Dualtap

Real estate company focused on property near stations in Tokyo's 23 wards; expanding real estate management and overseas businesses

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Business

Properties near stations, recurring revenue business, overseas development

Dualtap's main business segments are Real Estate Sales (FY06/19: 79.9% of total sales; segment profit margin of 2.7%), Real Estate Management (15.7%; 14.1%), and Overseas Real Estate (4.4%; 0.4%). In recent years, the company has focused on the recurring revenue-based Real Estate Management business.

Dualtap sells small condominium units (in two sizes: up to 30 sqm, or 30–50 sqm) mainly to individual investors in Japan and overseas. (It also sells entire buildings to investment funds.) The company sources properties near stations in Tokyo's 23 wards. These are either: 1) properties Dualtap develops in-house after acquiring plots of land of around 100–300 sqm in size (roughly 60% of properties), 2) new buildings (a little under 40%), or 3) preowned condominium units (a small number). The company sells each unit for roughly JPY25mn (FY06/19); buyers are typically in their 20s and 30s, most of whom have an annual income of less than JPY7mn. Dualtap says its XEBEC-brand condominiums are popular with younger renters and the female demographic. Roughly 60% of residents are women, many of whom are in their 30s. The properties maintain a high occupancy rate of 98.8% (FY06/19). Dualtap enters into a sublease agreement with approximately 60% of owners (buyers), whereby it guarantees a certain portion of monthly rental income, regardless of whether the unit is occupied, and charges a guarantee fee in exchange.

Dualtap maintains a relatively conservative capital structure with a net debt/equity ratio of 0.7 (FY06/19), the third lowest among seven similar companies in the industry.

Performance trends

Sales and profit down in FY06/19; Forecasting lower sales and higher profits in FY06/20

FY06/19: Sales were JPY9.5bn (-2.4% YoY), operating profit was JPY431mn (-23.9% YoY), recurring profit was JPY296mn (-41.3% YoY), and net income attributable to owners of the parent was JPY189mn (-41.9% YoY). Sales fell as real estate sales slowed. Profits were down as the decrease in expenses for new personnel and lower property sourcing costs (land and construction costs) were not enough to cover the drop in sales.

Company forecast for FY06/20: Sales of JPY8.0bn (-15.7% YoY), operating profit of JPY448mn (+3.9% YoY), recurring profit of JPY347mn (+17.1% YoY), and net income attributable to owners of the parent of JPY208mn (+10.1% YoY). Progress versus targets in Q3 was 72.5% for sales, 102.8% for operating profit, 115.8% for recurring profit, and 130.4% for net income attributable to owners of the parent. The company expects decreases in cost of sales and SG&A expenses to absorb the decline in sales.

Medium-term strategy

Aim for continuous profit growth and business expansion by leveraging existing customers

Medium-term policy: Dualtap targets a sales mix of 75% from Real Estate Sales (79.9% in FY06/19), 15% from Real Estate Management (15.7%), and 10% from Overseas Real Estate (4.4%). The company aims for stable growth in its mainstay Real Estate Sales business underpinned by the growing number of single-person households in Tokyo. It targets a CAGR of at least 5% by selling studio condominiums, its mainstay product. Dualtap aims to leverage its recurring revenue Real Estate Management business to achieve profits large enough to cover overall fixed costs. It additionally plans to make strategically timed investment of management resources into expansion of its Overseas Real Estate business.

Strengths and weaknesses

Strengths

Adept at sourcing properties near stations: Efficiently acquires properties within a 10-minute walk from the nearest station in Tokyo's 23 wards, as their asset values are relatively resistant to market fluctuation.

Stylish and practical design that keeps occupancy rates high: Dualtap's XEBEC designer condominiums are popular with women and the younger demographic. The high average occupancy rate (98.8% in FY06/19) enables rent increases when tenants change.

Capital structure that is relatively resistant to downturns in real estate: Has secured stable earnings through recurring revenue in the Real Estate Management business. Its strategy is to make itself recession-proof so that it can acquire properties at a discount when the economy takes a downturn.

Weaknesses

Weak earnings structure in Real Estate Sales: Low profitability in the Real Estate Sales business caused by suboptimal sales capacity and the practice of selling at low prices.

Lack of clarity as to how the company will achieve medium-term targets: Dualtap has been unable to delineate a concrete strategy in its medium-term management plan.

Low retention rate of young employees: Cultivation of personnel has not kept pace with company growth.

Profit growth drivers

Currently: Organic growth

Quality properties developed in-house yield high occupancy rates and drive Real Estate Management earnings growth.

Future: M&A/new business development

Dualtap aims to pursue M&A that generate synergy with existing businesses and in the long term diversify its business base by integrating companies in other industries.

Indices	
Market capitalization	JPY1.4 bn
Stock price (2020/05/15)	JPY402
Shares issued (incl. treasury shares)	3,430,500 shares
Foreign stockholding ratio (2019/12/31)	- %
BPS (FY06/19)	JPY535.86
PBR (FY06/19)	0.75 x
PER (FY06/20 Est.)	6.6 x
Dividend per share (FY06/20 Est.)	JPY11.00
Dividend yield (FY06/20 Est.)	2.74 %
ROE (FY06/20 Est.)	11.4 %
Net debt / Equity ratio (FY06/19)	135.5 %

Earnings (JPYmn)		Sales	YoY	Operating profit	YoY	Recurring profit	YoY	Net income	YoY	EPS (JPY)	BPS (JPY)	ROA (RP-based)	ROE
FY6/11	Parent	1,765	-	-	-	3	-	0	-			2.3%	-1.0%
FY6/12	Parent	3,125	77.0%	-	-	168	4809.8%	108	-			31.2%	106.7%
FY6/13	Parent	3,742	19.7%	-	-	127	-24.3%	47	-56.3%			14.2%	26.4%
FY6/14	Cons.	4,858	29.8%	389	-	378	197.1%	174	270.3%	72.2	164.5	27.2%	54.6%
FY6/15	Cons.	6,029	24.1%	510	31.4%	472	24.9%	294	68.5%	116.5	281.0	19.0%	52.3%
FY6/16	Cons.	6,997	16.1%	411	-19.4%	330	-30.2%	211	-28.2%	83.7	364.7	8.2%	25.9%
FY6/17	Cons.	9,697	38.6%	454	10.3%	346	4.8%	220	4.4%	67.0	409.5	6.5%	19.2%
FY6/18	Cons.	9,778	0.8%	567	24.8%	505	46.0%	325	47.7%	96.1	493.7	8.5%	21.1%
FY6/19	Cons.	9,543	-2.4%	431	-23.9%	296	-41.3%	189	-41.9%	55.2	535.9	5.1%	10.7%
FY6/20 Est.	Cons.	8,044	-15.7%	448	3.9%	347	17.1%	208	10.1%	60.9	-	-	11.4%

Source: Shared Research based on company data
Notes: Figures may differ from company materials due to differences in rounding methods.

Business

Properties near stations, recurring revenue business, overseas development

Company overview

Business areas

Dualtap's main areas of focus are its Real Estate Sales business (79.9% of total sales; segment profit margin of 2.7% in FY06/19), Real Estate Management business (15.7%; 14.1%), and Overseas Real Estate business (4.4%; 0.4%). In recent years, the company has focused on the recurring revenue-generating Real Estate Management business.

History

Dualtap has been developing its own brand of new condominiums since its establishment. In January 2008, it broke ground on the XEBEC Nakanobu condominium and began selling units in the building. Making it through the 2008 financial crisis and the Great East Japan Earthquake, the company acquired Hotel Promote Hakodate in March 2012. It also kicked off its Overseas Real Estate business by establishing a local subsidiary in Malaysia in May of the same year. In July 2018, it acquired a building management service company (Tatemonokanri Service, Ltd.).

Founding; Origin of company name

The company was established in Tokyo in August 2006 by President and Representative Director Takahiro Usui. The company name is a portmanteau of the words "dual" (double) and "tap" (draw from) and refers to its two-pronged approach to real estate development in which it handles properties as both investment assets and as products that fulfill the needs of renters.

Number of employees; Number of consolidated subsidiaries

In FY06/19, Dualtap had 124 employees on a consolidated basis (Real Estate Sales: 24, Real Estate Management: 9, Overseas Real Estate: 77, corporate staff: 14), 44 of whom belonged to the parent company (RES: 24, REM: 5, ORE: 1, and corporate: 14). The company has five wholly owned consolidated subsidiaries: one rental/sales agency, two building management companies, one overseas real estate business, and one Malaysian company.

Business model

Overview

Dualtap sells small condominium units (in two sizes: up to 30 sqm, or 30–50 sqm) mainly to individual investors in Japan and overseas. (It also sells entire buildings to investment funds.) The company handles a wide range of real estate-related functions in-house, including planning, development, sales, management, operation, and brokerage.

Development of properties within a 10-minute walk from stations in Tokyo's 23 wards

In its domestic business, the company focuses on the development and sale of small studio condominiums within Tokyo's 23 wards based on its understanding of the market environment (see below). Based on the belief that the success or failure of real estate development depends on location, Dualtap develops properties (i.e. selecting land for in-house development) or sources preowned properties at prime locations within a 10-minute walk from stations in Tokyo's 23 wards. According to the company, properties in these areas tend to be popular with tenants and their asset values are relatively resistant to decline.

