



Japan Strategy

Earnings in the fast lane



Nicholas Smith

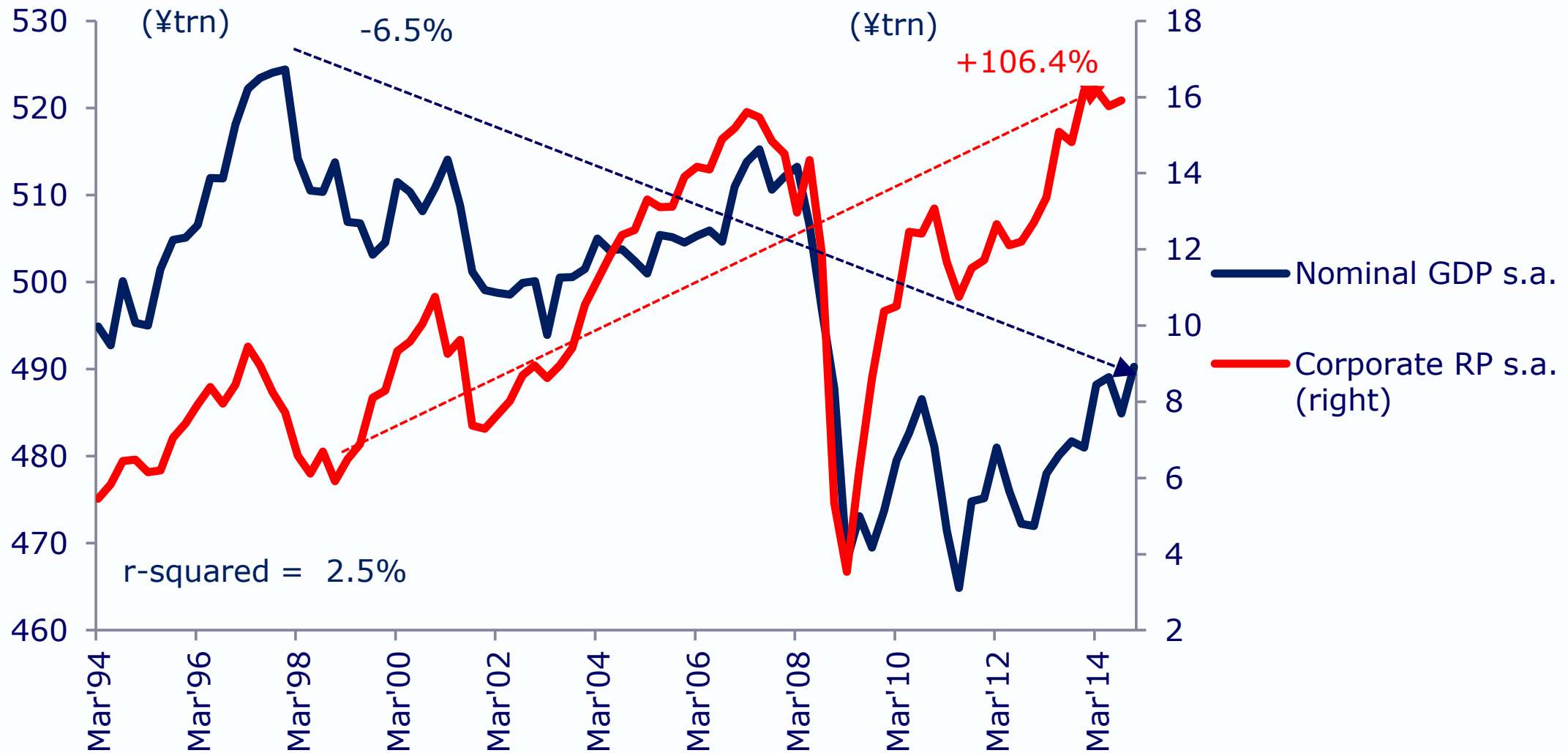
Japan strategist

February 2015

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GDP down, profits up, happening for years

