2025 EXTEL ALL JAPAN RESEARCH SURVEY

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2025
EXTEL ALL JAPAN RESEARCH SURVEY

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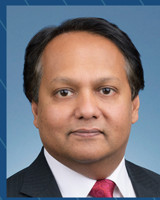
Desh Peramunetilleke

QUANTITATIVE RESEARCH


Shrikant Kale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STRATEGY

Equity Strategy	Christopher Wood / Atul Goyal / Shrikant Kale / Desh Peramunetilleke
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ESG	Aniket Shah

INDUSTRY

Biotechnology & Pharmaceuticals	Stephen Barker / Miyabi Yamakita
Cosmetics & Personal Care	Hisae Kawamoto
Electronics Components	Akinori Kanemoto / Sayaka Shimonishi
Electronics Industrial	Masahiro Nakanomyo / Hisako Furusumi / Sho Fukuhara
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Insurance	Sam Wong
IT & Software	Hiroko Sato / Ken Oiwa
Machinery	Sho Fukuhara
Metals	Thanh Ha Pham / Shun Igarashi
Retailing	Takashi Yanahira / Shunsuke Kuriyama

Vote for **Christopher Wood**

– Equity Strategy

KEY REPORT

Greed & Fear | Carry trades and cave dwellers

8 August 2024

Jefferies GREED & FEAR

Christopher Wood * christopher.wood@jefferies.com +852 3743 8746

8 August 2024

Carry trades and cave dwellers

Hong Kong

Financial markets have been focused over the past week on the yen carry trade unwind. This is entirely understandable given the roller coaster market action in Tokyo. But the reality is that this has been a correction driven by technical factors, the selling of leveraged positions, rather than anything fundamental.

Exhibit 1: Topix and Yen/US$

Source: Bloomberg

Still Bank of Japan Governor, Kazuo Ueda, is unlucky in the sense that his long overdue decision to move more proactively to normalise monetary policy coincided with last Friday's US employment report finally showing real labour market weakness, as discussed here in the flash published on Sunday (see *GREED & fear – flash*, 4 August 2024).

Vote for **Atul Goyal**

– Equity Strategy
– Gaming & Internet

KEY REPORT

Japan | Equity Strategy | From Lost Decade to Golden Age: A New Paradigm for Japan Inc

17 October 2023

Jefferies

Japan | Equity Strategy

Equity Research
October 17, 2023

From Lost Decade to Golden Age: A New Paradigm for Japan Inc

Japan, the world's 3rd-largest economy, is entering a transformational decade. Structural change driven by new mandates from the government and TSE will optimize capital allocation. Asset flows are rising and inflation provides support to growth and investment. We expect an increase in strategic activity (spin-offs/JVs/M&A/buybacks) to drive LT value creation and boost multiples. Strategic plans due ahead of '24/'25 AGMs and risk of delisting are key catalysts.

A paradigm shift: Key elements of change include: 1) Japan finally coming out from 30Y of deflation, creating a backdrop more conducive to growth and corporate investment, 2) Flows have reversed to positive for the first time in a decade as market flows divert from China, domestic retail investors have been incentivized to consider investments outside of cash/ insurance and leading institutional investors are entering the market for the first time, 3) The Japanese Stock Exchange (TSE) is demanding change, and evidence that the 3,800 listed companies are taking action to better allocate capital and drive returns. The government is adding to the momentum with new guidelines for M&A aimed at spurring consolidation.

TSE has become an agent of change: According to Chris Wood, Global Head of Equity Strategy, 'once a new consensus has been formed, the resulting change in behavior can be both durable and dramatic.' We expect recent TSE listing requirements to catalyze a new consensus. The most rigorous requirements relate to liquidity, corporate governance, profitability and returns with an aim to boost capital efficiency amongst Japan's market constituents. Companies that do not comply now have a firm deadline (Mar'25) by when they

STRATEGY NOTE

Substantial Upside for Japan ROE if non-core equity holdings are sold

Source: Jefferies Microstrategy, FactSet

If the Topix companies sell all their equity holdings and use the proceeds to fund buybacks, then all-else equal, ROEs could rise from 9.9% currently to 12.2%. A 75% equity holding reduction could lead to ROEs rising to 11.5%.

Seven Factors Converging

1	Deflation to Inflation	Good for Eco, Cos, Consumers
2	Geopolitics	Japan in a sweet-spot
3	Buffet in Japan	First Time Ever
4	Many Other Large Investors	PE Firms, Activists, Hedge Funds
5	Flows - Domestic Retail	Cultural shift towards ownership
6	FII Flows - Favoring Japan	Away from China to Japan/India
7	TSE Reforms	A new paradigm emerges

Source: Jefferies

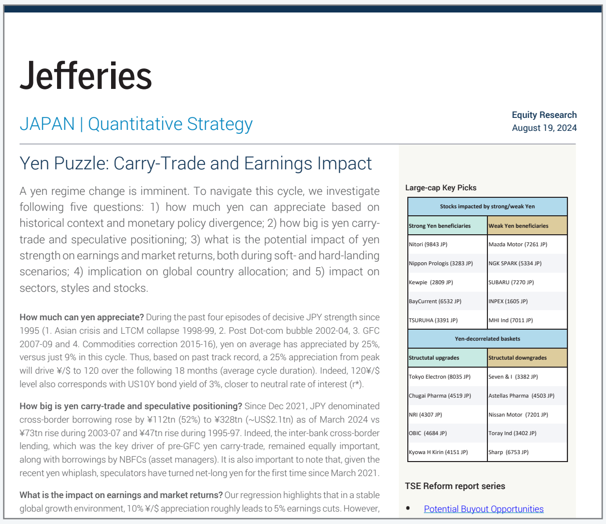
Vote for **Shrikant Kale**

– Equity Strategy
– Quantitative Research

KEY REPORT

Japan Quantitative Strategy | Yen Puzzle: Carry-Trade and Earnings Impact

19 August 2024



Jefferies

JAPAN | Quantitative Strategy

Equity Research
August 19, 2024

Yen Puzzle: Carry-Trade and Earnings Impact

A yen regime change is imminent. To navigate this cycle, we investigate following five questions: 1) how much yen can appreciate based on historical context and monetary policy divergence; 2) how big is yen carry-trade and speculative positioning; 3) what is the potential impact of yen strength on earnings and market returns, both during soft- and hard-landing scenarios; 4) implication on global country allocation; and 5) impact on sectors, styles and stocks.