Market environment

While Japan's total population continues to decline, the population of Tokyo is expected to continue to grow until at least 2030. The number of small households with two or fewer people (single-person household, couples) is also expected to continue to increase. The number of such small households in Tokyo is increasing by an average of 22,000 per year (and is expected to increase 227,000 over the 10 years from 2015 to 2025), while the average supply of studio units in Greater Tokyo is 11,000 per year (average for 2013–2017). In other words, there is a supply to demand gap of more than 10,000 units per year. (Source: National Institute of Population and Social Security Research).

Given such a market environment, station-front land prices (commercial areas) continue to rise (source: Ministry of Land, Infrastructure, Transport and Tourism, official land prices), and rent for condominiums in Greater Tokyo is also rising moderately (source: Jutaku Shimpo).

Recurring revenue as the foundation for stable earnings

Dualtap earns stable recurring revenue through its rental management business, which includes rent-guaranteed subleasing and handling of administrative tasks. The company's goal for the foreseeable future is to cover SG&A expenses and other fixed costs with recurring revenue from managing rental properties.

Globally expanding investor base

The company introduces real estate properties to investors around the world, both overseas investors looking to invest in Japan (inbound) and investors in Japan looking to invest abroad (outbound). Dualtap acquires customers belonging to the former group through local sales agents in Asian countries. For the latter group, it gains access to overseas properties through local realtors in Asia and the US, which it then introduces to customers in Japan. The company has a track record of organizing seminars in Asian countries and managing numerous buildings in Malaysia. By honing these global strategies, the company plans to accumulate a wide range of expertise and lay a foundation for a more diversified business portfolio.

Segments

Segment earnings

(JPYmn)	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Real Estate Sales	Old seg.	Old seg.	Old seg.	Old seg.	New seg.	New seg.
Segment sales	4,140	5,246	5,933	8,389	5,261	7,672
% of total sales	84.5%	86.0%	84.5%	86.4%	53.8%	79.9%
Sales to external customers	4,140	5,246	5,933	8,389	5,261	7,671
Income-generating condominium (single room with kitchen; less than 30sqm)					4,040	5,244
Compact condominium (30–50sqm)					27	953
Other properties					1,194	1,473
Single-room condominium (less than 40sqm)		5,020	5,829	6,098		
Family-type condominium (40sqm or more)		226	104	2,291		
Segment profit	355	492	338	360	169	207
Segment profit margin	8.6%	9.4%	5.7%	4.3%	3.2%	2.7%
Assets	1,569	2,972	3,690	4,765	5,166	5,304
Liabilities	1,112	2,175	2,776	3,337	3,319	3,260
Depreciation	28	16	17	17	22	24
Real Estate Management	**FY06/14**	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Segment sales	711	775	1,013	1,227	1,358	1,512
% of total sales	14.5%	12.7%	14.4%	12.6%	13.9%	15.7%
Sales to external customers	699	775	1,013	1,227	1,358	1,493
Rental management		721	948	1,192	1,308	1,364
Real estate brokerage		54	65	35	49	5
Building management						123
Inter-segment sales	12	1	1			19
Segment profit	19	3	43	100	140	213
Segment profit margin	2.6%	0.4%	4.2%	8.2%	10.3%	14.1%
Assets	177	169	1,080	942	940	376
Liabilities	232	291	1,120	1,010	1,075	407
Depreciation	22	25	29	33	14	19
Overseas Real Estate	**FY06/14**	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Segment sales	50	78	77	91	3,159	420
% of total sales	1.0%	1.3%	1.1%	0.9%	32.3%	4.4%
Sales to external customers	20	8	51	81	3,159	379
Income-generating condominium					1,502	239
Compact condominium					1,502	62
Real estate referral		8	51	51	84	2
Building management				31	68	77
Inter-segment sales	30	70	26	10	-	40
Segment profit	3	0	18	-17	249	2
Segment profit margin	5.7%	0.5%	24.1%	-	7.9%	0.4%
Assets	41	65	81	88	181	98
Liabilities	29	46	49	89	228	132
Depreciation		1	1	1	1	0
	FY06/14	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Total sales	**4,858**	**6,029**	**6,997**	**9,697**	**9,778**	**9,543**
Total segment sales	4,900	6,100	7,023	9,707	9,778	9,603
Inter-segment sales	42	71	26	10	0	60
Total operating profit	**389**	**510**	**411**	**454**	**567**	**431**
Total segment profit	377	496	399	443	558	421
Adjustments	12	15	12	10	9	10
Sales by region	**FY06/14**	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Japan					6,640	
China					1,469	
Singapore					1,183	
Other					487	
Japan, as % of total sales					67.9%	
Overseas, as % of total sales					32.1%	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: Sales to overseas customers had previously been recorded under Real Estate Sales, but are recorded under Overseas Real Estate as of FY06/19. FY06/18 results have been retroactively adjusted to the revised segment classification. Results for FY6/17The company changed its segment classification scheme in FY06/18. Results for FY06/17 and before are based on the previous segment classification.
Note: Sales by region are presented only for FY06/18 as Japanese domestic sales accounted for 90% or more of total sales in other years.
Note: Other properties under Real Estate Sales include a hotel in Hakodate and land (FY06/18), and property for a renovation project in Nihonbashi (Tokyo) and land (FY06/19).

Properties sold

Real Estate Sales (units sold, JPYmn)		FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.
Units sold:	Customers in Japan	73	126	149	167	189	223	293	151	229
	Overseas customers				17	16	6	4	58	8
Total units sold		73	126	149	184	205	229	297	209	237
XEBEC series:	Units sold (total)						1,360	1,413	1,652	1,880
	Units sold (annual)							53	239	228
	Buildings sold (total)						38	41	49	57
	Buildings sold (annual)							3	8	8
Income-generating condominium (single room with kitchen; less than 30sqm)										
Units sold									189	209
Sales per unit									29	25
Compact condominium (30–50sqm)										
Units sold									20	20
Sales per unit									76	48
Single-room condominium (less than 40sqm)										
Units sold						201	227	238		
Sales per unit						25	26	26		
Family-type condominium (40sqm or more)										
Units sold						4	2	59		
Sales per unit						57	52	39		
Units sold to overseas customers					17	16	6	4	58	8
Income-generating condominium										7
Compact condominium										1
Real Estate Management		**FY06/11**	**FY06/12**	**FY06/13**	**FY06/14**	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Rental management: Units		395	500	611	786	990	1,246	1,560	1,626	1,534
Rental management: Buildings										190
Average occupancy		91.0%	94.0%	94.0%	96.0%	96.0%	95.9%	97.9%	97.7%	98.8%
Building management: Units									620	2,283
Building management: Buildings									19	55
Malaysia building management: Units							4,830	4,426	5,770	5,730
Malaysia building management: Buildings							15	13	19	16

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: The company acquired a building management service company in July 2018. As a result, buildings under management in FY06/19 increased by 1,383 condominium units in 27 buildings.
Note: The uptick in units sold in FY06/17 reflects the one-off sale of 56 compact condominium units.

Real Estate Sales

Overview

Dualtap plans and develops new condominiums under its XEBEC series brand in Tokyo's 23 wards and sells them to funds and individual investors both in Japan and abroad. The company also purchases preowned condominiums and office buildings and sells them after renovating them or otherwise adding value.

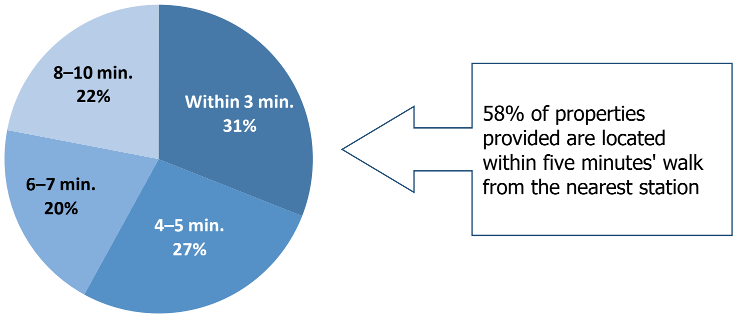
Customers

The time required to complete construction of a XEBEC condominium building varies by project size, but typically ranges from one to one and a half years (assuming 30–40 units per building). Dualtap predominantly sells units to individual investors after construction is complete, but also commonly sells entire buildings to private REIT funds either at the initial stage or midway through construction. Large customers in the past (those accounting for over 10% of total sales) include Daiwa Residential Private Investment Corporation (19.6% of total sales in FY06/17) and Brodia Private REIT, Inc. (29.6% of total sales in FY06/19). Sales activities are mainly based on introductions from existing customers, and the company does not conduct large seminars or advertising campaigns.

Locations within a 10-minute walk from a station

Over the past 13 years, Dualtap has developed a total of 1,880 units in 57 buildings (as of end-FY06/19), all within a 10-minute walk from a station. In fact, more than half are within a five-minute walk from a station (as of end-1H FY06/19). The company's development area has expanded from the southern and western wards of Tokyo to those in the north and east. Recently, Dualtap has completed several developments in the area surrounding Nippori Station (in northern Tokyo), which has a quaint atmosphere, excellent access to Narita Airport, and is popular with overseas visitors. The company believes that the value of properties near a station in Tokyo's 23 wards is relatively resistant to market fluctuation. In fact, Dualtap has been able to sell all the properties it has developed at a gain (without a single loss on a property since the company's establishment).

