



# Japan Strategy

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Earnings in the fast lane



Nicholas Smith

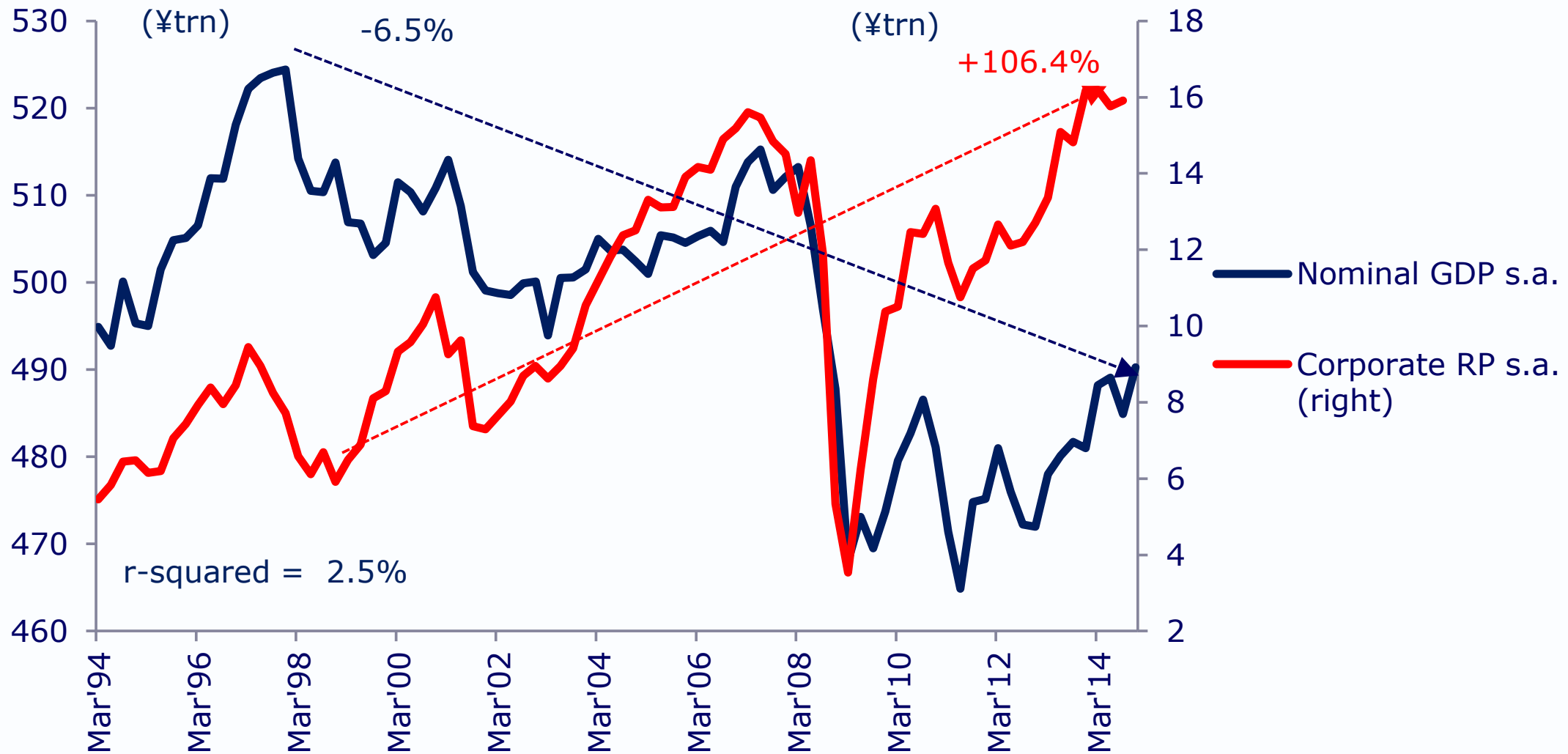
**Japan strategist**

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# GDP down, profits up, happening for years