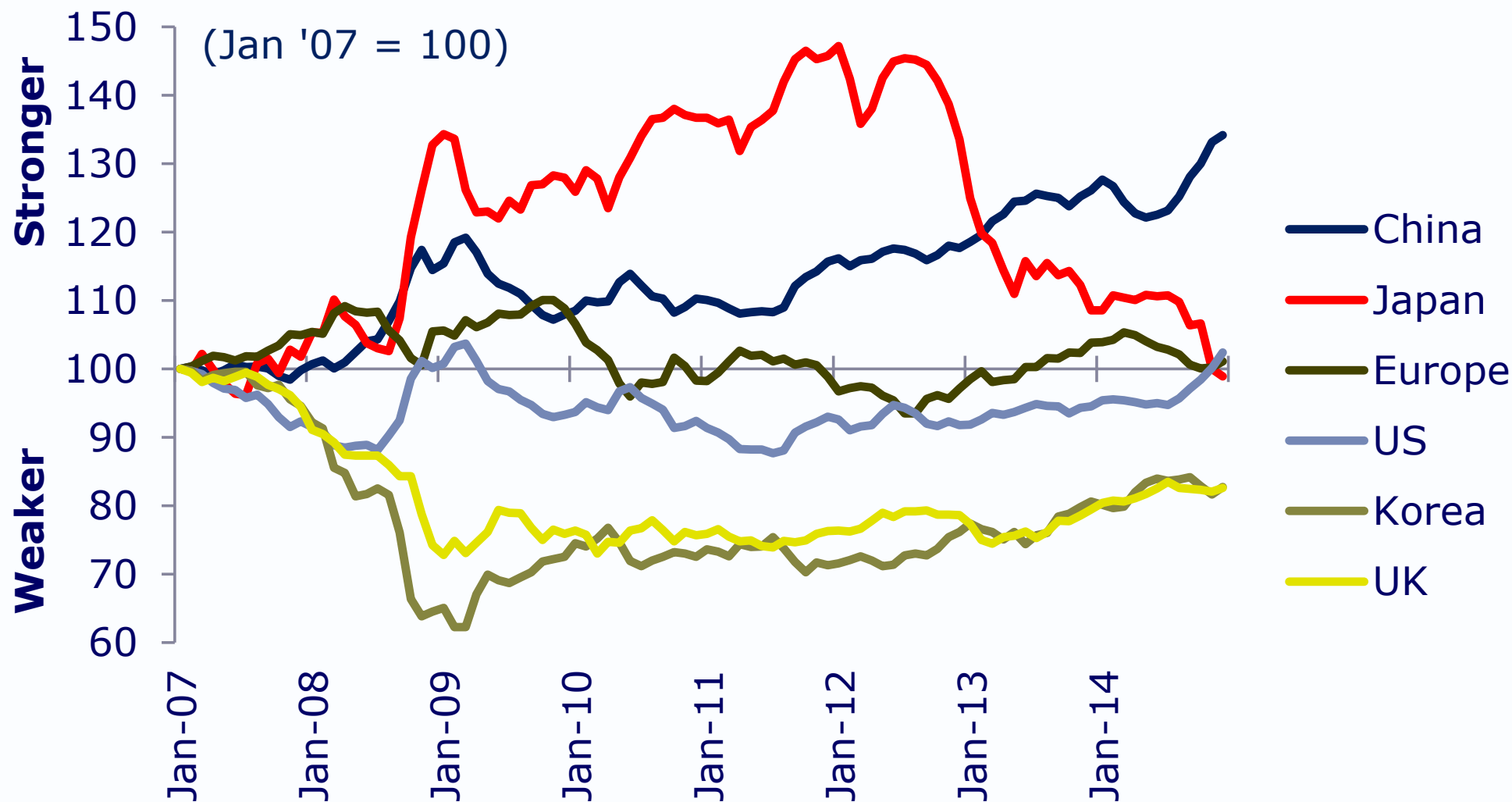
Corporate pre-tax profits and GDP



Source: CLSA, ESRI, MoF

Home again: FX back to pre-GFC levels

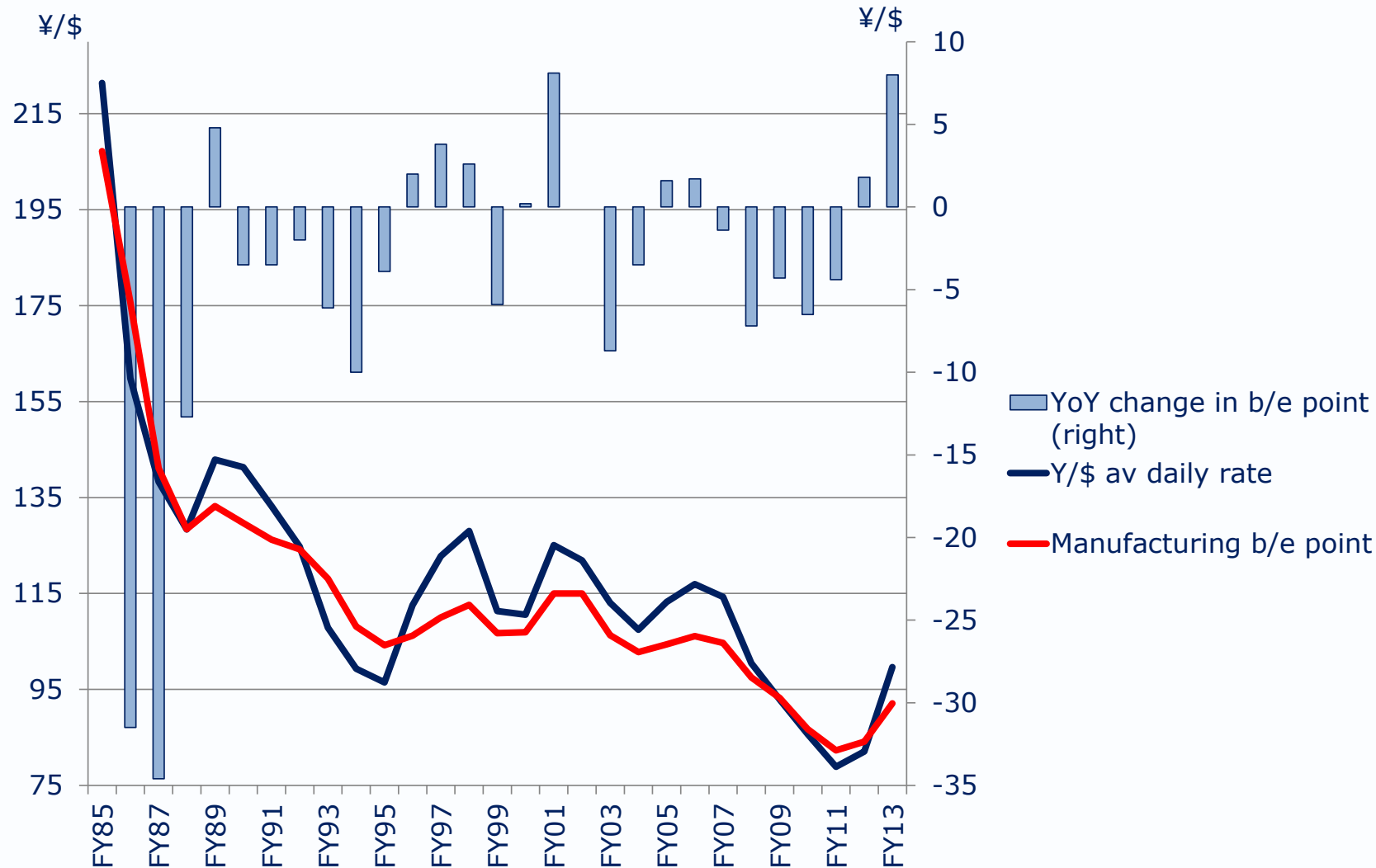
Trade-weighted exchange rates



Source: CLSA, BIS, BoJ. Data through December 2014.

Sitting pretty with a Y92/\$ breakeven point

Manufacturing breakeven point



Japan at its most price competitive since 1973

The yen's real effective exchange rate



Source: CLSA, BoJ, BIS

Fossil fuel imports are poised to fall from 6.6% of GDP

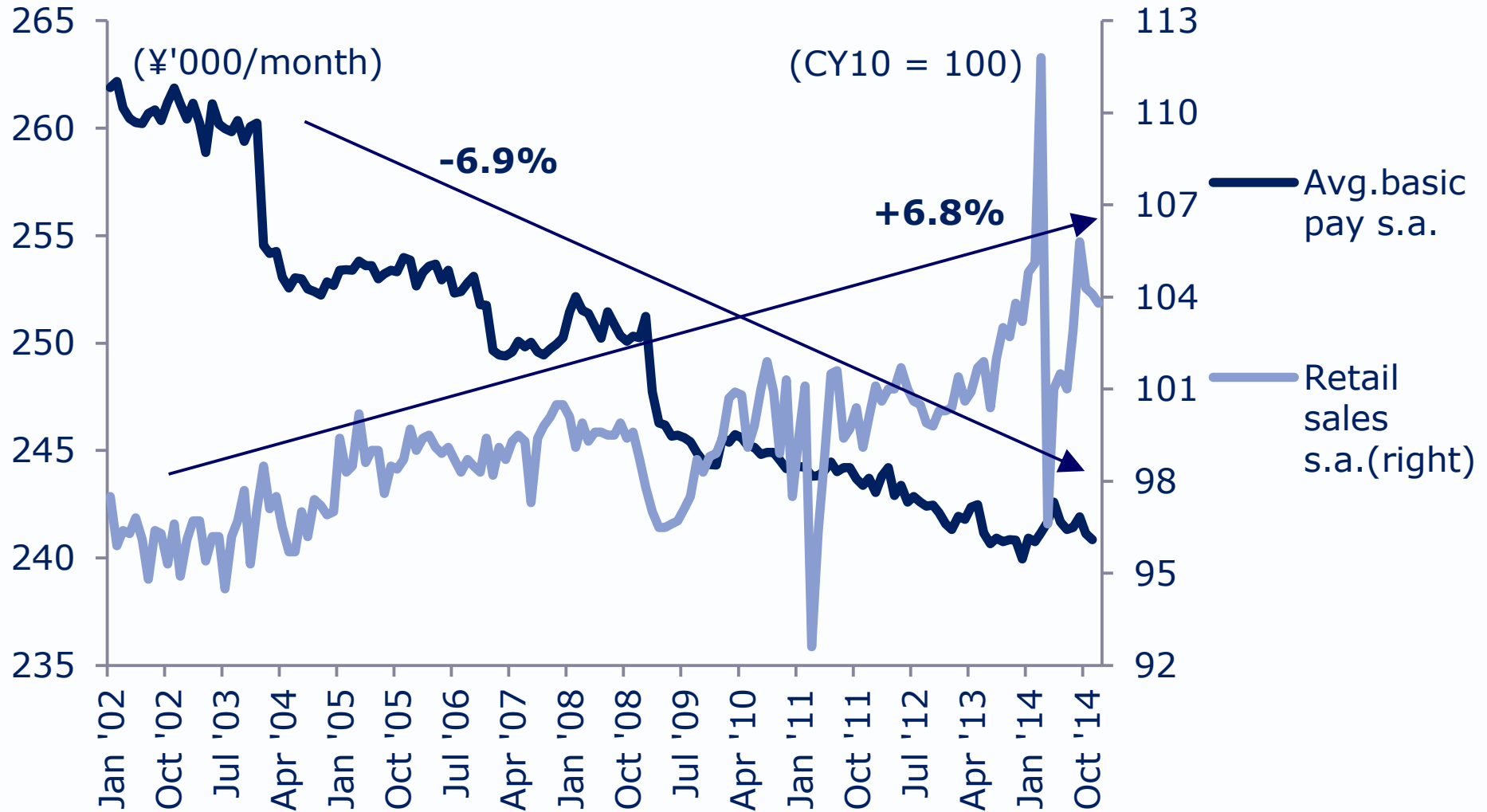
Japan's fossil fuel imports as a % of GDP



