

Monthly Investment Strategy—January 2017

Japan sees start of bull run, focus on Trumponomics and “America first” policy approach

- Japan stocks seeing better environment with rising US interest rates, stronger dollar; major turning point in US policies approaching
- Forecast Nikkei Stock Average of 21,000-21,500 at end-2017 assuming Y115/\$, around 22,500 based on Y120/\$
- Added Mitsubishi UFJ Financial Group, Orix, Dai-ichi Life Holdings to favorite stock list

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Investment conditions: With aggressive economic measures and a so-called “America first” policy approach expected under the Trump administration, focus in 2017 will be on what path the US economy will trace, especially whether the “new normal” since the 2007-08 financial crisis will be maintained or the economy will return to its previous norm.

As for exchange rates, which are important for Japanese stocks, US long-term interest rates warrant attention. If the 10-year Treasury yield rises to 3%, we think the yen will depreciate to Y120-125/\$. In this case, expectations for the Bank of Japan (BOJ) to change its monetary policy framework would probably emerge. We forecast Japanese corporate earnings will recover sharply from 2H FY16 and significant upgrades to consensus earnings estimates are likely, due in part to yen depreciation. With free cash flow to equity expanding rapidly, shareholder payout capacity should increase.

Outlook for Japanese stocks: Against the backdrop of interest rates starting to increase worldwide in July 2016 and US long-term interest rates and the dollar rising since Mr. Trump’s victory in the presidential election, global investors have been shifting funds from bonds to equities and taking a more positive stance toward Japanese stocks. We think funds will flow into the Japanese stock market. Assuming Y115/\$, we forecast TOPIX EPS of 94 for FY16, 108 for FY17, and 120 for FY18. Based on this, we expect the Nikkei Stock Average to reach 21,000-21,500 by end-2017. If the yen weakens to Y120/\$, we forecast the index to be around 22,500.

Sector opinion and stock selection: Our investment stance remains unchanged for all sectors. We are Overweight on machinery, electric appliances, precision instruments, information & communications, and services. We are Underweight on mining, oil & coal products, iron & steel, nonferrous metals, and electric power & gas. We have added Mitsubishi UFJ Financial Group (8306), Orix (8591), and Dai-ichi Life Holdings (8750) to our list of favorite stocks and removed Gurunavi (2440), Nichirei (2871), and Obic (4684).

Events in Jan-Mar: Prime Minister Abe will visit Hawaii on 26-27 December. Japan will release Oct-Dec real GDP (preliminary) on 13 February. The BOJ policy board will meet on 19-20 December, 30-31 January, and 15-16 March. The US will see the presidential inauguration on 20 January and release Oct-Dec GDP the 27th. The FOMC will meet 31 January-1 February. China will release Oct-Dec GDP and other data 17-20 January. An EU summit will be held 9-10 March.

1. Japan stock strategy

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1.1 Rising US interest rates, stronger dollar mean better environment for Japan stocks

Trump inauguration to herald Trumponomics, “America first” policy approach

Major shift away from Obama domestic, foreign policy

US president-elect Donald Trump has made it clear that he will (1) pursue aggressive economic initiatives such as major infrastructure spending, sharp tax cuts, and deregulation, and (2) prioritize US interests in setting policy on business, employment, national security, and other issues. It looks likely that his inauguration on 20 January 2017 will signal a sea change from the domestic and foreign policy of the outgoing Obama administration (20 Jan 2009-20 Jan 2017).

The administration of President Barack Obama was born just as the global financial crisis was growing acute in the wake of the September 2008 Lehman Brothers collapse. Mr. Obama’s battle was with the worst financial crisis since World War II and the so-called “new normal” that followed it, a period of global economic doldrums characterized by low growth, low inflation, ultra-low interest rates, and unfavorable demographic changes (aging society). One after another, major central banks such as the US Fed, the European Central Bank (ECB), and the Bank of Japan (BOJ) undertook non-traditional monetary policies such as quantitative easing, with the ECB and BOJ going so far as to adopt negative interest rates. Meanwhile on the political front, Mr. Obama’s tenure witnessed worldwide growth of anti-globalization sentiment (resistance to immigration/refugees, dissatisfaction with wealth gap).

Trump administration seeks return to pre-crisis norm

Against this backdrop, the incoming Trump administration is seen as working toward a return to conditions seen prior to the 2007-08 financial crisis. The aggressive economic initiatives dubbed Trumponomics suggest a shift away from active monetary policy including quantitative easing and toward increased government spending.

Focus in 2017 will be on what path the US economy (and then the global economy) traces under Trumponomics and a so-called “America first” policy approach. The main question will be whether the “new normal” (global problems of low growth, low inflation, ultra-low interest rates, unfavorable demographic changes) seen since the financial crisis will be maintained, or whether the global economy can return to the norm seen prior to the crisis amid a fundamental shift from quantitative easing to aggressive fiscal policies. The rise in US long-term interest rates and appreciation of the dollar seen since Mr. Trump’s victory in the 8 November election suggest that the market is already assuming the economy will take the latter course under his watch, bouncing back to pre-crisis conditions. It will be important to monitor whether these trends continue, or if they are brought to a halt as, for example, the higher nominal and real interest rates and dollar strength brought on by expansionary fiscal policy could end up acting as drags on the US economy over a longer-term horizon.

The first one hundred days of Mr. Trump’s presidency should be informative as to the framework and direction of his domestic and foreign policy, along with the sort of relationship he will forge with Congress. Right now, US (and global) bond, equity, and currency markets are busily factoring in expectations for what might happen under the Trump administration, but that should end from around April or May as visibility on actual policy clarifies. The direction of the Fed’s monetary policy should also come into view around that time.

US long-term interest rates key to direction of Japan stocks

Two keys to the direction of the Japanese stock market are the US economy (with its major impact on the global economy) and the yen-dollar rate. As such, it is critical to focus on which way US long-term interest rates are going, as they have a meaningful impact on both the US economy and foreign exchange rates. We believe a rise in the 10-year US Treasury

yield to 3% would spur the dollar up to Y120-125. Note that at its 20-21 September policy board meeting, the BOJ introduced a new monetary policy framework dubbed “quantitative and qualitative monetary easing with yield curve control,” featuring a 10-year JGB yield target of 0% (as well as targets for ultra-long-term rates) and a commitment to overshoot its 2% inflation target. However, if dollar appreciation vs. the yen continues under the above-mentioned trends, thus strengthening prospects for an exit from deflation, then speculation could arise in the market that the central bank might alter its course (e.g. shrinking scale of ETF purchases from Y6tn/year; shrinking scale of JGB purchases from Y80tn/year; stepping back from negative [-0.1%] interest rate on some current account balances). Should such speculation grow widespread, the Japanese (ultra-) long-term interest rates the BOJ has worked to hold down may nonetheless start to rise, and that would likely work against the dollar’s climb vs. the yen. On the other hand, a rise in Japanese long-term rates would be a boon for the shares of banks and other financials, as it would widen the spread between long- and short-term rates. As such, it seems clear that US long-term interest rates have a meaningful impact on the direction of the Japanese equity market as well as stock market leadership.

US monetary policy: 2017 rate hike tempo might be faster than expected

At the meeting held 13-14 December, the FOMC decided to raise interest rates by 25bp as expected. With respect to the US economic outlook, FOMC members’ real GDP growth projection for FY17 was raised from 2.0% at the September meeting to 2.1% and the unemployment rate projection lowered from 4.6% to 4.5% (Chart 1.1). Further, their FF rate projections were raised to 1.375% (from 1.125%) for end-2017, 2.125% (1.875%) for end-2018, and 2.875% (2.625%) for end-2019, and their longer-run figure was also lifted to 3.000% from 2.875% (Chart 1.2). Assuming each rate hike will be 25bp, FOMC members now expect three hikes in 2017 (vs. two as of Sep), and the same number in 2018 (three) and also 2019 (three).

FOMC projects three hikes for 2017 instead of previous forecast of two

Shift from quantitative easing to fiscal stimulus under Trump administration

FOMC members’ FF rate projections had continued to decline through September. At the latest meeting, however, their projections were raised, albeit slightly. Given the surge in FF futures following the presidential election, Donald Trump’s victory in the election was likely a major turning point. When the new administration begins to take economic stimulus measures, including an expansionary fiscal policy, we think investors will be increasingly conscious of a shift from an aggressive monetary policy (quantitative easing) to an aggressive fiscal policy.

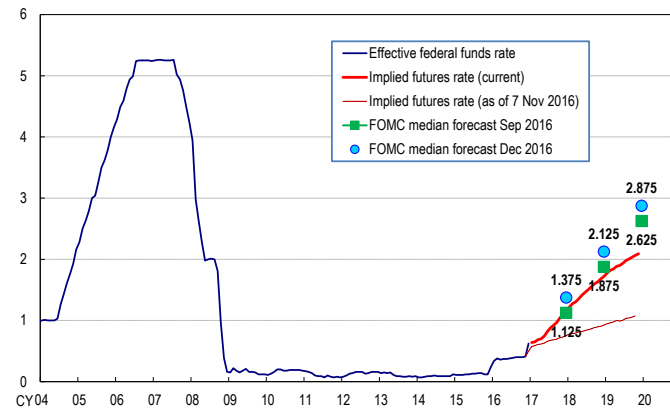
Chart 1.1: US Economic Projections by Federal Open Market Committee Members (14 Dec 16; median)

(y/y %)	4Q 2016	4Q 17	4Q 18	4Q 19	Longer run
Change in real GDP					
Dec projection	1.9	2.1	2.0	1.9	1.8
Sep projection	1.8	2.0	2.0	1.8	1.8
Unemployment rate (%)					
Dec projection	4.7	4.5	4.5	4.5	4.8
Sep projection	4.8	4.6	4.5	4.6	4.8
PCE inflation					
Dec projection	1.5	1.9	2.0	2.0	2.0
Sep projection	1.3	1.9	2.0	2.0	2.0
Core PCE inflation					
Dec projection	1.7	1.8	2.0	2.0	
Sep projection	1.7	1.8	2.0	2.0	
FF rate (%)					
Dec projection	0.6	1.4	2.1	2.9	3.0
Sep projection	0.6	1.1	1.9	2.6	2.9

Source: Fed materials; compiled by Daiwa.

Note: FF rate outlook figures are for year-end. PCE = Personal consumption expenditures.

Chart 1.2: US FF Rate and Outlook (%)



Source: Fed materials, Bloomberg; compiled by Daiwa.

The Fed will likely move to normalize its monetary policy, and the pace of interest rate hikes in 2017 might be faster than the currently projected three (25bp each). An acceleration in rate hike tempo (on back of growing demand driven by fiscal measures) would likely boost 10-year Treasury yields.

Rise in US expected real interest rate and direction of Y/\$ rate

Y/\$ rate correlated to US-Japan expected real interest rate differential

The yen-dollar rate, a key factor determining Japanese stock performance, has had a strong correlation over the past 10 years or so with the expected real interest rate differential between the US and Japan (US – Japan). The US nominal long-term interest rate (10-year Treasury yield) hit a bottom in early July, when investors became extremely risk averse just after the UK Brexit vote, and then entered an uptrend (Chart 1.3; advance of around 120bp since early Jul), becoming particularly sharp after the US presidential election. The US expected inflation rate has also increased in a similar way, but the rise in the nominal long-term interest rate (reflecting not only a rise in the expected inflation rate but also the risk-on mode, and fears of an expanding fiscal deficit) has been greater than that in the expected inflation rate. As a result, the expected real interest rate (nominal long-term interest rate – expected inflation rate) has increased around 75bp since early July (charts 1.4, 1.5).

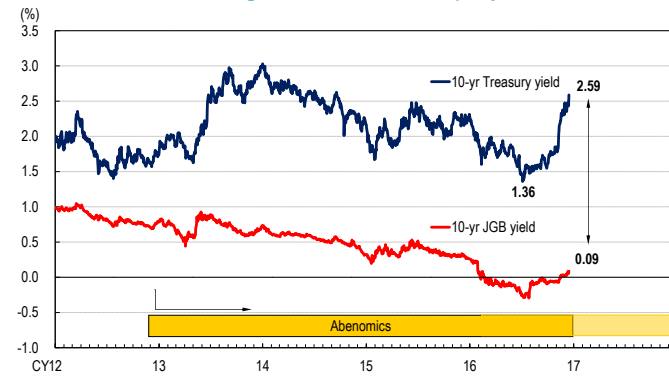
Meanwhile, although rising slightly most recently, the nominal long-term interest rate in Japan (10-year JGB yield) has been more or less flat (Chart 1.3) due to the BOJ’s new monetary policy framework (QQE with yield curve control). As a result, the gap between this and the 10-year Treasury yield has widened significantly. Through QQE with yield curve control, the BOJ has been inhibiting the yield curve from steepening.

While the nominal long-term interest rate has remained almost flat around 0%, the expected inflation rate has edged up in Japan, reflecting expectations regarding the direct and indirect effects of US economic measures under the Trump administration. As a result, the expected real interest rate has declined slightly (charts 1.4, 1.5).