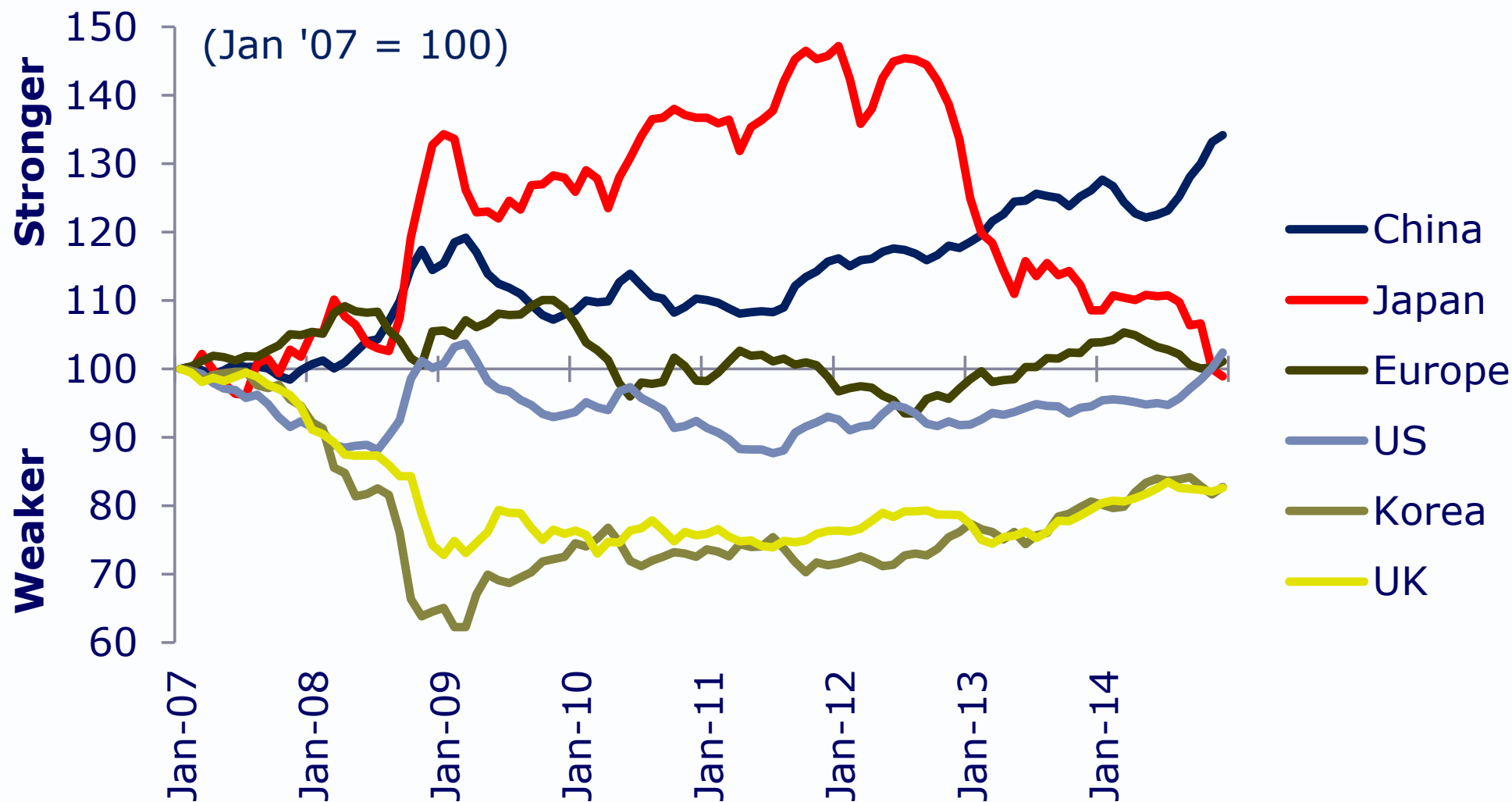
## Corporate pre-tax profits and GDP



Source: CLSA, ESRI, MoF

# Home again: FX back to pre-GFC levels

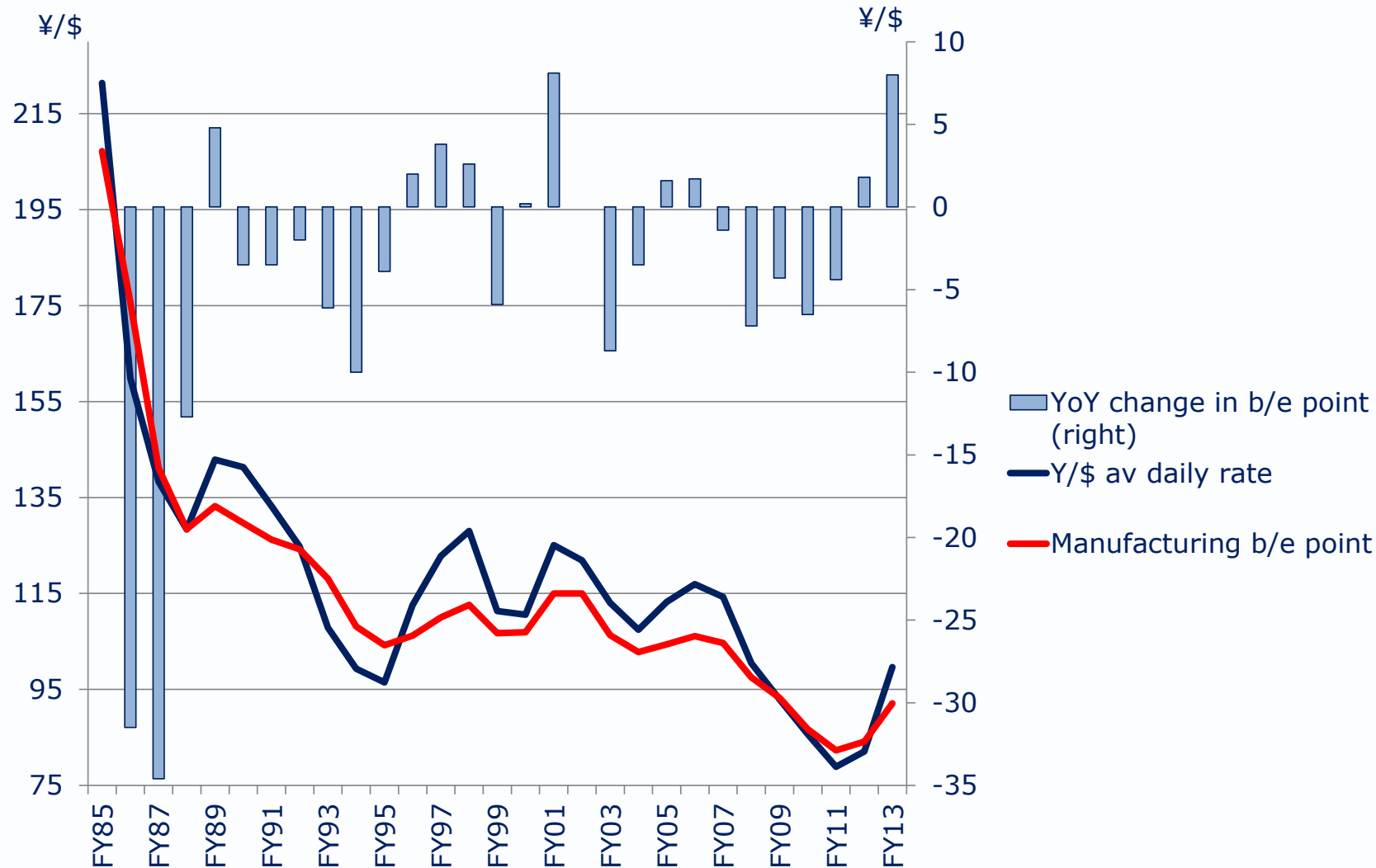
## Trade-weighted exchange rates



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

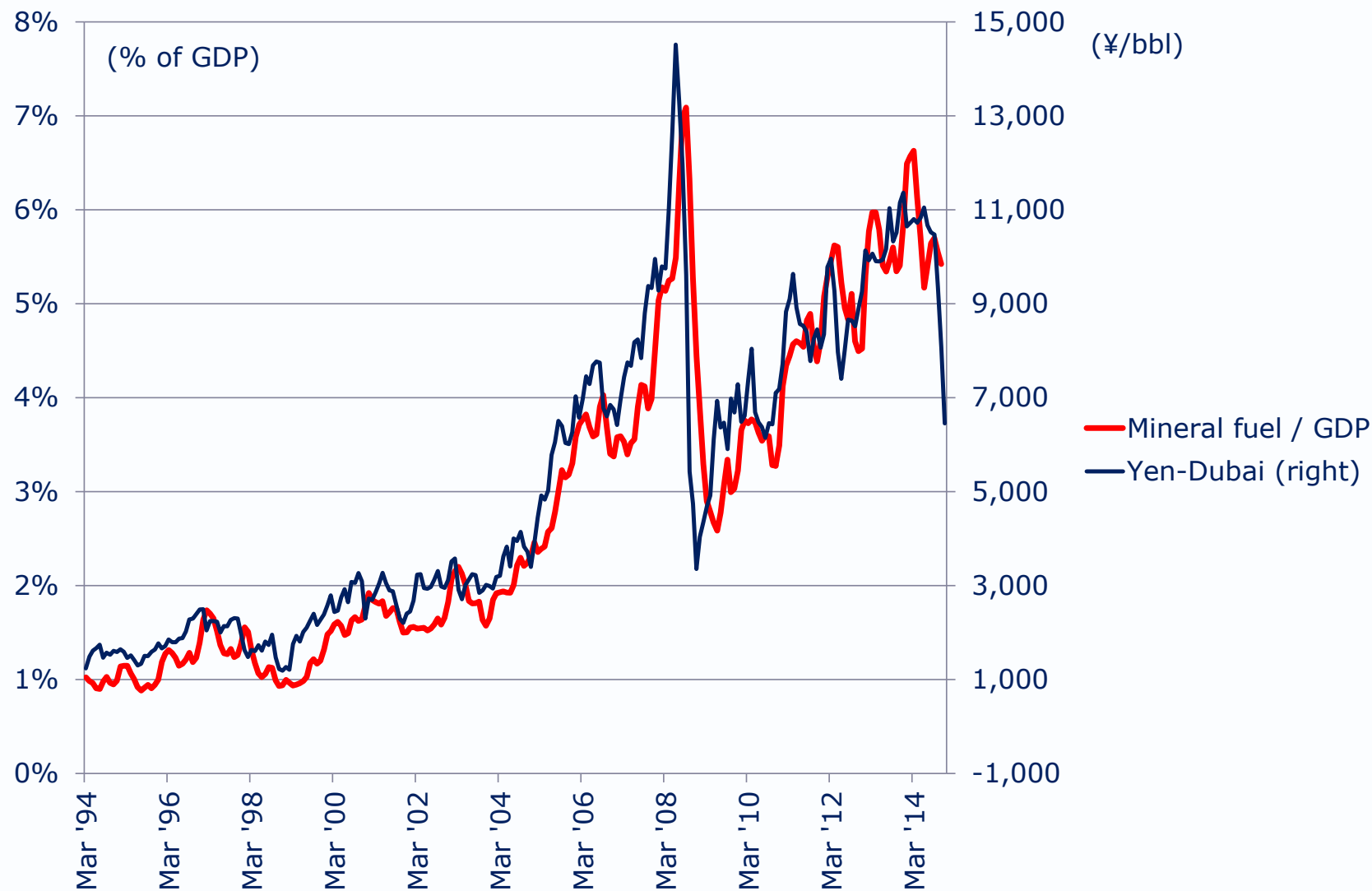
## The yen's real effective exchange rate