Walking time to nearest station (minutes; 1H FY06/19)



Source: Shared Research based on company data

Sourcing of properties

Dualtap focuses on properties near stations in Tokyo's 23 wards, purchasing plots of land of roughly 100–300 sqm in addition to preowned and new properties. The company sources property in three ways: 1) by acquiring land which it develops in-house (roughly 60% of properties), 2) by purchasing new buildings (slightly under 40%), and 3) by purchasing preowned condominium units (a small number). Due to clear property specifications and quick response to inquiries (two-days at the shortest), the company enjoys preferential treatment from the brokers and developers from whom it sources properties, in many cases gaining access to properties before they hit the broader market. Dualtap has improved its financial position so that it can purchase when market conditions worsen and land prices fall (shareholders' equity ratio: 33.8% [FY06/19]).

Studio condominiums as the mainstay product

Dualtap's condominiums are either a studio unit (one room plus a kitchen) of less than 30sqm, referred to by the company as an "income-generating condominium," or a unit between 30sqm and 50sqm in size, referred to as a "compact condominium." Of the 229 units the company sold in Japan in FY06/19, 209 were studios and 20 were compact condominiums. The average price per studio unit in FY06/19 was JPY25mn (it seems to have risen to around JPY30mn in FY06/20) and JPY48mn for a compact condominium, which is an affordable price range for individual investors.

Company-brand designer condominiums: "XEBEC* series"

*__Xebec__ is the name for a small high-speed sailing vessel used in the Mediterranean from the 16th to 19th centuries. The company named its brand after these ships because it felt they represented the development concept of "compact yet functional design that progresses with the times."

Carefully selected materials

Dualtap's brand of designer condominiums, the XEBEC series, mainly target single people living in Tokyo's 23 wards as their tenants. As such, the brand emphasizes design and practicality, making it popular with younger renters and the female demographic. The company says it carefully selects materials, for example, employing durable and crack-resistant homogeneous tiling for kitchens and bathrooms, and rugged and attractive melamine boards for storage space. Dualtap believes that allocating ample budget to areas that warrant attention, such as interiors and common areas, benefits all parties involved. It increases asset value for owners, convenience for property managers, and the satisfaction of tenants. Raising tenant satisfaction yields a high average occupancy rate (98.8% in FY06/19) and makes it possible to negotiate rent increases when tenants change, thereby increasing the asset value for the owner. Dualtap, which forms sublease agreements with many owners, also benefits as spending on condominiums creates synergy that helps to build stable recurring revenue.

Functionality

Yumi Fujimura, Dualtap's director in charge of development, emphasizes 1) functionality, 2) contemporary needs, and 3) design. She cites effective use of space as one of the elements of functionality. For example, sliding doors are used rather than hinged doors for greater space and convenience. Toilet rooms, even if small, are equipped with storage space. Many more similar features are incorporated into these very detail-oriented designs.

Fulfilling contemporary needs

The company sees to it that its XEBEC series condominiums are designed to meet contemporary needs. For example, wide sink kitchens are an attractive feature for the increasing number of men who enjoy cooking, and spacious bathrooms are popular with people who value their relaxation time. Such design features are well suited to the contemporary needs of the growing number of people working from home.

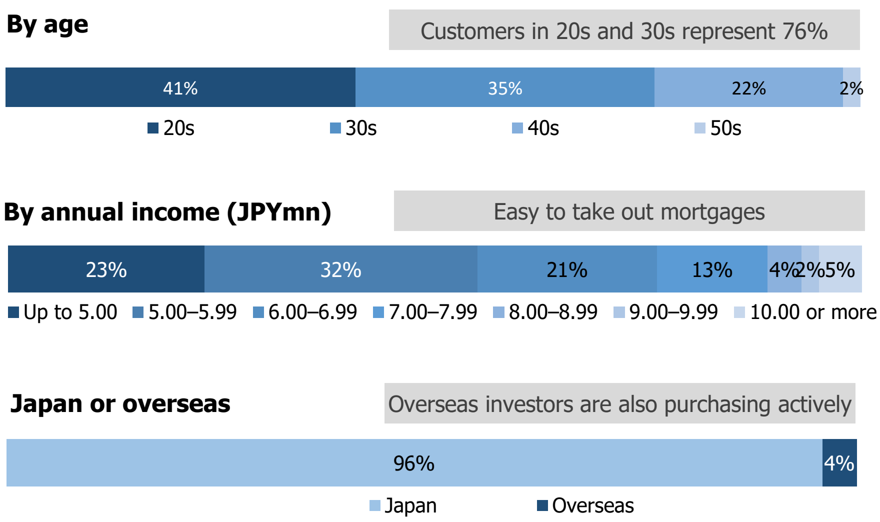
Style

In terms of style, the company pays particular attention to the building's aesthetics, notably the exterior and the common areas (entrance halls, the floors and walls of corridors, staircase handrails, elevator interiors, etc.). Dualtap also incorporates high-tech functions such as hands-free unlocking of building entrances (doors that automatically unlock when a key is within detection range of the reader).

Customer (property owner) demographics

By age group, 76% of the customer base is in their 20s and 30s (as of FY06/16; this number seems to have declined several percentage points more recently). As for annual income, 76% had annual income of less than JPY7mn, almost coinciding with the percentage of customers in their 20s and 30s (as of FY06/19; more recently the ratio seems to have dropped by 10% or more). Worried about the future of the pension system and social security, this generation is highly motivated to build assets. In the era of low interest rates, it is also a generation that has easy access to long-term loans from financial institutions. Overseas investors account for several percentage points of overall demand (out of 237 units sold in FY06/19, eight were sold to overseas customers).

Customer attributes (FY06/16)



Source: Shared Research based on company data

Investment yields for property owners

On its website, Dualtap presents the following case study simulating the earnings from investing in a studio condominium:

Assume that Customer A, who is 34 years old and has an annual income of JPY6.5mn, purchases a property for JPY26.5mn with a mortgage and chooses to operate it under a rent-guaranteed sublease agreement (with automatic renewal every two years). Dualtap sets the monthly rent under the sublease agreement at JPY99,000, for which Customer A receives JPY79,300 in rental income, after deducting a management fee of JPY6,700 (including payment to the condominium reserve fund) and a rent-guarantee fee of JPY13,000. The annual yield is 4.5% gross and 3.6% net (before repayment of the mortgage). Making a down payment of JPY5.5mn (over 20%) on the mortgage, and paying off the remaining JPY21mn at an interest rate of 1.65% over 35 years, Customer A would have to repay JPY65,852 every month. This would leave Customer A with JPY13,448 on hand after subtracting the repayment from the JPY79,300 received in rental income. This amount would cover property taxes and fire insurance.

In practice, there are many cases of mortgages with no down payment that often have a monthly balance in the red. In these cases, the aim of the investment is to make a capital gain by selling the property after paying off the mortgage or while in the process (by settling the balance and other expenses). The biggest risk is the potential for a drop in property prices, but the asset values of Dualtap's properties are relatively stable due to the convenience of being within a 10-minute walk from the nearest station in Tokyo's 23 wards.

Other risks include the possibility of rising interest rates (in the case of floating interest rates) and reductions in set rent when renewing the sublease agreements. However, since Dualtap has many highly convenient properties near stations, it has been able to raise rents when recruiting new residents. The Real Estate Management business is soundly managed and highly profitable, and according to the company it has so far not lowered set rents.

Dualtap has pointed out its concern that the actual loan execution is increasingly being delayed due to the impact of the coronavirus outbreak. Furthermore, the company pointed out that lenders could exercise more stringent screening of potential borrowers (general attributes and annual income), and tighter mortgage conditions (currently zero down payment, 35-year mortgage, interest rate of 1.6–2.0%) could be applied. Substantial tightening of loans may prevent some of the company's customers from investing.

Case study of investment yields

Assumptions: Aged 34; sales staff at a recruiting agency; wife and 5-year-old child; rent guarantee contract				
Annual income	Property price	Mortgage	Monthly balance	Annual yield (gross): 4.5%
	JPY26.5mn	Interest rate: 1.65%	Rent: JPY99,000	= annual rent / property price
	Down payment: JPY5.5mn	Term: 35 years	Management fee (incl. reserve fund): JPY6,700	= JPY99,000 x 12 months / JPY26.5mn
JPY6.5mn	Mortgage: JPY21mn	Monthly repayment: JPY65,852	Rent guarantee fee: JPY13,000	**Annual yield (net, before mortgage repayment): 3.6%**
			Net proceeds: JPY79,300	= annual net proceeds / property price
				= JPY79,300 x 12 months / JPY26.5mn

Source: Shared Research based on company data

Real Estate Management

Rental management and building management

Dualtap has two recurring revenue businesses in Real Estate Management: rental management (FY06/19: 1,534 units in 190 buildings in Japan; annual average occupancy rate: 98.8%), and building management (FY06/19: 2,283 units in 55 buildings in Japan). In the rental management business, the company mainly handles move-in and move-out procedures and rent collection on behalf of the owner (and also concludes rent-guaranteed sublease contracts). In the building management business, it takes care of maintenance tasks such as cleaning and repairs for common areas.

Attributes of renters and changing lifestyles

About 60% of the residents of the company's properties are women (mostly in their 30s). XEBEC's functionality and design capture the needs of women of this age group, leading to a high average occupancy rate (98.8% in FY06/19). Some say that remote work will take root even after the coronavirus pandemic subsides, and that this trend will cause a movement away from city centers. However, Dualtap believes that people will be drawn to city centers more than ever before in post-coronavirus Japan as they seek areas with well-established medical and other infrastructure. The company also wants to capture demand for new work style and lifestyle trends in which people maintain two residences: one in the city center and one in the suburbs.

