



Hated By Street

Forgotten names worth a second look

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In Past cycles, we have seen a much closer correlation between overall share prices and sell-side analyst ratings. In the current cycle, however, we have seen early downgrades to stocks.

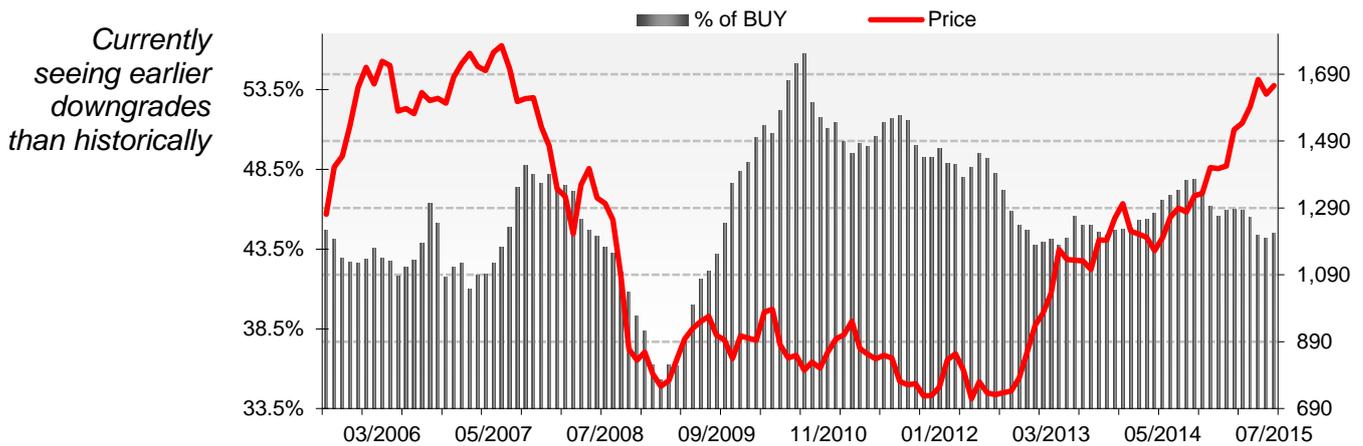


Figure 1: % Buy recommendations vs. TOPIX Price

As part of our screening activities, Custom Products decided to look at ‘stocks hated by the street’ to see if we could find any out of favour stocks that had still looked interesting. We decided to screen for stocks that had ‘20% or more of their ratings as sells and 10% or less buys’ (see figure 2).

Worth searching for the forgotten names

Though many stocks seem to be justifiably unloved, where the underlying story and valuations were not compelling, this was not universally true. We also noticed a few trends; stocks where analysts have become complacent and leaving ratings unchanged for over a year despite the potential to outperform, and stocks that had disappointing earnings forecasts offered buying opportunities as they were unfairly penalized by the street with downgrades despite their compelling valuations on a long term view. In addition, the street has generally been premature in downgrading stocks on valuations despite low volatility and continued positive revisions.

Following are some of the names worth another look despite poor street recommendations, and please contact your Custom Products representative for any more information, a copy of the screen, or with any questions you might have.



Kyocera

[6971]

*Consistently
beating
consensus
estimates*

When I think of Kyocera, I am often reminded of a sell report from 2005 on the former “Goodwill Group” which was titled “It’s all because of a Jet”, whereby Goodwill spent more than their annual capex in 2004 buying a Gulfstream jet which they claimed at the time would improve their IR activities. In Kyocera’s case, it’s not a jet but the ‘Kyocera Hotel’. This is symbolic of the poor asset efficiency that has seen asset turnover fall for the last 4 years to 0.54x, much lower than TDK, Taiyo Yuden and Murata.

Despite poor asset efficiency, the company has generally seen increasing Earnings Estimates since late 2014, with results that have consistently beat consensus estimates. Strength in IC packaging, capacitors and printers, combined with a recovery in the communication equipment division should see FCF/Firm approach 5%. The co. has been increasing dividends and maintains minimum 30% payout ratio. EPS is expected to decline slightly this year, but a 76% equity ratio and 5.6% ROE and almost 20% net cash would suggest further room for either dividend increases or share buybacks.