How much can yen appreciate? During the past four episodes of decisive JPY strength since 1995 (1. Asian crisis and LTCM collapse 1998-99, 2. Post Dot-com bubble 2002-04, 3. GFC 2007-09 and 4. Commodities correction 2015-16), yen on average has appreciated by 25%, versus just 9% in this cycle. Thus, based on past track record, a 25% appreciation from peak will drive ¥/$ to 120 over the following 18 months (average cycle duration). Indeed, 120¥/$ level also corresponds with US10Y bond yield of 3%, closer to neutral rate of interest (r*).

How big is yen carry-trade and speculative positioning? Since Dec 2021, JPY denominated cross-border borrowing rose by ¥112tn (52%) to ¥328tn (~US$2.1tn) as of March 2024 vs ¥73tn rise during 2003-07 and ¥47tn rise during 1995-97. Indeed, the inter-bank cross-border lending, which was the key driver of pre-GFC yen carry-trade, remained equally important, along with borrowings by NBFCs (asset managers). It is also important to note that, given the recent yen whiplash, speculators have turned net-long yen for the first time since March 2021.

What is the impact on earnings and market returns? Our regression highlights that in a stable global growth environment, 10% ¥/$ appreciation roughly leads to 5% earnings cuts. However,

Large-cap Key Picks

Stocks impacted by strong/weak Yen	
Strong Yen beneficiaries	**Weak Yen beneficiaries**
Nitori (9843 JP)	Mazda Motor (7261 JP)
Nippon Prologis (3283 JP)	NGK SPARK (5334 JP)
Kewpie (2809 JP)	SUBARU (7270 JP)
BayCurrent (6532 JP)	INPEX (1605 JP)
TSURUHA (3391 JP)	MHI Ind (7011 JP)
Yen-decorrelated baskets	
Structutal upgrades	**Structutal downgrades**
Tokyo Electron (8035 JP)	Seven & I (3382 JP)
Chugai Pharma (4519 JP)	Astellas Pharma (4503 JP)
NRI (4307 JP)	Nissan Motor (7201 JP)
OBIC (4684 JP)	Toray Ind (3402 JP)
Kyowa H Kirin (4151 JP)	Sharp (6753 JP)

TSE Reform report series

- Potential Buyout Opportunities

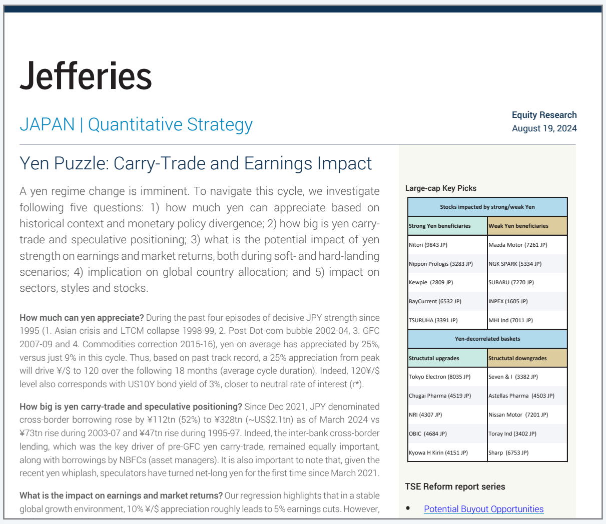
Vote for **Desh Peramunetilleke**

- Equity Strategy
- Quantitative Research

KEY REPORT

Japan Quantitative Strategy | Yen Puzzle: Carry-Trade and Earnings Impact

19 August 2024



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JAPAN | Quantitative Strategy

Equity Research
August 19, 2024

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TSE Reform report series

- Potential Buyout Opportunities

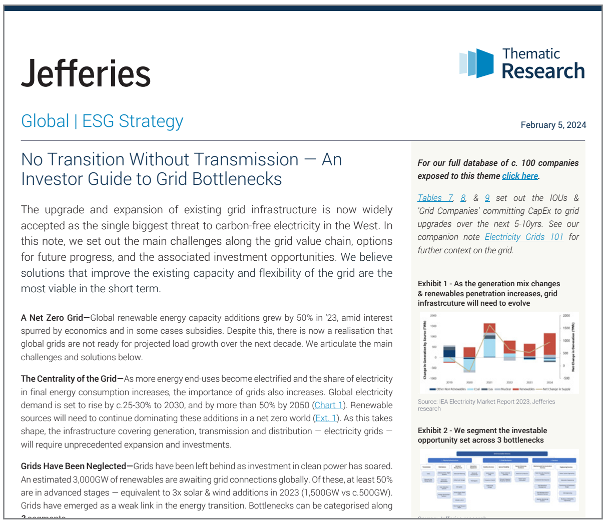
Vote for **Aniket Shah**

- ESG Strategy

KEY REPORT

Global | ESG Strategy | No Transition Without Transmission — An Investor Guide to Grid Bottlenecks

5 February 2024



Jefferies

Thematic Research

Global | ESG Strategy

February 5, 2024

No Transition Without Transmission — An Investor Guide to Grid Bottlenecks

The upgrade and expansion of existing grid infrastructure is now widely accepted as the single biggest threat to carbon-free electricity in the West. In this note, we set out the main challenges along the grid value chain, options for future progress, and the associated investment opportunities. We believe solutions that improve the existing capacity and flexibility of the grid are the most viable in the short term.

A Net Zero Grid—Global renewable energy capacity additions grew by 50% in '23, amid interest spurred by economics and in some cases subsidies. Despite this, there is now a realisation that global grids are not ready for projected load growth over the next decade. We articulate the main challenges and solutions below.

The Centrality of the Grid—As more energy end-uses become electrified and the share of electricity in final energy consumption increases, the importance of grids also increases. Global electricity demand is set to rise by c.25-30% to 2030, and by more than 50% by 2050 (Chart 1). Renewable sources will need to continue dominating these additions in a net zero world (Ext. 1). As this takes shape, the infrastructure covering generation, transmission and distribution — electricity grids — will require unprecedented expansion and investments.

Grids Have Been Neglected—Grids have been left behind as investment in clean power has soared. An estimated 3,000GW of renewables are awaiting grid connections globally. Of these, at least 50% are in advanced stages — equivalent to 3x solar & wind additions in 2023 (1,500GW vs c.500GW). Grids have emerged as a weak link in the energy transition. Bottlenecks can be categorised along

For our full database of c. 100 companies exposed to this theme click here.

