	145.5
Total assets	223.5	341.7	337.4
Payables & accruals	17.5	20.7	30.7
Short-term debt	41.7	118.3	72.6
Other short-term liabilities	15.8	23.2	19.3
Total current liabilities	75.0	162.2	122.5
Long term debt	86.3	109.1	137.9
Other long-term liabilities	2.6	5.3	5.3
Total non-current liabilities	88.9	114.4	143.2
Total liabilities	163.9	276.5	265.8
Share capital & APIC	9.8	9.9	8.5
Treasury stock	4.5	4.2	4.1
Retained earnings	53.4	56.0	61.5
Other equity	0.5	-0.1	0.1
Equity before minority interest	59.3	61.6	66.0
Total equity	59.6	65.1	71.7
Total liabilities & equity	223.5	341.7	337.4

Cash flow statement (¥bn)	FY 3/22	FY 3/23	FY 3/24
Net income/pre-tax profit	6.2	4.6	8.2
Depreciation/amortization	3.2	3.4	5.9
Other non-cash items	-2.5	-1.7	2.0
Changes in working capital	16.3	-7.0	20.7
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Operating Activities	23.2	-0.7	36.8
Change in fixed & intangible assets	-25.7	-17.6	-26.2
Net change in long-term investments	-0.6	-1.8	0.4
Net cash from acquisitions & divestitures	-2.7	-26.9	-0.9
Other investing activities	1.1	0.0	0.2
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Investing Activities	-27.9	-46.4	-26.6
Dividends paid	-1.5	-2.0	-3.2
Cash from (repayment) debt	0.4	63.6	-13.3
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	-1.1	61.5	-15.5
FX impact	0.0	0.0	0.0
Net cash flow	-5.8	14.5	-5.3
Free cash flow	-2.1	-20.1	11.2
EBITDA	15.0	10.4	21.3

Key metrics	FY 3/22	FY 3/23	FY 3/24
Profitability			
Gross margin (%)	20.3	20.7	21.9
Operating margin (%)	7.3	4.6	8.3
Net margin (%)	3.8	3.0	4.4
ROIC (%)	4.4	2.3	3.4
Liquidity			
Current ratio (x)	1.9	1.2	1.6
Quick ratio (x)	0.5	0.3	0.4
Leverage			
Debt/Equity ratio	215.8	369.1	318.9
Net Debt/Equity ratio	158.6	280.7	237.1

DISCLAIMER

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