Source: CLSA, MoF, ESRI, Bloomberg

Wages down: retail up. Ask why

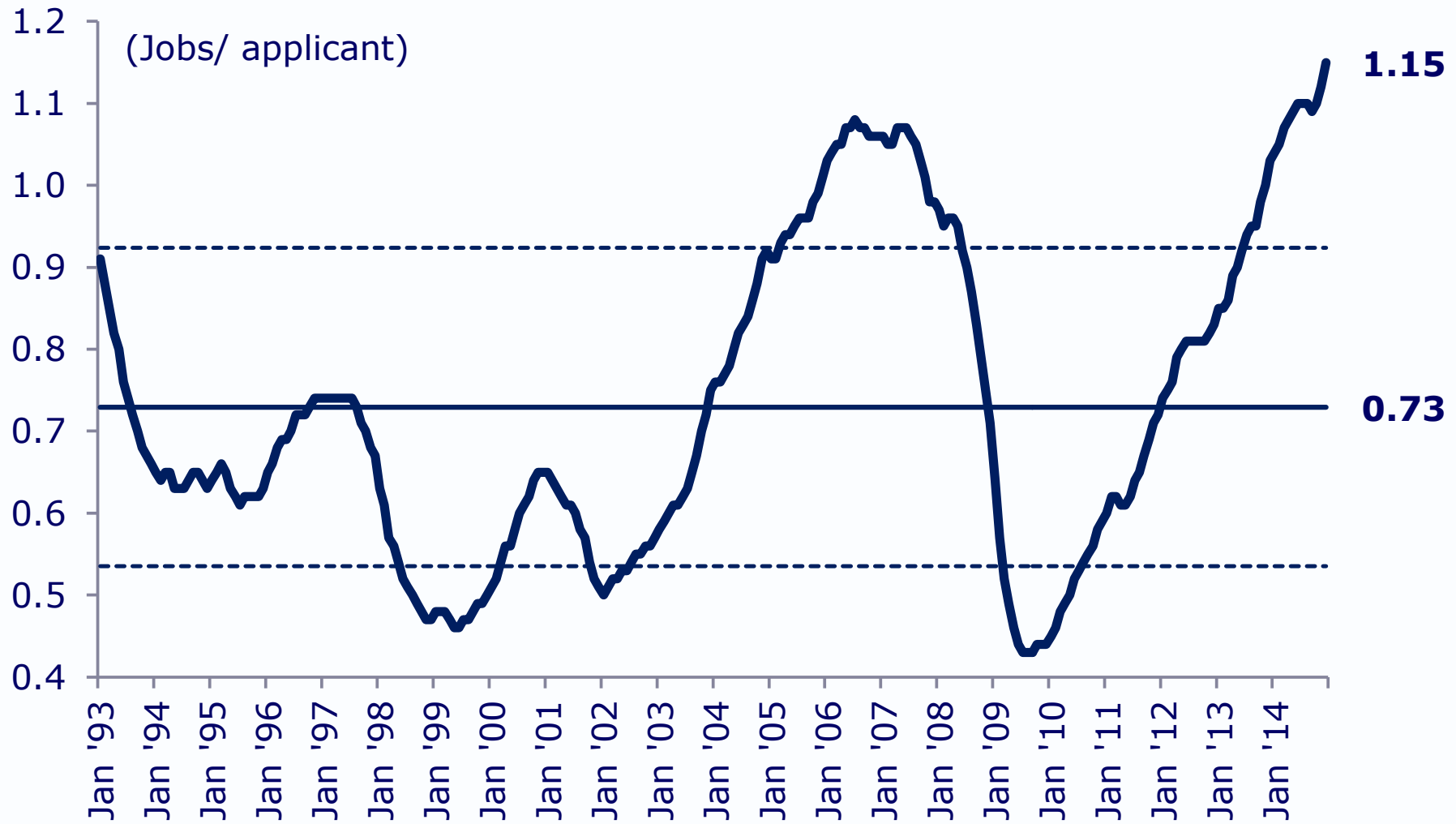
Government figures for average basic pay