Currency tends to move Y10/\$ when US-Japan expected real interest rate differential moves 50bp

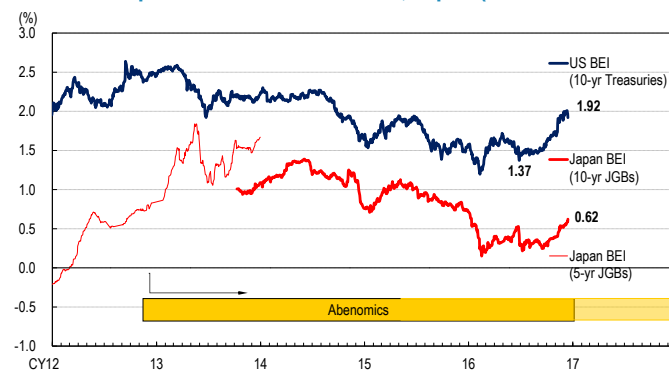
Consequently, the US-Japan expected real interest rate differential (US – Japan) has expanded by around 85bp since just after the Brexit vote (yen depreciated by around Y18/\$ during the period) and around 60bp since the 8 November Trump victory (around Y13/\$; Chart 1.6). The yen-dollar rate is generally correlated to the expected real interest rate differential, as mentioned earlier, and past data suggests that when the differential changes by 50bp, the exchange rate moves around Y10/\$.

Chart 1.3: Nominal Long-term Interest Rate (10-yr JGB, US Treasury yields)



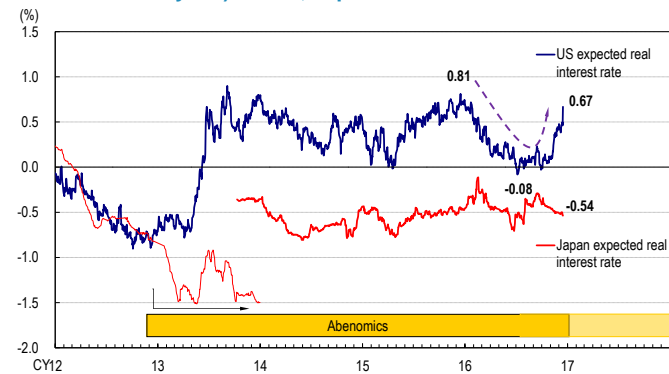
Source: Bloomberg; compiled by Daiwa.

Chart 1.4: Expected Inflation Rate in US, Japan (breakeven inflation rate)



Source: Bloomberg; compiled by Daiwa.

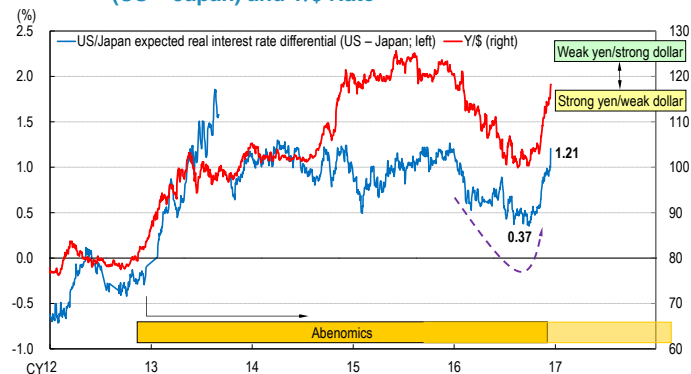
Chart 1.5: Expected Real Interest Rate (inflation-indexed 10-yr gov't bond yield) for US, Japan



Source: Bloomberg; compiled by Daiwa.

Note: For Japan, 5-yr JGBs used for 2012-2013.

Chart 1.6: US/Japan Expected Real Interest Rate Differential (US – Japan) and Y/\$ Rate



Source: Bloomberg; compiled by Daiwa.

Note: Same as for Chart 1.5.

Yen should weaken to Y120-125/\$ if 10-year Treasury yield rises to 3%

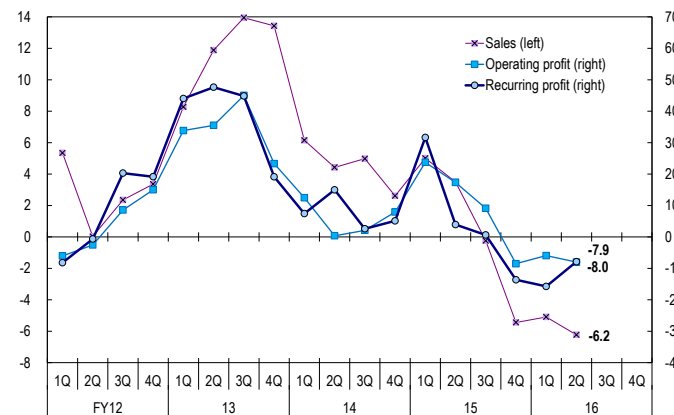
If the US expected real interest rate rises further on the back of a continuing increase in the nominal long-term interest rate (10-year Treasury yield) and if the nominal long-term interest rate in Japan (10-year JGB yield) remains around 0% as a result of successful yield curve control by the BOJ, the dollar would likely continue to strengthen against the yen. The currency market trend has likely changed significantly following the Trump victory. If the US Treasury yield increases to around 3% due to Trumponomics, we think the yen will weaken further to Y120-125/\$.

Earnings likely bottomed in 1H FY, to recover sharply from 2H

Corporate earnings to turn around; major upgrades to earnings estimates likely

We think 1H FY16 was the toughest period in recent years in terms of Japanese corporate earnings, with sales hard hit by a stronger yen. Aggregate sales, operating profit, and recurring profit of TSE1 firms (excl. financials, listed subsidiaries) were down 6.2%, 8.0%, and 7.9% y/y, respectively, in Jul-Sep (Chart 1.7).

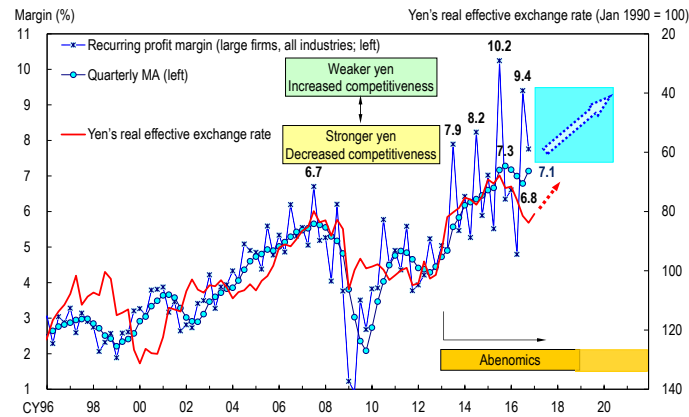
Chart 1.7: Sales, Op profit, Rec Profit Growth of TSE1 Firms (y/y %)



Source: QUICK; compiled by Daiwa.
 Note: TSE1 firms (excl. financials, listed subsidiaries). Includes firms whose quarterly books close during the respective quarters regardless of whether they close full-FY books in Mar, and for which y/y comparison is possible. Data through 15 Nov 2016.

However, Japanese firms have been improving profitability through measures such as production cost reductions. According to Financial Statements Statistics of Corporations by Industry (Ministry of Finance), the four-quarter moving average for the recurring profit margin of large firms in all industries turned up in Jul-Sep. Over the medium-to-long term, Japanese firms' margins are strongly correlated with the real effective exchange rate of the yen (proxy indicator for competitiveness of Japan's exports; Chart 1.8). The real effective exchange rate of the yen shows that the yen strengthened around 24% from Jul-Sep 2015 to Jul-Sep 2016. However, the slump in the recurring profit margin was less severe compared to previous phases of yen appreciation (four-quarter moving average narrowed from 7.3% in Jul-Sep 2015 to 6.8% in Apr-Jun 2016, recovered to 7.1% in Jul-Sep 2016). The yen has weakened vs. the dollar since Mr. Trump won the US presidential election. Strong expectations for Trumponomics (aggressive economic policies) look increasingly likely to lead to higher long-term interest rates in the US and a stronger dollar. From a somewhat longer term perspective, the yen looks set to continue to depreciate (on real effective basis), boosting the competitiveness of Japan's exports and widening margins.

Chart 1.8: Recurring Profit Margin of Japanese Firms (large firms, all industries), Yen's Real Effective Exchange Rate



Source: Bank of Japan, Ministry of Finance (MOF) ; compiled by Daiwa.
Note: Large firms defined as those having capital of at least ¥1bn; all industries excl. financials.

Analyst consensus estimates (Quick Consensus) currently call for TSE1 firms' aggregate sales to decline 3.1% and recurring profit to edge down 1.1% y/y in FY16. Sales and recurring profit are seen rising 3.3% and 10.7%, respectively, in FY17 (Chart 1.9). These estimates have been upgraded only slightly since October, when the yen was trading at ¥101-105/\$.

Although Japanese firms saw declines in sales and recurring profit in 1H FY16 under the impacts of a stronger yen, their profit should increase significantly once sales begin to grow as they now have leaner operations. If the exchange rate remains at the current level, the impact from yen appreciation will disappear from 2H FY16 (Chart 1.10). As such, we expect a clear recovery in earnings (sales, rec profit both turning up) from 2H FY16 and also major upgrades to consensus earnings estimates.

Sharp rise in FCF and FCFE to increase capacity for total shareholder payouts

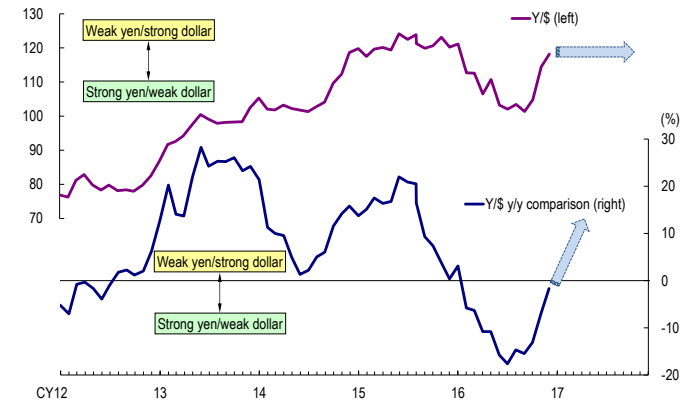
Furthermore, free cash flow at Japanese firms (large firms, all industries) has staged a sharp recovery since FY15, and free cash flow to equity has surged to a record high (Chart 1.11). Given this, we expect total shareholder payouts to increase another notch (Chart 1.12). With corporate culture starting to change and more emphasis being placed on capital efficiency and shareholders, we expect the attractiveness of Japanese firms to increase on the back of depreciation of the yen on a real effective basis, improving international competitiveness, greater efficiency/wider margins, earnings growth (upward revisions to estimated profit growth), and enhanced total shareholder payouts.

Chart 1.9: Earnings Estimates for TSE1 Companies (y/y %)

	Reported FY15	Company projections		QUICK consensus forecasts			
		16	Revision (pts)	16	Revision (pts)	17	Revision (pts)
Sales	0.6	-3.3	-2.3	-3.1	-2.3	3.3	0.4
Excl. financials	0.7	-3.3	-2.5	-3.1	-2.5	3.7	0.5
Excl. resources & wholesale, financials	2.4	-2.9	-2.2	-2.6	-2.1	3.5	0.4
Rec profit	-0.2	-4.5	-3.4	-1.1	-3.5	10.7	2.0
Excl. financials	1.9	-3.5	-4.1	-0.0	-4.0	12.6	2.5
Excl. resources & wholesale, financials	4.2	-7.7	-5.0	-4.3	-4.8	12.8	2.6
Net income	-2.5	4.2	-2.2	7.4	-3.1	11.4	1.6
Excl. financials	-3.2	5.9	-3.7	9.5	-4.5	14.5	2.9
Excl. resources & wholesale, financials	0.7	-1.7	-3.9	1.6	-4.8	14.7	3.0

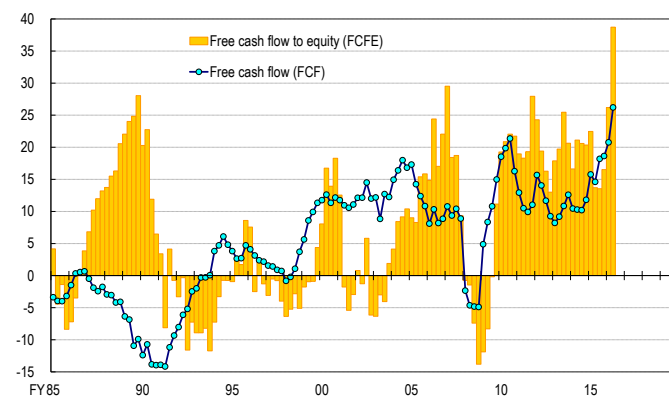
Source: Company materials, Toyo Keizai, QUICK; compiled by Daiwa.
Note: As of 15 Dec. Universe of 1,842 TSE1 companies (excl. listed subsidiaries), for which FY15 results released and FY16 estimates available. Figures adjusted to reflect mergers or transformation into holding company structure. Firms with irregular fiscal terms excluded. FY16 = fiscal years ended/ending in Apr 2016-Mar 2017. Revisions are comparison vs. QUICK Consensus estimates as of 30 Jun 2016.

