

Nippon Commercial Development (3252)

Consolidated FY (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2016		17,378	5,955	5,626	3,605	209.1	45.0	665.3
FY03/2017		26,614	4,843	5,181	6,437	366.8	55.0	979.3
FY03/2018CoE		31,100	2,600	2,000	1,400	78.4	55.0	-
FY03/2017	YoY	53.1%	(18.7%)	(7.9%)	78.5%	-	-	-
FY03/2018CoE	YoY	16.9%	(46.3%)	(61.4%)	(78.3%)	-	-	-
Consolidated Half Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2017		9,575	1,714	2,020	4,150	-	-	-
Q3 to Q4 FY03/2017		17,038	3,128	3,160	2,286	-	-	-
Q1 to Q2 FY03/2018		5,436	198	(246)	(202)	-	-	-
Q3 to Q4 FY03/2018CoE		25,663	2,401	2,246	1,602	-	-	-
Q1 to Q2 FY03/2017	YoY	(20.9%)	(69.2%)	(62.4%)	16.5%	-	-	-
Q3 to Q4 FY03/2017	YoY	223.1%	697.2%	-	-	-	-	-
Q1 to Q2 FY03/2018	YoY	(43.2%)	(88.5%)	-	-	-	-	-
Q3 to Q4 FY03/2018CoE	YoY	50.6%	(23.2%)	(28.9%)	(29.9%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Results Update (13 November 2017)

Accelerating Land Procurement


On 10 November 2017, Nippon Commercial Development, running JINUSHI Business (Buy land. Lease land. Sell leased land.), released its Q1 to Q2 FY03/2018 results. It has been revealed that the Company is seeing accelerating land procurement. As of the end of Q2, property for sale outstanding stood at ¥46,574m (up 59.6% YoY), while as much as some ¥62,000m (up 72%), when projects on a priority negotiating rights basis being all included.

The former is the leading indicator for sales with the Company and the latter the leading indicator for the former. Thus, prospective sales in FY03/2019 are likely to surge over FY03/2018, giving good opportunities for the Company to see a recovery of earnings at the same time. Meanwhile, the Company argued that FY03/2018 would be a period of transition for future growth in FY03/2017 results meeting to have been held on 6 June 2017, while Tetsuya Matsuoka, president and CEO, having spoken to institutional investors that he was “convinced with management” of the Company. In the upcoming results meeting to be held on 6 December 2017, the Company is to anew disclose future prospects as well as details of Q1 to Q2 results, as far as we could gather.

IR Representative: Executive Director, Takashi Nishioka (+81 6 4706 7501 nishioka@ncd-jp.com)

2.0 Company Profile

Buy Land. Lease Land. Sell Leased Land.

Company Name	Nippon Commercial Development Co.,Ltd. Company Website (Japanese only) English Information Share Price  Nippon Commercial Development Co., Ltd.
Established	7 April 2000
Listing	26 December 2014: Tokyo Stock Exchange 1st section and Nagoya Stock Exchange 1st section (Ticker: 3252) 30 April 2013: Nagoya Stock Exchange 2nd section 8 November 2007: Nagoya Stock Exchange Centrex
Capital	¥2,795m (As of the end of September 2017)
No. of Shares	17,865,200 shares, including 141 treasury shares (As of the end of Sep. 2017)
Main Features	<ul style="list-style-type: none"> ● Running JINUSHI Business (Buy land. Lease land. Sell leased land.) ● Consolidated New Real Property Corporation as subsidiary (27 May 2016) ● Also involved with management of land through the establishment of JINUSHI Private REIT Investment Corporation (28 September 2016)
Businesses	<ul style="list-style-type: none"> . Real Estate Investment . Sublease, Lease and Fund Fee . Planning and Brokerage . Other
Top Management	President and CEO: Tetsuya Matsuoka
Shareholders	Tetsuya Matsuoka 35.2%, The Master Trust Bank of Japan (trust account) 3.3%, Japan Trustee Services (trust account) 2.3% (As of the end of March 2017)
Headquarters	Chuo-ku, Osaka-city, Osaka-prefecture, JAPAN
No. of Employees	Consolidated: 81, Parent: 35 (As of the end of June 2017)