Tables 7, 8, & 9 set out the IOUs & 'Grid Companies' committing CapEx to grid upgrades over the next 5-10yrs. See our companion note Electricity Grids 101 for further context on the grid.

Exhibit 1 - As the generation mix changes & renewables penetration increases, grid infrastrcuture will need to evolve

Source: IEA Electricity Market Report 2023, Jefferies research

Exhibit 2 - We segment the investable opportunity set across 3 bottlenecks

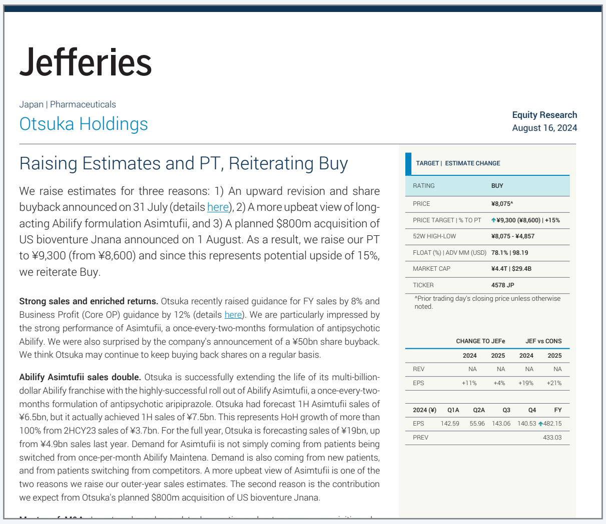
Vote for **Stephen Barker**

- Biotechnology & Pharmaceuticals

KEY REPORT

Japan | Pharmaceuticals | Otsuka Holdings Raising Estimates and PT, Reiterating Buy

16 August 2024



Jefferies

Japan | Pharmaceuticals

Otsuka Holdings

Equity Research
August 16, 2024

Raising Estimates and PT, Reiterating Buy

We raise estimates for three reasons: 1) An upward revision and share buyback announced on 31 July (details here), 2) A more upbeat view of long-acting Abilify formulation Asimtufii, and 3) A planned $800m acquisition of US bioventure Jnana announced on 1 August. As a result, we raise our PT to ¥9,300 (from ¥8,600) and since this represents potential upside of 15%, we reiterate Buy.

Strong sales and enriched returns. Otsuka recently raised guidance for FY sales by 8% and Business Profit (Core OP) guidance by 12% (details here). We are particularly impressed by the strong performance of Asimtufii, a once-every-two-months formulation of antipsychotic Abilify. We were also surprised by the company's announcement of a ¥50bn share buyback. We think Otsuka may continue to keep buying back shares on a regular basis.

Abilify Asimtufii sales double. Otsuka is successfully extending the life of its multi-billion-dollar Abilify franchise with the highly-successful roll out of Abilify Asimtufii, a once-every-two-months formulation of antipsychotic aripiprazole. Otsuka had forecast 1H Asimtufii sales of ¥6.5bn, but it actually achieved 1H sales of ¥7.5bn. This represents HoH growth of more than 100% from 2HCY23 sales of ¥3.7bn. For the full year, Otsuka is forecasting sales of ¥19bn, up from ¥4.9bn sales last year. Demand for Asimtufii is not simply coming from patients being switched from once-per-month Abilify Maintena. Demand is also coming from new patients, and from patients switching from competitors. A more upbeat view of Asimtufii is one of the two reasons we raise our outer-year sales estimates. The second reason is the contribution we expect from Otsuka's planned $800m acquisition of US bioventure Jnana.

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	¥8,075^
PRICE TARGET | % TO PT	¥9,300 (¥8,600) | +15%
52W HIGH-LOW	¥8,075 - ¥4,857
FLOAT (%) | ADV MM (USD)	78.1% | 98.19
MARKET CAP	¥4.4T | $29.4B
TICKER	4578 JP

^Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEFe		JEF vs CONS	
	2024	2025	2024	2025
REV	NA	NA	NA	NA
EPS	+11%	+4%	+19%	+21%

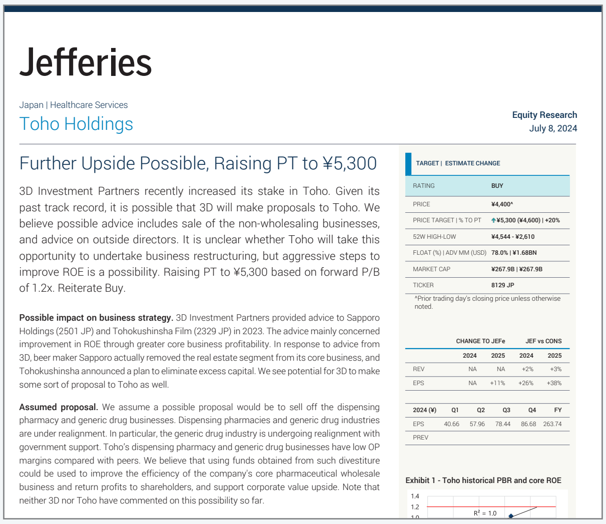
2024 (¥)	Q1A	Q2A	Q3	Q4	FY
EPS	142.59	55.96	143.06	140.53	482.15
PREV					433.03

Vote for **Miyabi Yamakita**

– Biotechnology & Pharmaceuticals

KEY REPORT

Japan | Healthcare Services | Toho Holdings
Further Upside Possible, Raising PT to ¥5,300
8 July 2024



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Japan | Healthcare Services
Toho Holdings

Equity Research
July 8, 2024

Further Upside Possible, Raising PT to ¥5,300

3D Investment Partners recently increased its stake in Toho. Given its past track record, it is possible that 3D will make proposals to Toho. We believe possible advice includes sale of the non-wholesaling businesses, and advice on outside directors. It is unclear whether Toho will take this opportunity to undertake business restructuring, but aggressive steps to improve ROE is a possibility. Raising PT to ¥5,300 based on forward P/B of 1.2x. Reiterate Buy.