Rent-guaranteed sublease agreements

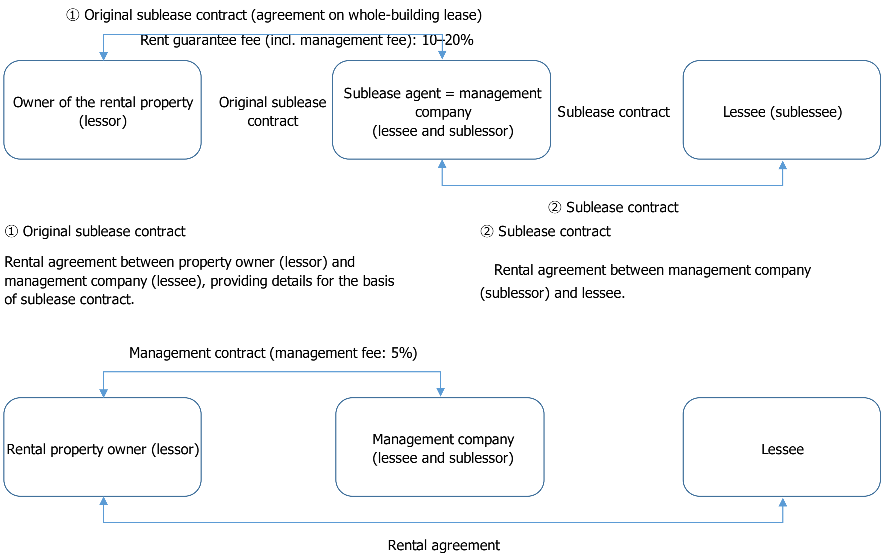
The company forms a sublease agreement that is automatically renewed every two years with roughly 70% of buyers (excluding funds) after it sells a XEBEC condominium.

Under a sublease agreement, a real estate company (management company) leases a property from the owner (lessor) and subleases it to a tenant. The lessor is guaranteed a certain rental income regardless of whether there is a resident, and is free from having to handle move-in and move-out procedures and rent collection. Generally, the guaranteed rent is 80% to 90% of the set rent.

In the investment yield case study mentioned above, the management fee (including payment to the condominium reserve fund) of JPY6,700 (6.8% of the set rent) and the rent-guarantee fee of JPY13,000 yen (13.1%) is deducted from the set rent of JPY99,000 per month, leaving a guaranteed rental income of JPY79,300 (80.1% of set rent) for the lessor. The property manager receives the key money and the security deposit paid by the renter, but typically it also bears the brokerage fee for the recruitment of residents. The burden of restoration costs and repair costs is negotiated between the management company and the lessor. The lessor pays the mortgage, fire insurance, and property taxes out of the rental income. The set rent does not necessarily reflect the actual rent paid by the tenant to the management company; the set rent may be discounted depending on such factors as the management fee, occupancy rate, rents in the surrounding area.

Dualtap can earn gross profit from rent-guarantee fees (10% or more of set rent) and increases in rent as long as it is able to maintain its high average occupancy rate of 98.8% (FY06/19). In fact, the segment profit margin of the Real Estate Management business has been on an uptrend in line with annual increases in average occupancy rate, rising from 0.4% in FY06/15 to 14.1% in FY06/19.

Sublease agreements and rental agreements



Source: Shared Research based on data from the National Consumer Affairs Center of Japan

Overseas Real Estate

The Overseas Real Estate business comprises: 1) inbound business for affluent customers in Southeast Asia, 2) outbound business for investors in Japan, 3) the building management business (Malaysian subsidiary), and 4) attracting Japanese companies to a special economic zone in Malaysia.

In anticipation of the Japanese market peaking out, Dualtap established a local subsidiary in Malaysia in the sixth year of its establishment to kick off its Overseas Real Estate business. The company is pioneering Japanese building management in Malaysia, where it competes on the strength of its Japanese-quality management practices (it manages all properties in-house). It is working to increase the number of properties under management. The Malaysian subsidiary's building management business was in the red until end-FY06/19 (5,730 units in 16 buildings), but as units under management exceeded 10,000 units, it was able to make it into the black (the break-even point is about 7,000 units).

The company's focus is on B2C, but building a track record in building management has helped it branch out into B2B businesses including one in which it attracts Japanese companies to a special economic zone in Malaysia.

In addition, the Malaysian business also presents many opportunities to interact with cutting-edge IoT technology (e.g., drone taxis and cyber city infrastructure), and proximity to tech companies involved in these fields could lead to the creation of new business opportunities, for example, dispatching sales staff to support sales at these companies.

Segment profitability trends

Real Estate Sales and Real Estate Management

The segment profit margin of the Real Estate Sales business continues to decline, falling from 9.4% in FY06/15 to 2.7% in FY06/19. The main reason for the decline in profitability is the rise in land and construction costs. Meanwhile, the Real Estate Management business has proven a stable source of income, showing growth in sales and profits, and the segment profit margin has plotted a continual uptrend, rising from 0.4% in FY06/15 to 14.1% in FY06/19.

Covering fixed costs with recurring revenue

Dualtap aims to cover fixed costs (such as SG&A expenses) with the gross profit from recurring revenue in the Real Estate Management business. In FY06/19, sales of JPY1.5bn in the Real Estate Management business exceeded companywide SG&A expenses of JPY1.2bn. The acquisition of Tatemonokanri Service, Ltd. in July 2018 has contributed to earnings from FY06/19 by adding 1,383 units in 27 buildings to properties under management.

Issues in Real Estate Management

In the rental management business, the number of units managed by the company peaked at 1,626 in FY06/18 before falling to 1,534 in FY06/19. According to Dualtap, the number has continued to decline in FY06/20. As a result, segment sales and profits in Real Estate Management have fallen in FY06/20. The main reason for the decrease in the number of managed units is an increase in the number of owners selling their properties through other real estate companies. Dualtap is devising measures to prevent this kind of outflow and retain rental management contracts. It also plans to increase the number of preowned properties it handles.

Overseas Real Estate

The segment profit margin in the Overseas Real Estate business has fluctuated between 0.4% (FY06/19) and 24.1% (FY06/16), excluding FY06/17 when the segment had a loss of JPY17mn. Dualtap had previously recorded sales to overseas customers under Real Estate Sales, but in FY06/19 it began recording them under Overseas Real Estate. FY06/18 results have been retroactively adjusted to the new segment classification, but results from FY06/17 and earlier remain as under the old classification.

Main competitors

Seven similar companies

Ticker	Company	Latest full-year results					Business description
		Revenue (JPYmn)	OPM	ROE	Equity ratio	Net D/E ratio	
3242	Urbanet Corporation	20,084	10.7%	16.6%	27.4%	1.5	23 wards of Tokyo; basically wholesale of new buildings to condominium sales companies
3464	Property Agent	21,534	8.0%	19.1%	22.6%	2.2	23 wards of Tokyo; focuses on condominium for subdivisions (for investment and residence)
3469	**Dualtap**	**9,543**	**4.5%**	**10.7%**	**33.7%**	**0.7**	**23 wards of Tokyo; focuses on condominium for subdivisions (for investment and residence); also develops overseas business**
3475	Good Com Asset	23,376	7.5%	16.9%	46.2%	0.3	23 wards of Tokyo; focuses on condominium for subdivisions (for investment) with greenery on the ground-floor exterior wall or the rooftop
3486	Global Link Management	25,086	6.2%	25.0%	23.8%	2.4	23 wards of Tokyo; focuses on condominium for subdivisions (for investment), expanding business with overseas investors
3489	FaithNetwork	14,164	7.2%	17.8%	27.5%	1.5	Three Jonan wards in Tokyo; provides integrated services focusing on new RC condominium (designed in-house)
8935	FJ Next	81,516	12.4%	15.5%	61.8%	0.1	A major in development and sales of income-generating subdivision condominium in Tokyo Metro area; also operates property management, construction, and Japanese-style hotel (ryokan) businesses

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

FJ Next Co., Ltd. (TSE1: 8935)

There are many similar companies to Dualtap, but FJ Next, the largest developer and seller of income-generating condominiums with a focus on studio units in Greater Tokyo, tops the list of competitors. FJ Next's sales are more than 8.5x that of Dualtap's and its 12.4% OPM is 2.7x that of Dualtap's. Looking at segment operating profit, FJ Next differs from Dualtap in that it earns most of its profit from developing real estate rather than managing it.

Other similar companies

The table above includes five public companies focused on development in the central area of Tokyo's 23 wards with 1.5–2x the sales of Dualtap. FaithNetwork (TSE Mothers: 3489), which develops and sells new condominium buildings in the three southern wards of Shibuya, Meguro, and Setagaya, is relatively close to Dualtap in terms of size. However, FaithNetwork mainly sells entire buildings rather than individual units.

Comparisons of OPM, ROE, shareholders' equity ratio, and net debt/equity ratio

Although Dualtap has a high segment profit margin in Real Estate Management compared to these companies, its OPM to total sales is the lowest of the group.

Dualtap has shifted to a strategy of sacrificing profitability in Real Estate Sales to generate high profits in Real Estate Management. In other words, it purchases properties near stations and sells them to customers at attractive prices, but ensures robust profit from the management of those properties by maintaining high occupancy. As a result, while segment profit in Real Estate Management has increased, profit in Real Estate Sales has decreased more significantly, and companywide OPM remains low (around 5%). We understand the low profitability of Real Estate Sales is due to insufficient branding and a shortage of selling capacity . Another factor in low OPM is the very limited profit contributions from the Overseas Real Estate business, in which the company is still in the preliminary investment stage.