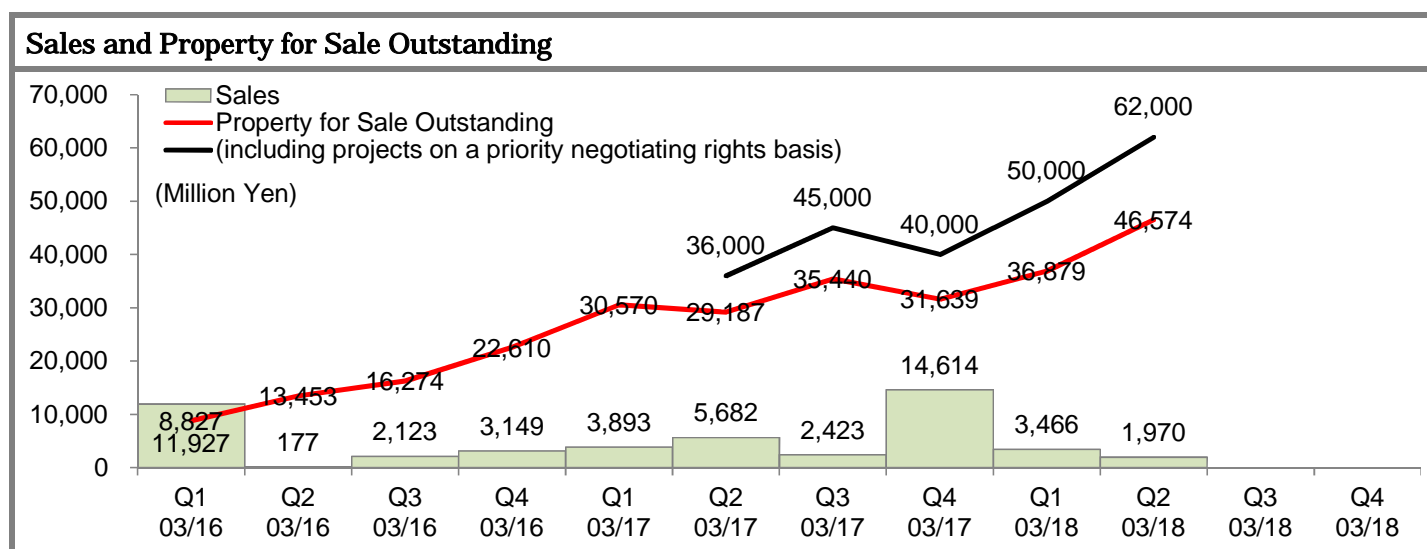
Source: Company Data

3.0 Recent Trading and Prospects

Q1 to Q2 FY03/2018 Results

In Q1 to Q2 FY03/2018, sales came in at ¥5,436m (down 43.2% YoY), operating profit ¥198m (down 88.5%), recurring profit negative ¥246m (versus ¥2,020m during the same period in the previous year) and profit attributable to owners of parent negative ¥202m (versus ¥4,150m). According to the Company, the results saw progress rates “in line with assumptions” of initial Company forecasts and the business performance was “favorable”.

Initial Company forecasts assume that sales are to concentrate in Q4 as in FY03/2017. Sales in Q4 FY03/2017 were driven by sales of land to JINUSHI Private REIT Investment Corporation (JINUSHI REIT) under management by JINUSHI Asset Management Co., Ltd., i.e., the Company’s subsidiary, which is supposed to reappear in FY03/2018.