Source: CLSA, MHLW, METI

There are more jobs than people to fill them

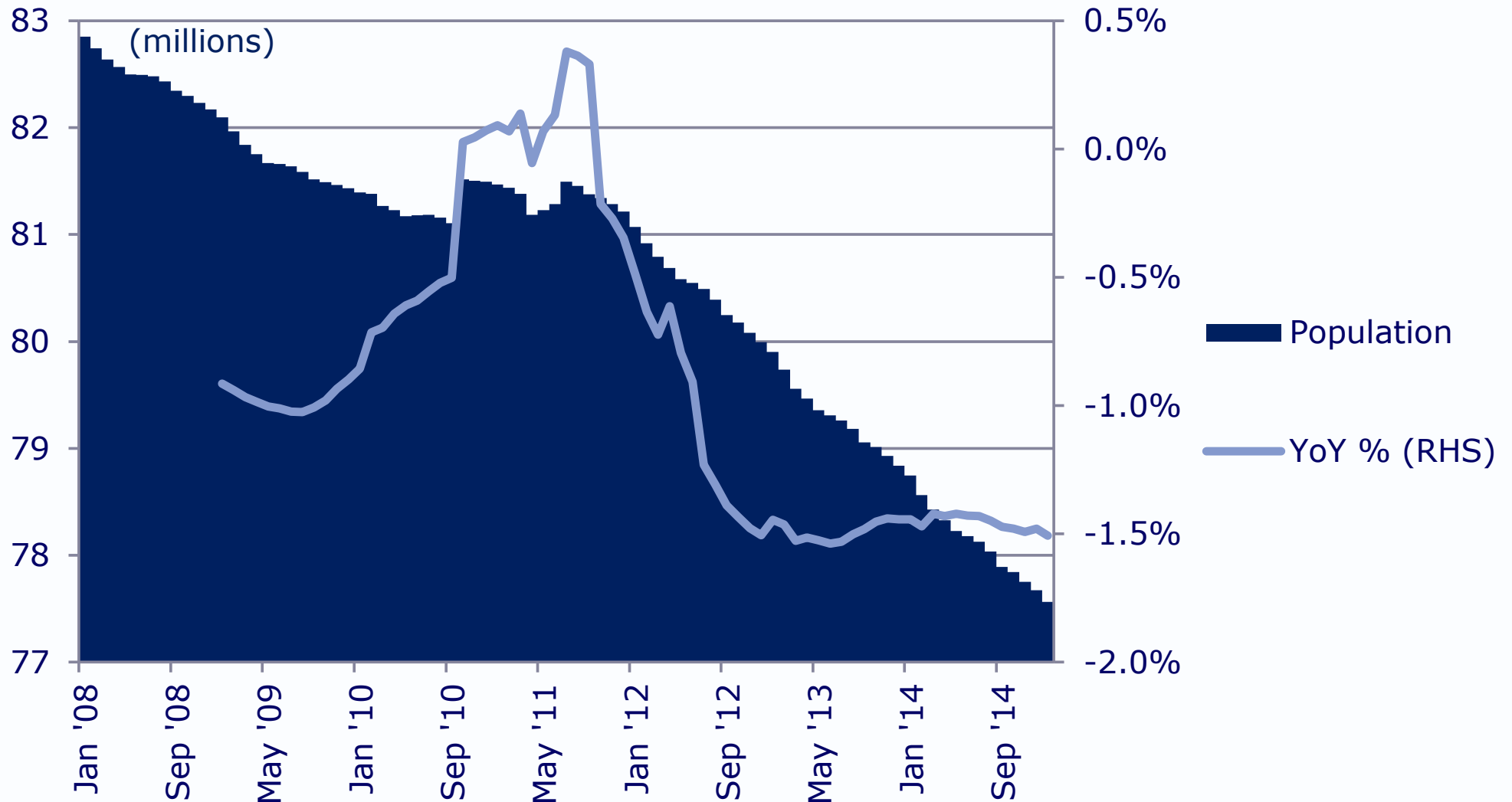
Japanese job/applicant ratios



Source: CLSA, MHLW

The working age population is shrinking 1.5% per year

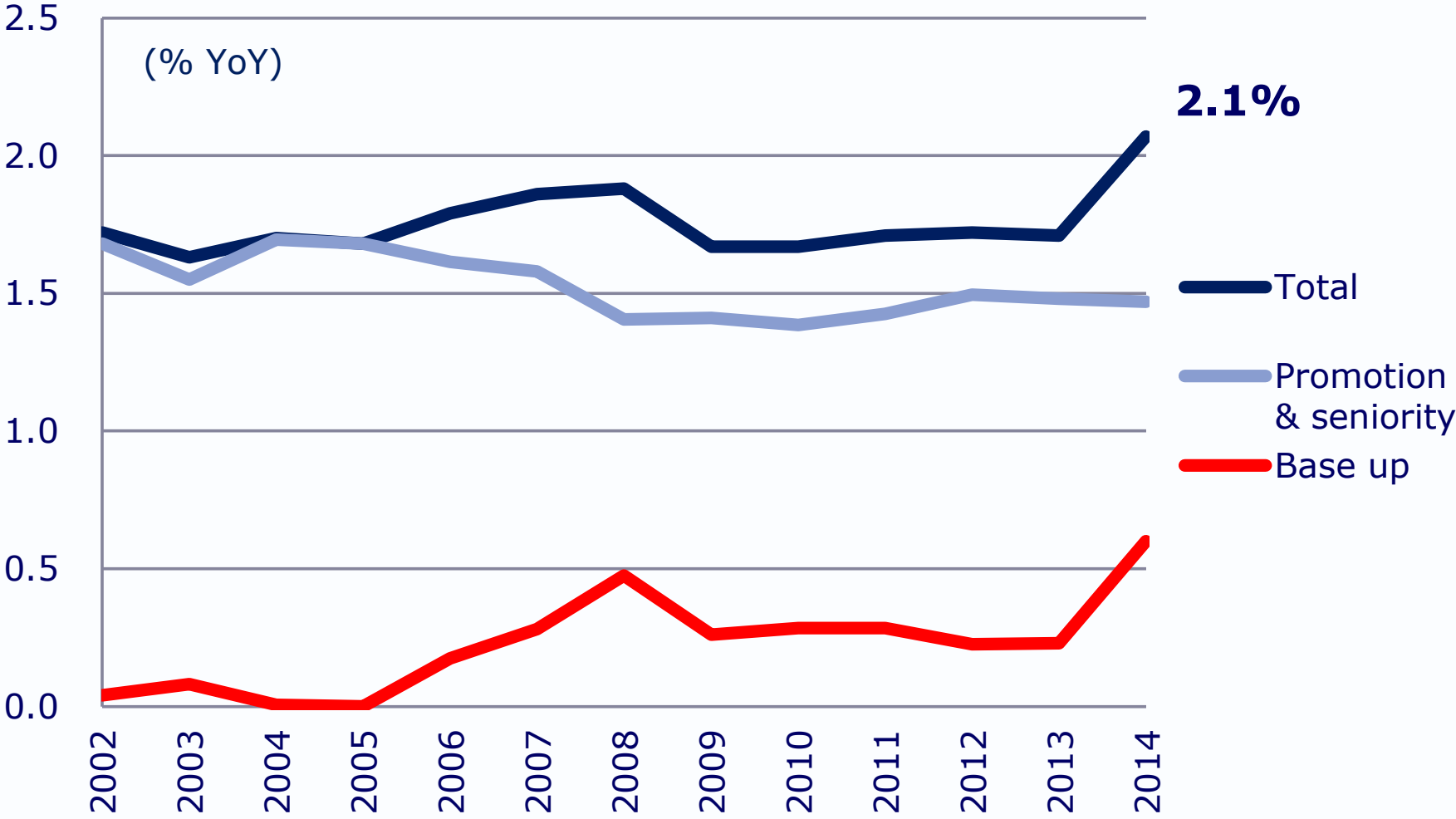
Population of 15-64 year-olds in Japan



Source: CLSA, MIAC

Trade union numbers show a 2.1% wage hike in 2014

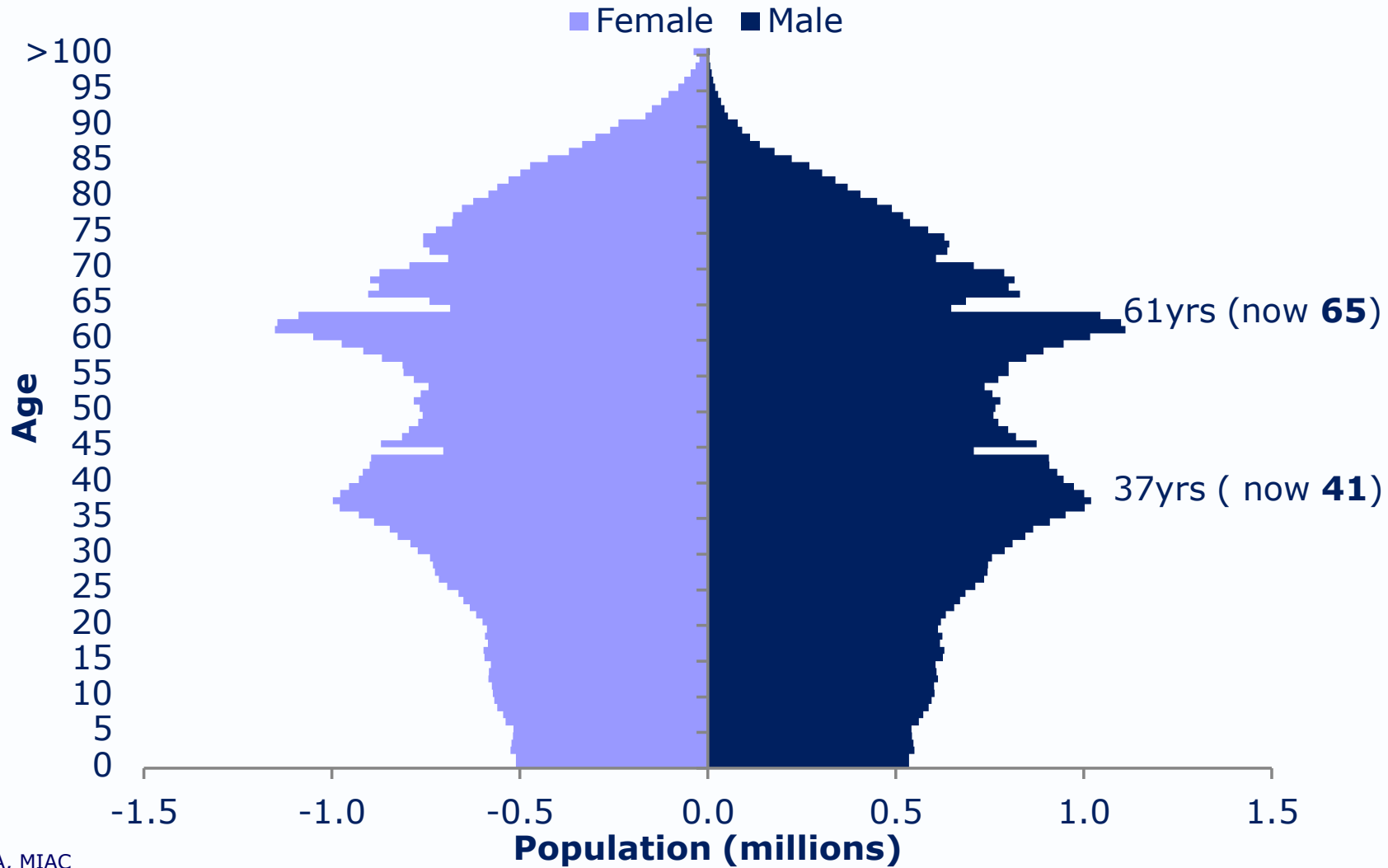
Pay increases won by Japanese trade unions for members