Possible impact on business strategy. 3D Investment Partners provided advice to Sapporo Holdings (2501 JP) and Tohokushinsha Film (2329 JP) in 2023. The advice mainly concerned improvement in ROE through greater core business profitability. In response to advice from 3D, beer maker Sapporo actually removed the real estate segment from its core business, and Tohokushinsha announced a plan to eliminate excess capital. We see potential for 3D to make some sort of proposal to Toho as well.

Assumed proposal. We assume a possible proposal would be to sell off the dispensing pharmacy and generic drug businesses. Dispensing pharmacies and generic drug industries are under realignment. In particular, the generic drug industry is undergoing realignment with government support. Toho's dispensing pharmacy and generic drug businesses have low OP margins compared with peers. We believe that using funds obtained from such divestiture could be used to improve the efficiency of the company's core pharmaceutical wholesale business and return profits to shareholders, and support corporate value upside. Note that neither 3D nor Toho have commented on this possibility so far.

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	¥4,400^
PRICE TARGET | % TO PT	¥5,300 (¥4,600) | +20%
52W HIGH-LOW	¥4,544 - ¥2,610
FLOAT (%) | ADV MM (USD)	78.0% | ¥1.68BN
MARKET CAP	¥267.9B | ¥267.9B
TICKER	8129 JP

^Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEFe		JEF vs CONS	
	2024	2025	2024	2025
REV	NA	NA	+2%	+3%
EPS	NA	+11%	+26%	+38%

2024 (¥)	Q1	Q2	Q3	Q4	FY
EPS	40.66	57.96	78.44	86.68	263.74
PREV					

Exhibit 1 - Toho historical PBR and core ROE

Vote for **Hisae Kawamoto**

– Cosmetics & Personal Care

KEY REPORT

Japan | Cosmetics, Household & Personal Care
Japan Demand Robust, While Valuation Uncertainty Remains
27 June 2024

Jefferies

Japan | Cosmetics, Household & Personal Care

Equity Research
June 27, 2024

Japan Demand Robust, While Valuation Uncertainty Remains

We initiate coverage on 11 stocks in the cosmetics and toiletries sector. Investment themes for FY24 are 1) robust consumption by younger consumers and changing consumption patterns, 2) the sustainability of daily goods prices and volumes, and 3) slow recovery in the China and Korea duty-free channels. We think younger consumers are driving demand in Japan, and we prefer Unicharm and Rohto Pharmaceutical, with core business in priority-spending categories.

What's new and how we differ: We initiate coverage with Underperform ratings on Shiseido, Pola Orbis, Kobayashi Pharmaceutical, and Pigeon, mainly due to 1) over-optimistic consensus expectations for FY25 profits; 2) structural market disadvantages, and 3) possible vulnerabilities from high inverse correlation with interest rates. We rate Kao a Hold, as we think the current share price pricing in the good factors—the pricing contribution from hygiene & living care.

Robust consumption by younger demographic: Despite a ramp-up in price hikes for daily goods from 2Q FY22, a review of CPI and household survey data for FY22–24 finds items split between (1) robust spending and (2) curtailed spending. The MHLW's Basic Survey on Wage Structure also indicates larger wage increases for younger people than for other age groups. Given these trends, we expect companies with high shares in robust-spending categories to successfully gain consumer share, and we also anticipate a continued rise in Japan profit margins in FY24–25.

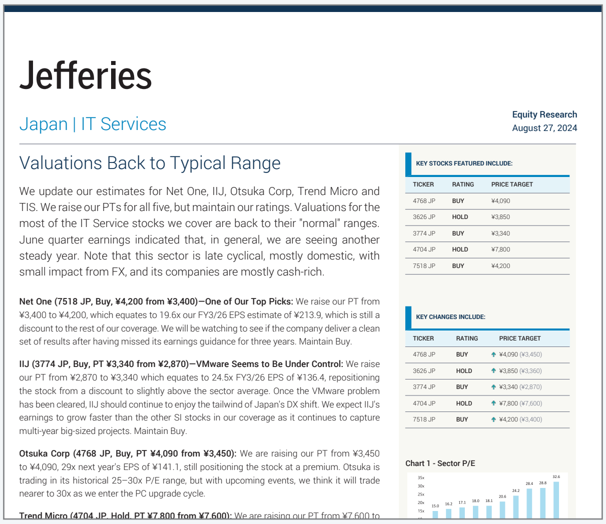
Vote for **Hiroko Sato**

– Gaming & Internet
– IT & Software

KEY REPORT

Japan | IT Services | Valuations Back to Typical Range

27 August 2024



Jefferies

Japan | IT Services

Equity Research
August 27, 2024

Valuations Back to Typical Range

We update our estimates for Net One, IIJ, Otsuka Corp, Trend Micro and TIS. We raise our PTs for all five, but maintain our ratings. Valuations for the most of the IT Service stocks we cover are back to their "normal" ranges. June quarter earnings indicated that, in general, we are seeing another steady year. Note that this sector is late cyclical, mostly domestic, with small impact from FX, and its companies are mostly cash-rich.

Net One (7518 JP, Buy, ¥4,200 from ¥3,400)—One of Our Top Picks: We raise our PT from ¥3,400 to ¥4,200, which equates to 19.6x our FY3/26 EPS estimate of ¥213.9, which is still a discount to the rest of our coverage. We will be watching to see if the company deliver a clean set of results after having missed its earnings guidance for three years. Maintain Buy.

IIJ (3774 JP, Buy, PT ¥3,340 from ¥2,870)—VMware Seems to Be Under Control: We raise our PT from ¥2,870 to ¥3,340 which equates to 24.5x FY3/26 EPS of ¥136.4, repositioning the stock from a discount to slightly above the sector average. Once the VMware problem has been cleared, IIJ should continue to enjoy the tailwind of Japan's DX shift. We expect IIJ's earnings to grow faster than the other SI stocks in our coverage as it continues to capture multi-year big-sized projects. Maintain Buy.

Otsuka Corp (4768 JP, Buy, PT ¥4,090 from ¥3,450): We are raising our PT from ¥3,450 to ¥4,090, 29x next year's EPS of ¥141.1, still positioning the stock at a premium. Otsuka is trading in its historical 25–30x P/E range, but with upcoming events, we think it will trade nearer to 30x as we enter the PC upgrade cycle.