ROE is also showing a downward trend, and Dualtap says it has not been able to sufficiently realize asset efficiency. Looked at another way, the company has built a sturdy financial position that is relatively resistant to recession by selling off fixed assets such as hotels and land, accumulating cash and deposits, and securing a stable source of earnings through its recurring revenue businesses. The company's shareholders' equity ratio of 33.7% is the third highest among the seven companies, and the net debt-to-equity ratio of 0.7 is the third lowest.

Earnings

Quarterly earnings

Cumulative	FY06/18				FY06/19				FY06/20			Cml. Q3 FY06/20	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of Est.	FY Est.
Sales	2,560	6,484	8,407	9,778	1,639	2,541	6,392	9,543	939	2,794	5,835	72.5%	8,044
YoY	73.9%	36.5%	6.9%	0.8%	-36.0%	-60.8%	-24.0%	-2.4%	-42.7%	10.0%	-8.7%		
Cost of sales	2,035	4,708	6,195	7,278	1,356	2,046	5,335	7,930	724	2,255	4,592		
YoY	73.3%	13.5%	-8.8%	-11.7%	-33.4%	-56.6%	-13.9%	9.0%	-46.6%	10.3%	-13.9%		
Cost ratio	79.5%	72.6%	73.7%	74.4%	82.8%	80.5%	83.5%	83.1%	77.1%	80.7%	78.7%		
Gross profit	525	1,776	2,212	2,500	283	495	1,057	1,613	215	539	1,243		
YoY	76.2%	195.8%	105.2%	71.7%	-46.2%	-72.1%	-52.2%	-35.5%	-24.0%	8.8%	17.6%		
Gross profit margin	20.5%	27.4%	26.3%	25.6%	17.2%	19.5%	16.5%	16.9%	22.9%	19.3%	21.3%		
SG&A expenses	250	1,205	1,611	1,933	282	536	842	1,182	247	511	782		
YoY	-0.5%	151.4%	125.0%	92.9%	12.5%	-55.5%	-47.7%	-38.9%	-12.3%	-4.8%	-7.2%		
SG&A expenses	9.8%	18.6%	19.2%	19.8%	17.2%	21.1%	13.2%	12.4%	26.3%	18.3%	13.4%		
Operating profit	275	571	601	567	1	-41	214	431	-32	28	461	102.8%	448
YoY	491.8%	371.3%	65.9%	24.8%	-99.6%	-	-64.3%	-23.9%	-	-	114.9%		
Operating profit margin	10.7%	8.8%	7.1%	5.8%	0.1%	-1.6%	3.4%	4.5%	-3.4%	1.0%	7.9%		
Recurring profit	258	537	553	505	-31	-98	118	296	-47	2	402	115.8%	347
YoY	1684.7%	760.4%	98.8%	46.0%	-	-	-78.6%	-41.3%	-	-	239.4%		
Recurring profit margin	10.1%	8.3%	6.6%	5.2%	-1.9%	-3.9%	1.9%	3.1%	-5.0%	0.1%	6.9%		
Net income	181	372	362	325	-28	-78	69	189	-36	-4	271	130.4%	208
YoY	9395.6%	1023.5%	101.0%	47.7%	-	-	-81.0%	-41.9%	-	-	294.3%		
Net margin	7.1%	5.7%	4.3%	3.3%	-1.7%	-3.1%	1.1%	2.0%	-3.9%	-0.1%	4.6%		
Quarterly	**FY06/18**				**FY06/19**				**FY06/20**				
(JPYmn)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**		
Sales	2,560	3,924	1,923	1,371	1,639	902	3,851	3,151	939	1,855	3,040		
YoY	73.9%	19.7%	-38.3%	-25.0%	-36.0%	-77.0%	100.2%	129.8%	-42.7%	105.7%	-21.1%		
Cost of sales	2,035	2,673	1,487	1,083	1,356	689	3,290	2,595	724	1,531	2,337		
YoY	73.3%	-10.1%	-43.7%	-25.4%	-33.4%	-74.2%	121.2%	139.6%	-46.6%	122.2%	-29.0%		
Cost ratio	79.5%	68.1%	77.3%	79.0%	82.8%	76.4%	85.4%	82.3%	77.1%	82.5%	76.9%		
Gross profit	525	1,251	436	288	283	213	561	557	215	324	704		
YoY	76.2%	313.7%	-8.7%	-23.7%	-46.2%	-83.0%	28.7%	93.2%	-24.0%	52.4%	25.4%		
Gross profit margin	20.5%	31.9%	22.7%	21.0%	17.2%	23.6%	14.6%	17.7%	22.9%	17.5%	23.1%		
SG&A expenses	250	954	407	322	282	255	306	340	247	264	271		
YoY	-0.5%	319.4%	71.7%	12.6%	12.5%	-73.3%	-24.8%	5.5%	-12.3%	3.6%	-11.4%		
SG&A expenses	9.8%	24.3%	21.1%	23.5%	17.2%	28.3%	7.9%	10.8%	26.3%	14.2%	8.9%		
Operating profit	275	296	29	-34	1	-42	255	217	-32	60	433		
YoY	491.8%	296.4%	-87.8%	-	-99.6%	-	767.5%	-	-	-	69.4%		
Operating profit margin	10.7%	7.6%	1.5%	-2.5%	0.1%	-4.7%	6.6%	6.9%	-3.4%	3.2%	14.2%		
Recurring profit	258	279	16	-48	-31	-67	217	178	-47	49	400		
YoY	1684.7%	482.1%	-92.6%	-	-	-	1261.6%	-	-	-	84.7%		
Recurring profit margin	10.1%	7.1%	0.8%	-3.5%	-1.9%	-7.4%	5.6%	5.6%	-5.0%	2.6%	13.2%		
Net income	181	191	-10	-37	-28	-50	147	120	-36	32	275		
YoY	9395.6%	512.4%	-	-	-	-	-	-	-	-	87.9%		
Net margin	7.1%	4.9%	-0.5%	-2.7%	-1.7%	-5.6%	3.8%	3.8%	-3.9%	1.7%	9.1%		

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly earnings by segment

Cumulative	FY06/18				FY06/19				FY06/20		
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total sales	**2,560**	**6,484**	**8,407**	**9,778**	**1,639**	**2,541**	**6,392**	**9,543**	**939**	**2,794**	**5,835**
YoY	73.9%	36.5%	6.9%	0.8%	-36.0%	-60.8%	-24.0%	-2.4%	-42.7%	10.0%	-8.7%
Real Estate Sales	2,190	5,725	4,369	5,261	1,236	1,745	5,197	7,672	449	1,952	4,657
YoY	-	-	-	-	-43.5%	-69.5%	18.9%	45.8%	-63.7%	11.9%	-10.4%
% of total sales	85.5%	88.3%	52.0%	53.8%	75.4%	68.6%	81.1%	79.9%	47.7%	69.8%	79.8%
Real Estate Management	334	663	1,007	1,358	385	762	1,153	1,512	333	659	968
YoY	-	-	-	-	15.1%	14.9%	14.4%	11.3%	-13.5%	-13.6%	-16.0%
% of total sales	13.1%	10.2%	12.0%	13.9%	23.5%	30.0%	18.0%	15.7%	35.4%	23.5%	16.6%
Overseas Real Estate	36	96	3,031	3,159	18	35	60	420	158	186	212
YoY	-	-	-	-	-49.9%	-63.0%	-98.0%	-86.7%	775.9%	426.4%	252.7%
% of total sales	1.4%	1.5%	36.0%	32.3%	1.1%	1.4%	0.9%	4.4%	16.8%	6.7%	3.6%
Adjustments	0	0	0	0	-1	-1	-18	-60	-1	-2	-3
Operating profit	**275**	**571**	**601**	**567**	**1**	**-41**	**214**	**431**	**-32**	**28**	**461**
YoY	491.8%	371.3%	65.9%	24.8%	-99.6%	-	-64.3%	-23.9%	-	-168.2%	114.9%
Real Estate Sales	236	491	237	169	-18	-96	120	207	-59	-19	395
YoY	-	-	-	-	-	-	-49.2%	22.8%	-	-	228.0%
% of total OP	86.7%	86.6%	39.9%	30.2%	-	-	58.4%	49.1%	-	-	86.2%
OPM	10.8%	8.6%	5.4%	3.2%	-	-	2.3%	2.7%	-	-	8.5%
Real Estate Management	43	71	98	140	44	104	172	213	35	77	105
YoY	-	-	-	-	3.0%	46.5%	75.0%	51.5%	-21.6%	-26.2%	-38.6%
% of total OP	15.7%	12.5%	16.5%	25.2%	-2770.5%	-224.2%	83.3%	50.5%	-	295.5%	23.0%
OPM	12.8%	10.7%	9.7%	10.3%	11.5%	13.7%	14.9%	14.1%	10.4%	11.7%	10.9%
Overseas Real Estate	-7	5	259	249	-28	-55	-86	2	-9	-31	-42
YoY	-	-	-	-	-	-	-	-99.3%	-	-	-
% of total OP	-	0.8%	43.6%	44.6%	-	-	-	0.4%	-	-	-
OPM	-	4.8%	8.5%	7.9%	-	-	-	0.4%	-	-	-
Adjustments	2	4	6	9	3	5	8	10	2	2	2