Daichi Sankyo

[4568]

*Limited forward
growth, but
cheap on
relative
valuations*

The company’s sale of their shares in Sun Pharma April 21, which was received when they transferred the assets from Ranbaxy, was followed by an Y50bn share buyback announcement in May. Changes in senior management since the fiasco with Ranbaxy reminds me of the Greek philosopher Heraclitus’ saying, “You cannot step into the same river twice”, meaning that, hopefully, Daiichi is not the same company that it was in late 2008 when it went ahead with the investment despite rumours of FDA issues with its plants. Though growth outlook is limited for the next few years and stock has had good run recently, valuations are cheap on relative valuations to the sector.

Acom

[8572]

*Earnings
recovery going
forward*

Almost universally hated but valuations still reasonable despite run-up over the last year. Large downward revision in April for FY14 due to continued high rate of interest refunds, but street is looking for strong recovery this year and into FY17.

Taiyo Nippon Sanso

[4091]

*Strong forecast
OP Growth*

Stock rose over 20% in November after Mitsubishi Chemical announced that it had gained 50.6% of voting rights from a tender offer. FY14 result was in line with street expectations and 16% OP growth was slightly above expectations but stock was sold off slightly. Street is now forecasting 16% OP CAGR for the next 4 years.



Nikon [7731]

Net cash but no growth

Stock is trading almost 1 Standard Deviation below historical valuations with 25% net cash, and the street is looking for flat OP over the next 3 yrs.

Sumitomo Dainippon Pharma [4506]

Ignored by Analysts but PER expansion possible

Very little change in analysts' ratings over the last year. Street is looking for 30% EPS CAGR over next 4 years while the stock is trading almost 1 Standard Deviation below historical valuations and is cheap relative to the sector. With a beta of 0.85 the company could trade up to 35x PER.

Hitachi Construction [6305]

Dividends providing support

Street looking for 16% NP CAGR though underlying earnings are weak with a downward bias. Valuations are at average historical levels and asset turnover has been improving gradually, though nothing like the level between 2006 and 2008. Stock lacks a driver with China and mining cycle downturn. 3% dividend yield should support stock until catalyst appears.

Hokuriku Electric Power [9505]

Leading sector recovery

Stock is universally hated because of a suspected fault near its Shiga reactor with the risk that the reactor will have to be shut down. Stock is supported by 2.6% dividend yield and has high correlation with utility sector that has benefitted from lower crude prices and clearances to restart some reactors.

Gree [3632]

Lower end of PE

Stock trading at 15x F16PE (10x ex cash, though company has recently had to write down portion of goodwill).

Fukuda Denshi [6960]

Flat valuations, but room for dividend hike

FY14 results were disappointing and the stock came down on back of that. But not expensive at 13x FY15. 20% net cash with 5% FCF but little growth. The company has been increasing dividends in recent years and has further room for increases with 72% equity ratio.



Noritz [5943]

Expected recovery over next 3 years Stock is priced at its historical average ($\alpha=0$ for average historical valuations for PER, PBR, PCF, EV/EBITDA) after 20% fall following earnings downward revision, but street expects growth to recover over next 3 yrs.

Micronics [6871]

Rising estimates yet remains unloved Company has had rising Earnings Estimates over the last 6 months, and is unusual in the fact that all sell-side recommendations have been 'sell' for the last 18 months despite valuations becoming attractive again after the stock has come down from its late 2013 jump.

Tsugami [6101]

Shareholder returns increasing Company is trading below historical valuations due to weak earnings outlook as 70% of sales come from China and the rest of Asia. Company recently announced 3% share buyback and listing of wholly – owned Chinese sub, while continuing to increase dividends.

Nissha Printing [7915]

Consistent performer The stock is still only trading at average historical multiples, while earnings have beaten the street Earnings Estimates the last 7 quarters and the company re-instated its dividend last year. Companies that have reinstated dividends usually outperform for next 3 years and Nissha has room for further dividend hikes as well based on capital structure, FCF outlook and <20% forecast payout ratio..

Towa [4553]

Strong Revision Momentum, TP up, ratings ignored Strong earnings growth has generally been ahead of estimates. Strong revision momentum. Still cheap on historical valuations despite share price appreciation. Generic drugs driving strong upward revision in 2H/FY14. Street forecasting no growth but deserves higher multiples given low beta 0.75. Street continues to raise target prices but not rating despite strong earnings surprises (8-Aug-2014, 9-Feb-2015)



Hokuetsu Kishu Paper

[3865]

OP estimates have risen, industry consolidation

OP estimates have been coming up recently but there have been no changes in analysts' ratings. Hokuetsu's affiliate Daio possibly merging with Mitsubishi Paper and industry set for further rationalization. Stock is trading at historical valuations and street is forecasting marginal earnings growth.