Trend Micro (4704 JP, Hold, PT ¥7,800 from ¥7,600): We are raising our PT from ¥7,600 to

KEY STOCKS FEATURED INCLUDE:

TICKER	RATING	PRICE TARGET
4768 JP	BUY	¥4,090
3626 JP	HOLD	¥3,850
3774 JP	BUY	¥3,340
4704 JP	HOLD	¥7,800
7518 JP	BUY	¥4,200

KEY CHANGES INCLUDE:

TICKER	RATING	PRICE TARGET
4768 JP	BUY	¥4,090 (¥3,450)
3626 JP	HOLD	¥3,850 (¥3,360)
3774 JP	BUY	¥3,340 (¥2,870)
4704 JP	HOLD	¥7,800 (¥7,600)
7518 JP	BUY	¥4,200 (¥3,400)

Chart 1 - Sector P/E

Vote for **Ken Oiwa**

- Gaming & Internet
- IT & Software

KEY REPORT

Japan | Business & Employment Services | Staffing Services Sector — Rising from Bottom of Cycle

29 May 2024

Jefferies

Franchise Report

Japan | Business & Employment Svcs

Equity Research
May 29, 2024

Staffing Services Sector — Rising from Bottom of Cycle?

We outline our slightly bullish stance on the staffing sector, as it recovers from the bottom of the cycle. We believe the next stage will be marked by wage growth after cost-push-led inflation, which is running at c.3%. With the weak yen causing import price inflation and hurting workers' wages, we believe that workers and the government will demand higher wages from corporations. This is particularly relevant for DIP, with its Baitoru website platform.

Our top pick is DIP (2379 JP, Buy). The rationale is that minimum wages of part-time workers are rising, especially as the government is targeting wage-growth-led inflation and part-time workers should benefit from minimum wage increases. Baitoru website is one of the top arubaito (temporary part-time workers—often students—who account for around a third of Japan's workforce) websites in Japan (together with Recruit's Townwork), and we expect a pick-up in this space. Next on our list is **Recruit** (6098 JP, Buy) with its large US presence, although the US job market may be sluggish and the take rate of Indeed is only 1%, whereas it is well known that executive searches often cost around a third of the salary, so there are ways to grow margins after it has decided to expand the platform. In the traditional recruiting space in Japan, we prefer **Persol** (2181 JP, Buy).

Arubaito to the rescue?: *Arubaito* may benefit from wage rises. This segment of employment has been overlooked as the main focus of employment has been the male *salaryman*—full-time corporate employee. However, given the yen weakness and rising goods and services, many

Vote for **Atul Goyal**

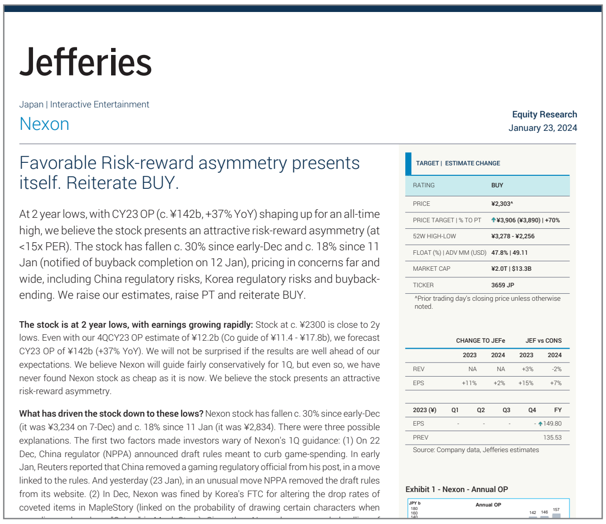
- Equity Strategy
- Gaming & Internet

KEY REPORT

Japan | Interactive Entertainment | Nexon

Favorable Risk-reward asymmetry presents itself. Reiterate BUY.

23 January 2024



Jefferies

Japan | Interactive Entertainment

Nexon

Equity Research
January 23, 2024

Favorable Risk-reward asymmetry presents itself. Reiterate BUY.

At 2 year lows, with CY23 OP (c. ¥142b, +37% YoY) shaping up for an all-time high, we believe the stock presents an attractive risk-reward asymmetry (at <15x PER). The stock has fallen c. 30% since early-Dec and c. 18% since 11 Jan (notified of buyback completion on 12 Jan), pricing in concerns far and wide, including China regulatory risks, Korea regulatory risks and buyback-ending. We raise our estimates, raise PT and reiterate BUY.

The stock is at 2 year lows, with earnings growing rapidly: Stock at c. ¥2300 is close to 2y lows. Even with our 4QCY23 OP estimate of ¥12.2b (Co guide of ¥11.4 - ¥17.8b), we forecast CY23 OP of ¥142b (+37% YoY). We will not be surprised if the results are well ahead of our expectations. We believe Nexon will guide fairly conservatively for 1Q, but even so, we have never found Nexon stock as cheap as it is now. We believe the stock presents an attractive risk-reward asymmetry.

What has driven the stock down to these lows? Nexon stock has fallen c. 30% since early-Dec (it was ¥3,234 on 7-Dec) and c. 18% since 11 Jan (it was ¥2,834). There were three possible explanations. The first two factors made investors wary of Nexon's 1Q guidance: (1) On 22 Dec, China regulator (NPPA) announced draft rules meant to curb game-spending. In early Jan, Reuters reported that China removed a gaming regulatory official from his post, in a move linked to the rules. And yesterday (23 Jan), in an unusual move NPPA removed the draft rules from its website. (2) In Dec, Nexon was fined by Korea's FTC for altering the drop rates of coveted items in MapleStory (linked on the probability of drawing certain characters when

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	¥2,303^
PRICE TARGET | % TO PT	¥3,906 (¥3,890) | +70%
52W HIGH-LOW	¥3,278 - ¥2,256
FLOAT (%) | ADV MM (USD)	47.8% | 49.11
MARKET CAP	¥2.0T | $13.3B
TICKER	3659 JP

^Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEFe		JEF vs CONS	
	2023	2024	2023	2024
REV	NA	NA	+3%	-2%
EPS	+11%	+2%	+15%	+7%

2023 (¥)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	149.80
PREV					135.53