Quarterly	FY06/18				FY06/19				FY06/20		
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total sales	**2,560**	**3,924**	**1,923**	**1,371**	**1,639**	**902**	**3,851**	**3,151**	**939**	**1,855**	**3,040**
YoY	73.9%	19.7%	-38.3%	-25.0%	-36.0%	-77.0%	100.2%	129.8%	-42.7%	105.7%	-21.1%
Real Estate Sales	2,190	3,535	-1,356	891	1,236	508	3,452	2,475	449	1,503	2,705
YoY	-	-	-	-	-43.5%	-85.6%	-354.7%	177.6%	-63.7%	195.6%	-21.6%
% of total sales	85.5%	90.1%	-70.5%	65.0%	75.4%	56.3%	89.3%	77.5%	47.7%	81.0%	89.0%
Real Estate Management	334	329	344	351	385	377	390	359	333	325	310
YoY	-	-	-	-	15.1%	14.6%	13.6%	2.3%	-13.5%	-13.7%	-20.6%
% of total sales	13.1%	8.4%	17.9%	25.6%	23.5%	41.8%	10.1%	11.2%	35.4%	17.5%	10.2%
Overseas Real Estate	36	60	2,935	129	18	17	25	359	158	28	26
YoY	-	-	-	-	-49.9%	-70.9%	-99.2%	179.1%	775.9%	61.9%	4.5%
% of total sales	1.4%	1.5%	152.6%	9.4%	1.1%	1.9%	0.6%	11.3%	16.8%	1.5%	0.9%
Adjustments	0	0	0	0	-1	-1	-17	-42	-1	-1	-1
Operating profit	**275**	**296**	**29**	**-34**	**1**	**-42**	**255**	**217**	**-32**	**60**	**433**
YoY	491.8%	296.4%	-87.8%	-	-99.6%	-	767.5%	-736.4%	-	-242.7%	69.4%
Real Estate Sales	236	255	-254	-69	-18	-79	217	87	-59	40	414
YoY	-	-	-	-	-	-	-185.3%	-226.0%	-	-150.7%	91.2%
% of total OP	86.7%	86.6%	-930.2%	189.5%	-	-	85.7%	40.3%	-	66.3%	95.8%
OPM	10.8%	7.2%	18.7%	-7.7%	-	-	6.3%	3.5%	-	2.7%	15.3%
Real Estate Management	43	28	27	42	44	60	68	41	35	42	29
YoY	-	-	-	-	3.0%	112.7%	150.0%	-3.2%	-21.6%	-29.6%	-57.7%
% of total OP	15.7%	9.6%	98.9%	-116.6%	-	-	26.7%	19.0%	-	70.3%	6.6%
OPM		8.6%	7.9%	12.0%	11.5%	15.9%	17.3%	11.4%	10.4%	13.0%	9.2%
Overseas Real Estate	-7	11	254	-10	-28	-26	-31	88	-9	-22	-11
YoY	-	-	-	-	-	-	-	-	-	-	-
% of total OP	-	3.8%	931.3%	-	-	-	-	40.7%	-	-	-
OPM		18.7%	8.7%	-	-	-	-	24.4%	-	-	-
Adjustments	2	2	2	2	3	3	3	2	2	0	0

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

The quarterly earnings derived from the property sales businesses under Real Estate Sales and Overseas Real Estate are not subject to seasonal factors. However, performance fluctuates depending on when properties are completed and delivered. The segment sales and profits in the Real Estate Management segment fell in FY06/20 on a decrease in the number of units managed in the rental management business as owners sold their properties.

Q3 FY06/20 results

Overview

In cumulative Q3 FY06/20, the company had sales of JPY5.8bn (-8.7% YoY), operating profit of JPY461mn (+114.9% YoY), recurring profit of JPY402mn (+239.4% YoY), and net income attributable to owners of the parent of JPY271mn (+294.3% YoY).

Gross profit margin improved 4.8pp from 16.5% in Q3 FY06/19 to 21.3% in Q3 FY06/20, and the SG&A-to-sales ratio rose only 0.2pp from 13.2% to 13.4%. These factors boosted OPM 4.5pp YoY, bringing it from 3.4% to 7.9%. Interest-bearing debt decreased from JPY2.6bn at end-FY06/19 to JPY1.7bn at end-Q3 FY06/20. Meanwhile, cash and deposits increased from JPY1.1bn at end-FY06/19 to JPY1.5bn at end-Q3 FY06/20.

Overview by segment

Real Estate Sales

In this business the company handles preowned condominiums in addition to its XEBEC condominiums. Dualtap strove to expand sales channels and its customer base by selling to private REITs in addition to individual investors. Sales were JPY4.7bn (-10.4% YoY) and segment profit was JPY395mn (+228.0% YoY).

Real Estate Management

The Real Estate Management segment consists of a rental management business and a building management business. In rental management, Dualtap focused on reviewing rent (raising prices) and improving the occupancy rate to improve the asset value of managed properties. In building management, Dualtap pursued new contracts for buildings other than those developed/sold by the company. However, these initiatives were not enough to cover the loss of managed units in the rental management business as owners sold off properties, resulting in a continued decline in sales (-16.0% YoY to JPY968mn) and segment profit (-38.6% YoY to JPY105mn).

Overseas Real Estate

In Overseas Real Estate, Dualtap worked to raise awareness of its XEBEC brand and expand its customer base by targeting affluent overseas investors. The company also introduced properties in the US, Australia, and Asia to investors in Japan. In Malaysia, Dualtap promoted its building management business for residential and commercial facilities, and increased the number of units under management. Sales were JPY212mn (+252.7% YoY) and segment loss was JPY42mn (versus a segment loss of JPY86mn in Q3 FY06/19).

FY06/20 company forecasts

Overview

For FY06/20, the company forecasts sales of JPY8.0bn (-15.7% YoY), operating profit of JPY448mn (+3.9% YoY), recurring profit of JPY347mn (+17.1% YoY), and net income attributable to owners of the parent of JPY208mn (+10.1% YoY).

Q3 progress versus forecasts was 72.5% for sales, 102.8% for operating profit, 115.8% for recurring profit, and 130.4% for net income attributable to owners of the parent.

In light of market uncertainty, Dualtap sets conservative sales targets and aims to maintain profit growth. The company has already secured the inventory necessary to achieve its full-year plan, but will purchase and sell additional properties if it finds suitable targets.

At end-Q3 FY06/20, real estate for sale, which is the source of future earnings, was JPY957mn (JPY3.0bn at end-FY06/19). Real estate for sale in process was JPY1.1bn (JPY627mn at end-FY06/19).

The inbound business of the Overseas Real Estate segment has acquired overseas customers through local sales agents, but seems to have stagnated due to factors such as restrictions on the remittance of CNY and the blockade of Hong Kong International Airport. The outbound business also uses local real estate companies to introduce customers in

Japan to properties in the US and other countries. However, these activities are currently on pause due to the impact of the coronavirus pandemic.

Medium-term strategy

Key points

Dualtap discloses guidelines for its medium-term policy, but stops short of disclosing its medium-term management plan or official targets. When it comes to performance indicators, the company emphasizes profit over sales. In fact, comparing Dualtap's initial forecasts with actual results from FY06/17 to FY06/19, profits exceeded targets every year even when sales failed to meet targets. The OPM has never exceeded 10%, but the company says the target level is 15%. The Real Estate Management segment came close to that level in FY06/19 with a segment profit margin of 14.1%, but in the company's assessment it needs to do something about the persistently single-digit profit margins of its Real Estate Sales and Overseas Real Estate segments if it hopes to reach 15% on a companywide basis.

Medium-term policy

Balanced management of existing businesses

Dualtap aims for a business portfolio with 75% of sales coming from Real Estate Sales (79.9% in FY06/19), 15% from Real Estate Management (15.7%), and 10% from Overseas Real Estate (4.4%).

The company aims for stable growth in its mainstay Real Estate Sales business as the number of single-person households in Tokyo grows. It targets a CAGR of 5% or more by selling studio units, its main product. The company also aims to earn enough from its recurring revenue businesses to cover fixed costs. Dualtap also plans to make strategically-timed investment of management resources into expansion of its Overseas Real Estate business.

M&A strategy

Dualtap augmented its building management business by acquiring all shares of Tatemonokanri Service, Ltd. in July 2018. By doing so, it tripled the number of managed units in the building management business from 620 units (19 buildings) at end-FY06/18 to 2,283 units (55 buildings) at end-FY06/19, thus contributing to earnings. The company plans to continue pursuing M&A that seem likely to create synergy with existing businesses.

Aiming for a diversified business portfolio

While solidifying the earnings base of existing businesses, Dualtap aims to diversify into other industries in the long term (becoming, in company terms, a "conglomerate"). It is already working to attract Japanese companies to a special economic zone of Malaysia through a local subsidiary. For Dualtap, this business is a stepping stone to greater involvement in the B2B service industry. The Malaysian business also presents many opportunities to interact with cutting-edge IoT technology (e.g., drone taxis and cyber city infrastructure), potentially leading to new business opportunities. In addition, Dualtap says it has started working on solutions to sales and marketing challenges facing its clients. This undertaking includes providing sales support in Japan, and handling sales activities (including strategy creation, planning, selection of target clients, and booking appointments) for technology-oriented companies such as RPA providers.