Source: CLSA, BoJ, BIS

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

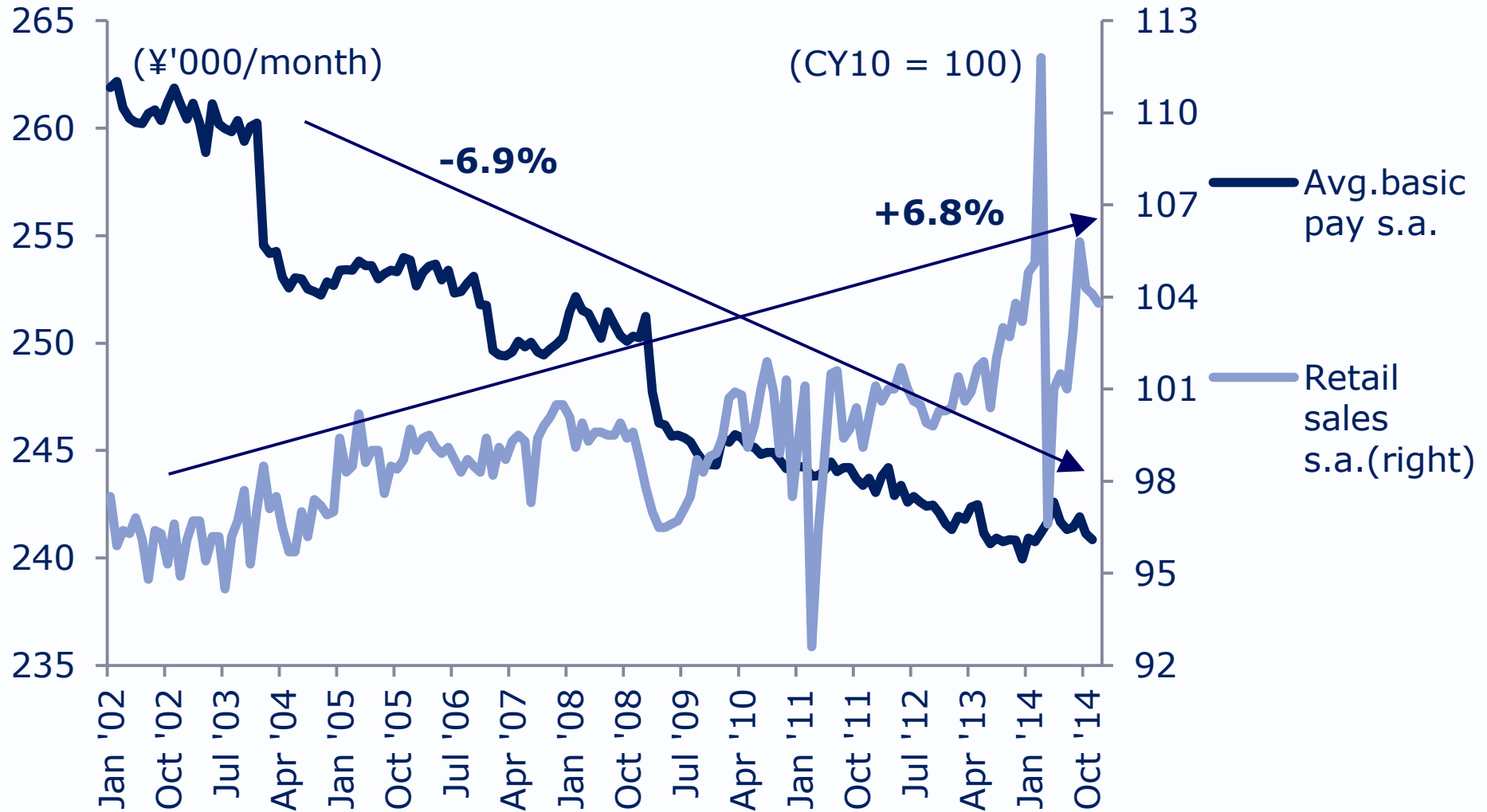
## Japan's fossil fuel imports as a % of GDP



Source: CLSA, MoF, ESRI, Bloomberg

# Wages down: retail up. Ask why

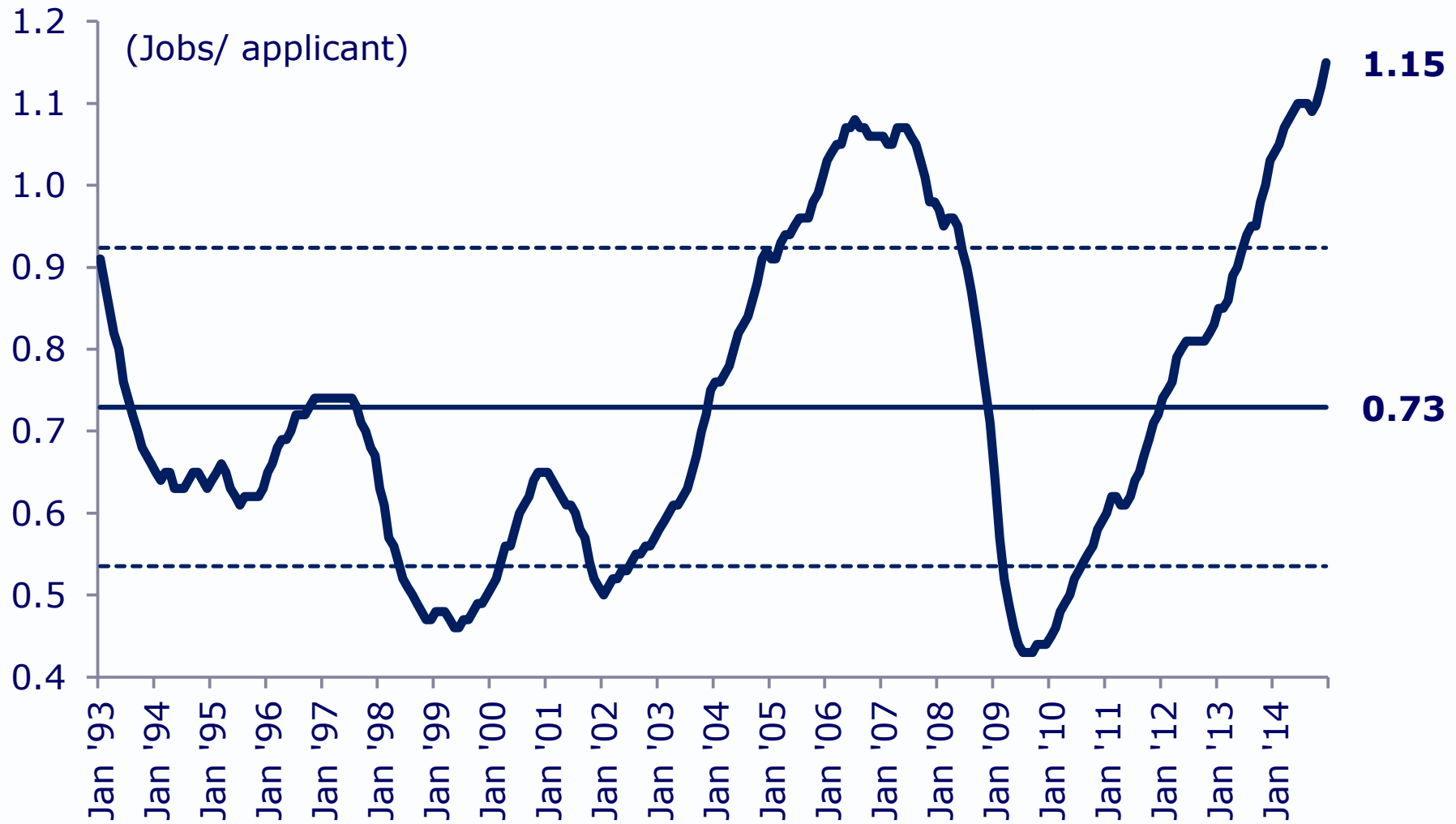
## Government figures for average basic pay