Chart 1.10: Y/\$ Rate and Y/y Comparison



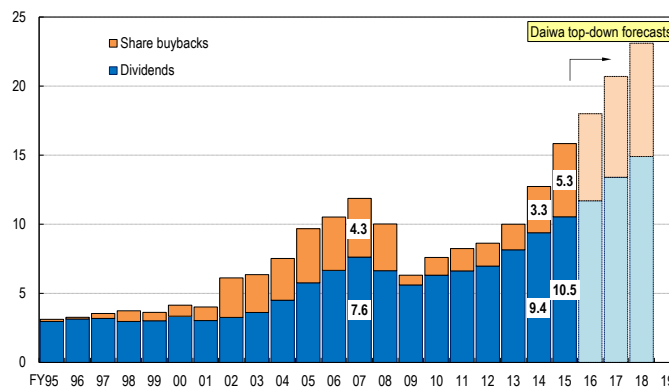
Source: Bloomberg; compiled by Daiwa.

Chart 1.11: FCF, FCFE at Large Firms, All Industries (Y tn)



Source: Financial Statement Statistics of Corporations by Industry (MOF); compiled by Daiwa.
 Note: Large firms as defined in Chart 1.2. FCF = operating profit x (1 - effective tax rate) + depreciation - increase in working capital - capex. FCFE = FCF - interest payment x (1 - effective tax rate) - debt principal repayment + newly raised debt.

Chart 1.12: Total Shareholder Payouts by Japanese Firms (Y tn)



Source: Toyo Keizai; compiled by Daiwa.
 Note: All publicly traded stocks.

1.2 Nikkei Stock Average forecast at 21,000 at end-Mar 2017 based on Y120/\$

Will global investors begin to channel funds into Japanese equity market?

Global investors shifted from equities to bonds toward mid-2016, Japan stocks underweighted

Many global investors (such as global investment funds) reduced their weightings of equities and increased those of bonds toward mid-2016 against the backdrop of declining interest rates worldwide and events (such as UK Brexit vote) that pointed to greater risks. In other words, their fund allocation shifted from equities to bonds. In particular, Japanese stocks were underweighted due to concerns over the negative impact of the stronger yen on earnings and also due to sluggish share price performance.

Fund allocation shifting back to equities since July, particularly after US presidential election

From July, however, interest rates began to rebound worldwide, and, following the US presidential election, long-term interest rates in the US and other countries rose sharply on expectations for aggressive economic policy under the new Trump administration. Global investors are now increasingly shifting their fund allocation from bonds to equities—and, among equities, there are increasing moves to shift to Japanese names. Foreign investors were net sellers to the tune of Y6.0tn in Jan-Sep 2016, but they became net buyers in October, with cumulative net share purchases of Y2.6tn from October through the first week of December (Chart 1.13). As far as Japanese stocks are concerned, we believe global investment fund flows have begun to change significantly in their favor.

Japan stocks should outperform others amid rising US interest rates/dollar strength

Amid rising US interest rates and dollar appreciation, we think Japanese stocks are well positioned to outperform those of other major economies (charts 1.14, 1.15). Emerging economy stocks will likely underperform due to fund outflows and a heavier burden to repay dollar-based debt (in the past, emerging economies experienced economic crises in phases of rising US interest rates and dollar appreciation, a typical example being the 1997-98 Asian currency crisis). In Europe, a presidential election is scheduled in France for spring 2017 and federal elections in Germany in autumn (generally Sep). With anti-immigrant/anti-EU parties gaining greater support, the political scene in Europe could become tumultuous. US stocks will likely advance on EPS growth if economic stimulus measures and corporate tax reductions are implemented, but the risk of P/E contraction will emerge if long-term interest rates continue to rise. After net share sales of Y6tn during Jan-Sep, foreign investors' current buying capacity should be significant. As such, we believe buying by foreign investors will help improve supply/demand, boosting share prices.

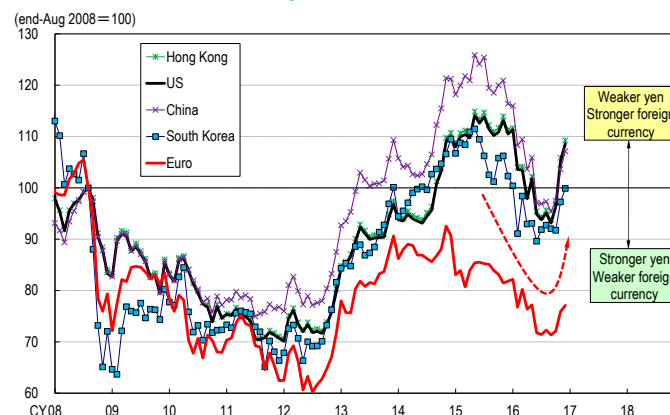
Chart 1.13: Net Share Purchases by Foreign Investors (Y bn)

CY	US	Europe	Asia	Other	Total	TSE, NSE total
2004	3,383.6	3,191.5	761.5	215.4	7,552.0	7,639.8
2005	5,456.5	3,697.6	1,055.3	191.1	10,400.5	10,321.9
2006	431.3	2,596.2	2,245.9	336.7	5,610.1	5,528.9
2007	2,665.2	814.4	1,894.4	96.7	5,470.7	5,423.5
2008	-875.1	-1,540.6	-1,205.5	-100.2	-3,721.5	-3,708.5
2009	525.8	1,263.7	24.2	4.0	1,817.6	1,777.5
2010	1,622.8	1,051.4	394.2	47.6	3,116.0	3,210.5
2011	1,000.5	460.9	532.1	7.0	2,000.6	1,972.5
2012	638.6	1,651.9	761.7	-15.7	3,036.4	2,826.4
2013	5,090.6	6,789.0	3,417.5	79.5	15,376.7	15,119.6
2014	-18.7	228.9	877.3	2.7	1,090.2	852.7
2015	-613.3	349.4	428.2	-42.7	121.6	-544.1
2016	-1,071.3	-3,620.6	-642.4	-47.6	-5,381.8	-3,608.7
2015 1Q	-4.6	-37.1	211.5	-0.9	168.9	-161.1
2015 2Q	317.0	1,324.6	794.4	-17.7	2,418.2	2,819.6
2015 3Q	-670.5	-2,654.1	-427.2	7.9	-3,743.7	-4,083.0
2015 4Q	-255.3	1,716.0	-150.5	-32.1	1,278.1	880.6
2016 1Q	-578.8	-3,621.9	-511.5	-61.9	-4,774.1	-5,012.7
2016 2Q	-197.2	475.6	32.4	3.3	314.2	271.6
2016 3Q	-314.1	-1,083.4	-21.7	-2.0	-1,421.1	-1,445.9
2016 4Q	18.8	609.1	-141.6	13.0	499.2	2,578.2

Source: TSE; compiled by Daiwa.

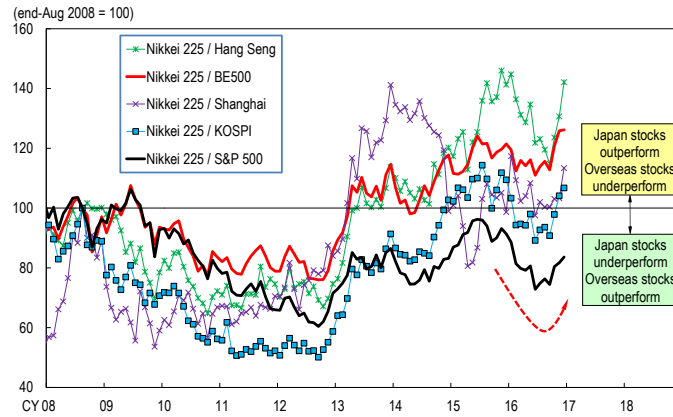
Note: Regional data for foreign investors through Oct 2016. TSE, NSE data through first week Dec 2016.

Chart 1.14: Dollar, Euro, Major Asian Currencies vs. Yen



Source: Bloomberg; compiled by Daiwa.

Chart 1.15: Relative Performance of Nikkei 225 (vs. S&P 500, Bloomberg European 500, Major Asian Indices)



Source: Bloomberg; compiled by Daiwa.

Weak yen benefits not the only attraction of Japanese stocks

Some overseas investors say that the only thing that can benefit Japanese stocks is a weaker yen. However, we think the following factors also make them attractive: (1) the Abe administration appears to be the most stable government among major countries, (2) as a result of improving efficiency and developing multinational operations (incl. steering internal demand-oriented business models more towards foreign demand), Japanese firms seem likely to achieve 10% profit growth in FY17 even if the yen trades at Y100-105/\$ (at current rate, much sharper growth anticipated), (3) the corporate culture is changing, with greater focus on capital efficiency and shareholders, and (4) the shares are trading at low valuations.

Our base-case scenario changed from Y110/\$ to Y115/\$, Y120/\$ also possible

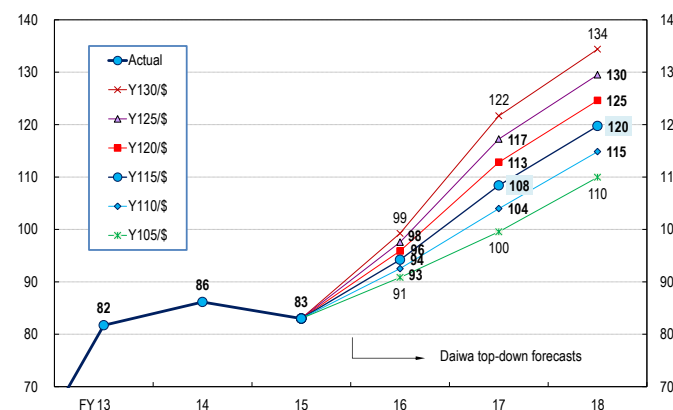
Significant upgrades to corporate earnings estimates likely

As global equity, bond, and currency markets fluctuated wildly in the aftermath of the US presidential elections, we revised our base-case exchange rate scenario from Y105/\$ to Y110/\$, lifted our TOPIX EPS forecast, and upgraded our outlook for the Nikkei Stock Average in our December 2016 edition of Monthly Investment Strategy— (English version published 22 Nov). Since then, however, the dollar has continued to strengthen and could do so into 2017. Although our base-case exchange rate scenario is Y115/\$ in this issue, below we also discuss what our EPS and stock market forecasts would be if based on Y120/\$.

Our FY17 TOPIX EPS estimate Y108 based on Y115/\$, Y113 based on Y120/\$

Based on the exchange rate elasticity of TOPIX EPS (how much TOPIX EPS changes in percentage terms when the yen-dollar rate changes 1%), our rough TOPIX EPS estimates are 94 for FY16, 108 for FY17, and 120 for FY18 assuming Y115/\$, and 96 for FY16, 113 for FY17, and 125 for FY18 assuming Y120/\$ (Chart 1.16). The weaker the yen, the greater the room for upgrades in earnings estimates.

Chart 1.16: TOPIX EPS Outlook Under Different Foreign Exchange Rate Scenarios



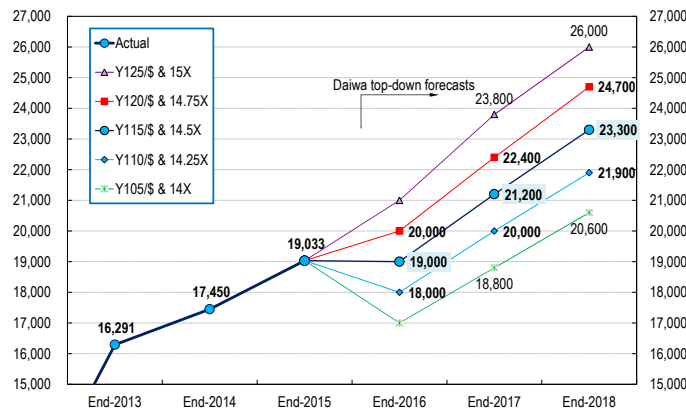
Source: Company materials; compiled by Daiwa.

Nikkei Stock Average forecast of 21,000 at end-Mar 2017 based on Y120/\$

Nikkei Stock Average forecast at 22,500 at end-2017 under Y120/\$ scenario

Chart 1.17 shows our Nikkei Stock Average forecasts based on different exchange rate scenarios (we first calculated our TOPIX forecasts for end of each year using our 12-month forward TOPIX EPS estimates and 12-month forward P/E, then applied ratio of Nikkei Stock Average over TOPIX). Assuming Y115/\$, we expect the Nikkei Stock Average to rise to 20,000 by end-March 2017 and 21,000-21,500 by end-2017. If we assume Y120/\$, our forecast would be 21,000 at end-March 2017 and around 22,500 at end-2017.