Wacom

[6727]

Strong growth expectation

20% 5yr dividend growth with 20% net cash. Earnings disappointed last year but street looking for strong growth in next 2 years. 4% dividend yield

Chugoku Marine Paints

[4617]

Consistently beats estimates

In line with historical valuations but strong earnings growth. Earnings have beaten street estimates for last 3 years. 8% 3yr EPS CAGR forecast by street.

Arc Land Sakamoto

[9842]

Good candidate for increased shareholder payout

Weak Q1 earnings could make full year forecast challenging, but valuations are just above historical average, PER at 10x FY15E, and with net cash and 75% equity ratio one would probably be rewarded to wait. Only 12% dividend payout ratio.

Mars Engineering

[6419]

Potential shareholder returns

Basically no growth with slight downward earnings bias, but trading at 11.5x FY15E with positive FCF and 40% net cash. 2.8% dividend yield but only 30% payout.



Universe: All Japan Listed, Mkt Cap > 20bn JPY

Ticker	Company Name	Sector	Mkt-Cap (bn yen)	Buys % of Total	Sells % of Total	Px Upside (Sell Rec)	Px Upside (Consensus)	Net Debt/Equity Ratio (%)	Recommendations				# of Analysts Covering
									Upward Revisions (3Months)	Downward Revisions (3Months)	% of Coverage Upgrade (3M)	% of Coverage Downgrade (3M)	
6971	Kyocera Corporation	Electric Appliances	2,343.9	5.6	22.2	0.7	5.2	-27.1	0.0	1.0	0.0	5.6	18.0
7269	Suzuki Motor Corp.	Transportation Equipment	2,334.2	5.0	20.0	-7.2	-5.2	-38.8	1.0	6.0	5.0	30.0	20.0
4568	Daiichi Sankyo Company, Limited	Pharmaceutical	1,892.0	0.0	38.5	-32.5	-29.0	-11.5	1.0	0.0	7.7	0.0	13.0
2503	Kirin Holdings Company, Limited	Foods	1,674.9	9.1	27.3	-34.0	-9.8	97.0	0.0	0.0	0.0	0.0	11.0
8267	AEON Co., Ltd.	Retail Trade	1,600.4	0.0	60.0	-31.4	-26.6	79.6	0.0	0.0	0.0	0.0	10.0
9501	Tokyo Electric Power Company, Incorporated	Electric Power & Gas	1,263.1	0.0	100.0	-44.0	-44.0	272.2	0.0	0.0	0.0	0.0	1.0
9064	Yamato Holdings Co., Ltd.	Land Transportation	1,087.2	7.1	42.9	-5.2	-6.4	-27.8	1.0	0.0	7.1	0.0	14.0
9007	Odakyu Electric Railway Co., Ltd.	Land Transportation	910.2	0.0	42.9	-36.4	-16.2	236.7	0.0	0.0	0.0	0.0	7.0
9506	Tohoku Electric Power Company, Incorporated	Electric Power & Gas	885.1	0.0	20.0	na	-6.6	404.8	0.0	3.0	0.0	30.0	10.0
8572	ACOM Co., Ltd.	Other Financing Business	884.3	0.0	66.7	na	-34.1	191.2	0.0	0.0	0.0	0.0	3.0
9041	Kintetsu Group Holdings Co., Ltd.	Land Transportation	838.9	0.0	100.0	-54.5	-54.5	354.6	0.0	0.0	0.0	0.0	1.0
4581	Taisho Pharmaceutical Holdings Co., Ltd.	Pharmaceutical	786.9	0.0	55.6	-16.4	-13.8	-26.4	0.0	1.0	0.0	11.1	9.0
8570	AEON Financial Service Co., Ltd.	Other Financing Business	749.6	10.0	20.0	-16.6	-19.7	117.8	1.0	0.0	10.0	0.0	10.0
7262	Daihatsu Motor Co., Ltd.	Transportation Equipment	742.8	0.0	55.6	-8.6	-8.3	-18.8	1.0	2.0	5.6	11.1	18.0