Source: CLSA, MHLW, METI

# There are more jobs than people to fill them

## Japanese job/applicant ratios

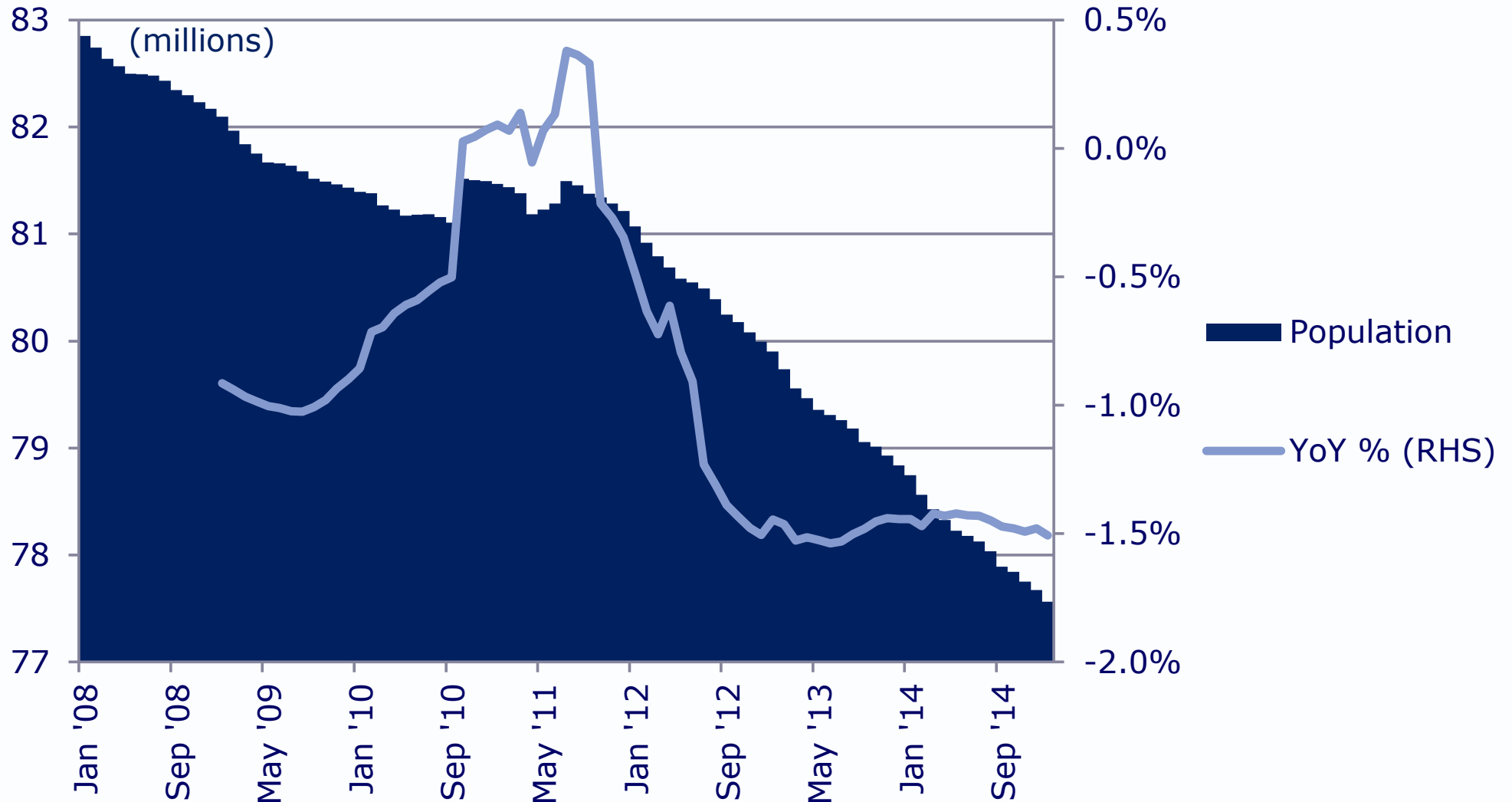


Source: CLSA, MHLW



# The working age population is shrinking 1.5% per year

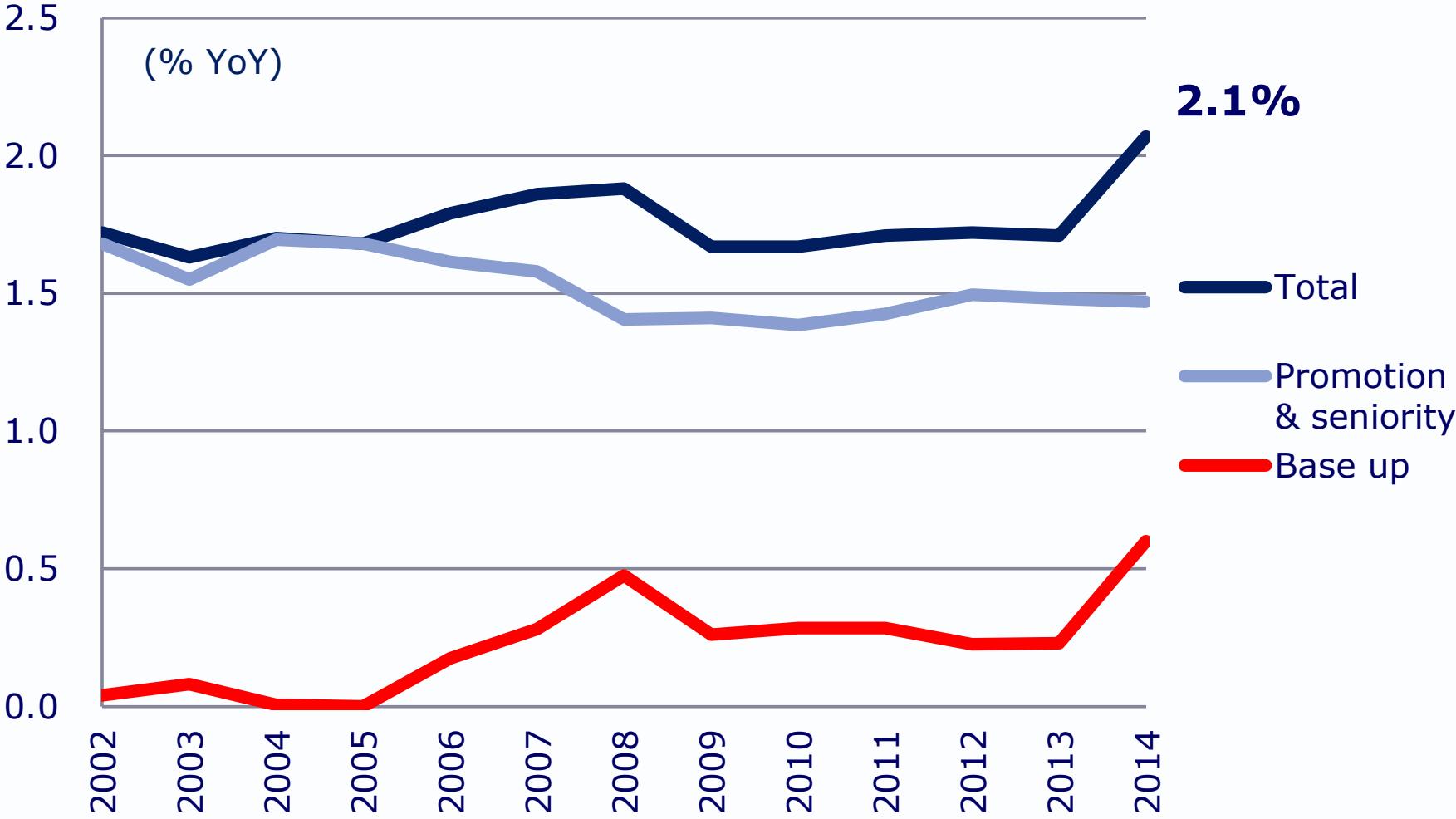