Chart 1.17: Nikkei Stock Average Outlook Under Different Foreign Exchange Rate and Fair 12-month Forward P/E Scenarios



Source: Company materials; compiled by Daiwa.

2017 risk factors

The Japanese stock market will likely see investor moves based on positive expectations for the Trump administration’s aggressive economic policy intensify during the first half of 2017. Rising US interest rates and a stronger dollar will likely lead to outperformance of the market among major global bourses. From mid-2017, however, rising nominal/real interest rates and dollar appreciation will probably become a drag on the US economy. In addition, there are uncertainties, including whether the US will be able to shift successfully from quantitative easing to aggressive fiscal policy. As such, risk factors within the US economy could begin to surface during the second half of the year.

Whether the Chinese economy, which is in a slowing phase and facing the need to transform its growth model, will succeed in making a soft landing also continues to warrant attention. Ahead of the National Congress of the Communist Party of China scheduled for autumn 2017, we think, in pursuit of stability, the Xi Jinping administration will try to reinforce control of real estate prices in Tier 1 and core Tier 2 cities, which have begun to rise rapidly. If yuan depreciation and fund outflows begin in earnest, fears of the Chinese economy falling short of expectations would likely increase. For the time being, China will likely see a tug-of-war between yuan selling by Chinese against the backdrop of strong expectations for a weaker yuan and the Chinese government trying to prevent yuan depreciation/fund outflows. The outcome of this will likely impact the global economy, too.

In Europe, general elections are scheduled in the Netherlands in March 2017, a presidential election in France in Apr-May, and federal elections in Germany around September. With anti-immigrant/anti-EU parties gaining greater support, the political scene in Europe could become tumultuous. That said, looking at market reactions to the UK Brexit vote and the referendum in Italy (following which Matteo Renzi resigned as prime minister), shares have moved upward despite the results being negative for the markets. Given this, an unstable political scene in Europe, although representing uncertainty, might have a smaller impact on markets than we think.

Chart 1.18: Outlook for Japanese Stocks (base-case scenario assuming Y115/\$ in FY16-17 sales tax hike in Oct 2019)

	CY15	16 E	17 E	16 3Q	4Q E	17 E 1Q	2Q	3Q	4Q
Nikkei Stock Average									
Period-end	19,033	19,400	21,300	16,449	16,251 -20,000	18,000 -21,600	18,500 -22,100	18,900 -22,700	19,400 -23,200
TOPIX									
Year-end	1,547	1,550	1,700	1,322	1,550	1,580	1,620	1,660	1,700
12-mo forward P/E (X)	16.9	14.8	14.5	13.1	14.8	14.6	14.6	14.6	14.5
EPS (FY)	83	94	108						
Dividend yield (%)	1.6	1.8	2.0	2.1	1.8	1.8	2.1	2.0	2.0
Investment return rate (relevant year; %)	11.6	2.0	11.7	6.7	17.7	2.4	3.1	3.0	2.9

Source: Compiled by Daiwa.

Note: Estimated range given for Nikkei Stock Average from 4Q 2016.

E: Daiwa estimates.

1.3 Sector investment opinion, stock selection

Investment stance

No changes to our investment stance

We have made no changes to our investment stance on individual sectors this month. We are Overweight on machinery, electric appliances, precision instruments, information & communications, and services. We are Underweight on mining, oil & coal products, iron & steel, nonferrous metals, and electric power & gas. Among sectors we are Neutral on, we have a positive bias on six (chemicals, transportation equipment, other products, construction, other financing business, insurance) and a negative bias on six (pulp & paper, glass & ceramics products, metal products, wholesale trade, marine transportation, warehousing & harbor transportation services).

Overweight sectors

Machinery: In the spotlight under Trump presidency

Machinery: We are focusing on the sector based on (1) our view that the US economy will outpace earlier expectations under the Trump presidency, (2) an increase in direct investment in the US (increase in local plants), and (3) yen depreciation vs. the dollar. While expectations for earnings at beneficiaries of infrastructure spending seem overblown, we do see meaningful upside to sector shares. We like SMC (6273), Daikin Industries (6367), Amano (6436), and Hoshizaki (6465).

Electric appliances: With currency effects likely to have a large impact, we will focus on the sector going forward as one that is well positioned to see meaningful changes in earnings and share price performance.

Electronic components: Weaker yen to aid earnings recovery

Earnings at electronic components makers got off to a weak start in FY16, faced with (1) yen appreciation vs. a year earlier, (2) a slowdown in *iPhone* sales, (3) the lack of an earnings driver other than automotive electronics, and (4) a sharp increase in fixed cost projections. These earnings headwinds, however, are gradually clearing away. We think firms are now leaving the worst behind in terms of earnings, thanks in part to a weaker yen. We like Nidec (6594), which continues to post strong earnings.

Consumer electronics: Eyes on firms making most of intellectual property

Business model revamps among consumer electronics makers have borne fruit, and earnings are increasingly stable, especially at major firms. Investor attention will likely be on total shareholder payouts and how industry players use cash to enhance growth potential. We are paying special attention to firms maximizing the value of their intellectual properties, which we consider an investment theme. One such firm is Sony (6758).

Semiconductors/SPE: Sales volume recovering, prices bottomed

In the semiconductors/semiconductor production equipment space, sensor sales remain brisk. Memory chip-related orders have picked up after memory prices bottomed, while logic chip-related orders also appear to be on an uptrend amid increasing sales of low-end and mid-range smartphones. We like Tokyo Electron (8035), whose earnings are upbeat, as well as Disco (6146).

Precision instruments: Eyes on medical technology space	Precision instruments: We are focusing on firms enjoying earnings expansion on medical technologies in light of the aging population. We like Terumo (4543), Fujifilm Holdings (4901), Sysmex (6869), Olympus (7733), and Asahi Intecc (7747).
Software & IT services: Brisk demand to continue	Information & communications: We see no signs of a downturn in the current business environment surrounding software/IT service companies. The impact of the negative interest rate on financial institutions and the toll from yen strength on manufacturers are unlikely to diminish their IT investment appetite. Indeed, long-term, strategic IT spending looks set to drive market expansion. Demand in the retail industry associated with digital marketing is emerging, while a second national ID number scheme-related demand surge from SMEs is also in the cards. We like NTT Data (9613).
Telecom: Domestic demand-oriented stocks with strong prospects for steady cash flow	Our eyes are on telecom players as domestic demand-oriented stocks with strong prospects for steady cash flow. While significant improvement in revenue from telecom services is unlikely to continue, profit should continue to grow thanks to cost declines amid the emergence of meaningful benefits from the spread of smartphones. Aggressive corporate stances on total shareholder payouts in this industry are also encouraging. We like NTT (9432), KDDI (9433), and Softbank Group (9984).
Services: Focus on beneficiaries of greater domestic demand, outsourcing firms	Services: Our eyes are on names likely to substantially benefit from a domestic economic recovery, as well as outsourcing firms. We favor Temp Holdings (2181), a major temp firm. Among firms that provide employee benefit administration services, we like Benefit One (2412) and Relo Holdings (8876), which are likely to see consecutive years of record profits. Also in our sights is M3 (2413) because of brisk earnings driven by its medical information websites and marketing support services for pharmaceutical companies. Our eyes are also on BML (4694) due to continuing strong earnings in the clinical testing business and Secom (9735) for brisk performance of electronic security services for the residential and business markets.
Chemicals: Focus on downstream names with strong earnings	Neutral sectors (with a positive bias) Chemicals: Commoditized businesses may benefit from lower material/fuel prices on account of Mr. Trump's energy policies. However, multiple shale gas-based ethylene plants are slated to come on stream in North America in 2017-18. If European demand slows going forward and excessive ethylene inventories flood the Asian market, ethylene prices in dollar terms could decline markedly. Thus, we maintain our cautious view toward commoditized businesses. Our eyes are on names with prospects for strong earnings in downstream (non-commoditized) businesses. We like Nissan Chemical Industries (4021) in light of brisk earnings and expectations for record profits.
Transportation equipment: Weaker yen a tailwind	Transportation equipment: The sector should see a boost from a weaker yen. It could also benefit from further US economic expansion under the Trump administration. Demand will likely stage a clear recovery in ASEAN countries going forward, possibly pushing up sector earnings. Meanwhile, there are also deep concerns about possible drags from Mr. Trump's policies (possible abolition of NAFTA, anti-immigration policy). We like Fuji Heavy Industries (7270) and Shimano (7309).
Other products: Focus on names with brisk earnings	Other products: Our focus is on names with brisk earnings which are less affected by yen strength and also which are enhancing total shareholder payouts, including dividend hikes. We like Paramount Bed Holdings (7817), which will likely capture demand related to the aging society.
Construction: Eyes on proactive use of ICT, total shareholder payouts	Construction: Our focus is on (1) the government's i-Construction initiative, which aims to improve construction site productivity mainly through the use of ICT and is likely to become a new investment theme, and (2) the compelling valuations in the sector. Firms enhancing total shareholder payouts also warrant attention. We like Kandenko (1942) and Kyudenko (1959), firms which should benefit greatly from the major revamp of parts of Tokyo ahead of the 2020 Olympics.

As for home builders and home fixture/appliance makers, housing orders will probably start recovering due to the spreading view that interest rates on housing loans have bottomed. We favor Daito Trust Construction (1878) given its aggressive stance on total shareholder payouts amid upbeat earnings results.

Other financing business: Eyes on benefits from economic recovery

Other financing business: The sector tends to benefit significantly from economic recovery. Although a rise in interest rates is a negative, this should be outweighed by increasing economic activity leading to greater lending and leases. Improving economic sentiment should also provide a tailwind. With many high-beta stocks, the sector warrants attention when the overall market turns bullish. We have added Orix (8591) to our favorite stocks.

Insurance: Boost from higher interest rates

Insurance: Higher interest rates should be a tailwind. In addition to a turnaround in overseas factors centering on those in the US, a rise in ultra-long-term interest rates is anticipated when expectations for an exit from BOJ monetary easing heighten. The sector is also sensitive to foreign exchange rate changes (weaker yen a positive), and we expect to see virtuous circles in terms of earnings, economic value, and shareholder payouts. We still like Tokio Marine Holdings (8766), and have added Dai-ichi Life Holdings (8750) to our favorite stocks.

Favorite stocks

Three names replaced

We have added Mitsubishi UFJ Financial Group (8306), Orix (8591), and Dai-ichi Life Holdings (8750). At the same time we removed Gurunavi (2440), Nichirei (2871), and Obic (4684).

Expectations for earnings overshoots, further share repurchases

Mitsubishi UFJ Financial Group (8306): Reflecting improving externals such as a weaker yen, rising long-term interest rates, and a surge in the stock market, major bank stocks have rebounded sharply, led by Mitsubishi UFJ Group. However, the shares are still trading at low valuations (actual P/B of 0.67X) compared to the market average. We think catch-up rallies by major bank stocks will likely continue for some time, with institutions that have considerably underweighted the major bank subsector being pressured to rethink their strategies. For Mitsubishi UFJ Financial Group, the substantial size of its operations in the US, where financial deregulation is anticipated, and expectations for earnings overshoots as well as further share repurchases are likely to serve as positive share price catalysts. We think the bank's shares will continue to lead the major banking subsector to the upside going forward. Our sector analyst Akira Takai rates the stock 2 (Outperform).

Record profit expected

Orix (8591): Japan's top comprehensive leasing company, Orix stands out in the industry in terms of business diversification and overseas expansion. Owing to significant benefits from a weaker yen as well as domestic economic recovery, record profit is anticipated. Our analyst Kazuki Watanabe rates the stock 1 (Buy). Despite a previous statement that the company would not repurchase own shares, in light of the recent fundraising environment and the stock's trading levels a share buyback plan has been announced. We believe the valuation upside has expanded from the viewpoint of capital efficiency. In terms of earnings, we think the company's focus is shifting to the sustainability of growth. Earnings have continued to grow, partly aided by capital gains, which has not been fully appreciated in the market. Greater investor confidence in sustained earnings growth would possibly lead to higher valuations.

Virtuous circles starting on the back of improving market environment

Dai-ichi Life Holdings (8750): A turnaround in the market environment should lead to several virtuous circles. Our sector analyst Kazuki Watanabe rates the stock 2 (Outperform). In terms of earnings, we expect an increase in the yen value of interest/dividend income from foreign securities on the back of a weaker yen, as well as higher returns on assets under management resulting from rising interest rates. As for financial health, the economic solvency ratio (ESR) improved from 98% at end-FY15 to 106% at end-1H FY16. Although the firm has not disclosed ESR since October, we think it might have risen to above 110% given the improving market environment. With respect to shareholder payouts, due to easing concerns over financial health we think there are better prospects for meeting the total payout ratio target of 40% set in the current medium-term business plan. As such, we think the stock's attractiveness is increasing.