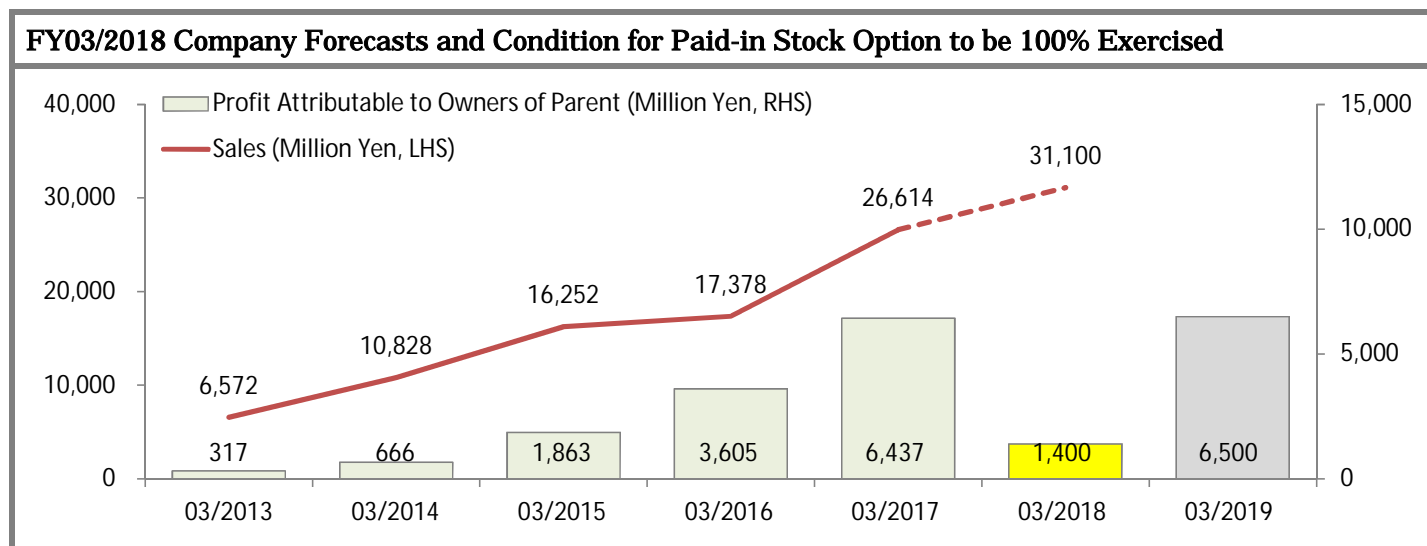
Source: Company Data, WRJ Calculation

In Q1 to Q2, the number of projects to sell land decreased over the same period in the previous year and thus sales. Gross profit margin came in at 30.9% (down 1.0% point), suggesting that the Company has almost maintained the extent of own value creations in a sense. Still, falling sales and increasing expenses resulted in major adjustments of operating profit. SG&A expenses came in at ¥1,479m (up 11.0%) due to strengthening of human resources to further pursue land procurement.

On top of this, the Company suffered from some net decreases at the non-operating level and at the extraordinary level, respectively, ¥749m and ¥2,790m. The former was basically driven by consolidation of New Real Property Corporation as subsidiary on 27 May 2016. During the same period in the previous year, the Company saw appraisal gains of ¥640m on stocks of subsidiaries and affiliates in line with lowering local borrowing interest rate in said subsidiary’s overseas subsidiary in Australia, while appraisal losses of ¥130m in line with rising rate in Q1 to Q2. Meanwhile, the latter also stemmed from said consolidation. During the same period in the previous year, the Company saw gains on negative goodwill of ¥4,577m and losses related to step acquisition of ¥1,787m, having resulted in net extraordinary income of ¥2,790m, as a result of said consolidation, which were just gone in Q1 to Q2.

FY03/2018 Company Forecasts

FY03/2018 initial Company forecasts have remained unchanged, going for prospective sales of ¥31,100m (up 16.9% YoY), operating profit of ¥2,600m (down 46.3%), recurring profit of ¥2,000m (down 61.4%) and profit attributable to owners of parent of ¥1,400m (down 78.3%). Prospective annual dividend of ¥55.0 per share, implying payout ratio of 70.2%, has also remained unchanged.



Source: Company Data, WRJ Calculation

Renewal of record high sales in FY03/2017 is to be followed by another one in FY03/2018, which is to be driven by considerably enlarging number of projects to sell land to JINUSHI REIT in Q4. However, Company forecasts assume lowering gross profit margin due to hiking prices of land to have procured as well as increasing SG&A expenses due to front-loaded investments and thus operating profit is expected to adjust even on a full-year basis. At the non-operating level and at the extraordinary level, the situations in Q1 to Q2 are to basically persist as far as we could see. As a result, the Company is to see major adjustments in profit attributable to owners of parent. Still, the Company argued that FY03/2018 would be a period of transition for future growth in FY03/2017 results meeting to have been held on 6 June 2017.

For example, it is found in the release of paid-in stock option on 16 August 2016 that condition for said stock option to be 100% exercised is to achieve profit attributable to owners of parent of ¥6,500m or more in FY03/2019. That is to say, this should be an implication for the Company earnings target in FY03/2019. In the light of accelerating land procurement most recently, sales are to surge in FY03/2019, generating major benefits to earnings and thus resulting in a remarkable recovery of earnings over FY03/2018.