Source: CLSA, Rengo

There are two crucial bulges in the population pyramid

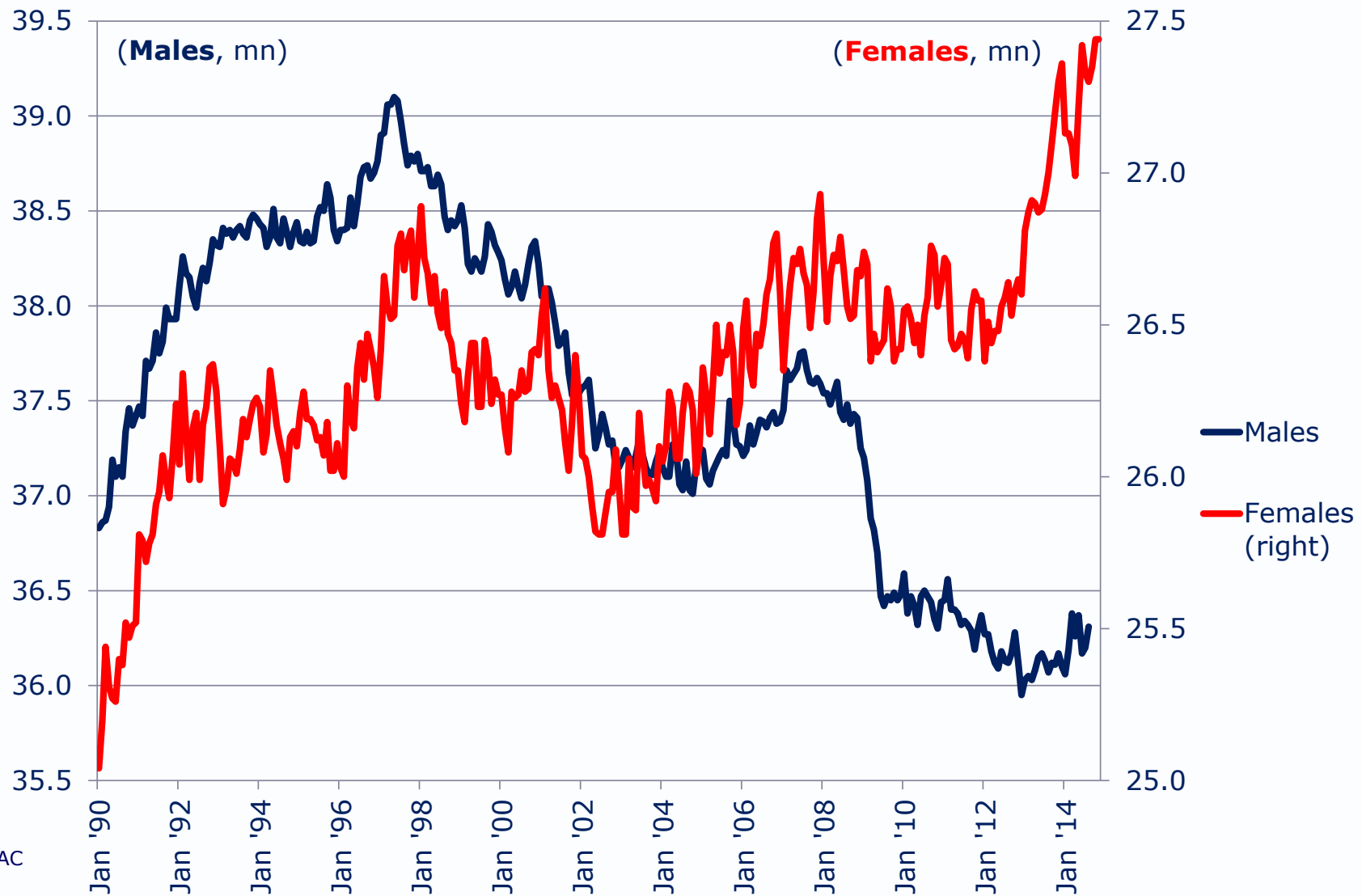
Japanese population pyramid for 2010



Source: CLSA, MIAC

Men are retiring: women are returning to work

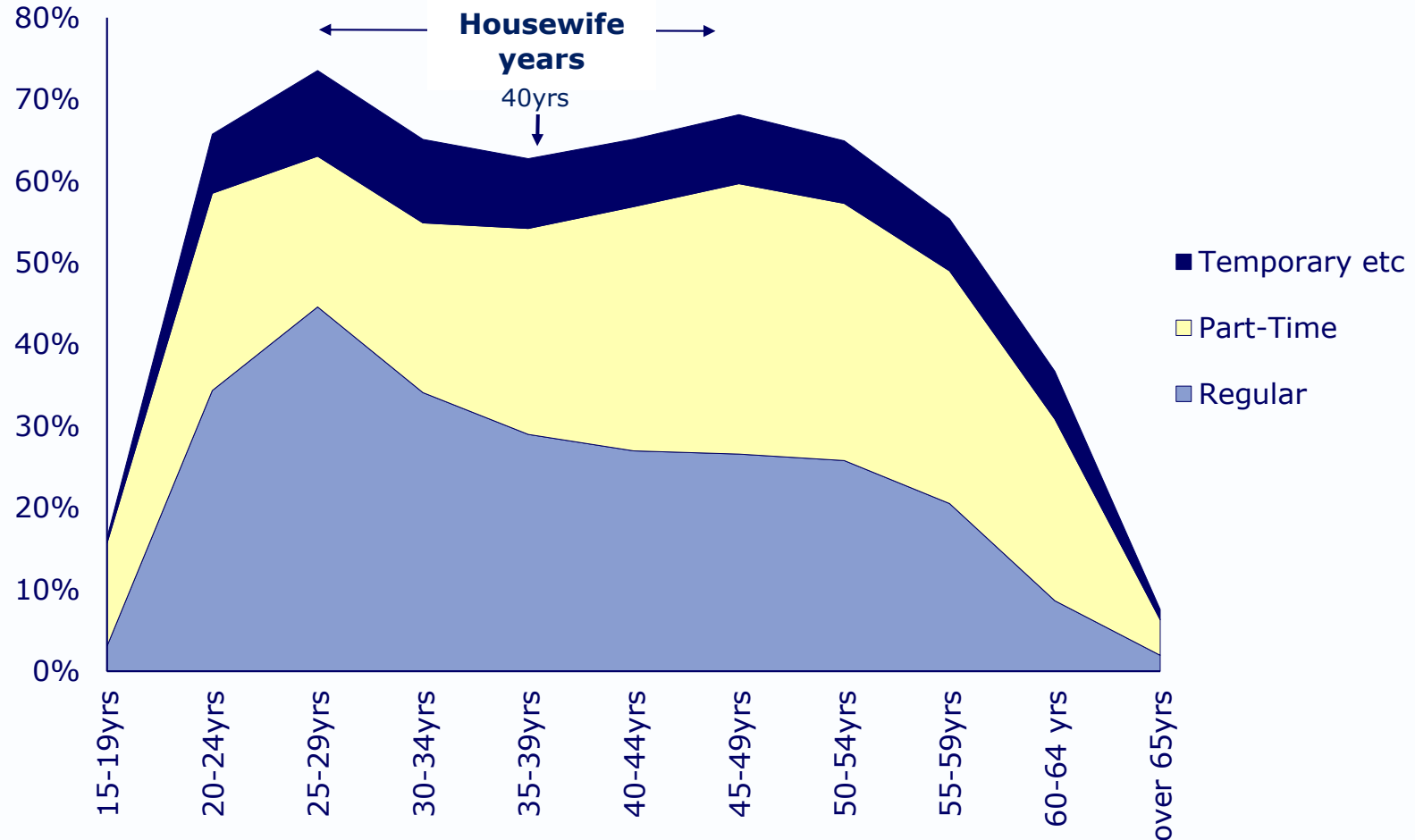
Male and female employment in Japan



Source: CLSA, MIAC

40 is back-to-work time