## Population of 15-64 year-olds in Japan



Source: CLSA, MIAC

# Trade union numbers show a 2.1% wage hike in 2014

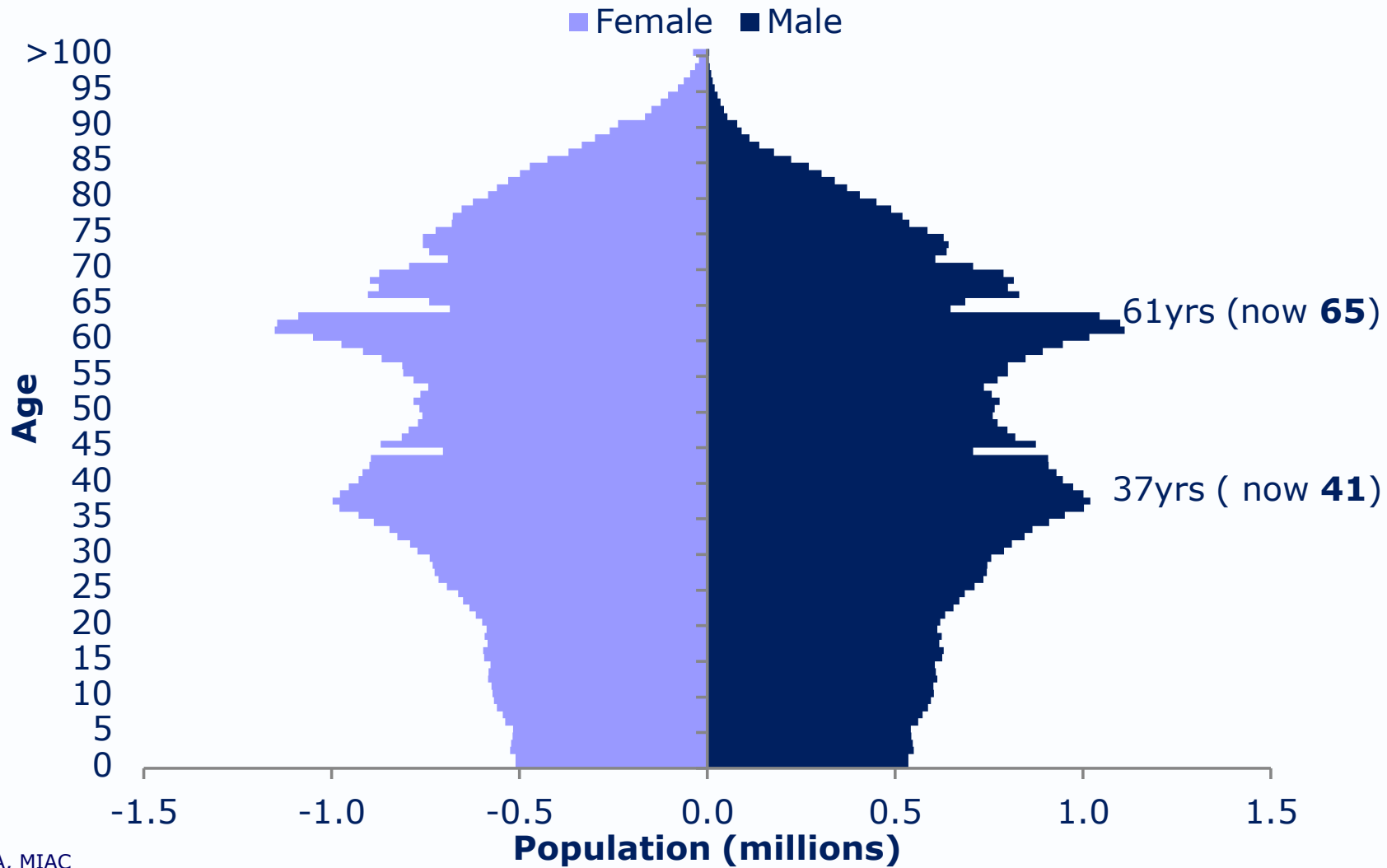
Pay increases won by Japanese trade unions for members