Source: Company data, Jefferies estimates

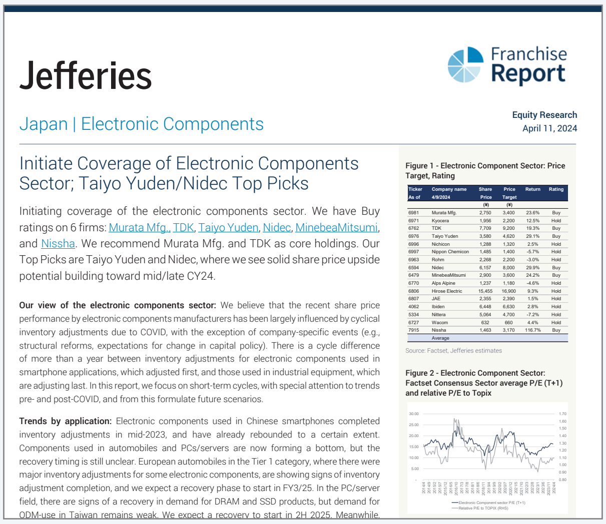
Exhibit 1 - Nexon - Annual OP

Vote for **Shunki Nakamura**

- Gaming & Internet

Vote for **Akinori Kanemoto**

– Electronics Components



Jefferies

Franchise Report

Japan | Electronic Components

Equity Research
April 11, 2024

Initiate Coverage of Electronic Components Sector; Taiyo Yuden/Nidec Top Picks

Initiating coverage of the electronic components sector. We have Buy ratings on 6 firms: Murata Mfg., TDK, Taiyo Yuden, Nidec, MinebeaMitsumi, and Nissha. We recommend Murata Mfg. and TDK as core holdings. Our Top Picks are Taiyo Yuden and Nidec, where we see solid share price upside potential building toward mid/late CY24.

Our view of the electronic components sector: We believe that the recent share price performance by electronic components manufacturers has been largely influenced by cyclical inventory adjustments due to COVID, with the exception of company-specific events (e.g., structural reforms, expectations for change in capital policy). There is a cycle difference of more than a year between inventory adjustments for electronic components used in smartphone applications, which adjusted first, and those used in industrial equipment, which are adjusting last. In this report, we focus on short-term cycles, with special attention to trends pre- and post-COVID, and from this formulate future scenarios.

Trends by application: Electronic components used in Chinese smartphones completed inventory adjustments in mid-2023, and have already rebounded to a certain extent. Components used in automobiles and PCs/servers are now forming a bottom, but the recovery timing is still unclear. European automobiles in the Tier 1 category, where there were major inventory adjustments for some electronic components, are showing signs of inventory adjustment completion, and we expect a recovery phase to start in FY3/25. In the PC/server field, there are signs of a recovery in demand for DRAM and SSD products, but demand for ODM-use in Taiwan remains weak. We expect a recovery to start in 2H 2025. Meanwhile,

Figure 1 - Electronic Component Sector: Price Target, Rating

Ticker As of	Company name 4/9/2024	Share Price (¥)	Price Target (¥)	Return	Rating
6981	Murata Mfg.	2,750	3,400	23.6%	Buy
6971	Kyocera	1,956	2,200	12.5%	Hold
6762	TDK	7,709	9,200	19.3%	Buy
6976	Taiyo Yuden	3,580	4,620	29.1%	Buy
6996	Nichicon	1,288	1,320	2.5%	Hold
6997	Nippon Chemicon	1,485	1,400	-5.7%	Hold
6963	Rohm	2,268	2,200	-3.0%	Hold
6594	Nidec	6,157	8,000	29.9%	Buy
6479	MinebeaMitsumi	2,900	3,600	24.2%	Buy
6770	Alps Alpine	1,237	1,180	-4.6%	Hold
6806	Hirose Electric	15,455	16,900	9.3%	Hold
6807	JAE	2,355	2,390	1.5%	Hold
4062	Ibiden	6,448	6,630	2.8%	Hold
5334	Nittera	5,064	4,700	-7.2%	Hold
6727	Wacom	632	660	4.4%	Hold
7915	Nissha	1,463	3,170	116.7%	Buy
	Average				

Source: Factset, Jefferies estimates

Figure 2 - Electronic Component Sector: Factset Consensus Sector average P/E (T+1) and relative P/E to Topix

KEY REPORT

Japan | Electronic Components | Initiate Coverage of Electronic Components Sector; Taiyo Yuden/Nidec Top Picks

11 April 2024

Vote for **Sayaka Shimonishi**

– Electronics Components

Vote for **Masahiro Nakanomyo**

– Electronics Industrial
– Electronics Precision Instruments

Jefferies

Global Vantage

Japan | Technology

Equity Research
September 20, 2024

Deep Dive into Semi Advanced Packaging-Hybrid Bonding

Semiconductor back-end processes have attracted substantial attention since last year amid the emergence of generative AI, and markets are expanding for HBM and CoWoS that support generative AI. We expect full-fledged pickup of hybrid bonding with BS-PDN and 3D NAND bonding processes in 2025 as part of the launch of volume production, and we think the industry is entering back-end and front-end process integration. Our top picks are Disco and Tokyo Electron.

BS-PDN: Hybrid bonding started with use in volume production of image sensors with back-side illumination, and it now is arriving at the phase of application in volume production of the logic interconnection process too. Imec, which is Belgium's research entity for industrial, academic, and government collaboration, has been conducting R&D on BS-PDN (back-side power delivery networks) as a game-changing technology.

Noise created by power wiring 1) severely weakens the signal integrity of signal wiring in traditional multilayering of the semiconductor interconnection process, 2) makes wiring more complex, 3) reduces yield, and 4) increases costs. As pitch size between wiring shrinks in advanced nodes, the negative impact generated by such noise is likely to be more severe. BS-PDN, meanwhile, forms circuits that supply a power source on the back side of the device by implementing wafer bonding, a back-end process technology. That way, it eliminates the noise crosstalk between signal and power wiring. BS-PDN should reduce the wiring complexity, increase yield, and reduce costs for IC designers. Therefore, the semiconductor industry believes it will be widely adopted for advanced node designs beyond 2nm.

