

Sumitomo Forestry Group
Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020
Conference Call with Analysts and Institutional Investors - Q&A

Time and date: 13:00p.m.-13:40p.m., Monday, February 3, 2020

Briefer: Tatsumi Kawata, Director and Managing Executive Officer

Q

The full-year forecast for Overseas Housing and Real Estate Business has been upwardly revised following on from the second quarter. What is the content of the difference from the previous forecast?

A

Upward revision of ¥11 billion in net sales breaks down to approximately ¥10 billion at US housing companies and more than ¥2 billion at Scott Park in Australia, which is newly consolidated from the fourth quarter.

The upward revision to recurring income is largely attributable to the sale of properties by Crescent. In this business, earnings fluctuate greatly depending on the scale of the property and the timing of the sale, and there are some aspects that are difficult to forecast. Also, the forecasts for US housing companies were conservative, as it was difficult to make a forecast as of the second quarter due to the tendency for single family homes sales to be biased toward the fourth quarter, although not as high as in Japan.

Q

Could you tell us about Scott Park's outlook for the next fiscal year, including amortization of goodwill?

A

As announced, net sales are around ¥12 billion, which will be added to the Australian housing business. On the other hand, there are amortization of goodwill and other factors, so the impact on consolidated results is negligible.

Q

Regarding "Other, Consolidated Adjustments, etc." in Overseas Housing and Real Estate Business, the full-year forecast recurring income has been down ¥0.5 billion from the previous forecast. What are the reasons for this revision?

A

This was due to a change in the method of recording interest expenses at a US housing company, which was an accounting factor.

Q

What is the breakdown of equity in earnings of affiliates of approximately ¥5 billion of non-operating income in the third quarter?

A

Among equity in earnings of affiliates, Crescent's performance accounted for a large proportion of the gains, and Kumagai Gumi's performance and others were also included.

Q

What is the amount of equity in earnings of affiliates at Crescent? Also, how much does it contribute to profit in the third quarter results and full-year forecasts?

A

Crescent's equity in earnings of affiliates was approximately ¥3 billion in the third quarter and is expected to be approximately ¥4.3 billion for the full fiscal year. On an individual company basis, operating loss for the third quarter was approximately ¥0.3 billion and recurring income approximately ¥3 billion. For the full fiscal year, operating loss is expected to be approximately ¥1.3 billion and recurring income approximately ¥3 billion. We have upwardly revised its full-year earnings forecast on an individual company basis from approximately ¥1 billion as of the second quarter to approximately ¥3 billion. The timing of property sales is greatly influenced by the market, so it is difficult to forecast it in some aspects, but we will strive to improve the accuracy of its forecasts through the promotion of project management.

Q

What is the amortization amount of goodwill?

A

Goodwill amortization is expected to be about ¥6 billion for the full year. As a result of the straight-line depreciation, the third quarter results are around ¥4.5 billion, approximately three quarters of the annual amount.

Q

The Australian economy is expected to show signs of improvement, such as ruling party victories in general election and policy interest rate cuts, but there are concerns about the impact of forest fires. Under these circumstances, how do you view your current business environment?

A

The market is expected to have bottomed out, partly due to the low level of the policy interest rate and the return to an upward trend in housing price indicators, and we expect the business environment to recover in the future. As for forest fires, we do not see any impact on the areas in which we operate, but we need to keep a close watch on the situation going forward. As we mainly operate custom-built houses business in Australian housing business, there will be a certain time lag between the recovery of orders and the contribution to profit and loss.

Q

Regarding real estate development project in Jakarta that was announced the other day, you say it is planned to be sold in 2021. When will it contribute to profit?

A

Collaboration project with Kumagai Gumi is now in the stage of starting construction, and the contribution to incomes will be after the next Medium-Term Management Plan period.

Q

You say the property sale of Crescent is progressing ahead of schedule. Could you tell us the status of acquisitions of the pipeline and the outlook for the future?

A

Currently, we have around 10 pipelines each in multi-family housing, commercial and mixed use complexes. We aim to expand earnings by accumulating on these pipelines and linking them to commercialization for sure.