Source: CLSA, Rengo

# There are two crucial bulges in the population pyramid

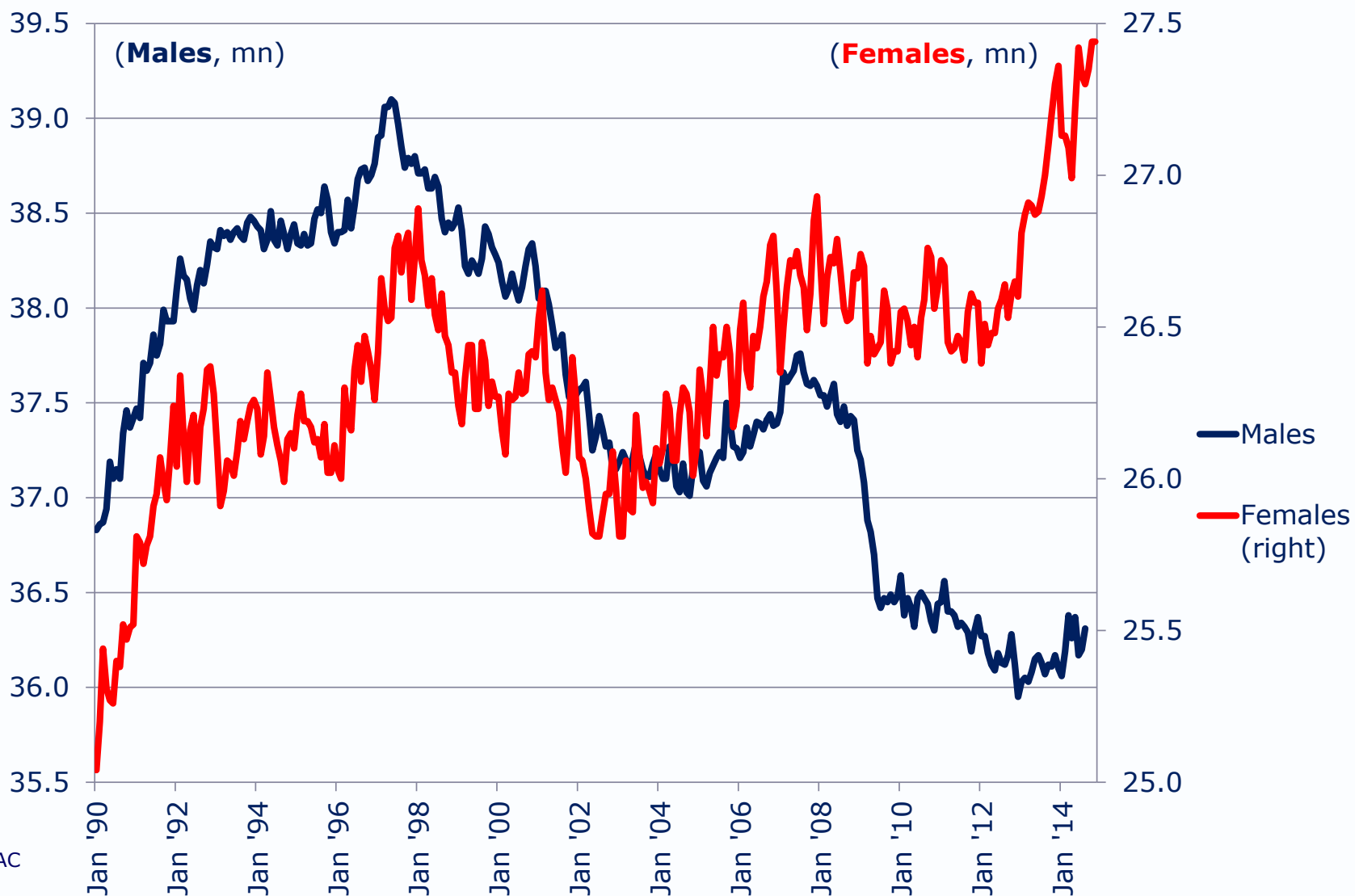
## Japanese population pyramid for 2010



Source: CLSA, MIAC

# Men are retiring: women are returning to work

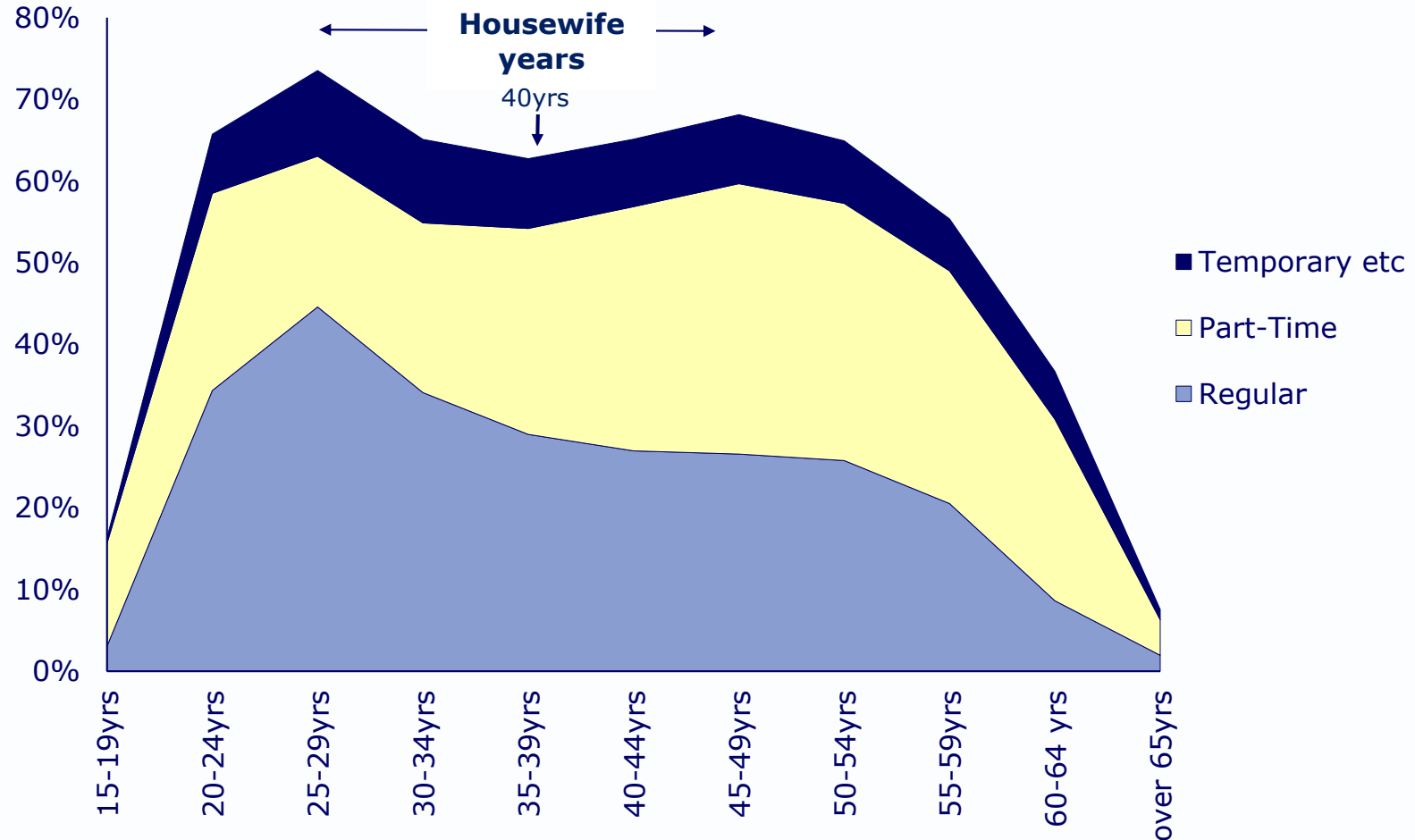
## Male and female employment in Japan



Source: CLSA, MIAC

# 40 is back-to-work time

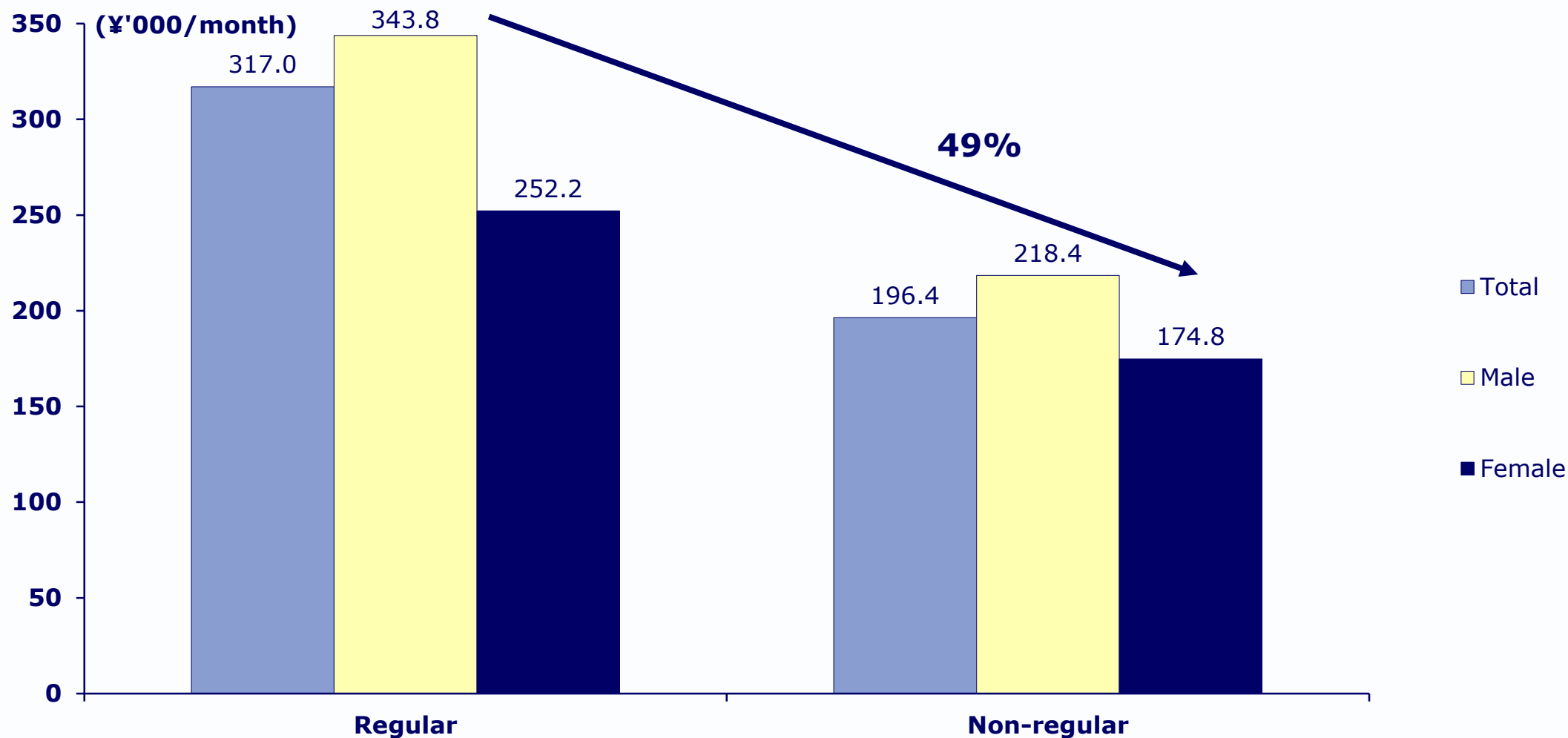
## Female labour participation rate by age