Chart 1.19: Sector Recommendations

	Market cap [15 Dec 2016]		Sales growth (y/y %)		Rec profit growth (y/y %)		Rec profit margin (%)		P/E (X)		P/B (X) Reported	Strategists' recommendations
	(Y tn)	% of total	FY16 E	17 E	16 E	17 E	16 E	17 E	16 E	17 E		
Basic materials	63.2	17.4	-5.3	5.8	21.2	12.5	5.3	5.6	16.3	14.6	1.17	
Mining	1.3	0.4	-18.3	13.5	-28.6	21.0	22.2	23.7	90.2	60.9	0.62	Underweight
Textiles & apparel	2.5	0.7	-3.5	2.9	-3.9	11.3	6.1	6.6	18.7	15.5	1.24	Neutral
Pulp & paper	0.9	0.2	-0.0	2.5	7.5	13.9	3.6	4.0	17.7	13.3	0.79	Neutral
Chemicals	23.2	6.4	-5.6	3.4	-3.7	9.1	8.6	9.1	18.1	17.1	1.59	Neutral
Oil & coal products	1.9	0.5	-9.5	22.3	Profit	32.5	2.8	3.0	11.0	8.2	1.08	Underweight
Rubber products	3.4	0.9	-8.8	4.2	-16.0	8.0	11.1	11.5	13.5	12.4	1.55	Neutral
Glass & ceramics products	3.5	1.0	-4.4	4.4	-10.2	20.2	6.6	7.6	20.6	18.0	1.27	Neutral
Iron & steel	4.7	1.3	-5.8	6.8	-21.1	47.7	2.5	3.4	32.1	21.4	0.82	Underweight
Nonferrous metals	3.3	0.9	-7.4	4.3	15.4	16.6	4.8	5.4	19.3	16.3	1.03	Underweight
Metal products	2.5	0.7	-0.7	3.1	5.0	12.1	5.2	5.7	19.3	17.2	1.18	Neutral
Wholesale trade	16.0	4.4	-4.3	3.9	99.4	8.6	3.9	4.1	12.2	11.2	1.00	Neutral
Technology	95.0	26.2	-3.6	2.5	5.8	8.0	8.4	8.8	19.2	18.9	1.88	
Pharmaceuticals	16.6	4.6	-4.1	5.9	-5.9	6.7	13.6	13.7	27.4	26.0	2.09	Neutral
Electric appliances	45.2	12.5	-5.8	3.3	5.9	13.4	5.4	6.0	24.1	20.7	1.79	Overweight
Precision instruments	5.5	1.5	-3.6	1.5	-11.1	16.1	9.1	10.4	27.9	22.0	2.60	Overweight
Information & communications	27.7	7.6	1.2	0.1	11.3	3.0	12.8	13.2	12.7	14.4	1.80	Overweight
Capital goods and "other"	81.2	22.4	-2.9	3.6	-13.4	12.2	6.8	7.4	16.9	14.8	1.43	
Construction	11.0	3.0	1.6	3.7	5.7	8.7	6.5	6.8	12.2	11.2	1.49	Neutral
Machinery	17.9	4.9	-3.1	3.0	-15.1	16.9	7.3	8.3	21.4	18.7	1.59	Overweight
Transportation equipment	36.1	10.0	-5.8	3.3	-21.8	11.4	6.5	7.0	15.9	13.6	1.31	Neutral
Other products	6.7	1.9	-0.1	5.5	-5.3	35.9	5.2	6.6	30.2	27.6	1.63	Neutral
Real estate	9.5	2.6	10.0	5.1	12.6	6.7	11.3	11.4	17.5	16.4	1.57	Neutral
Transport and public utilities	26.0	7.2	-4.8	2.5	-22.3	11.4	6.3	6.9	17.8	14.8	1.28	
Electric power & gas	7.1	2.0	-7.3	2.0	-42.7	18.3	4.2	4.9	14.7	13.3	0.96	Underweight
Land transportation	15.4	4.2	0.9	2.2	-0.5	3.3	10.1	10.2	15.5	15.4	1.59	Neutral
Marine transportation	0.9	0.2	-18.3	4.6	Loss	Profit	-1.7	0.7	Loss	93.9	0.84	Neutral
Air transportation	2.0	0.5	-3.4	3.6	-13.8	8.5	9.7	10.2	9.9	10.1	1.39	Neutral
Warehousing & harbor transportation services	0.7	0.2	3.5	4.4	-3.4	6.5	4.7	4.8	18.6	18.2	0.91	Neutral
Consumption	46.1	12.7	3.2	5.3	3.9	10.2	5.9	6.1	25.3	22.4	2.12	
Fishery, agriculture & forestry	0.4	0.1	-1.3	3.8	10.3	2.1	3.1	3.0	17.3	17.1	1.64	Neutral
Foods	15.7	4.3	0.0	4.7	7.1	8.9	7.4	7.7	22.4	21.4	2.24	Neutral
Retail trade	17.1	4.7	3.5	4.7	0.6	11.7	4.5	4.8	28.4	23.1	1.82	Neutral
Services	13.0	3.6	8.1	8.5	5.7	9.7	8.2	8.3	25.6	22.7	2.59	Overweight
Financial	51.1	14.1	-2.8	0.7	-9.0	3.7	13.6	14.0	11.9	12.1	0.78	
Banks	31.8	8.8	-1.0	-0.9	-11.6	0.3	23.0	23.3	11.3	12.0	0.66	Neutral
Securities & commodities futures	4.7	1.3	-5.0	4.4	8.0	16.4	18.5	20.6	14.6	13.3	1.05	Neutral
Insurance	9.9	2.7	-5.0	1.1	-10.0	8.6	5.6	6.1	13.7	13.0	1.01	Neutral
Other financing business	4.8	1.3	1.8	3.6	3.1	8.2	13.2	13.7	11.1	10.3	1.23	Neutral
TSE1	362.6	100.0	-3.0	3.8	-2.6	9.5	7.2	7.6	17.2	15.9	1.34	
Excl. financials	311.5	85.9	-3.0	4.1	-1.0	10.8	6.5	6.9	18.6	16.8	1.53	

Source: Toyo Keizai; compiled by Daiwa.

Notes: 1) TSE 33 sector classification. Excl. Japan Post Holdings.

2) Figures cover all TSE1 companies.

E: Toyo Keizai estimates.

No changes to sector recommendations this month.

Chart 1.20: Favorite Stocks

Code	Company	TSE sector	Share price	Market cap	Rec profit growth		EPS			ROE	P/E		P/B
			(¥)	(¥ bn)	(y/y %)				(%)	(X)	(X)		
			15 Dec 2016		FY16 E	17 E	15	16 E	17 E	16 E	16 E	17 E	Reported
Basic materials													
4021	Nissan Chemical Industries	Chemicals	3,855	589.0	4.1	10.6	143.4	151.0	166.9	15.0	25.5	23.1	3.84
Technology													
4901	Fujifilm Holdings	Chemicals	4,452	1,948.1	-1.5	12.0	264.9	261.6	297.2	6.0	17.0	15.0	1.02
6594	Nidec	Electric appliances	9,987	2,962.1	15.2	16.4	309.3	349.7	406.5	14.3	28.6	24.6	4.08
6758	Sony	Electric appliances	3,373	4,257.2	-11.2	73.0	119.4	67.4	195.7	3.7	50.1	17.2	1.84
6869	Sysmex	Electric appliances	6,540	1,360.8	0.6	15.5	174.4	210.7	206.4	22.9	31.0	31.7	7.12
8035	Tokyo Electron	Electric appliances	10,380	1,702.9	24.2	10.9	461.1	621.9	718.9	17.7	16.7	14.4	2.95
4543	Terumo	Precision instruments	4,180	1,517.2	-6.2	17.9	135.1	136.0	154.7	10.3	30.7	27.0	3.18
7733	Olympus	Precision instruments	4,290	1,468.2	-30.4	21.4	182.9	162.4	170.0	15.7	26.4	25.2	4.16
7747	Asahi Intecc	Precision instruments	4,385	278.0	13.4	15.1	90.9	109.2	121.0	21.1	40.1	36.2	8.49
9432	NTT	Info. & communication	4,895	9,971.5	12.6	6.3	350.3	388.6	411.3	9.0	12.6	11.9	1.14
9433	KDDI	Info. & communication	3,090	7,594.8	18.8	6.2	197.6	227.7	243.1	16.4	13.6	12.7	2.22
9984	Softbank Group	Info. & communication	7,848	8,546.2	2.3	9.0	402.5	843.6	620.3	40.1	9.3	12.7	3.73
9613	NTT Data	Info. & communication	5,820	1,632.5	6.9	8.1	225.9	194.8	227.0	7.7	29.9	25.6	2.31
Capital goods, "other"													
1878	Daito Trust Construction	Construction	17,325	1,326.8	17.3	8.1	863.1	1,083.9	1,177.1	31.2	16.0	14.7	4.98
1942	Kandenko	Construction	1,064	217.3	58.0	10.0	46.1	82.9	91.1	8.6	12.8	11.7	1.10
1959	Kyudenko	Construction	3,055	213.9	16.1	3.4	272.4	304.2	309.9	17.1	10.0	9.9	1.71
6146	Disco	Machinery	13,350	477.9	-6.3	13.8	646.1	601.4	677.3	12.8	22.2	19.7	2.84
6273	SMC	Machinery	27,420	1,842.5	-4.2	18.8	1,371.3	1,377.6	1,580.7	10.1	19.9	17.3	2.01
6367	Daikin Industries	Machinery	10,795	3,154.8	7.6	11.4	469.2	505.8	564.6	15.2	21.3	19.1	3.25
6436	Amano	Machinery	2,028	154.2	3.2	6.4	109.7	118.8	126.7	9.9	17.1	16.0	1.68
6465	Hoshizaki	Machinery	8,780	635.8	-2.7	24.0	234.5	258.2	324.7	10.6	34.0	27.0	3.59
7270	Fuji Heavy Industries	Transportation equipment	4,880	3,741.4	-25.3	17.9	559.5	394.3	454.3	22.3	12.4	10.7	2.76
7309	Shimano	Transportation equipment	18,390	1,704.8	-33.4	21.2	821.9	529.7	656.9	13.9	34.7	28.0	4.81
7817	Paramount Bed Holdings	Other products	4,405	125.5	11.4	9.3	221.7	262.0	285.1	8.7	16.8	15.5	1.46
7988	Nifco	Chemicals	6,100	309.4	7.8	14.2	346.5	372.0	427.4	16.7	16.4	14.3	2.74
Transportation and utilities													
9005	Tokyu	Land transportation	878	1,074.8	9.8	3.9	44.8	51.6	46.7	10.6	17.0	18.8	1.80
9020	East Japan Railway	Land transportation	10,065	3,912.8	-6.5	5.9	625.8	694.6	734.8	10.6	14.5	13.7	1.54
Consumption													
2269	Meiji Holdings	Foods	8,980	1,322.0	8.4	14.8	425.1	400.3	456.4	14.3	22.4	19.7	3.20
9843	Nitori Holdings	Retail trade	12,480	1,383.1	15.6	16.7	425.1	503.4	590.8	16.4	24.8	21.1	4.06
2181	Temp Holdings	Services	1,735	407.9	19.8	13.4	75.8	89.5	102.7	15.7	19.4	16.9	3.04
2412	Benefit One	Services	2,727	110.1	27.5	23.6	67.3	86.7	109.0	28.6	31.5	25.0	8.99
2413	M3	Services	2,830	916.1	23.2	22.8	38.7	48.0	59.1	27.5	59.0	47.9	16.20
4694	BML	Services	2,779	118.1	16.6	8.7	127.7	144.8	157.7	9.5	19.2	17.6	1.81
8876	Relo Group	Services	15,500	231.8	21.6	16.7	492.6	619.9	732.6	26.2	25.0	21.2	6.56
9735	Secom	Services	8,466	1,847.8	2.8	4.3	353.0	390.4	408.8	10.2	21.7	20.7	2.20
Financial													
8306	Mitsubishi UFJ Financial Group	Banks	755	10,201.8	-3.9	2.6	68.5	68.4	70.5	6.2	11.0	10.7	0.69
8591	Orix	Other financing business	1,856	2,430.5	4.4	5.9	198.7	207.2	222.3	11.5	9.0	8.3	1.03
8750	Dai-ichi Life Holdings	Insurance	2,031	2,386.1	-0.6	1.7	150.5	170.1	177.7	7.0	11.9	11.4	0.84
8766	Tokio Marine Holdings	Insurance	5,261	3,971.8	0.3	4.6	337.3	368.5	382.7	8.4	14.3	13.7	1.20

Source: QUICK; compiled by Daiwa

Notes: 1) Market cap and EPS calculated using most recent number of shares outstanding, incl. treasury shares (source: QUICK, updated 20th of every month).

2) FY16 represents any fiscal years ended/ending Apr 2016-Mar 2017. Actual FY16 figures used in place of estimates for firms that have already released FY16 results. E: QUICK consensus estimates.