4.0 Financial Statements

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	03/2017	03/2017	03/2017	03/2017	03/2018	03/2018	03/2018	03/2018		
Sales	3,893	9,575	11,999	26,614	3,466	5,436	-	-		(4,139)
Cost of Sales	3,089	6,528	8,029	18,903	2,561	3,758	-	-		(2,769)
Gross Profit	803	3,047	3,970	7,710	904	1,677	-	-		(1,370)
SG&A	627	1,332	1,985	2,866	679	1,479	-	-		+146
Operating Profit	175	1,714	1,984	4,843	224	198	-	-		(1,516)
Non Operating Balance	111	305	458	337	50	(444)	-	-		(749)
Recurring Profit	287	2,020	2,442	5,181	275	(246)	-	-		(2,266)
Extraordinary Balance	2,790	2,790	2,790	2,787	0	0	-	-		(2,790)
Profit before Income Taxes	3,077	4,810	5,233	7,968	275	(246)	-	-		(5,057)
Total Income Taxes	(6)	426	315	1,161	64	(4)	-	-		(430)
NP Belonging to Non-Controlling SHs	117	233	338	369	26	(39)	-	-		(272)
Profit Attributable to Owners of Parent	2,966	4,150	4,578	6,437	183	(202)	-	-		(4,353)
Sales YoY	(67.4%)	(20.9%)	(15.7%)	+53.1%	(11.0%)	(43.2%)	-	-		-
Operating Profit YoY	(97.0%)	(69.2%)	(64.0%)	(18.7%)	+27.9%	(88.5%)	-	-		-
Recurring Profit YoY	(94.9%)	(62.4%)	(53.8%)	(7.9%)	(4.2%)	-	-	-		-
Profit Attributable to Owners of Parent YoY	(21.5%)	+16.5%	+29.9%	+78.5%	(93.8%)	-	-	-		-
Gross Profit Margin	20.6%	31.8%	33.1%	29.0%	26.1%	30.9%	-	-		(1.0%)
(SG&A / Sales)	16.1%	13.9%	16.5%	10.8%	19.6%	27.2%	-	-		+13.3%
Operating Profit Margin	4.5%	17.9%	16.5%	18.2%	6.5%	3.6%	-	-		(14.3%)
Recurring Profit Margin	7.4%	21.1%	20.4%	19.5%	7.9%	(4.5%)	-	-		(25.6%)
Profit Attributable to Owners of Parent Margin	76.2%	43.3%	38.2%	24.2%	5.3%	(3.7%)	-	-		(47.1%)
Total Income Taxes / Profit before Income Taxes	-	8.9%	6.0%	14.6%	23.6%	-	-	-		-
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	03/2017	03/2017	03/2017	03/2017	03/2018	03/2018	03/2018	03/2018		
Sales	3,893	5,682	2,423	14,614	3,466	1,970	-	-		(3,712)
Cost of Sales	3,089	3,438	1,501	10,874	2,561	1,197	-	-		(2,241)
Gross Profit	803	2,244	922	3,739	904	772	-	-		(1,471)
SG&A	627	704	652	881	679	799	-	-		+94
Operating Profit	175	1,539	269	2,858	224	(26)	-	-		(1,566)
Non Operating Balance	111	193	152	(120)	50	(494)	-	-		(688)
Recurring Profit	287	1,732	422	2,738	275	(521)	-	-		(2,254)
Extraordinary Balance	2,790	0	0	(3)	0	0	-	-		0
Profit before Income Taxes	3,077	1,732	422	2,735	275	(521)	-	-		(2,254)
Total Income Taxes	(6)	432	(111)	846	64	(68)	-	-		(501)
NP Belonging to Non-Controlling SHs	117	116	105	30	26	(66)	-	-		(182)
Profit Attributable to Owners of Parent	2,966	1,184	428	1,858	183	(386)	-	-		(1,570)
Sales YoY	(67.4%)	-	+14.1%	+364.0%	(11.0%)	(65.3%)	-	-		-
Operating Profit YoY	(97.0%)	-	-	+538.6%	+27.9%	-	-	-		-
Recurring Profit YoY	(94.9%)	-	-	+708.1%	(4.2%)	-	-	-		-
Profit Attributable to Owners of Parent YoY	(21.5%)	-	-	-	(93.8%)	-	-	-		-
Gross Profit Margin	20.6%	39.5%	38.1%	25.6%	26.1%	39.2%	-	-		(0.3%)
(SG&A / Sales)	16.1%	12.4%	26.9%	6.0%	19.6%	40.6%	-	-		+28.2%
Operating Profit Margin	4.5%	27.1%	11.1%	19.6%	6.5%	(1.4%)	-	-		(28.4%)
Recurring Profit Margin	7.4%	30.5%	17.4%	18.7%	7.9%	(26.5%)	-	-		(57.0%)
Profit Attributable to Owners of Parent Margin	76.2%	20.8%	17.7%	12.7%	5.3%	(19.6%)	-	-		(40.5%)
Total Income Taxes / Profit before Income Taxes	-	25.0%	-	30.9%	23.6%	-	-	-		-