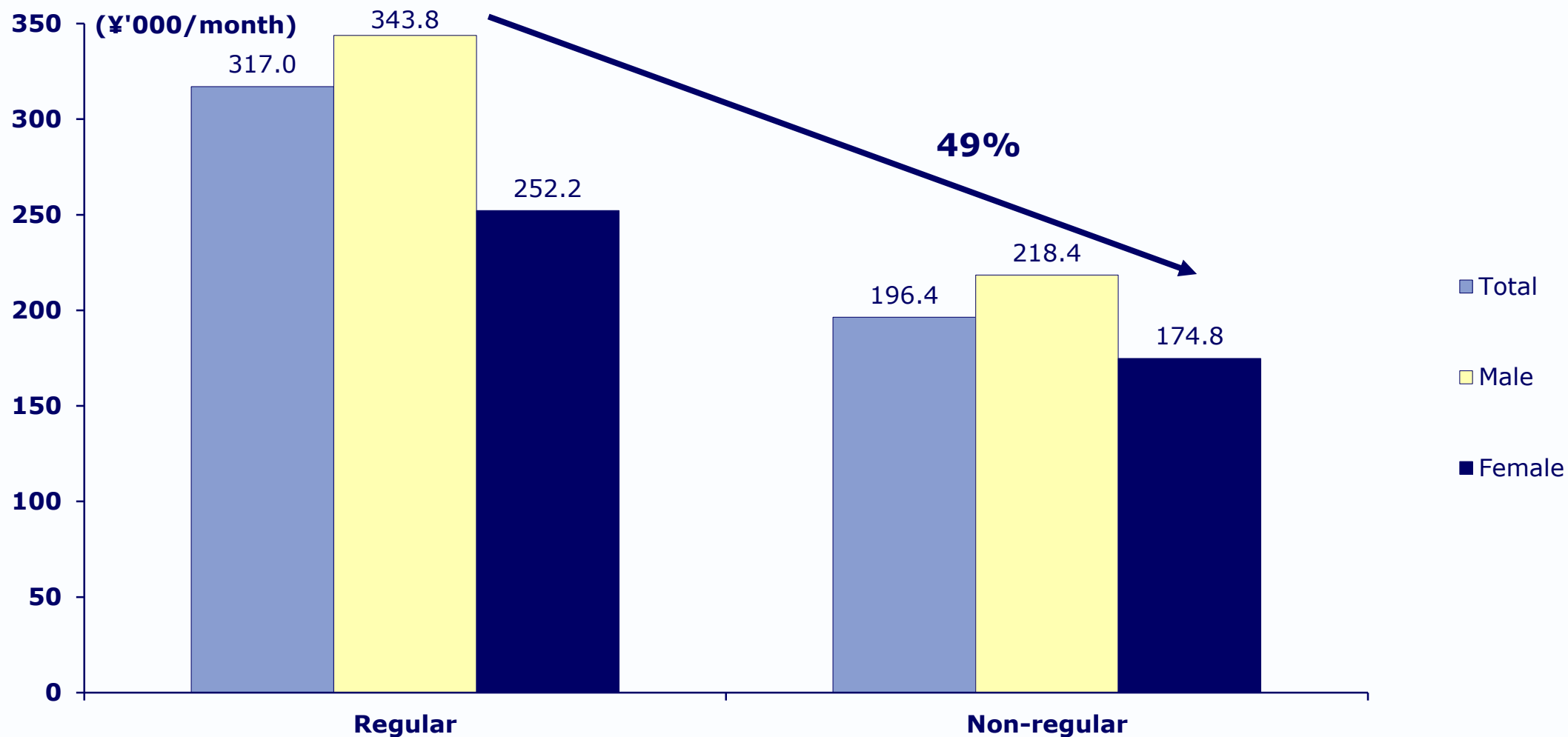
Female labour participation rate by age



Source: CLSA, MIAC

Part-timers are paid half as much

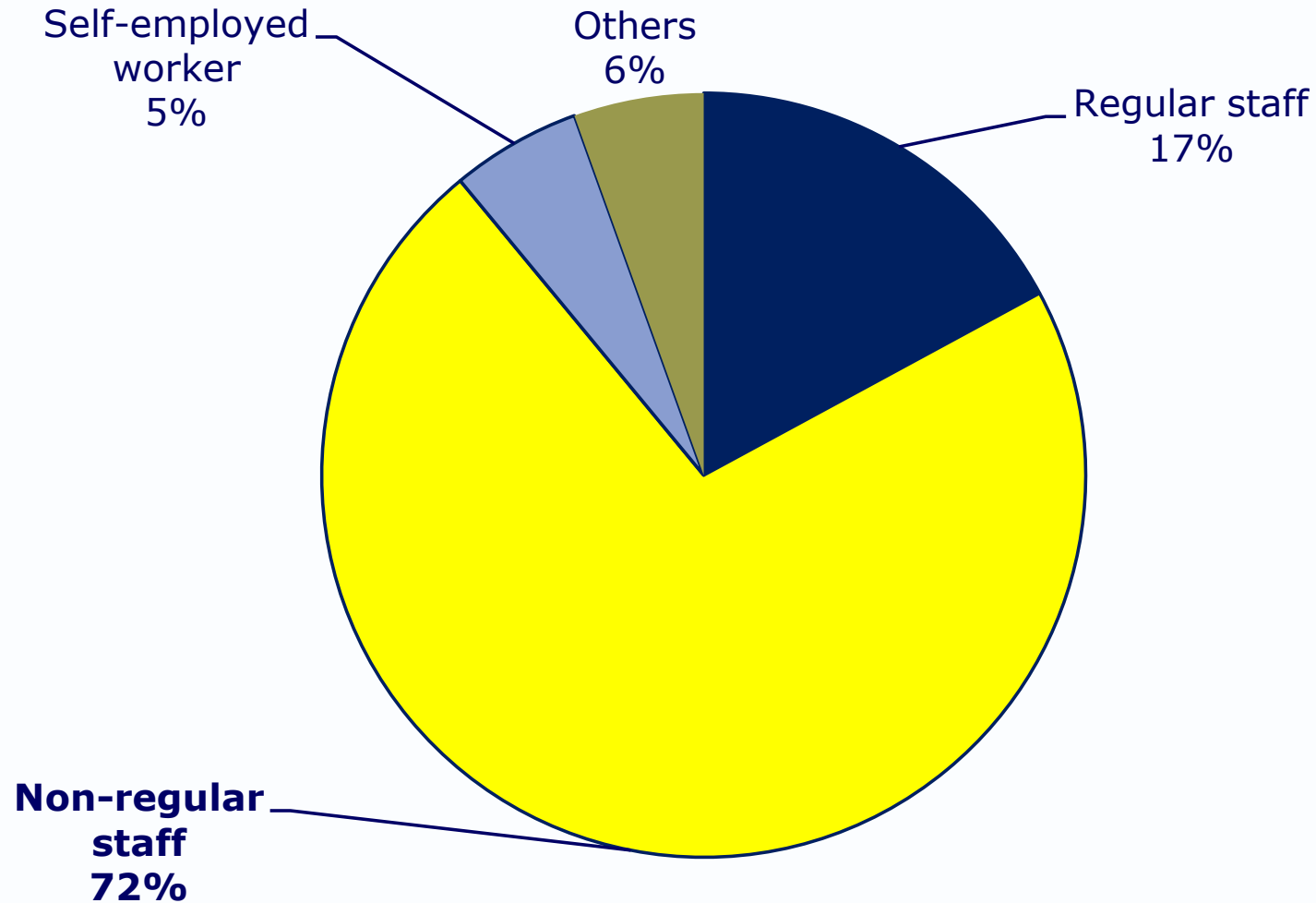
Wages and the gender gap



Source: CLSA, MHLW

Women don't even want to be regular staff

Breakdown of work sought by 3.03m women wishing to work (2012)