Newly added

8306	Mitsubishi UFJ Financial Group	Banks
8591	Orix	Other financing business
8750	Dai-ichi Life Holdings	Insurance

Deleted

2440	Gurunavi	Services
2871	Nichirei	Foods
4684	Obic	Info. & communication

Deleted due to equity offering

6861	Keyence	Electric appliances
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2. Daiwa analyst ratings

Chart 2.1: Overview of Stocks We Assign 1 and 2 Ratings—1

Code	Company	Sector	Market cap 15 Dec 2016 (Y bn)	Rating	Date assigned	Recurring profit growth		P/E		P/B Reported (X)	Div. yield Current-FY E (%)	Recurring profit estimate revisions				Record profit
						Current-FY E (%)	Next-FY E (%)	Current-FY E (X)	Next-FY E (X)			4Q	1Q	2Q	Recent	
1605	INPEX	Mining	1,782.4	2	25 Aug 16	-26.3	32.0	69.7	35.9	0.65	1.47	x	o	x	o	
3402	Toray Industries	Textiles & apparel	1,527.5	2	22 Jun 16	5.8	9.2	15.6	14.3	1.69	1.47	x	x	o	x	***
3569	Seiren	Textiles & apparel	89.4	2	10 Nov 16	5.0	6.9	14.2	13.3	1.40	1.60	x	x	x	o	***
3941	Rengo	Pulp & paper	160.2	2	7 Dec 16	46.7	3.4	11.1	10.8	0.75	1.85	o	o	o	o	
4004	Showa Denko	Chemicals	240.7	2	21 Sep 16	-7.9	27.5	18.0	11.9	0.85	1.78	x	x	x	o	
4005	Sumitomo Chemical	Chemicals	942.9	1	4 Mar 16	-18.9	19.1	13.9	11.2	1.35	2.43	x	x	x	x	**
4186	Tokyo Ohka Kogyo	Chemicals	163.1	2	1 Sep 16	-20.1	28.5	24.9	19.5	1.16	1.70	x	x	x	o	
4188	Mitsubishi Chemical Holdings	Chemicals	1,143.6	2	20 Jul 16	-14.6	9.9	9.0	10.1	1.15	2.05	x	x	o	o	
4202	Daicel	Chemicals	458.7	2	29 Aug 16	-7.4	6.8	12.2	11.4	1.36	1.96	x	x	x	x	**
4204	Sekisui Chemical	Chemicals	852.9	2	28 Oct 16	9.7	7.9	14.3	13.5	1.70	1.79	x	x	x	o	
4206	Aica Kogyo	Chemicals	198.1	2	28 Oct 16	10.7	3.3	18.3	17.2	1.83	2.64	x	o	o	o	***
4452	Kao	Chemicals	2,729.4	2	28 Oct 16	9.6	7.5	22.5	20.9	4.24	1.66	o	o	o	x	***
4612	Nippon Paint Holdings	Chemicals	1,024.7	2	20 Oct 16	-6.5	17.2	32.4	27.3	2.37	1.67	x	x	x	o	**
4613	Kansai Paint	Chemicals	543.0	2	20 Oct 16	4.2	7.5	22.0	20.5	2.38	1.04	x	x	x	x	***
4911	Shiseido	Chemicals	1,173.9	2	10 Nov 16	-32.9	52.6	36.3	36.9	3.19	0.68	x	x	x	o	
4912	Lion	Chemicals	529.8	2	7 Nov 16	42.0	11.7	34.9	30.4	3.68	0.71	x	o	o	o	***
4927	Pola Orbis Holdings	Chemicals	492.6	2	1 Nov 16	17.3	18.8	26.9	25.4	2.75	2.24	o	o	o	x	***
7947	FP	Chemicals	219.5	2	1 Dec 16	14.1	10.6	20.5	18.4	2.31	1.49	o	o	o	o	***
7988	Nifco	Chemicals	309.4	2	28 Nov 16	7.8	14.2	16.4	14.3	2.74	1.72	o	x	x	o	***
5017	Fuji Oil	Oil & coal products	32.7	2	17 Aug 16	Profit	-55.4	3.4	7.7	0.68	1.42	o	o	x	o	
5108	Bridgestone	Rubber products	3,451.8	2	26 Feb 16	-12.7	2.4	13.1	12.0	1.70	3.18	x	x	x	x	
5110	Sumitomo Rubber Industries	Rubber products	508.1	2	16 Feb 16	-13.5	4.5	9.4	10.5	1.33	2.84	x	x	x	o	
5202	Nippon Sheet Glass	Glass & ceramics products	80.6	2	22 Nov 16	Profit	5.1	13.8	10.6	1.55	0.00			o	o	
5332	Toto	Glass & ceramics products	776.4	2	13 Dec 16	3.9	10.0	22.9	21.5	2.96	1.48	o	x	x	x	***
5423	Tokyo Steel Mfg.	Iron & steel	129.5	2	2 Nov 16	-38.4	17.4	12.9	11.1	1.26	1.11	o	x	o	x	
5486	Hitachi Metals	Iron & steel	688.0	2	7 Nov 16	-33.5	7.7	15.5	14.5	1.42	1.62	x	x	x	o	
5706	Mitsui Mining & Smelting	Nonferrous metals	175.3	2	6 Dec 16	Profit	22.3	22.4	14.9	1.16	1.95	x	x	o	o	
5802	Sumitomo Electric Industries	Nonferrous metals	1,323.6	2	5 Dec 16	-5.4	17.3	15.0	12.6	1.03	2.06	x	x	x	x	**
5803	Fujikura	Nonferrous metals	184.6	2	5 Dec 16	-1.4	13.6	17.2	11.4	1.07	1.55	x	x	x	o	
5929	Sanwa Holdings	Metal products	259.0	2	4 Nov 16	5.5	11.9	15.3	13.6	2.15	2.21	x	x	o	x	***
5938	LIXIL Group	Metal products	749.9	2	30 Nov 16	47.9	19.7	17.6	14.2	1.51	2.30	o	x	o	o	***
5947	Rinnai	Metal products	486.2	2	23 Jun 16	3.9	7.5	20.7	19.2	1.91	0.92	x	x	x	x	***
5991	NHK Spring	Metal products	260.6	2	8 Aug 16	-8.4	12.8	12.1	10.9	1.02	2.05	x	x	x	o	
2768	Sojitz	Wholesale trade	372.8	2	14 Dec 16	23.3	11.5	9.1	8.2	0.79	2.68	x	x	x	o	
3076	Ai Holdings	Wholesale trade	111.1	2	11 Nov 16	14.2	11.3	17.3	15.7	3.21	1.53	x	x	x		***
8001	Itochu	Wholesale trade	2,517.0	2	7 Dec 16	141.7	1.8	7.0	6.8	1.17	3.42	x	o	o	o	**
8058	Mitsubishi	Wholesale trade	4,038.1	1	6 Dec 16	Profit	5.3	10.8	10.4	0.97	2.36	x	x	o	o	
9962	Misumi Group	Wholesale trade	532.3	2	8 Dec 15	6.6	10.6	29.5	26.1	3.77	0.86	x	x	x	o	***
4519	Chugai Pharmaceutical	Pharmaceuticals	1,783.4	2	26 Jul 16	-15.3	19.4	33.7	28.3	2.83	1.59	x	o	o	x	**
4521	Kaken Pharmaceutical	Pharmaceuticals	244.8	2	21 Nov 16	-14.8	6.9	11.6	10.8	2.58	2.50	o	x	x	x	
4523	Eisai	Pharmaceuticals	1,917.8	1	30 Jun 16	16.6	-2.6	48.0	53.2	3.50	2.24	o	o	o	o	
4568	Daiichi Sankyo	Pharmaceuticals	1,575.6	2	2 Dec 16	-15.1	-6.8	22.8	24.1	1.37	2.95	o	x	o	x	
4902	Konica Minolta	Electric appliances	566.4	2	9 Mar 16	-13.1	12.7	16.5	14.8	1.17	2.62	x	x	x	x	
6448	Brother Industries	Electric appliances	540.6	2	23 Aug 16	17.2	5.3	13.6	13.2	1.82	1.73	x	o	o	o	**
6479	Minebea	Electric appliances	441.4	2	21 Jul 16	-5.9	7.9	13.4	12.5	2.06	1.19	x	x	x	x	
6594	Nidec	Electric appliances	2,962.1	1	26 Oct 16	15.2	16.4	28.6	24.6	4.08	0.85	x	x	x	o	***
6701	NEC	Electric appliances	831.6	1	30 Aug 16	21.6	6.0	13.3	13.2	1.11	1.88	x	x	o	o	
6702	Fujitsu	Electric appliances	1,453.1	1	29 Nov 16	1.8	30.1	16.3	12.6	2.00	1.14	x	x	x	o	
6724	Seiko Epson	Electric appliances	862.6	2	12 Aug 16	-29.5	19.5	17.5	14.9	2.00	2.45	o	x	x	x	
6744	Nohmi Bosai	Electric appliances	103.1	1	9 Nov 16	3.7	9.9	14.7	13.3	1.49	1.40	x	x	o	o	***
6745	Hochiki	Electric appliances	33.0	2	8 Nov 16	9.8	11.5	9.4	8.6	1.49	1.36		x	x	o	***
6750	Elecom	Electric appliances	76.6	2	5 Aug 16	17.6	5.3	12.9	12.2	3.30	2.06	o	o	o	o	***
6755	Fujitsu General	Electric appliances	241.9	2	12 Dec 16	-6.5	19.0	15.0	12.6	2.84	0.95	o	o	o	o	**
6758	Sony	Electric appliances	4,257.2	1	9 Jun 16	-11.2	73.0	50.1	17.2	1.84	0.59	x	x	x	x	
6762	TDK	Electric appliances	1,033.3	2	1 Aug 16	58.7	-43.1	9.6	17.6	1.72	1.47	o	x	o	o	*
6770	Alps Electric	Electric appliances	578.7	2	28 Jul 16	-24.1	42.4	21.0	15.7	2.62	1.02	x	x	x	x	**
6869	Symx	Electric appliances	1,360.8	2	10 Nov 16	0.6	15.5	31.0	31.7	7.12	0.86	x	x	x	x	**
6908	Iriso Electronics	Electric appliances	81.0	2	21 Jul 16	-4.0	17.7	17.3	14.6	2.04	1.17	x	x	x	x	**
6952	Casio Computer	Electric appliances	437.3	2	21 Nov 16	-39.8	41.8	24.7	17.3	2.25	2.34	x	x	x	x	
6971	Kyocera	Electric appliances	2,135.0	2	21 Jul 16	-22.8	9.1	28.5	27.0	0.94	1.72	x	x	x	x	
6981	Murata Manufacturing	Electric appliances	3,377.2	2	21 Jul 16	-23.8	13.3	21.0	18.8	2.68	1.39	x	x	x	x	
4543	Terumo	Precision instruments	1,517.2	2	11 Nov 16	-6.2	17.9	30.7	27.0	3.18	0.98	o	x	x	x	
7741	Hoya	Precision instruments	1,837.8	2	1 Sep 16	-8.8	7.6	21.8	20.3	4.16	1.58	x	x	x	o	
2327	NS Solutions	Info. & communications	197.4	1	31 Oct 16	10.4	6.0	14.5	13.6	1.84	2.12	o	x	x	o	***
3636	Mitsubishi Research Institute	Info. & communications	53.7	2	10 Nov 16	19.5	7.9	13.1	12.1	1.31	2.14		x		x	***

Source: QUICK; compiled by Daiwa.

Note: Stocks we have assigned ratings of 1 (Buy) or 2 (Outperform), categorized by sector and ticker code. Shading indicates stocks with 1 rating. Recurring profit growth, P/E, dividend yield, recurring profit revisions, operating profit forecasts QUICK Consensus. O indicates recurring profit forecast revised up q/q, X indicates revised down q/q. Record profit refers to recurring profit for financials, operating profit for other sectors; *** indicates forecasts to set new highs in both FY16 and FY17, ** indicates FY17 only, * indicates record profit forecast for FY16 but not FY17. Data as of 15 Dec 2016.