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2017	Q1 to Q2 03/2017	Q1 to Q3 03/2017	Q1 to Q4 03/2017	Q1 03/2018	Q1 to Q2 03/2018	Q1 to Q3 03/2018	Q1 to Q4 03/2018		
Real Estate Investment	3,450	8,852	10,800	25,148	3,245	4,993	-	-	(3,859)	
Sublease, Lease and Fund Fee	78	160	242	420	97	192	-	-	+32	
Planning and Brokerage	0	0	192	193	0	19	-	-	+19	
Other	363	562	764	851	123	231	-	-	(331)	
Sales	3,893	9,575	11,999	26,614	3,466	5,436	-	-	(4,139)	
Real Estate Investment	449	2,505	3,050	6,521	787	1,439	-	-	(1,065)	
Sublease, Lease and Fund Fee	20	40	60	175	32	63	-	-	+22	
Planning and Brokerage	0	0	191	192	0	18	-	-	+18	
Other	336	503	677	753	99	183	-	-	(319)	
Segment Profit	806	3,049	3,979	7,641	918	1,704	-	-	(1,344)	
Elimination	(630)	(1,334)	(1,994)	(2,798)	(693)	(1,506)	-	-	(172)	
Operating Profit	175	1,714	1,984	4,843	224	198	-	-	(1,516)	
Real Estate Investment	13.0%	28.3%	28.2%	25.9%	24.3%	28.8%	-	-	+0.5%	
Sublease, Lease and Fund Fee	26.0%	25.1%	25.0%	41.7%	33.2%	32.8%	-	-	+7.7%	
Planning and Brokerage	100.0%	100.0%	99.2%	99.2%	-	95.0%	-	-	(5.0%)	
Other	92.5%	89.4%	88.6%	88.4%	80.1%	79.1%	-	-	(10.2%)	
Elimination	(16.2%)	(13.9%)	(16.6%)	(10.5%)	(20.0%)	(27.7%)	-	-	(13.8%)	
Operating Profit Margin	4.5%	17.9%	16.5%	18.2%	6.5%	3.6%	-	-	(14.3%)	

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2017	Q2 03/2017	Q3 03/2017	Q4 03/2017	Q1 03/2018	Q2 03/2018	Q3 03/2018	Q4 03/2018		
Real Estate Investment	3,450	5,402	1,947	14,348	3,245	1,747	-	-	(3,654)	
Sublease, Lease and Fund Fee	78	81	82	177	97	95	-	-	+14	
Planning and Brokerage	0	0	192	1	0	19	-	-	+19	
Other	363	199	201	87	123	107	-	-	(91)	
Sales	3,893	5,682	2,423	14,614	3,466	1,970	-	-	(3,712)	
Real Estate Investment	449	2,056	544	3,470	787	652	-	-	(1,403)	
Sublease, Lease and Fund Fee	20	19	20	114	32	30	-	-	+11	
Planning and Brokerage	0	0	190	1	0	18	-	-	+18	
Other	336	166	174	76	99	83	-	-	(82)	
Segment Profit	806	2,242	930	3,662	918	785	-	-	(1,456)	
Elimination	(630)	(703)	(660)	(803)	(693)	(812)	-	-	(109)	
Operating Profit	175	1,539	269	2,858	224	(26)	-	-	(1,566)	
Real Estate Investment	13.0%	38.1%	28.0%	24.2%	24.3%	37.3%	-	-	(0.7%)	
Sublease, Lease and Fund Fee	26.0%	24.2%	24.7%	64.5%	33.2%	32.4%	-	-	+8.2%	
Planning and Brokerage	100.0%	100.0%	99.2%	99.8%	-	95.0%	-	-	(5.0%)	
Other	92.5%	83.7%	86.5%	86.8%	80.1%	78.0%	-	-	(5.6%)	
Elimination	(16.2%)	(12.4%)	(27.2%)	(5.5%)	(20.0%)	(41.3%)	-	-	(28.9%)	
Operating Profit Margin	4.5%	27.1%	11.1%	19.6%	6.5%	(1.4%)	-	-	(28.4%)	