Source: MIAC, CLSA

Household income up: average wage down

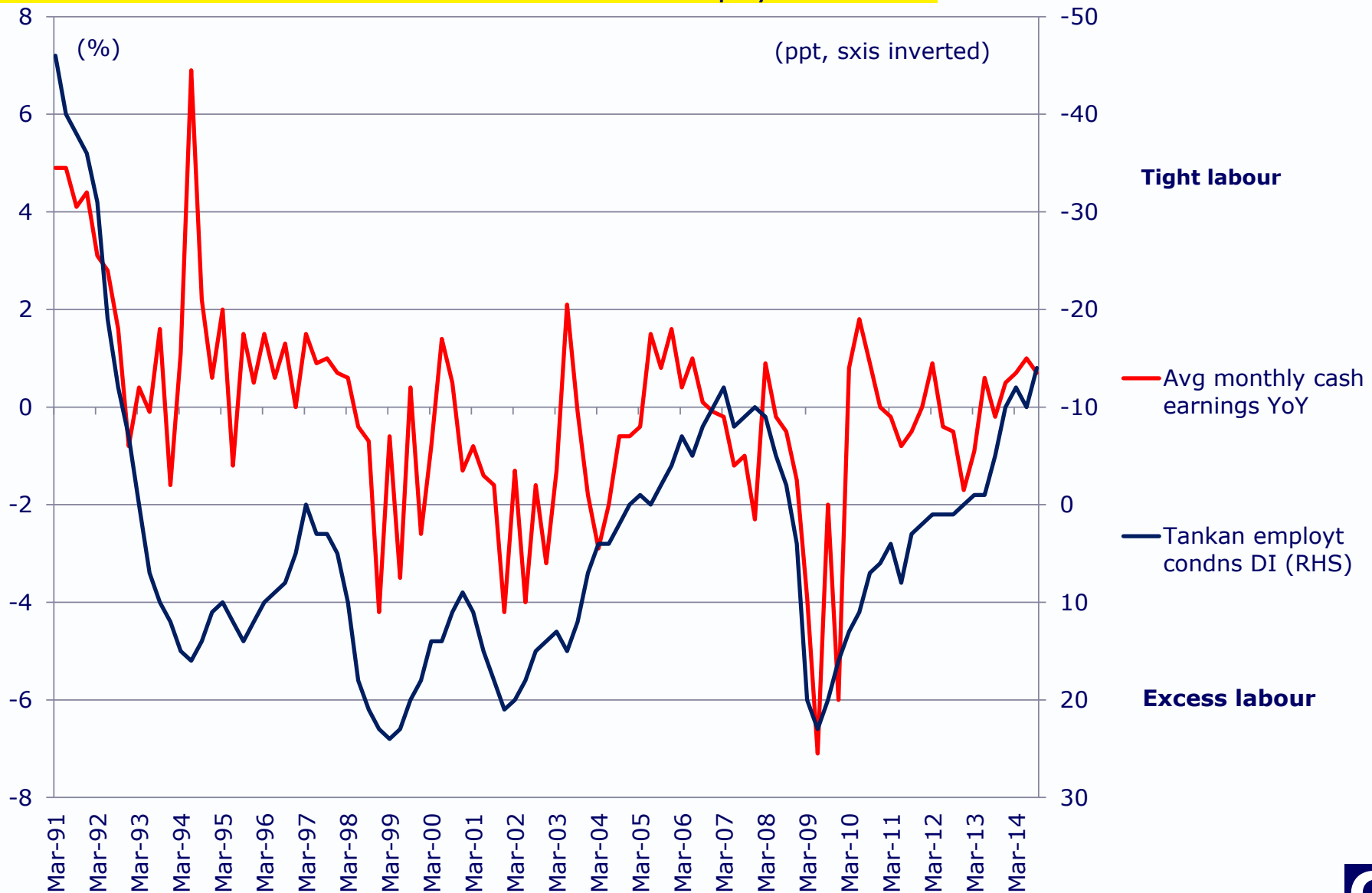
A imaginary population of two

	Year 1	Year 2
Mr. Tanaka	100	102
Mrs. Tanaka	-	50
Av. wage of people in employment	100	76
Household income	100	152

Source: CLSA

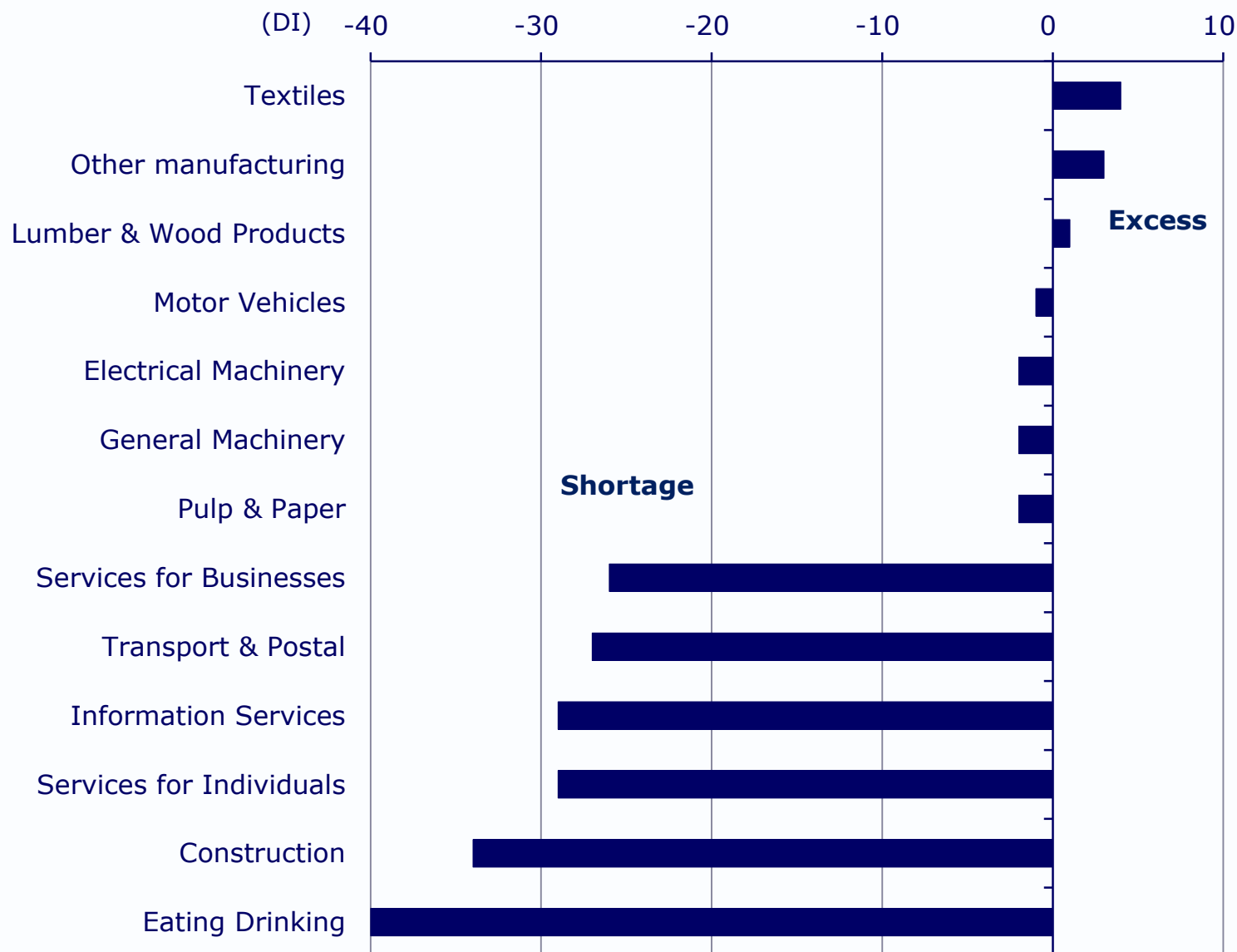
Supply & demand drives pay, even in Japan