Chart 2.3: Overview of Stocks We Assign 1 and 2 Ratings—3

Code	Company	Sector	Market cap 15 Dec 2016 (Y bn)	Rating	Date assigned	Recurring profit growth		P/E		P/B Reported (X)	Div. yield Current-FY E (%)	Recurring profit estimate revisions				Record profit
						Current-FY E (%)	Next-FY E (%)	Current-FY E (X)	Next-FY E (X)			4Q	1Q	2Q	Recent	
7259	Aisin Seiki	Transportation equipment	1,457.5	2	4 Nov 16	6.7	10.8	14.1	12.9	1.28	1.94	x	x	x	o	***
7261	Mazda Motor	Transportation equipment	1,205.2	2	4 Nov 16	-27.9	20.6	11.4	9.3	1.23	1.74	x	x	x	x	***
7270	Fuji Heavy Industries	Transportation equipment	3,741.4	2	4 Nov 16	-25.3	17.9	12.4	10.7	2.76	2.95	x	x	x	o	***
7272	Yamaha Motor	Transportation equipment	971.2	2	4 Nov 16	-20.4	24.7	15.8	12.4	2.05	2.16	x	x	x	o	***
2706	Broccoli	Other products	30.7	1	25 Oct 16	23.1	129.3	40.7	17.7	3.60	0.57					**
7832	Bandai Namco Holdings	Other products	693.1	1	25 Oct 16	22.2	8.7	16.6	15.2	2.11	1.65	x	x	o	o	***
7956	Pigeon	Other products	344.4	2	6 Dec 16	0.8	13.4	32.9	29.1	7.29	1.74	x	x	x	o	***
7974	Nintendo	Other products	3,312.5	1	28 Oct 16	2.8	327.3	57.6	37.5	2.85	0.76	x	x	x	x	***
2337	Ichigo	Real estate	221.5	2	8 Jul 16	39.1	15.7	14.7	13.7	2.87	1.13	o	o	o	o	***
3003	Hulic	Real estate	693.1	1	31 Oct 16	21.7	13.3	19.9	18.0	2.16	1.61	x	o	o	o	***
3231	Nomura Real Estate Holdings	Real estate	376.9	2	12 Sep 16	-6.6	-0.1	8.6	8.6	0.82	3.05	x	x	o	x	***
3288	Open House	Real estate	155.3	1	15 Nov 16	18.5	6.8	7.0	6.6	2.44	2.17	x	o	x	o	***
3289	Tokyu Fudosan Holdings	Real estate	432.2	2	8 Mar 16	10.4	-1.8	13.3	12.7	1.03	1.83	o	o	o	x	***
3291	Iida Group Holdings	Real estate	646.6	2	14 Nov 16	17.4	2.0	9.0	8.7	1.04	2.36	o	o	x	o	***
3299	Mugen Estate	Real estate	18.9	2	8 Nov 16	17.7	9.3	4.6	4.2	1.24	2.71	o	x		x	***
8801	Mitsui Fudosan	Real estate	2,735.6	1	6 Apr 16	10.9	6.0	21.3	19.7	1.44	1.16	o	o	o	o	***
8802	Mitsubishi Estate	Real estate	3,267.4	1	26 Aug 16	9.6	2.4	35.0	34.0	2.18	0.76	o	o	o	o	***
8804	Tokyo Tatemono	Real estate	330.8	1	1 Apr 16	13.4	11.7	18.0	16.9	1.10	1.57	o	o	o	o	***
8830	Sumitomo Realty & Development	Real estate	1,497.8	2	9 Sep 16	9.6	3.4	14.9	14.2	1.60	0.73	o	o	o	o	***
8850	Starts Corporation	Real estate	103.9	1	9 Nov 16	4.0	6.9	9.3	8.7	1.60	2.53	o	x		o	***
8905	Aeon Mall	Real estate	388.2	2	28 Jul 16	5.7	5.8	14.7	13.3	1.22	1.58	o	x	x	x	***
9502	Chubu Electric Power	Electric power & gas	1,318.7	2	2 Jun 16	-49.3	-22.5	11.4	19.1	0.77	1.72	o	o	o	x	***
9503	Kansai Electric Power	Electric power & gas	1,191.8	2	2 Jun 16	-41.7	-1.2	12.1	12.4	0.93	0.00	o	x	o	x	***
9504	Chugoku Electric Power	Electric power & gas	503.5	2	2 Jun 16	-29.2	48.3	27.8	17.9	0.85	3.44	x	o	x	x	***
9509	Hokkaido Electric Power	Electric power & gas	199.2	2	2 Jun 16	-31.3	15.5	13.1	11.2	1.38	0.52	x	x	x	x	***
9513	Electric Power Development	Electric power & gas	529.6	2	29 Feb 16	-4.6	17.1	13.8	11.8	0.81	2.42	x	x	o	x	***
9531	Tokyo Gas	Electric power & gas	1,235.8	1	22 Aug 16	-69.2	34.9	26.9	22.0	1.18	2.04	o	x	x	o	***
9020	East Japan Railway	Land transportation	3,912.8	2	8 Dec 16	-6.5	5.9	14.5	13.7	1.54	1.29	x	x	x	x	***
9021	West Japan Railway	Land transportation	1,384.5	2	8 Dec 16	-2.6	4.8	13.3	12.5	1.51	1.96	x	o	x	x	***
9037	Hamakyorex	Land transportation	41.3	2	15 Sep 16	9.1	6.6	8.0	7.3	0.93	1.84			o		***
9104	Mitsui O.S.K. Lines	Marine transportation	407.9	2	22 Mar 16	-99.9	43,455.8	46.3	37.9	0.82	0.59	o	x	x	x	***
9201	Japan Airlines	Air transportation	1,263.7	1	12 Dec 16	-19.6	7.9	7.6	8.5	1.43	2.58	x	x	x	x	***
1332	Nippon Suisan	Fishery, agriculture & forestry	166.6	2	14 Nov 16	4.0	15.0	12.8	10.8	1.69	0.93	o	x	x	o	**
1377	Sakata Seed	Fishery, agriculture & forestry	146.5	2	30 Nov 16	1.7	17.6	27.5	23.5	1.66	0.71	o	o	o	o	***
2220	Kameda Seika	Foods	109.2	2	1 Nov 16	23.2	11.5	21.9	19.9	2.49	0.81	x	o	o	x	***
2222	Kotobuki Spirits	Foods	81.7	1	4 Nov 16	23.1	17.0	30.4	26.1	7.43	0.95	o	o	o	o	***
2229	Calbee	Foods	492.4	2	28 Nov 16	11.4	14.2	27.3	23.7	4.00	1.09	x	x	x	x	***
2269	Meiji Holdings	Foods	1,322.0	2	22 Nov 16	8.4	14.8	22.4	19.7	3.20	1.00	o	o	o	x	***
2282	NH Foods	Foods	627.4	2	30 Nov 16	36.2	16.3	20.7	17.7	1.75	1.49	x	x	x	o	***
2502	Asahi Group Holdings	Foods	1,571.4	2	28 Nov 16	-3.5	11.7	18.8	16.4	1.93	1.55	x	x	x	x	***
2801	Kikkoman	Foods	717.5	2	7 Nov 16	-2.2	12.9	29.3	30.8	3.30	0.86	x	x	x	x	**
2802	Ajinomoto	Foods	1,351.1	2	29 Nov 16	-6.3	14.8	27.4	22.4	2.40	1.26	x	x	x	x	**
2809	Kewpie	Foods	405.1	2	4 Oct 16	13.3	12.2	23.9	20.1	1.90	1.18	o	o	o	x	***
2815	Ariake Japan	Foods	191.6	2	10 Nov 16	14.1	15.5	28.0	24.5	3.24	1.00	o	o	o	x	***
2871	Nichirei	Foods	319.5	2	15 Nov 16	23.6	5.1	19.3	18.2	2.35	0.90	o	x	o	o	***
2914	Japan Tobacco	Foods	6,966.6	2	6 Dec 16	4.0	-1.4	16.6	16.8	3.17	3.29	x	o	x	o	***
2915	Kenko Mayonnaise	Foods	46.2	2	16 Nov 16	25.9	8.2	16.8	15.3	2.22	0.92	o	o	o	o	***
2659	San-A	Retail trade	178.4	1	19 Oct 16	8.4	8.7	18.4	16.6	1.86	0.75		x	o	o	***
3085	Arland Service Holdings	Retail trade	46.0	2	31 Oct 16	15.7	13.0	22.9	19.9	3.37	0.87	x	o	o	o	***
3086	J.Front Retailing	Retail trade	450.4	1	8 Dec 16	-8.5	9.3	17.6	17.4	1.15	1.63	x	x	x	x	***
3087	Doutor Nichires Holdings	Retail trade	103.1	2	17 Oct 16	10.7	8.1	17.9	16.5	1.06	1.38	x	o	o	x	***
3088	Matsumotokiyoshi Holdings	Retail trade	315.9	1	14 Nov 16	5.7	5.8	16.4	15.3	1.80	1.51	o	o	x	x	***
3197	Skylark	Retail trade	314.0	2	10 Nov 16	16.2	7.4	17.3	15.9	2.87	2.36	x	x	o	o	***
3382	Seven & i Holdings	Retail trade	3,989.8	2	13 Dec 16	1.2	7.6	47.8	19.9	1.80	1.99	x	x	x	x	***
3391	Tsuruha Holdings	Retail trade	540.7	1	15 Jun 16	16.2	10.4	23.0	20.7	3.51	0.96	o	o			***
3397	Toridoll Holdings	Retail trade	103.8	2	1 Nov 16	15.8	11.9	17.3	15.3	3.39	1.07	o	o	o	x	***
7453	Ryohin Keikaku	Retail trade	590.5	2	4 Jul 16	14.8	13.6	24.4	21.2	4.19	1.22	x	x	x	x	***
7581	Saizeriya	Retail trade	135.4	2	14 Oct 16	9.4	7.7	22.7	20.9	1.87	0.67	o	x	x	o	***
8227	Shimamura	Retail trade	507.2	2	4 Oct 16	17.0	5.1	16.5	15.6	1.60	1.42	o	o	o	o	***
8242	H2O Retailing	Retail trade	232.3	1	22 Nov 16	-9.4	12.6	16.2	17.6	0.91	2.13	x	x	x	x	***
8252	Marui Group	Retail trade	414.3	1	16 Nov 16	7.7	15.2	21.9	18.6	1.54	1.78	x	x	x	x	***
8273	Izumi	Retail trade	357.6	1	18 Oct 16	12.2	7.6	24.3	15.2	2.41	1.32	o	x	o	o	***
8276	Heiwado	Retail trade	132.0	2	29 Sep 16	-5.8	5.1	14.7	13.2	0.99	1.27		x	x		**
8282	K's Holdings	Retail trade	214.3	2	4 Nov 16	6.4	4.7	11.9	11.3	1.13	2.34	x	x	x	o	***
9831	Yamada Denki	Retail trade	505.5	2	8 Nov 16	19.3	7.8	12.5	11.3	0.93	2.54	o	x	x	o	***

Source: QUICK; compiled by Daiwa.

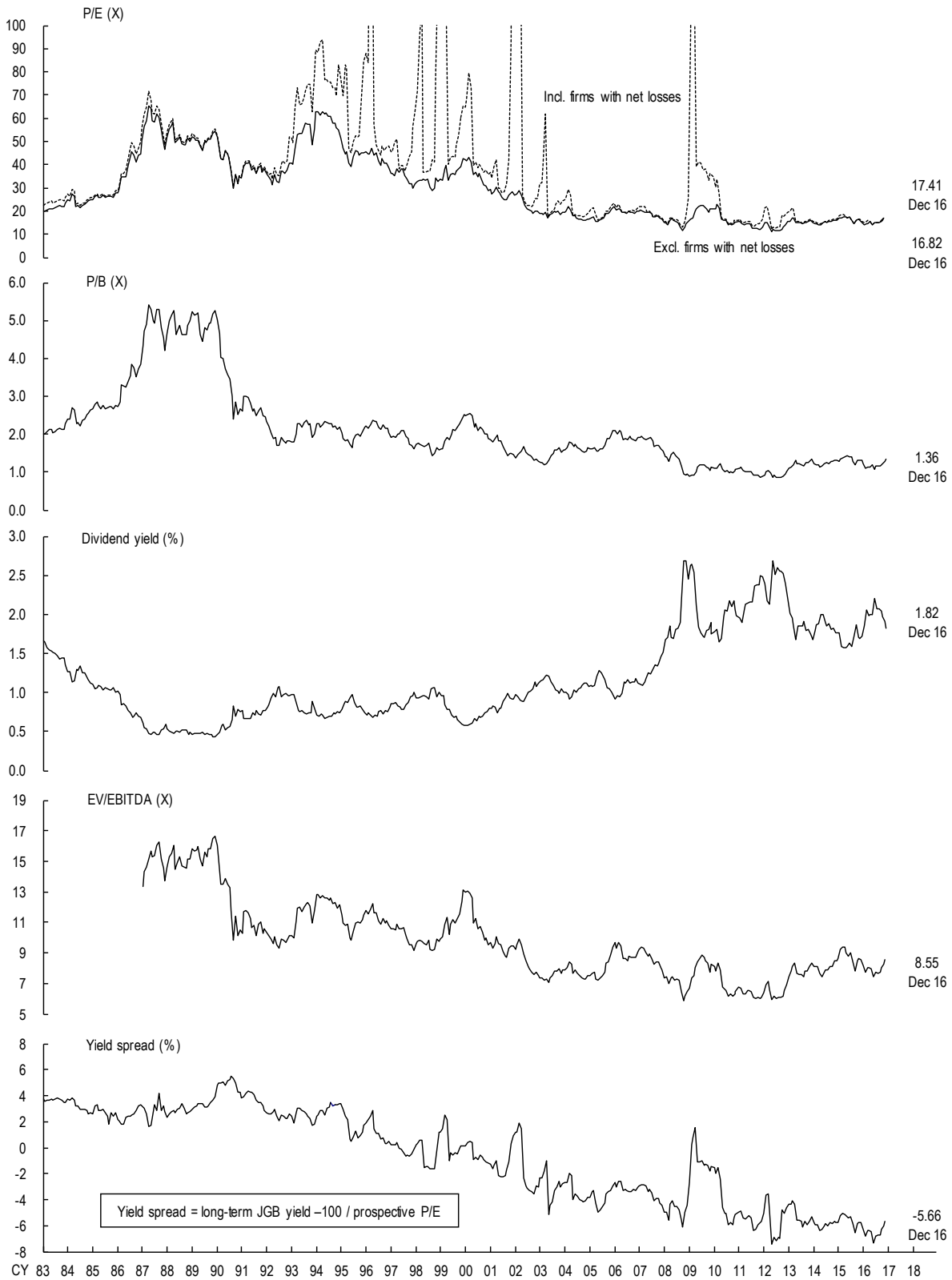
Chart 2.3: Overview of Stocks We Assign 1 and 2 Ratings—4