6806	HIROSE ELECTRIC CO., LTD.	Electric Appliances	682.4	0.0	37.5	-4.1	-3.4	-60.3	1.0	0.0	6.3	0.0	16.0
2897	Nissin Foods Holdings Co., Ltd.	Foods	653.1	10.0	20.0	-8.3	-4.0	-26.9	0.0	1.0	0.0	0.0	10.0
4091	Taiyo Nippon Sanso Corporation	Chemicals	643.1	0.0	40.0	-30.0	-18.8	67.1	0.0	0.0	0.0	0.0	5.0
9008	Keio Corporation	Land Transportation	640.2	0.0	50.0	-34.7	-16.4	83.8	0.0	0.0	0.0	0.0	4.0
7731	Nikon Corp.	Precision Instruments	587.3	7.1	42.9	-13.3	-0.3	-25.7	0.0	3.0	0.0	21.4	14.0
4506	Sumitomo Dainippon Pharma Co. Ltd.	Pharmaceutical	586.1	10.0	50.0	-34.4	-17.6	-11.0	0.0	0.0	0.0	0.0	10.0
2875	Toyo Suisan Kaisha, Ltd.	Foods	508.4	0.0	20.0	na	-11.1	-40.7	0.0	0.0	0.0	0.0	10.0
4530	Hisamitsu Pharmaceutical Co., Inc.	Pharmaceutical	436.3	0.0	66.7	1.4	-18.9	-42.4	0.0	0.0	0.0	0.0	3.0
6305	Hitachi Construction Machinery Co., Ltd.	Machinery	430.2	0.0	52.9	1.1	0.9	57.6	0.0	1.0	0.0	5.9	17.0
4967	Kobayashi Pharmaceutical Co., Ltd.	Chemicals	412.9	0.0	20.0	na	-18.0	-44.3	0.0	0.0	0.0	0.0	5.0
5901	Toyo Seikan Group Holdings Ltd.	Metal Products	407.9	0.0	100.0	na	-19.9	3.9	0.0	0.0	0.0	0.0	1.0
9533	Toho Gas Co., Ltd.	Electric Power & Gas	407.0	0.0	60.0	-14.9	-12.5	45.4	0.0	2.0	0.0	40.0	5.0
9505	Hokuriku Electric Power Company	Electric Power & Gas	405.9	0.0	75.0	-15.3	-15.5	208.6	1.0	2.0	12.5	25.0	8.0
3116	Toyota Boshoku Corp.	Transportation Equipment	392.4	0.0	20.0	na	-12.2	-2.5	1.0	0.0	10.0	0.0	10.0
7282	Toyoda Gosei Co., Ltd.	Transportation Equipment	358.6	0.0	28.6	-13.0	-2.1	2.9	0.0	0.0	0.0	0.0	7.0
2702	Mcdonalds Holdings Company Japan, Ltd.	Retail Trade	348.4	0.0	100.0	-57.1	-57.1	-2.7	0.0	0.0	0.0	0.0	2.0
6370	Kurita Water Industries Ltd.	Machinery	340.5	0.0	28.6	na	-7.9	-26.9	1.0	0.0	14.3	0.0	7.0
4062	Ibiden Co., Ltd.	Electric Appliances	309.4	0.0	29.4	-6.1	2.4	-9.9	0.0	2.0	0.0	11.8	17.0
9301	Mitsubishi Logistics Corporation	Warehousing & Harbor Transportation	297.5	0.0	33.3	-5.4	2.5	12.3	0.0	0.0	0.0	0.0	3.0
5214	Nippon Electric Glass Co., Ltd.	Glass & Ceramics Products	292.1	9.1	36.4	-12.7	1.7	-6.4	1.0	0.0	9.1	0.0	11.0
5463	Marubishi Steel Tube Ltd.	Iron & Steel	290.0	0.0	33.3	-35.2	-7.8	-25.7	0.0	1.0	0.0	16.7	6.0
6753	Sharp Corporation	Electric Appliances	280.7	0.0	83.3	-9.8	-23.0	2,372.8	0.0	2.0	0.0	16.7	12.0
2593	ITO EN, Ltd.	Foods	251.3	0.0	100.0	-33.3	-30.7	26.6	0.0	0.0	0.0	0.0	3.0
2810	House Foods Group Inc.	Foods	244.8	0.0	33.3	-16.0	-6.8	-22.5	0.0	0.0	0.0	0.0	3.0
3863	Nippon Paper Industries Co., Ltd.	Pulp & Paper	244.0	0.0	50.0	-7.1	-7.1	133.7	0.0	1.0	0.0	16.7	6.0
8515	Aiful Corporation	Other Financing Business	197.8	0.0	66.7	-31.4	-23.4	178.8	0.0	0.0	0.0	0.0	3.0
8840	Daijyo Incorporated	Real Estate	183.9	0.0	50.0	-8.3	-15.1	-41.7	0.0	0.0	0.0	0.0	2.0

Figure 2: Screen Results (Top 40 Results by Market Cap)



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