

Sumitomo Forestry Group
Financial Results for Second Quarter Fiscal Year Ending March 31, 2020
Briefing for Analysts and Institutional Investors - Q&A

Time and date: 10:00 a.m.–11:30 a.m., Monday, November 11, 2019

Respondents: Akira Ichikawa, President and Representative Director, Sumitomo Forestry Co., Ltd.

Tatsumi Kawata, Director and Managing Executive Officer, Sumitomo Forestry Co., Ltd.

Q

Government measures were expected to mitigate the decline in demand resulting from the consumption tax hike, but year-on-year decreases continue, including in October orders. Could the effects of the government's measures to address the sharp reactive decline become manifest going forward? Also, what was the impact of the typhoon in October, and what is the forecast for reconstruction demand?

A

On a monthly basis, the number of visitors to housing display centers in October was down, primarily in Kanto, due to the impact of the typhoon, and orders were also down. On the other hand, the government's measures also had an effect, so on a cumulative basis, orders from customers purchasing land were up in October. Moving forward, we will carefully explain the deadline of each measure and tie that into receiving orders. The housing industry as a whole is facing difficult circumstances, but if it looks like the situation is going to become prolonged, we will look into requesting additional support measures from the government.

As one impact of the typhoon, there is concern that construction could be delayed due to a shortage of workers associated with reconstruction work, but we will implement solid measures. Reconstruction demand varies by region, and the level of damages varies by customer, so at this point in time, it is difficult for us to forecast the scale.

Q

Are there requests from the industry as a whole for further expansion of the government's measures to address the sharp reactive decline arising from the consumption tax hike? Also, do you have any measures or initiatives to increase future orders?

A

The housing industry is a pillar of internal demand, so the industry as a whole is requesting the government to consider permanent policies to ensure stable supply. We believe that further review, including extension of the current measures, will be necessary depending on the situation going forward.

For our part, the Urban Development Promotion Department, which is in charge of the spec homes business, is cooperating with custom-built housing branches in purchases of land for housing construction, and we are building stronger relationships with real estate companies in each region to provide land to first-time buyers.

Q

Considering that the full-year forecast for recurring income in the fiscal year ending March 31, 2020 is ¥57 billion, I think it will be difficult to achieve the target of ¥85 billion set forth in the 2021 Medium-Term Management Plan. What are the specific strategies that will be implemented to get there?

A

We expect a roughly ¥20 billion increase in the Overseas Housing and Real Estate Business. About ¥10 billion of this comes from a reduction in amortization of goodwill and the absence of a real estate revaluation difference, while the remaining ¥10 billion is from further growth of the spec homes businesses in the United States and Australia and contribution by the business in Asia. US-based Crescent will also contribute to income. We expect a ¥7 billion increase from the domestic Housing and Construction Business driven by growth in custom-built detached houses and spec homes. With the application of the Accounting Standard for Revenue Recognition, the link between the number of completed and delivered units and revenue will be diminished, but we aim to boost orders and bring the number of completed and delivered units of custom-built detached houses to the 8,000 unit level. There will also be a contribution from the Biomass Power Generation Business.

Q

Under the 2021 Medium-Term Management Plan, you are aiming to establish a construction system in the domestic Housing and Construction Business capable of producing an annual total of 9,000 units. How will you respond to changes in the business environment such as population trends?

A

With the application of the Accounting Standard for Revenue Recognition, the link between the number of houses sold and performance is diminished, so I think we will need to look into how the information will be presented, but if the number of units decreases, for example, we will make up for it by increasing unit selling prices.

Moreover, we will grow our business in non-residential buildings and construction fields, including the MOCCA (Timber Solution) Business that is a part of our multi-faceted management strategy and our partnership with Kumagai Gumi, as we work toward achieving overall Sumitomo Forestry performance targets including the Timber and Building Materials Business and the Overseas Housing and Real Estate Business.

Q

Domestic housing business' orders have been sluggish lately. What is the forecast for the next fiscal year?

A

In the Housing and Construction Business, this year's second half orders will be directly tied to next year's performance. We will work on steadily increasing orders through the end of the year. The installation rate of environmentally sound equipment, including ZEH, is also increasing. As for Apartment Business, which continues to struggle, we will collaborate with Sumitomo Forestry Residential, which manages rentals, to increase orders.

Q

Why did first-half unit selling prices drop year on year in the domestic custom-built detached housing business?

A

The percentage of rebuilding customers dropped, the number of customers purchasing land, which tend to have limited budgets for housing construction, increased, and there was a decrease in the number of large-scale properties. These and other factors led to a drop in unit selling prices compared to the previous year.

In the previous year, there was surge demand from customers paying in cash not benefiting from government measures such as tax breaks on home loans and for additional works, which increased unit selling prices. Although the numbers are down year on year, they have actually just returned to the average level.

Q

Why were orders received in Apartment Business up 36% year on year in the month of October?

A

Our Apartments Business is still small, so there are large fluctuations when you look at it on a monthly basis. Our proposals to customers visiting housing display centers in October were successful, but the market situation remains difficult.

Q

How is the full-year forecast for the US housing business different from the initial forecast? Also, what is the situation with Crescent and other non-housing companies?

A

Net sales are down ¥6–7 billion simply from revising the exchange rate from the initial forecast of 110 yen to the dollar to 108. Profitability is up compared to the initial forecast despite a drop in the margin associated with lower affordability compared to the previous year.

In regard to Crescent, progress was made on project sales in the second half, and we expect a ¥0.5 to ¥1 billion contribution to income on a non-consolidated basis excluding in amortization of goodwill and real estate revaluation difference.

Q

You say that there are signs of improvement in the Australian housing market. What will your strategy be? Also, what is the most recent trend in the United States?

A

In Australia, the environment has become conducive to home buying, including monetary policy, and I get the impression that the market has bottomed out. Our strategy will be to work on rebuilding by implementing measures according to the situation in each state, such as efforts to address the downturn in Queensland.

In the United States, the situation varies by region. In Seattle, there is a slight downturn due to problems with affordability, but in places like Texas and Utah where the population is steadily increasing, performance is strong.

Q

In regard to the Housing and Real Estate Business in Thailand, it seems like other companies are focused more on condominium development, but you are also engaged in

the spec homes business. Can you give us some details?

A

Property Perfect, which is working on a joint venture with us locally, is engaged in the development and sale of detached spec homes in the suburbs in addition to developing condominiums in city centers in Thailand, so we will expand our income through both our condominium development business and the spec homes business in the suburbs.

Q

The full-year forecast for the Timber and Building Materials Business has dropped, but what is the outlook for the future?

A

In the overseas manufacturing business, the recovery in NPIL's performance has been even less than anticipated, and that trend is expected to continue in the second half. However, the increase in variable costs has stabilized, and progress is being made on our sales strategy for Japan, so we believe that we will see a recovery in the next fiscal year. We also expect sales of imported plywood to remain sluggish in Japan in the second half. Imported plywood is heavily affected by new housing starts, so we will implement measures while closely watching housing trends.

Q

What is the status of your undertakings with Kumagai Gumi?

A

We have established a Business Partnership Promotion Committee and are working on various efforts in subcommittees. For example, we are collaborating in the renovation field, and our joint proposals with Sumitomo Forestry Landscaping and Kumagai Gumi in the landscaping field have turned into orders. This year the groups combined expect orders of around ¥10–15 billion.

Q

What is the fire disaster-related loss that was recorded as an extraordinary loss?

A

This was from a forest fire in New Zealand, but the situation is already under control, and progress is being made on recovery work.