Code	Company	Sector	Market cap 15 Dec 2016 (Y bn)	Rating	Date assigned	Recurring profit growth		P/E		P/B Reported (X)	Div. yield Current-FY E (%)	Recurring profit estimate revisions				Record profit
						Current-FY E (%)	Next-FY E (%)	Current-FY E (X)	Next-FY E (X)			4Q	1Q	2Q	Recent	
9843	Nitori Holdings	Retail trade	1,383.1	1	28 Sep 16	15.6	16.7	24.8	21.1	4.06	0.56	o	o	o	x	***
9948	Arcs	Retail trade	146.8	2	26 Oct 16	5.2	4.0	13.8	14.3	1.19	1.59	o	o	o	x	***
9956	Valor Holdings	Retail trade	151.5	1	14 Nov 16	6.3	8.7	13.4	12.2	1.47	1.35	o	o	o	x	***
9989	Sundrug	Retail trade	472.8	2	11 Nov 16	8.2	8.2	19.7	18.0	3.73	1.11	o	o	x	x	***
2127	Nihon M&A Center	Services	248.9	1	31 Oct 16	38.6	18.1	37.1	31.4	12.87	0.86	o	x	o	o	***
2131	Accordia Golf	Services	84.8	2	11 Nov 16	-12.2	6.3	19.1	18.0	1.71	0.00	x	x	x	x	***
2174	GCA	Services	35.9	2	3 Aug 16	-20.4	-17.5	26.6	39.7	1.95	3.73	x	x	x	o	***
2371	Kakaku.com	Services	406.2	2	4 Nov 16	15.0	13.2	26.5	23.5	13.03	1.50	x	x	x	x	***
2413	M3	Services	916.1	1	25 Oct 16	23.2	22.8	59.0	47.9	16.20	0.32	x	o	x	x	***
4321	Kenedix	Services	108.7	2	14 Nov 16	15.0	10.7	10.5	9.9	1.27	0.92	o	o	o	x	***
4324	Dentsu	Services	1,556.9	1	15 Nov 16	-6.9	8.9	18.5	16.9	1.97	1.47	x	x	x	x	***
4661	Oriental Land	Services	2,206.8	2	31 Oct 16	8.1	-2.1	27.2	27.8	3.50	0.53	o	x	x	x	**
4681	Resorttrust	Services	233.8	2	11 Nov 16	-18.2	38.5	21.6	15.9	2.26	2.10	x	x	x	x	**
4708	Relia	Services	75.6	2	18 Oct 16	15.1	22.5	20.8	16.8	1.71	2.64	x	o	x	x	***
4755	Rakuten	Services	1,628.7	2	11 Nov 16	20.0	23.2	25.3	20.1	2.62	0.39	x	x	x	x	***
4849	en-japan	Services	85.3	2	18 Oct 16	32.9	25.2	18.9	15.4	3.93	1.24	x	x	o	o	**
6082	Ride On Express	Services	9.1	2	12 Aug 16	-8.5	1.9	14.9	13.9	2.28	1.14	x	x	x	x	***
8876	Relo Group	Services	231.8	2	18 Oct 16	21.6	16.7	25.0	21.2	6.56	1.10	x	o	o	o	***
7182	Japan Post Bank	Banks	5,522.5	2	8 Dec 16	-10.9	7.8	18.4	17.1	0.48	3.39	x	x	x	o	***
8306	Mitsubishi UFJ Financial Group	Banks	10,201.8	2	28 Nov 16	-3.9	2.6	11.0	10.7	0.69	2.38	x	x	x	o	***
8308	Resona Holdings	Banks	1,454.0	2	6 Dec 16	-7.2	-5.8	9.1	9.7	0.86	3.03	x	x	x	o	***
8309	Sumitomo Mitsui Trust Holdings	Banks	1,709.6	2	15 Dec 16	-7.7	-0.0	10.2	10.2	0.72	1.60	x	x	x	o	***
8316	Sumitomo Mitsui Financial Group	Banks	6,415.0	2	5 Dec 16	4.4	1.8	9.0	9.2	0.72	3.20	x	x	x	x	***
8331	Chiba Bank	Banks	603.1	2	7 Dec 16	-10.6	-4.0	11.6	12.1	0.69	2.00	x	x	x	o	***
8354	Fukuoka Financial Group	Banks	475.8	2	29 Nov 16	-11.3	-1.5	11.4	11.6	0.60	2.35	x	x	o	o	***
8355	Shizuoka Bank	Banks	607.4	2	9 Dec 16	-13.1	3.7	14.6	13.5	0.68	1.99	x	x	x	x	***
8358	Suruga Bank	Banks	628.4	2	9 Dec 16	3.4	5.9	15.9	15.1	2.01	0.74	x	x	o	o	***
8411	Mizuho Financial Group	Banks	5,567.5	2	2 Dec 16	-16.6	-0.4	9.1	9.8	0.67	3.42	x	x	x	x	***
8418	Yamaguchi Financial Group	Banks	317.8	2	9 Dec 16	-12.8	3.3	11.0	10.4	0.54	1.39	x	o	x	x	***
8595	Jafo	Securities & commodities futures	177.2	2	24 Oct 16	-34.1	-3.4	16.3	17.5	0.96	2.50	x	x	x	x	***
7181	Japan Post Insurance	Insurance	1,546.8	2	9 Dec 16	-22.9	-4.3	17.9	17.7	0.87	2.33	o	x	x	x	***
8630	Sompo Holdings	Insurance	1,624.6	1	9 Sep 16	-1.7	6.4	11.4	10.5	1.06	1.94	x	x	x	x	**
8725	MS&AD Insurance Group Holdings	Insurance	2,275.6	2	9 Sep 16	0.3	9.3	12.3	11.0	0.93	2.64	o	o	x	o	***
8750	Dai-ichi Life Holdings	Insurance	2,386.1	2	9 Dec 16	-0.6	1.7	11.9	11.4	0.84	1.97	x	x	x	x	**
8766	Tokio Marine Holdings	Insurance	3,971.8	1	9 Sep 16	0.3	4.6	14.3	13.7	1.20	2.57	x	x	x	o	***
8795	T&D Holdings	Insurance	1,002.5	2	9 Dec 16	-1.2	-1.3	12.5	12.1	0.88	1.90	x	x	x	o	***
7164	Zenkoku Hoshu	Other financing business	268.9	1	7 Nov 16	6.6	6.1	14.2	13.3	3.47	1.41	o	x	x	o	***
8253	Credit Saison	Other financing business	353.9	2	24 Nov 16	18.4	-3.4	9.1	10.0	0.81	1.62	x	x	x	o	***
8439	Tokyo Century	Other financing business	423.3	2	22 Nov 16	9.0	8.1	9.6	8.9	1.32	2.37	x	x	o	x	***
8570	Aeon Financial Service	Other financing business	458.7	2	24 Nov 16	2.7	6.5	12.4	11.9	1.41	3.20	x	x	x	x	***
8591	Orix	Other financing business	2,430.5	1	2 Nov 16	4.4	5.9	9.0	8.3	1.03	2.75	x	x	o	o	***

Source: QUICK; compiled by Daiwa.

3. Statistics

Chart 3.1: Valuations



Source: Toyo Keizai; compiled by Daiwa.

Notes: 1) Universe = TSE1 (excl. financials for EV/EBITDA). Excl. Japan Post Holdings.

2) P/B based on results and others based on current-FY Toyo Keizai estimates.

3) Data through Dec 1986 on parent basis. Data from Jan 1987 on consolidated basis where available.

4) Data as of 15 Dec 2016.

Chart 3.2: Equity Supply and Demand (Y bn)

	FY14	15	15 Dec	16 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Secondary market														
Dealing	1,485.4	676.6	-1,116.5	-763.8	150.9	1,026.7	-321.3	-157.4	-1,096.1	138.1	-87.7	1,203.9	696.4	422.8
Brokerage	-991.0	-585.4	1,131.2	740.6	-152.5	-1,075.3	386.4	137.6	1,070.3	-114.5	87.4	-1,176.9	-657.6	-305.7
Corporations	3,522.3	6,777.1	1,228.8	941.8	1,472.4	591.4	258.0	460.4	1,033.8	151.0	783.7	-8.9	-335.7	-338.1
Financial institutions	2,818.6	2,927.8	670.0	675.5	922.7	442.4	30.3	144.9	514.4	108.1	494.3	-109.0	-156.6	-495.9
Insurers	-541.6	-441.6	-39.2	23.3	-1.1	-98.6	-62.4	0.8	-66.9	-139.6	-46.7	-5.8	-69.6	-77.8
Banks	3,354.5	3,016.8	670.1	599.8	893.5	484.9	83.8	128.4	555.3	234.3	504.6	-126.4	-101.8	-428.3
Long-term credit, city, and regional banks	-149.3	-362.1	-72.6	-7.8	-56.6	-13.4	-58.4	13.2	-19.4	-29.2	-31.8	-47.9	-21.1	-162.3
Trust banks	3,503.9	3,378.9	742.7	607.6	950.1	498.2	142.1	115.2	574.7	263.5	536.3	-78.5	-80.7	-265.9
Other financial	5.6	352.7	39.1	52.5	30.3	56.1	8.9	15.7	25.9	13.4	36.5	23.2	14.8	10.3
Investment trusts	-516.0	825.2	274.1	96.7	198.0	93.2	118.2	-38.2	95.0	-133.7	-48.5	2.6	-255.8	-252.0
Business corporations	1,012.9	3,134.8	874.4	114.0	291.0	-9.1	72.9	308.0	583.5	72.9	298.1	74.0	55.4	357.3
Other	206.8	-110.7	-589.8	55.6	60.7	64.9	36.6	45.7	-159.1	103.6	39.7	23.5	21.4	52.5
Securities companies	-490.8	-91.1	10.6	57.0	29.8	9.5	-37.3	-4.4	18.1	-4.5	-13.8	11.0	-27.6	-40.4
Foreign investors	2,524.8	-5,102.5	33.0	-1,055.6	-1,998.3	-1,958.8	860.4	-325.8	-263.0	129.0	-469.8	-1,105.1	471.7	1,544.0
Individuals	-6,547.3	-2,169.0	-141.3	797.4	343.6	282.6	-694.8	7.4	281.4	-390.0	-212.6	-74.0	-766.1	-1,471.2
Cash transactions	-7,720.6	-3,818.5	-350.6	714.8	364.5	40.7	-591.7	-95.0	124.6	-383.9	-256.0	-179.5	-708.1	-1,462.0
Margin transactions	1,173.2	1,649.5	209.3	82.6	-20.9	241.9	-103.1	102.4	156.8	-6.1	43.4	105.5	-57.9	-9.2
Total of overseas investors	2,937.2	-4,821.5	181.3	-1,075.3	-2,073.4	-1,625.4	762.8	-140.3	-308.3	106.5	-294.5	-1,233.1	499.2	
US	-28.2	-1,187.6	-72.7	-12.6	-345.0	-221.2	69.0	-153.9	-112.3	-221.3	-11.7	-81.1	18.8	
Europe	2,177.5	-3,235.3	370.2	-926.9	-1,459.5	-1,235.5	700.2	-27.4	-197.2	328.6	-363.2	-1,048.8	609.1	
Asia	790.2	-294.8	-113.8	-134.5	-213.1	-163.9	-3.1	39.2	-3.7	1.9	78.2	-101.8	-141.6	
Other regions	-2.3	-103.8	-2.3	-1.4	-55.7	-4.8	-3.4	1.8	4.9	-2.7	2.2	-1.5	13.0	

Source: TSE, Japan Securities Dealers Association; compiled by Daiwa.

Note: Figures for trading by investor type based on Tokyo and Nagoya stock exchanges; those for overseas investors based on transactions on nationwide exchanges.

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- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
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"1": the security could outperform the local benchmark index by more than 15% over the next 12 months.

"2": the security is expected to outperform the local benchmark index by 5-15% over the next 12 months.

"3": the security is expected to perform within 5% of the local benchmark index (better or worse) over the next 12 months.

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