Strengths and Weaknesses

Strengths

Adept at sourcing properties near stations: All properties that Dualtap has worked on are within a 10-minute walk from the nearest station in Tokyo's 23 wards. In fact, more than half are within a five-minute walk from a station. The company believes that the asset value of a property near a station in Tokyo's 23 wards will remain relatively stable even if market conditions change. Dualtap has been able to sell all the properties it has developed without sustaining a single loss on a property since the company was established. Dualtap has clearly defined criteria for sourcing properties and responds rapidly (as quickly as two days) to inquiries from brokers and developers. This earns the company preferential treatment from these partners that accords it access to properties before they hit the broader market.

Stylish and practical design that keeps occupancy rates high: Dualtap's XEBEC series designer condominiums are mostly owned by investors and rented out to single people living in Tokyo's 23 wards. The company focuses on stylishly and practically designed properties that attract young renters and the female demographic. It believes that proper budgeting for aesthetics on aspects such as interiors and common areas benefits owners (higher asset value), tenants (greater satisfaction), and property managers (convenience). Raising tenant satisfaction helps maintain a high average occupancy rate (98.8% in end-FY06/19), which boosts asset value for the owner. There are benefits for Dualtap as well, thanks to the rent-guaranteed sublease agreement it concludes with many of the owners. Stable asset value makes it possible to raise rents when tenants change, and the company can earn the difference as additional profit.

Capital structure that is relatively resistant to downturns in real estate: In FY06/19, the company's shareholders' equity ratio of 33.7% was the third highest of the seven players in the industry, and its net debt/equity ratio of 0.7 was the third lowest. Dualtap has accumulated cash and deposits by selling off fixed assets such as hotels and land. Moreover, the company says it has secured stable earnings through recurring revenue in the Real Estate Management business, and is thereby building a capital structure that is relatively resistant to downturns. Its strategy is to make itself recession-proof so that it can take advantage of the opportunity to acquire quality properties at a discount when the economy takes a downturn.

Weaknesses

Weak earnings structure in the Real Estate Sales business: Dualtap has transitioned to a strategy of purchasing properties near stations and selling them to customers at attractive prices, effectively forgoing profitability in Real Estate Sales to achieve substantial earnings in Real Estate Management through high occupancy rates. As a result, while segment profit in Real Estate Management has increased, profit in Real Estate Sales has decreased more significantly, and companywide OPM remains low (around 5%). Shared Research thinks that the low profitability of Real Estate Sales stems from a shortage of selling capacity at the company and its practice of selling properties at a relatively low price. Another factor is that the Overseas Real Estate business is still in the preliminary investment stage and contributes very little to profits. Dualtap's ROE has also been trending downward, a likely indicator that asset efficiency has not been fully realized.

Lack of clarity as to how the company will achieve medium-term targets: Although Dualtap has disclosed its medium-term strategy and a target OPM of 15%, it has not been able to delineate a concrete medium-term management plan. The company positions the Overseas Real Estate business as a growth driver, and has increased the number of employees at its subsidiaries overseas for new business development. However, it has yet to make progress beyond the initial investment stage. It aims to diversify into different industries in the long term, but also plans to acquire companies that can produce synergy with existing businesses. We think Dualtap, in such ways, has not narrowed down its focus sufficiently. Since a clear path toward the 15% OPM target has not been laid out, the medium-term growth scenario also lacks concreteness.

Low retention rate of young employees: The company increased the number of employees in the Real Estate Sales business to 39 in FY06/18 to keep pace with business expansion. In FY06/19, however, the number fell by 15 to 24 people. This brought the average age up from 30.7 to 33.7 and the average length of service up from three to four years, suggesting a low retention rate of young employees. According to the company, this was a factor in the decline in sales and profits in FY06/19. Dualtap says it is taking measures such as enhancing sales training to shore up its sales force. Meanwhile, the company has been increasing headcount in its Overseas Real Estate business, mainly by adding local employees. Shared Research thinks the low retention rate for young employees can be attributed in part to the fact that cultivation of personnel has not kept pace with company growth.

Income statement

(JPYmn)	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons. Est.
Sales	**1,765**	**3,125**	**3,742**	**4,858**	**6,029**	**6,997**	**9,697**	**9,778**	**9,543**	**8,044**
YoY	-	77.0%	19.7%	29.8%	24.1%	16.1%	38.6%	0.8%	-2.4%	-15.7%
Cost of sales	-	-	-	3,569	4,619	5,636	8,241	7,278	7,930	-
YoY	-	-	-	-	29.4%	22.0%	46.2%	-11.7%	9.0%	-
Cost ratio	-	-	-	73.5%	76.6%	80.6%	85.0%	74.4%	83.1%	-
Gross profit	-	-	-	1,290	1,410	1,361	1,456	2,500	1,613	-
YoY	-	-	-	-	9.3%	-3.5%	7.0%	71.7%	-35.5%	-
GPM	-	-	-	26.5%	23.4%	19.4%	15.0%	25.6%	16.9%	-
SG&A expenses	-	-	-	901	900	949	1,002	1,933	1,182	-
YoY	-	-	-	-	-0.2%	5.5%	5.5%	92.9%	-38.9%	-
SG&A expenses	-	-	-	18.5%	14.9%	13.6%	10.3%	19.8%	12.4%	-
Operating profit	-	-	-	389	510	411	454	567	431	448
YoY	-	-	-	-	31.4%	-19.4%	10.3%	24.8%	-23.9%	3.9%
Operating profit margin	-	-	-	8.0%	8.5%	5.9%	4.7%	5.8%	4.5%	5.6%
Non-operating income	-	-	-	14	14	17	8	8	2	-
YoY	-	-	-	-	-4.1%	24.0%	-50.5%	-2.9%	-78.9%	-
% of sales	-	-	-	0.3%	0.2%	0.2%	0.1%	0.1%	0.0%	-
Non-operating expenses	-	-	-	24	52	98	117	70	137	-
YoY	-	-	-	-	111.3%	90.8%	18.4%	-39.8%	94.8%	-
% of sales	-	-	-	0.5%	0.9%	1.4%	1.2%	0.7%	1.4%	-
Recurring profit	3	168	127	378	472	330	346	505	296	347
YoY	-	4809.8%	-24.3%	197.1%	24.9%	-30.2%	4.8%	46.0%	-41.3%	17.1%
Recurring profit margin	0.2%	5.4%	3.4%	7.8%	7.8%	4.7%	3.6%	5.2%	3.1%	4.3%
Net income attributatble to owners of the parent	-0	108	47	174	294	211	220	325	189	208
YoY	-	-23258.7%	-56.3%	270.3%	68.5%	-28.2%	4.4%	47.7%	-41.9%	10.1%
Net margin	0.0%	3.4%	1.3%	3.6%	4.9%	3.0%	2.3%	3.3%	2.0%	2.6%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cost of sales breakdown (parent)

Consolidated	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19
Sales	6,029	6,997	9,697	9,778	9,543
Cost of sales	4,619	5,636	8,241	7,278	7,930
Cost ratio	76.6%	80.5%	85.0%	74.4%	83.1%
Gross profit	1,410	1,361	1,456	2,500	1,613
Gross profit margin	23.4%	19.5%	15.0%	25.6%	16.9%
Parent	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Sales	5,968	6,881	9,581	9,576	9,336
Cost of sales	4,619	5,637	8,209	7,210	7,791
Cost ratio	77.4%	81.9%	85.7%	75.3%	83.5%
Gross profit	1,349	1,244	1,373	2,366	1,545
Gross profit margin	22.6%	18.1%	14.3%	24.7%	16.5%
Cons. / Parent: Sales	1.0	1.0	1.0	1.0	1.0
Cons. / Parent: Gross profit	1.0	1.1	1.1	1.1	1.0
Real estate sales (parent)	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Sales	5,246	5,933	8,389	8,267	7,972
Cost of sales	3,981	4,805	7,208	6,129	6,779
Cost ratio	75.9%	81.0%	85.9%	74.1%	85.0%
Gross profit	1,265	1,128	1,181	2,139	1,194
Gross profit margin	24.1%	19.0%	14.1%	25.9%	15.0%
Real estate sales CoS (parent)	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Cost of sales: Land	1,689	2,147	2,991	3,025	3,492
% of sales	32.2%	36.2%	35.7%	36.6%	43.8%
Cost of sales: Buildings	2,264	2,587	4,058	2,852	3,118
% of sales	43.2%	43.6%	48.4%	34.5%	39.1%
Brokerage commissions	23	66	98	71	83
Outsourcing costs	4	1	64	158	19
Other	0	4	-3	24	68
Real estate rental (parent)	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Sales	681	902	1,125	1,250	1,288
Cost of sales	638	832	1,001	1,081	1,013
Cost ratio	93.7%	92.2%	89.0%	86.5%	78.6%
Gross profit	43	70	124	169	275
Gross profit margin	6.3%	7.8%	11.0%	13.5%	21.4%
Real estate rental CoS (parent)	**FY06/15**	**FY06/16**	**FY06/17**	**FY06/18**	**FY06/19**
Rent expenses	601	782	936	1,027	954
% of sales	88.3%	86.7%	83.2%	82.2%	74.1%
Depreciation	21	28	31	12	15
Other	16	22	34	42	43
Average occupancy	96.0%	95.9%	97.9%	97.7%	98.8%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Per-share data (JPY)

(JPY)	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons. Est.
Shares issued (year-end)	-	2,520,000	2,520,000	3,370,500	3,426,000	3,430,500	-
EPS	72.86	116.51	83.71	66.99	96.08	55.15	60.86
EPS (fully diluted)	-	-	-	66.19	92.39	54.73	-
Dividend per share	-	-	10.00	10.00	10.00	13.50	11.00
Book value per share	164.49	281.00	364.71	409.53	493.73	535.86	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: On August 31, 2011, the company conducted a 50-for-1 stock split. BPS and EPS data adjusted accordingly.