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2017	Q2 03/2017	Q3 03/2017	Q4 03/2017	Q1 03/2018	Q2 03/2018	Q3 03/2018	Q4 03/2018		
Cash & Deposit	11,095	11,880	11,928	13,794	11,795	9,753	-	-	(2,127)	
Accounts Receivables	50	81	54	77	165	188	-	-	+107	
Property for Sale	30,570	29,187	35,440	31,639	36,879	46,574	-	-	+17,387	
Other	686	530	569	510	364	486	-	-	(44)	
Current Assets	42,402	41,679	47,992	46,022	49,205	57,002	-	-	+15,323	
Tangible Assets	188	217	229	231	258	274	-	-	+56	
Intangible Assets	9	10	9	11	10	9	-	-	-	
Investments & Other Assets	9,814	9,348	9,573	10,528	10,782	10,313	-	-	+965	
Fixed Assets	10,012	9,577	9,813	10,770	11,051	10,598	-	-	+1,021	
Total Assets	52,414	51,256	57,805	56,792	60,256	67,601	-	-	+16,344	
Accounts Payables	85	73	62	121	72	167	-	-	+94	
Short Term Debt	2,278	1,577	5,511	1,154	964	2,214	-	-	+637	
Other	1,777	1,780	2,103	2,792	1,756	1,775	-	-	(5)	
Current Liabilities	4,141	3,431	7,677	4,068	2,793	4,158	-	-	+726	
Long Term Debt	31,778	30,390	32,211	32,057	37,583	44,053	-	-	+13,663	
Other	755	750	781	787	808	880	-	-	+130	
Fixed Liabilities	32,533	31,140	32,993	32,845	38,392	44,934	-	-	+13,793	
Total Liabilities	36,674	34,572	40,671	36,914	41,185	49,092	-	-	+14,520	
Shareholders' Equity	13,878	15,141	15,598	17,699	16,903	16,516	-	-	+1,375	
Adjustments	1,861	1,542	1,535	2,179	2,167	1,991	-	-	+448	
Net Assets	15,739	16,684	17,134	19,878	19,071	18,508	-	-	+1,823	
Total Liabilities & Net Assets	52,414	51,256	57,805	56,792	60,256	67,601	-	-	+16,344	
Equity Capital	13,625	14,566	14,949	17,493	16,671	16,273	-	-	+1,707	
Interest-Bearing Debt	34,103	32,012	37,766	33,265	38,596	46,341	-	-	+14,329	
Net Debt	23,008	20,131	25,837	19,470	26,800	36,587	-	-	+16,456	
Equity Capital Ratio	26.0%	28.4%	25.9%	30.8%	27.7%	24.1%	-	-	-	
Net-Debt-Equity Ratio	168.9%	138.2%	172.8%	111.3%	160.8%	224.8%	-	-	-	
ROE (12 months)	22.1%	32.0%	35.2%	44.2%	24.1%	13.5%	-	-	-	
ROA (12 months)	0.7%	5.7%	6.2%	10.9%	9.2%	4.9%	-	-	-	
Total Assets Turnover	30%	44%	17%	103%	23%	12%	-	-	-	
Inventory Turnover	0.4	0.5	0.2	1.4	0.3	0.1	-	-	-	
Days of Inventory	903	775	2154	265	1314	3550	-	-	-	
Quick Ratio	269%	349%	156%	341%	428%	239%	-	-	-	
Current Ratio	1024%	1215%	625%	1131%	1762%	1371%	-	-	-	

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2017	Q1 to Q2 03/2017	Q1 to Q3 03/2017	Q1 to Q4 03/2017	Q1 03/2018	Q1 to Q2 03/2018	Q1 to Q3 03/2018	Q1 to Q4 03/2018		
Operating Cash Flow	-	(4,247)	-	(2,908)	-	-	-	-	-	
Investment Cash Flow	-	1,522	-	1,136	-	-	-	-	-	
Operating CF & Investment CF	-	(2,725)	-	(1,771)	-	-	-	-	-	
Financing Cash Flow	-	2,501	-	3,394	-	-	-	-	-	

Source: Company Data, WRJ Calculation

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage, etc.

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