KEY REPORT

Japan | Technology | Deep Dive into Semi Advanced Packaging Hybrid Bonding

20 September 2024

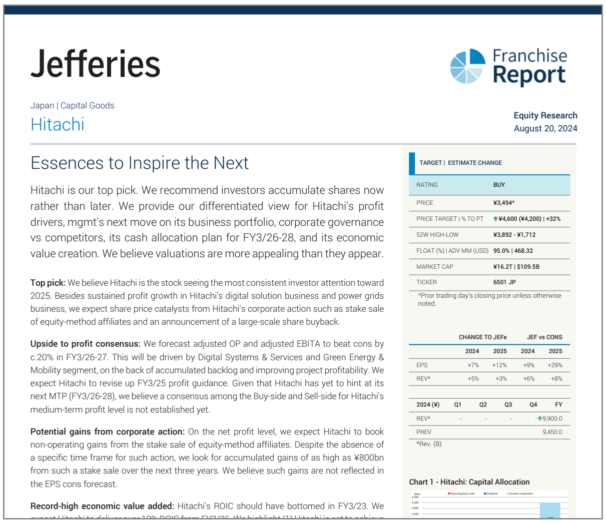
Vote for **Hisako Furusumi**

- Electronics Industrial
- Electronics Precision Instruments

Vote for **Sho Fukuhara**

- Electronics Industrial
- Machinery

KEY REPORT
Japan | Capital Goods | Hitachi
Essences to Inspire the Next
20 August 2024



Jefferies

Franchise Report

Japan | Capital Goods
Hitachi

Equity Research
August 20, 2024

Essences to Inspire the Next

Hitachi is our top pick. We recommend investors accumulate shares now rather than later. We provide our differentiated view for Hitachi's profit drivers, mgmt's next move on its business portfolio, corporate governance vs competitors, its cash allocation plan for FY3/26-28, and its economic value creation. We believe valuations are more appealing than they appear.

Top pick: We believe Hitachi is the stock seeing the most consistent investor attention toward 2025. Besides sustained profit growth in Hitachi's digital solution business and power grids business, we expect share price catalysts from Hitachi's corporate action such as stake sale of equity-method affiliates and an announcement of a large-scale share buyback.

Upside to profit consensus: We forecast adjusted OP and adjusted EBITA to beat cons by c.20% in FY3/26-27. This will be driven by Digital Systems & Services and Green Energy & Mobility segment, on the back of accumulated backlog and improving project profitability. We expect Hitachi to revise up FY3/25 profit guidance. Given that Hitachi has yet to hint at its next MTP (FY3/26-28), we believe a consensus among the Buy-side and Sell-side for Hitachi's medium-term profit level is not established yet.

Potential gains from corporate action: On the net profit level, we expect Hitachi to book non-operating gains from the stake sale of equity-method affiliates. Despite the absence of a specific time frame for such action, we look for accumulated gains of as high as ¥800bn from such a stake sale over the next three years. We believe such gains are not reflected in the EPS cons forecast.

Record-high economic value added: Hitachi's ROIC should have bottomed in FY3/23. We

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	¥3,494^
PRICE TARGET | % TO PT	↑¥4,600 (¥4,200) | +32%
52W HIGH-LOW	¥3,892 - ¥1,712
FLOAT (%) | ADV MM (USD)	95.0% | 468.32
MARKET CAP	¥16.2T | $109.5B
TICKER	6501 JP

^Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEFe		JEF vs CONS	
	2024	2025	2024	2025
EPS	+7%	+12%	+9%	+29%
REV*	+5%	+3%	+6%	+8%

2024 (¥)	Q1	Q2	Q3	Q4	FY
REV*	-	-	-	-	↑9,900.0
PREV					9,450.0

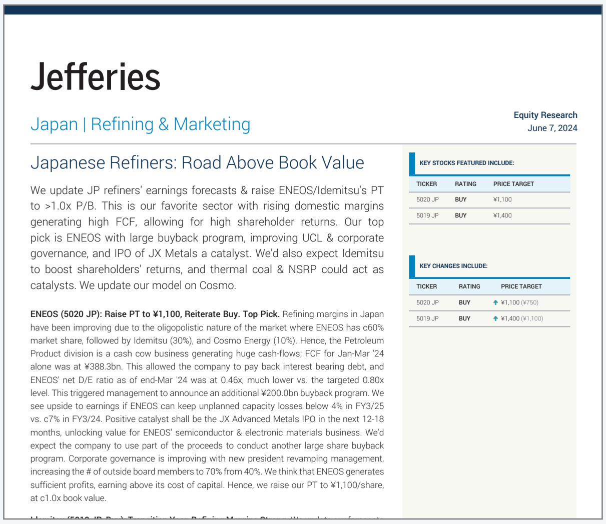
*Rev. (B)

Chart 1 - Hitachi: Capital Allocation

Vote for **Thanh Ha Pham**

- Energy & Utilities
- Metals

KEY REPORT
Japan | Refining & Marketing | Japanese Refiners: Road Above Book Value
7 June 2024



Jefferies

Japan | Refining & Marketing

Equity Research
June 7, 2024

Japanese Refiners: Road Above Book Value

We update JP refiners' earnings forecasts & raise ENEOS/Idemitsu's PT to >1.0x P/B. This is our favorite sector with rising domestic margins generating high FCF, allowing for high shareholder returns. Our top pick is ENEOS with large buyback program, improving UCL & corporate governance, and IPO of JX Metals a catalyst. We'd also expect Idemitsu to boost shareholders' returns, and thermal coal & NSRP could act as catalysts. We update our model on Cosmo.

ENEOS (5020 JP): Raise PT to ¥1,100, Reiterate Buy. Top Pick. Refining margins in Japan have been improving due to the oligopolistic nature of the market where ENEOS has c60% market share, followed by Idemitsu (30%), and Cosmo Energy (10%). Hence, the Petroleum Product division is a cash cow business generating huge cash-flows; FCF for Jan-Mar '24 alone was at ¥388.3bn. This allowed the company to pay back interest bearing debt, and ENEOS' net D/E ratio as of end-Mar '24 was at 0.46x, much lower vs. the targeted 0.80x level. This triggered management to announce an additional ¥200.0bn buyback program. We see upside to earnings if ENEOS can keep unplanned capacity losses below 4% in FY3/25 vs. c7% in FY3/24. Positive catalyst shall be the JX Advanced Metals IPO in the next 12-18 months, unlocking value for ENEOS' semiconductor & electronic materials business. We'd expect the company to use part of the proceeds to conduct another large share buyback program. Corporate governance is improving with new president revamping management, increasing the # of outside board members to 70% from 40%. We think that ENEOS generates sufficient profits, earning above its cost of capital. Hence, we raise our PT to ¥1,100/share, at c1.0x book value.