Balance sheet

(JPYmn)	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.
Current assets				1,239	2,431	3,356	4,421	4,935	4,955
Cash and cash equivalents				604	812	708	966	1,340	1,110
Inventories				479	1,348	2,403	3,273	3,422	3,599
Other				156	271	244	181	173	246
Fixed assets				537	765	1,476	1,324	1,233	494
Tangible fixed assets				476	682	1,363	1,223	1,094	250
Intangible fixed assets				6	4	6	7	13	127
Investments and other assets				55	79	106	94	126	117
Total assets	294	786	1,008	1,775	3,196	4,831	5,744	6,168	5,449
Current liabilities				901	1,481	2,284	3,163	2,354	2,444
Interest-bearing debt (short-term)				544	1,054	1,613	2,531	1,847	1,589
Other				357	427	672	632	507	854
Fixed liabilities				460	1,007	1,628	1,195	2,116	1,161
Interest-bearing debt (long-term)				407	949	1,558	1,124	1,959	1,022
Other				53	58	70	70	157	139
Total liabilities				1,361	2,488	3,912	4,358	4,470	3,605
Total net assets	47	155	202	415	708	919	1,387	1,697	1,844
Total liabilities and net assets	294	786	1,008	1,775	3,196	4,831	5,744	6,168	5,449
Total interest-bearing debt				951	2,003	3,171	3,656	3,806	2,611
Debt-to-asset ratio				53.6%	62.7%	65.6%	63.6%	61.7%	47.9%
Debt-to-equity ratio				2.3	2.8	3.4	2.6	2.3	1.4
Net debt-to-equity ratio				2.3	2.0	2.6	2.1	1.7	0.7

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cash flow statement

(JPYmn)	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.
Cash flows from operating activities	-	-	-	-41	-553	-885	-426	443	1,163
Cash flows from investing activities	-	-	-	-63	-340	-315	12	-70	-128
Cash flows from financing activities	-	-	-	395	1,046	1,146	708	-6	-1,265

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Financial indicators

	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.
ROA (RP-based)	2.3%	31.2%	14.2%	27.2%	19.0%	8.2%	6.5%	8.5%	5.1%
ROE	-1.0%	106.7%	26.4%	54.6%	52.3%	25.9%	19.2%	21.2%	10.7%
Inventory turnover	-	-	-	-	5.1	3.0	2.9	2.2	2.3
Tangible fixed assets turnover	-	-	-	-	10.4	6.8	7.5	8.4	14.2
Current ratio	-	-	-	137.5%	164.2%	146.9%	139.8%	209.6%	202.8%
Equity ratio	16.0%	19.7%	20.0%	23.4%	22.2%	19.0%	24.0%	27.4%	33.8%

Source: Shared Research based on company data

Historical results

FY06/19 results

Overview

In full-year FY06/19, the company had sales of JPY9.5bn (-2.4% YoY), operating profit of JPY431mn (-23.9% YoY), recurring profit of JPY296mn (-41.3% YoY), and net income attributable to owners of the parent of JPY189mn (-41.9% YoY).

The Dualtap group develops XEBEC condominiums and sells them, typically in units, based on the concept of "high-grade condominiums near stations in Tokyo's 23 wards." The company handles rental and building management even after selling the properties. It has made progress cultivating a sales network and sold real estate to individuals, corporations, affluent investors, private REITs, and other clients in Japan and overseas.

On the financial front, Dualtap streamlined its inventory holdings and worked to reduce interest-bearing debt and improve its equity ratio. At the same time, the number of financial institutions it deals with has increased, and its cost of borrowing has trended downward.

Overview by segment

Real Estate Sales

In addition to the sale of XEBEC condominiums, Dualtap expanded into other types of properties such as preowned office buildings (revitalization business). The company also strove to expand sales channels and grow the customer base, for example, by selling to private REITs. Through these initiatives, the segment secured sales of JPY7.7bn (+45.8% YoY) and profit of JPY207mn (+22.8% YoY).

Real Estate Management

The Real Estate Management segment comprises a rental management business and a building management business. In rental management, Dualtap focused on identifying appropriate rents and improving occupancy rates to improve the asset value of properties under management. Regarding building management, Dualtap Community Co., Ltd. manages the condominiums sold by Dualtap, while Tatemonokanri Service, Ltd. manages the "compact condominium" properties in Greater Tokyo (see the Segments section for details). Sales were JPY1.5bn (+9.9% YoY) and segment profit was JPY213mn (+51.5% YoY).

Overseas Real Estate

In Overseas Real Estate, Dualtap strove to raise the profile of XEBEC and expand its customer base by targeting high net worth individuals overseas. The company also developed its building management business for residential and commercial facilities in Malaysia. In addition, in partnership with the Malaysian government-owned company CyberView Sdn Bhd, Dualtap started providing support for Japanese high-tech companies interested in establishing local bases. Sales were JPY379mn (-88.0% YoY) and segment profit was JPY2mn (-99.3% YoY).

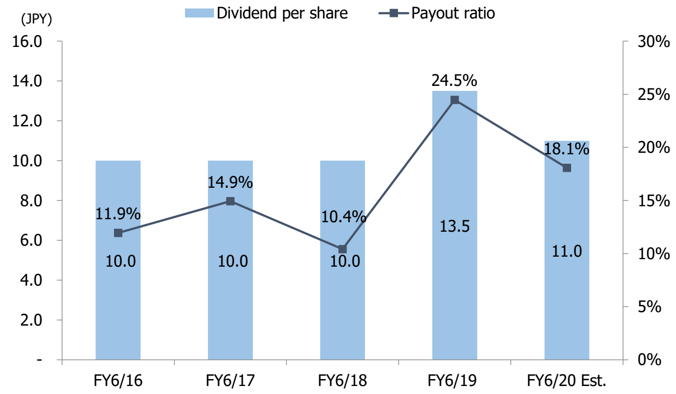
Results versus initial plan

Results vs. Initial Est. (JPYmn)	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Sales (Initial Est.)	9,648	10,289	11,190	8,044
Sales (Results)	9,697	9,778	9,543	-
Results vs. Initial Est.	**0.5%**	**-5.0%**	**-14.7%**	**-**
Operating profit (Initial Est.)	440	463	326	448
Operating profit (Results)	454	567	431	-
Results vs. Initial Est.	**3.2%**	**22.4%**	**32.3%**	**-**
Recurring profit (Initial Est.)	333	388	272	347
Recurring profit (Results)	346	505	296	-
Results vs. Initial Est.	**3.8%**	**30.0%**	**8.9%**	**-**
Net income (Initial Est.)	213	264	185	208
Net income (Results)	220	325	189	-
Results vs. Initial Est.	**3.4%**	**23.2%**	**2.2%**	**-**

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Policy on shareholder returns

Dividends



Source: Shared Research based on company data

Dualtap considers shareholder return an essential part of running its business. The company's basic policy is to pay continuous dividends to shareholders while maintaining the internal reserves needed to achieve future growth and strengthen its business fundamentals.

Shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Dimension Co., Ltd.	1,080.0	31.48%
Takahiro Usui	336.0	9.79%
Kabu.com Securities Co., Ltd.	165.5	4.82%
SBI Securities Co., Ltd.	89.2	2.60%
Hidemi Usui	60.0	1.75%
Rui Maki	46.0	1.34%
Taiji Horiuchi	45.0	1.31%
Musashi Securities Co., Ltd.	42.6	1.24%
Kazunori Shigematsu	35.7	1.04%
Shinji Okubo	34.4	1.00%
Total	1,934.4	56.39%
Shares outstanding	3,430.5	100.00%

Source: Shared Research based on company data (as of December 31, 2019)
Note: The shareholdings and shareholding ratios listed above exclude the 400 shares of treasury stock held by Dualtap.
Note: Dimension Co., Ltd. is an asset management company whose representative director is Hidemi Usui (the spouse of president and representative director Takahiro Usui).

The total percentage of shares owned by Dimension Co., Ltd., Takahiro Usui, and Hidemi Usui is 43.02%.

Corporate governance

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Board
Controlling shareholder and parent company	None
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	11
Number of directors	7
Directors' terms under Articles of Incorporation	1
Chairman of the Board of Directors	President
Number of outside directors	4
Number of independent outside directors	4
Number of members of Audit & Supervisor Board under Articles of Incorporation	4
Number of members of Audit & Supervisor Board	4
Number of outside members of Audit & Supervisory Board	4
Number of independent outside members of Audit & Supervisory Board	4
Other	
Participation in electronic voting platform	None
Providing convocation notice in English	None
Implementation of measures regarding director incentives	Stock option
Eligible for stock option	Inside and outside directors, employees; directors and employees at subsidiaries
Disclosure of individual director's compensation	Only the total amount disclosed
Policy on determining amount of compensation and calculation methodology	In place
Corporate takeover defenses	None

Source: Shared Research based on company data

Contact Details

Shared Research Inc.
3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
https://sharedresearch.jp
Phone: +81 (0)3 5834-8787
Email: info@sharedresearch.jp