The Tankan labour market conditions index and YoY pay increases



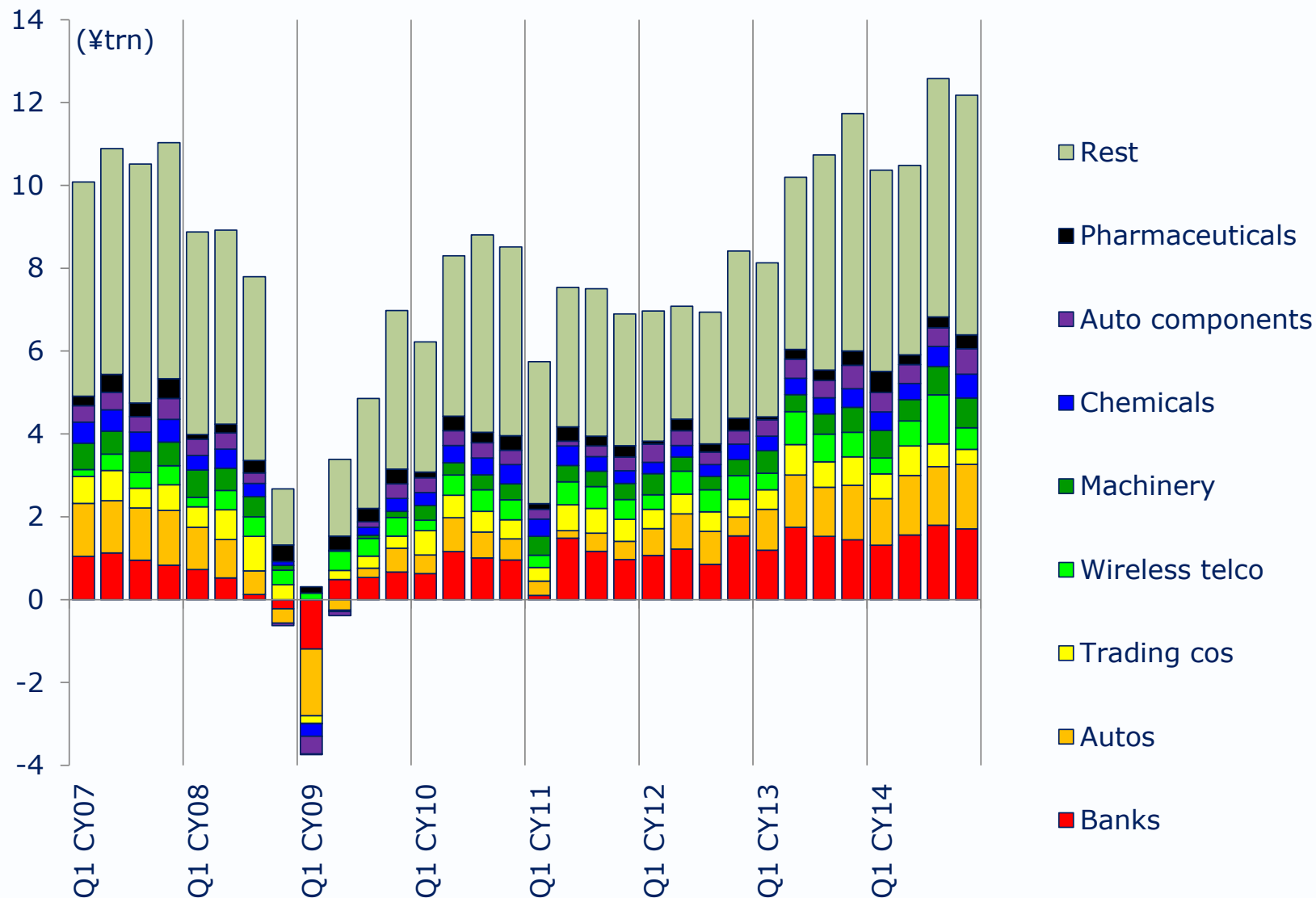
Waitresses, builders & truck drivers needed

Tankan labour conditions index in Q4 CY14



Profits at all-time highs

Pre-tax (recurring) profits for 1,105 Topix companies with comparable data



Recommended portfolio

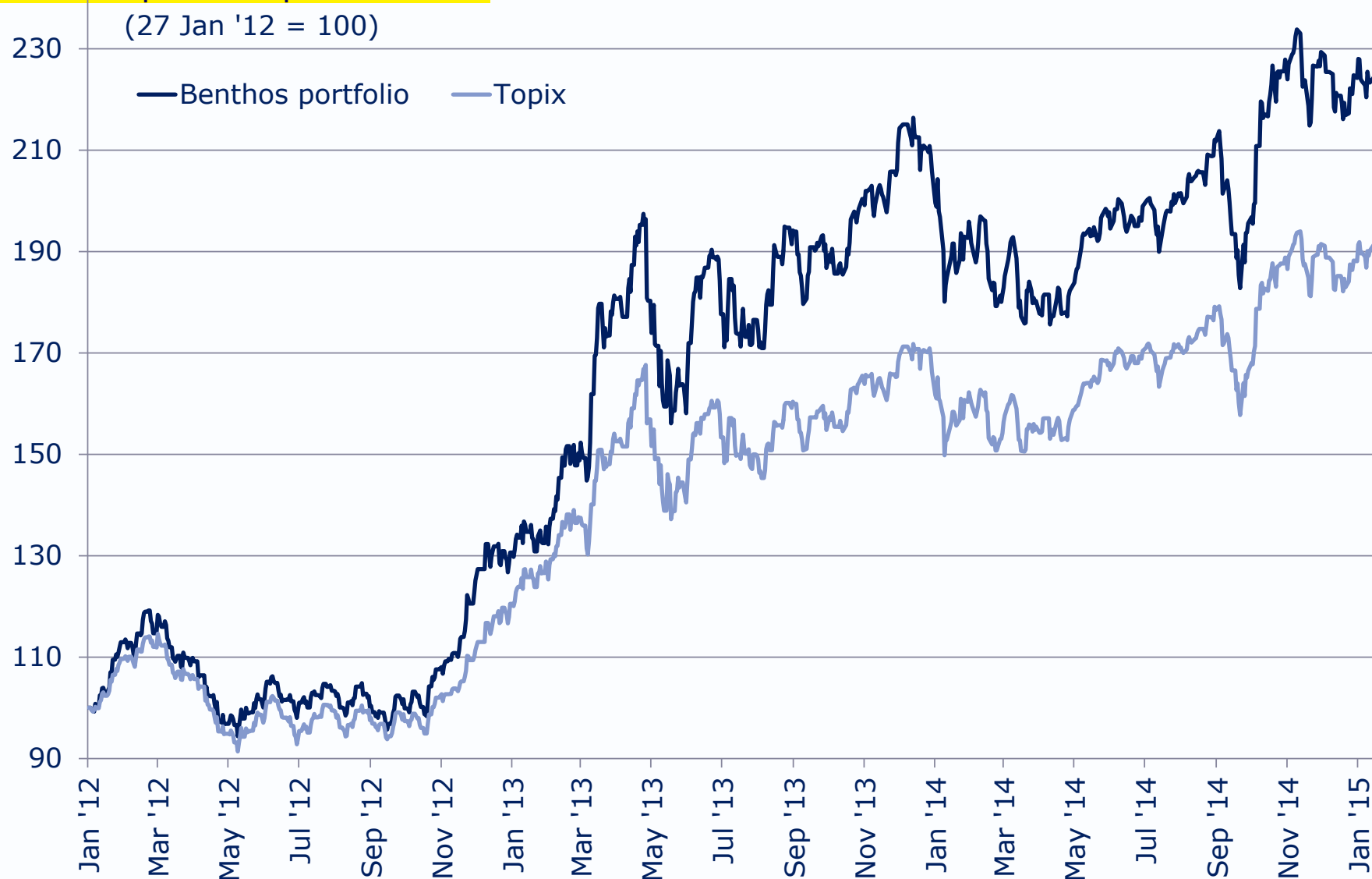
The Benthos model portfolio

Company name	Code	Analyst Rec	Theme
ABC Mart	(2670)	N-R	Consumption
Isetan Mitsukoshi	(3099)	BUY	Consumption
Komatsu	(6301)	BUY	Machinery
NTN	(6472)	BUY	Cheap oil
Yasukawa	(6506)	BUY	Machinery
Sony	(6758)	BUY	Recovery play
Stanley Electric	(6923)	BUY	Auto parts
Fanuc	(6954)	BUY	Automation
Taiyo Yuden	(6976)	BUY	Weak yen
Nissan	(7201)	BUY	Weak yen, auto
Honda	(7267)	BUY	Weak yen, auto
Ryohin Keikaku	(7453)	N-R	Consumption
Itochu	(8001)	BUY	Dividends
H2O Retailing	(8242)	N-R	Consumption
Marui	(8252)	N-R	Consumption
Jafco	(8595)	N-R	IPO
Daiwa Securities	(8601)	BUY	Broker
MS&AD	(8725)	BUY	Insurance
Mitsui Fudosan	(8801)	BUY	Real estate
JAL	(9201)	BUY	Weak oil, restructuring

Source: CLSA, Bloomberg

Performance of Benthos model portfolio

Benthos model portfolio performance



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24-27 February, Tokyo



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11-13 March, Bangkok



China Forum 2015

11-13 May, Chengdu



Investors' Forum 2015

14-18 September, Hong Kong



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16-18 November, Gurgaon

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