KEY STOCKS FEATURED INCLUDE:

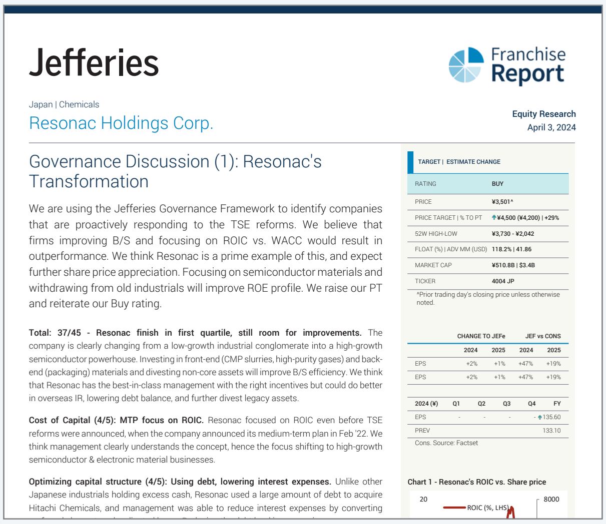
TICKER	RATING	PRICE TARGET
5020 JP	BUY	¥1,100
5019 JP	BUY	¥1,400

KEY CHANGES INCLUDE:

TICKER	RATING	PRICE TARGET
5020 JP	BUY	↑ ¥1,100 (¥750)
5019 JP	BUY	↑ ¥1,400 (¥1,100)

Vote for **Shun Igarashi**

- Energy & Utilities
- Metals

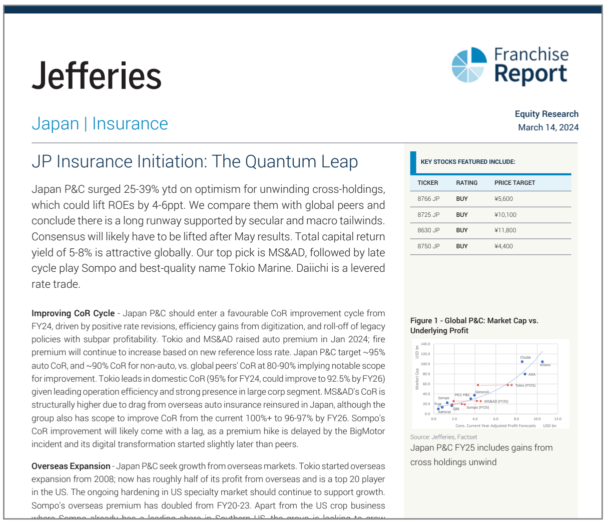


KEY REPORT

Japan | Chemicals | Resonac Holdings Corp.
Governance Discussion (1): Resonac's Transformation
3 April 2024

Vote for **Sam Wong**

- Insurance



KEY REPORT

Japan | Insurance | JP Insurance Initiation: The Quantum Leap
14 March 2024

Vote for **Takashi Yanahira**

- Retailing

KEY REPORT

Japan | Retailers | Initiating Coverage on Japan's Retail Sector
15 August 2024

Vote for **Shunsuke Kuriyama**

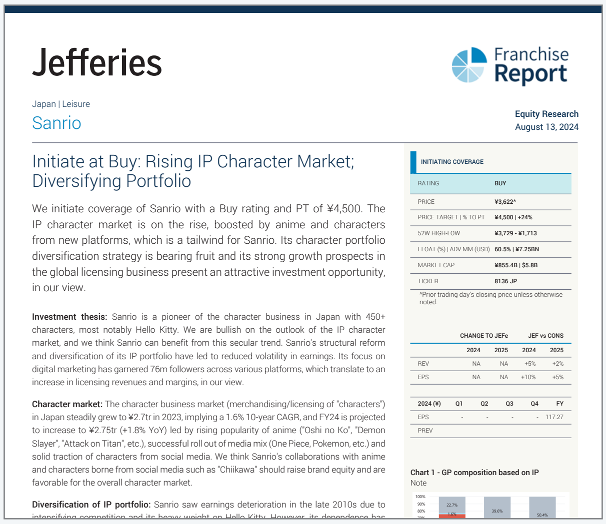
— Retailing

KEY REPORT

Japan | Leisure | Sanrio

Initiate at Buy: Rising IP Character Market; Diversifying Portfolio

13 August 2024



Jefferies

Franchise Report

Japan | Leisure

Sanrio

Equity Research
August 13, 2024

Initiate at Buy: Rising IP Character Market; Diversifying Portfolio

We initiate coverage of Sanrio with a Buy rating and PT of ¥4,500. The IP character market is on the rise, boosted by anime and characters from new platforms, which is a tailwind for Sanrio. Its character portfolio diversification strategy is bearing fruit and its strong growth prospects in the global licensing business present an attractive investment opportunity, in our view.

Investment thesis: Sanrio is a pioneer of the character business in Japan with 450+ characters, most notably Hello Kitty. We are bullish on the outlook of the IP character market, and we think Sanrio can benefit from this secular trend. Sanrio's structural reform and diversification of its IP portfolio have led to reduced volatility in earnings. Its focus on digital marketing has garnered 76m followers across various platforms, which translate to an increase in licensing revenues and margins, in our view.

Character market: The character business market (merchandising/licensing of "characters") in Japan steadily grew to ¥2.7tr in 2023, implying a 1.6% 10-year CAGR, and FY24 is projected to increase to ¥2.75tr (+1.8% YoY) led by rising popularity of anime ("Oshi no Ko", "Demon Slayer", "Attack on Titan", etc.), successful roll out of media mix (One Piece, Pokemon, etc.) and solid traction of characters from social media. We think Sanrio's collaborations with anime and characters borne from social media such as "Chiikawa" should raise brand equity and are favorable for the overall character market.

Diversification of IP portfolio: Sanrio saw earnings deterioration in the late 2010s due to

INITIATING COVERAGE

RATING	BUY
PRICE	¥3,622^
PRICE TARGET | % TO PT	¥4,500 | +24%
52W HIGH-LOW	¥3,729 - ¥1,713
FLOAT (%) | ADV MM (USD)	60.5% | ¥7.25BN
MARKET CAP	¥855.4B | $5.8B
TICKER	8136 JP

^Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEFe		JEF vs CONS	
	2024	2025	2024	2025
REV	NA	NA	+5%	+2%
EPS	NA	NA	+10%	+5%

2024 (¥)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	117.27
PREV					

Chart 1 - GP composition based on IP

Note

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