Source: CLSA, MIAC

# Part-timers are paid half as much

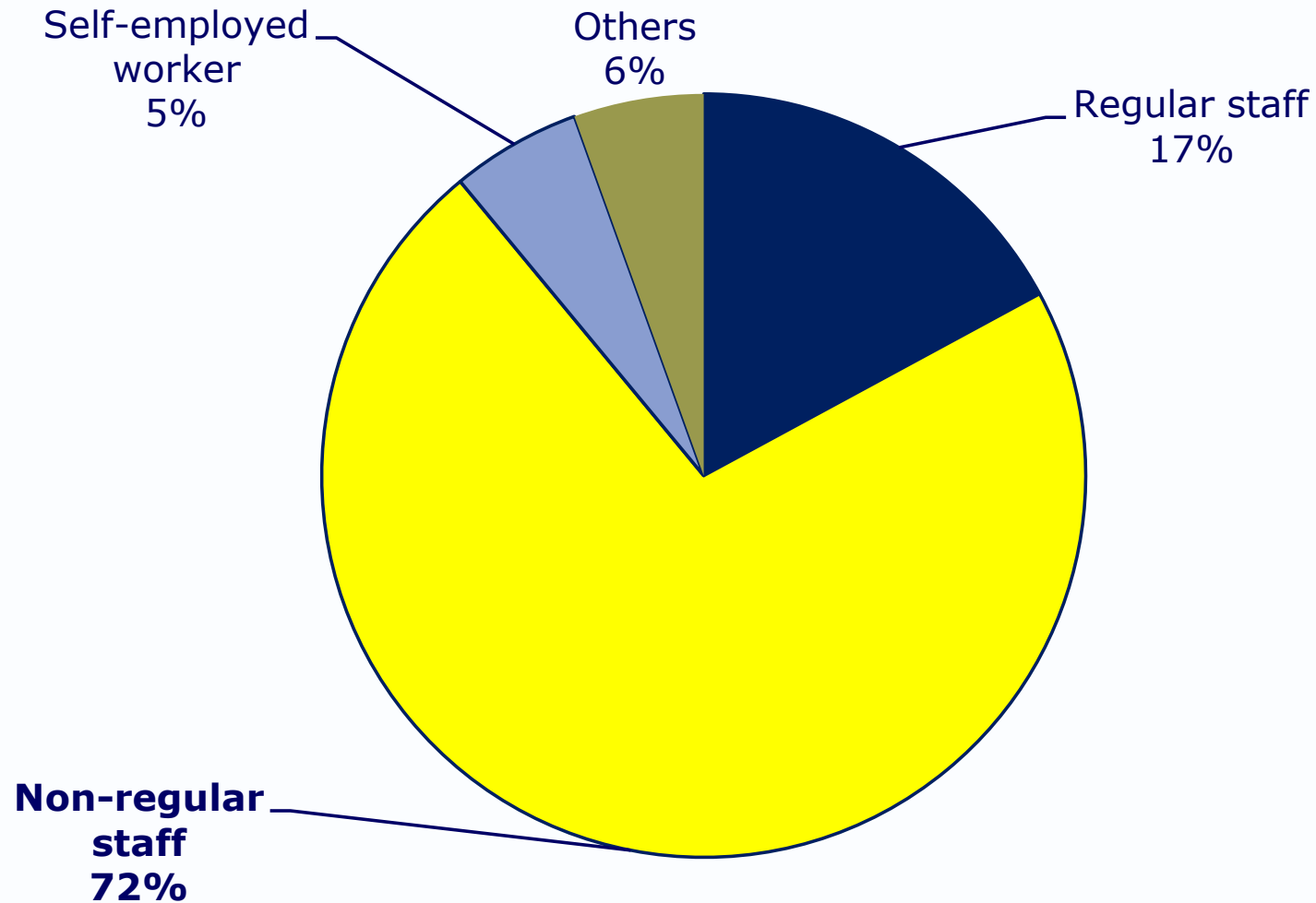
## Wages and the gender gap



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

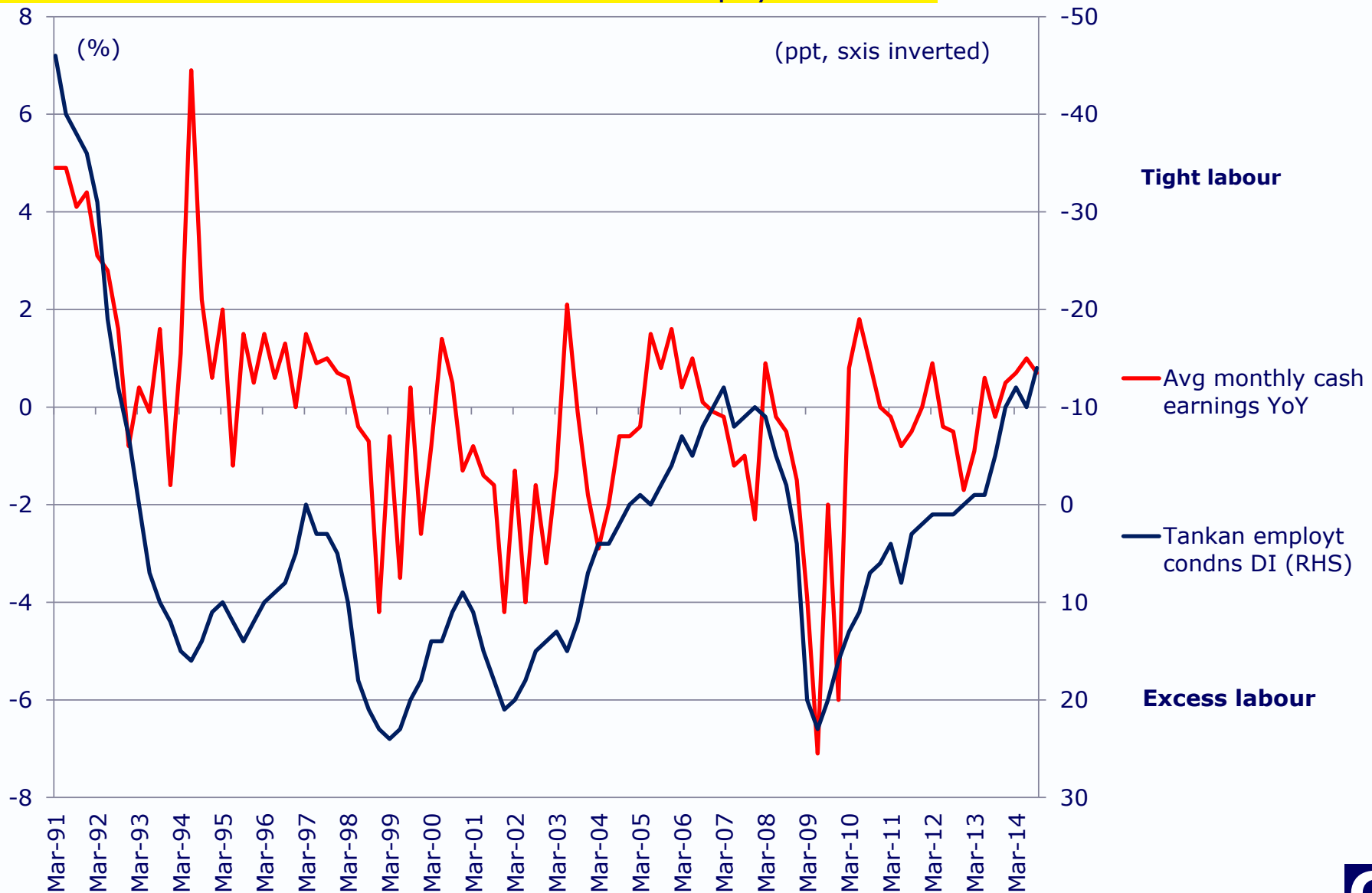
	<b>Year 1</b>	<b>Year 2</b>
Mr. Tanaka	100	102
Mrs. Tanaka	-	50
Av. wage of people in employment	100	76
Household income	100	152

Source: CLSA



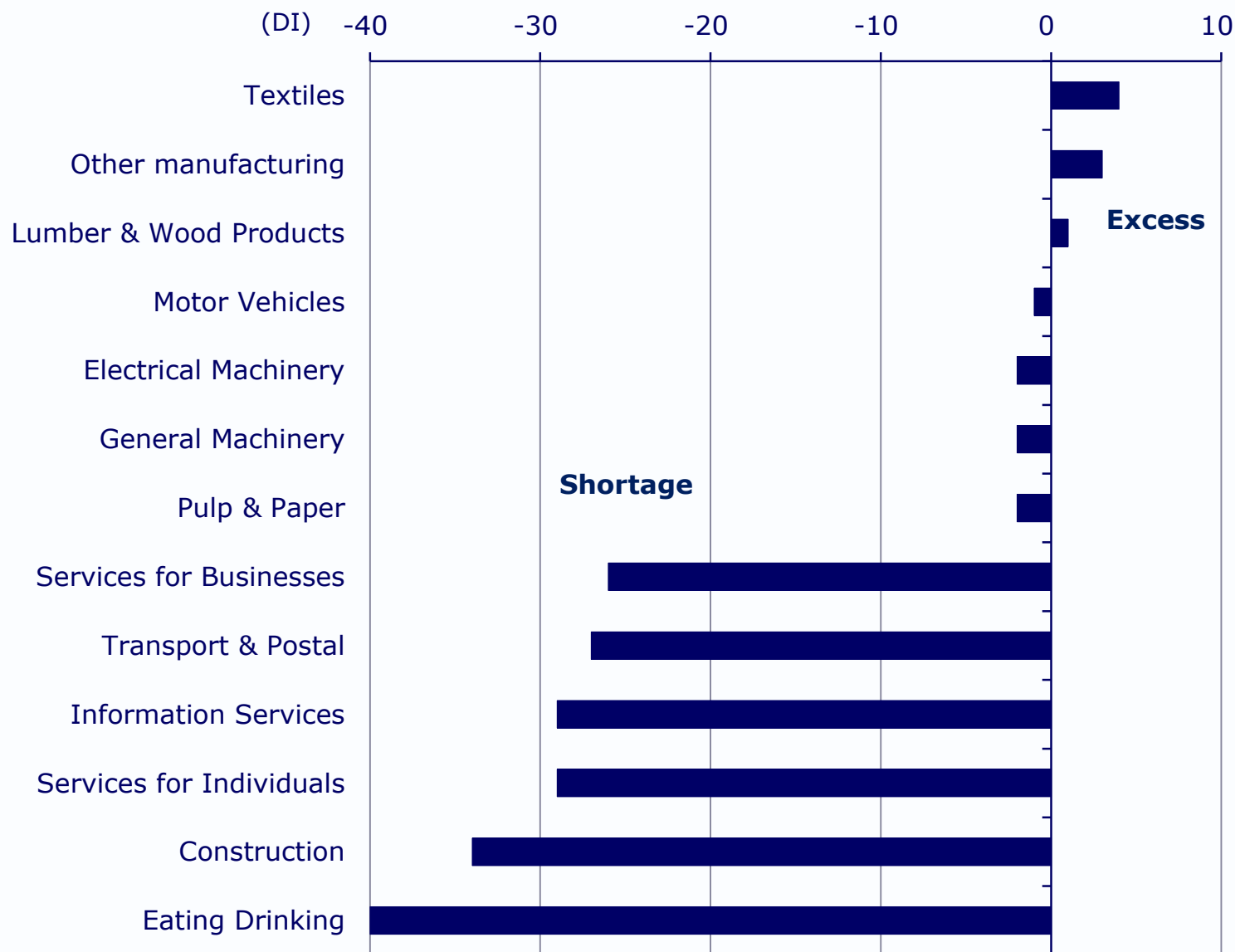
# Supply & demand drives pay, even in Japan

The Tankan labour market conditions index and YoY pay increases



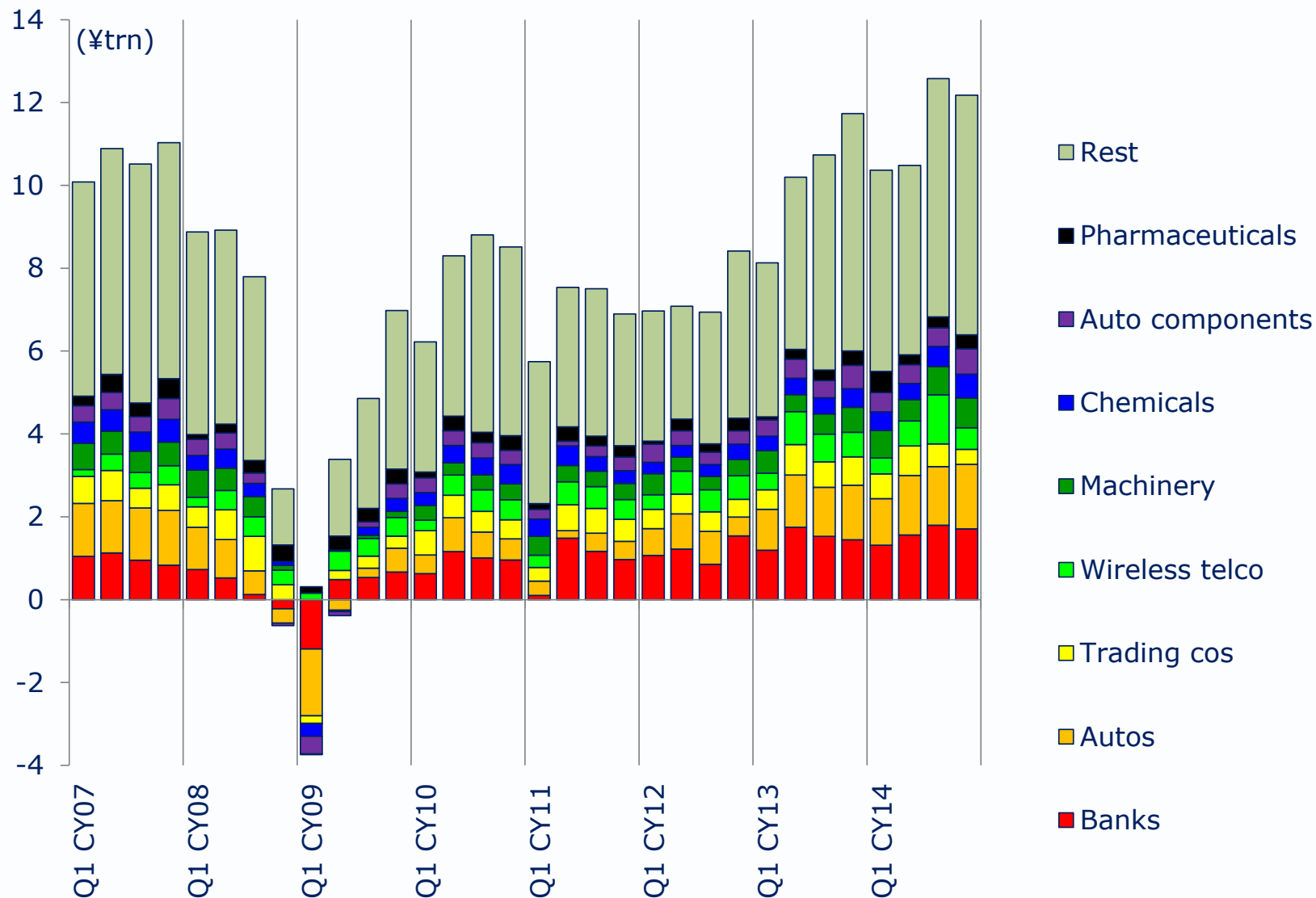
# Waitresses, builders & truck drivers needed

## 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

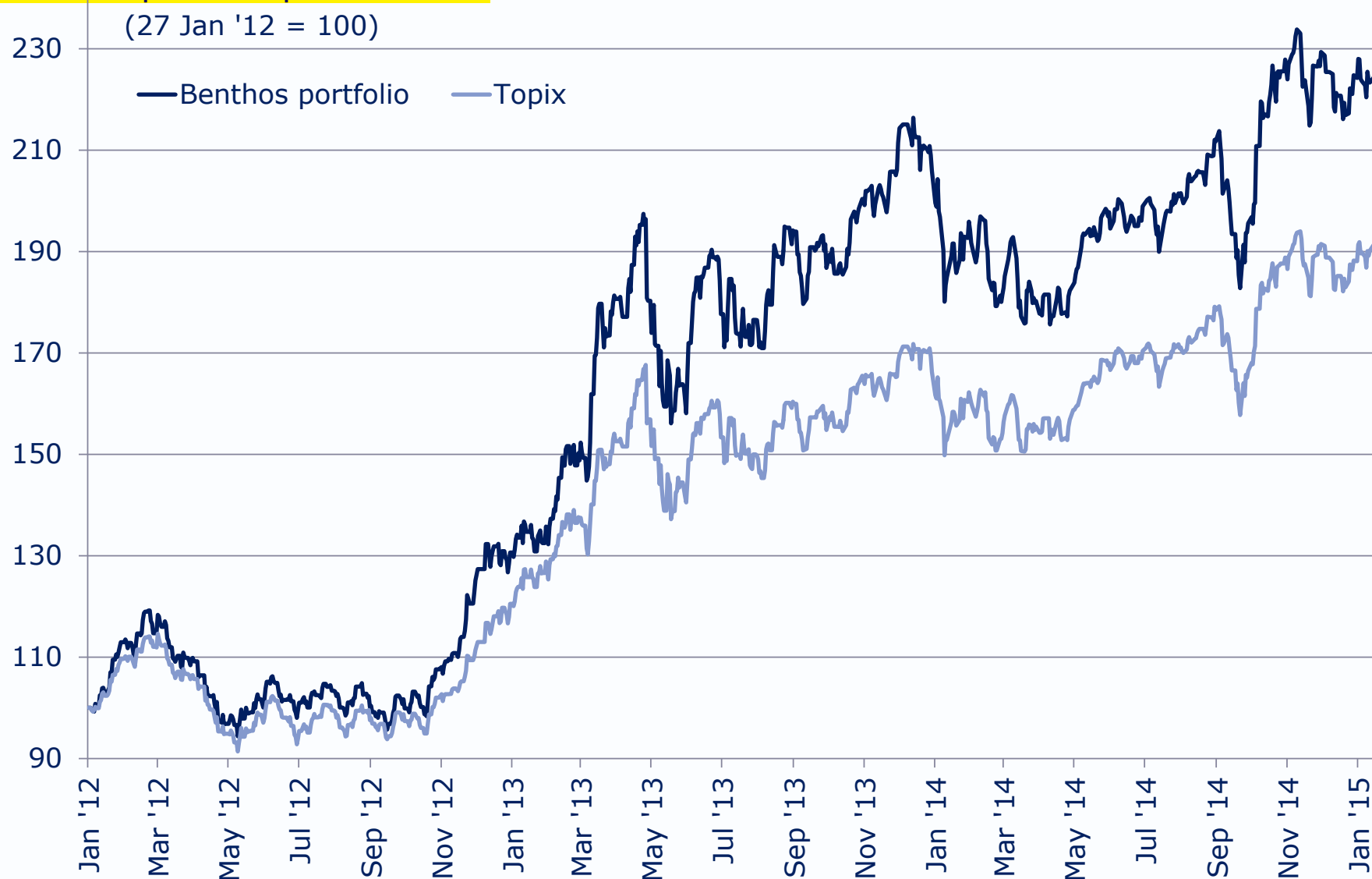
## The Benthos model portfolio

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



# Upcoming CLSA Forums

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## Japan Forum 2015

24-27 February, Tokyo



## Asean Forum 2015

11-13 March, Bangkok



## China Forum 2015

11-13 May, Chengdu



## Investors' Forum 2015

14-18 September, Hong Kong



## India Forum 2015

16-18 November, Gurgaon

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