

Toyota-affiliated auto parts makers

Weak yen, round two—Upgrading Tokai Rika, Aisan to Buy

- **Conclusion** — If we assume share price gains driven by direct forex sensitivity as the first stage of yen depreciation benefits, then we forecast investors will start to price in second-stage benefits moving forward—namely the indirect effects of enhanced automaker export competitiveness. We believe the Toyota group, which has surplus domestic capacity, is best placed to reap the benefits of strong exports and we expect affiliated parts suppliers to outperform the sector.
- **Actions** — We upgrade Tokai Rika and Aisan Industry to Buy and Toyota Boshoku to Neutral, and we reiterate Buys for Denso and Aisin Seiki. We remain Neutral on Toyota Industries as we believe the shares are fairly priced after recent gains. We upgrade Tokai Rika to Buy because it derives 80% of sales from Toyota and we believe it will reap the benefits of a recovery in Toyota's competitiveness supported by a weaker yen. The shares look significantly undervalued on a FY3/14E PER of 7x-8x. Another positive is the scenario for smart-key diffusion in emerging markets over the longer term. Tokai Rika has been a notable laggard in the market recovery since 2012, rising 22% versus 72% for Toyota.
- **Toyota production assumptions** — Our global production volume forecasts for Toyota are: FY3/13 8.56mn (+13.6% YoY), FY3/14 9.15mn (+7.0%), FY3/15 9.65mn (+5.5%). In Japan, we forecast production will decline 60,000 units YoY to 3.3mn in FY3/14. This is higher than the 3.1mn unit forecast Toyota has announced for CY13, as we expect a weaker yen to drive export growth and as domestic sales have been relatively firm of late. In China, where visibility on production remains weak, we forecast production volume will remain flat in CY13 (but increase 13% in FY3/14). In Thailand, we expect domestic auto sales to remain flat as government subsidies come to an end, but we still expect production for supply to other regions to keep plants operating at full capacity.
- **Subsector preference order** — Toyota-affiliated suppliers (overweight; indirect benefits from yen weakening); Nissan-affiliated suppliers (overweight; North America recovery story, likely to show the best performance near term as sector laggards); Honda-affiliated suppliers (neutral; concerns about motorcycle demand in emerging markets); independent suppliers (neutral). We have Buy ratings on Tokai Rika, Aisan Industry, Denso, Aisin Seiki, and Calsonic Kasei.

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Toyota Boshoku	3116	3	2	¥660	¥1,300	¥73	¥82
Toyota Industri	6201	2	2	¥2,280	¥3,430	¥167	¥168
Taiho Kogyo	6470	1	2	¥1,010	¥1,250	¥86	¥105
Denso	6902	1	1	¥4,100	¥4,300	¥196	¥215
Tokai Rika	6995	2	1	¥1,130	¥2,310	¥23	¥30
Aisin Seiki	7259	1	1	¥3,700	¥3,800	¥251	¥247
Koito	7276	2	2	¥1,090	¥1,540	¥107	¥112
Aisan	7283	2	1	¥680	¥1,050	¥76	¥2

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Auto parts stocks to benefit from weak yen from now

While yen depreciation has lifted the Japanese stock market since last November, the relative performance of auto parts stocks has been lackluster (Figure 2). We believe the main reasons for this are 1) low direct sensitivity to exchange rates and 2) persistent concern about a decline in domestic auto production. The first problem is a structural one, but we believe an improvement in export competitiveness supported by a weaker yen will partly ease concern about domestic auto production.

From 2002 to 2006, the period when auto parts stocks enjoyed their best performance, domestic auto production volume increased annually on the back of export growth. Auto parts makers have strengthened their global presence since then, but their earnings still rely heavily on domestic demand. We believe domestic auto production trends will be the main share price driver for auto parts moving forward.

We forecast Japanese automakers will have domestic production volume of 9.43mn units (–1.1% YoY) in FY3/14 and 9.40mn units (–0.2% YoY) in FY3/15. The market consensus is for a bigger contraction. Given Japan's population decline and the concentration of its population in cities, we forecast domestic auto sales will continue to decline. We also expect the push by automakers to localize production to continue. However, if the boost to selling power provided by a weaker yen results in overseas sales expanding faster than local supply capacity, it is reasonable to assume Japanese automakers will make use of surplus domestic capacity. Only three months have passed since the yen entered a weakening phase, and auto assemblers still have a wait-and-see attitude, but on a 6-12 month horizon we believe clear signs of an increase in auto exports will emerge. We believe the Toyota, which has surplus domestic capacity, is best placed to reap the benefits of strong exports and we expect affiliated parts suppliers to outperform the sector.

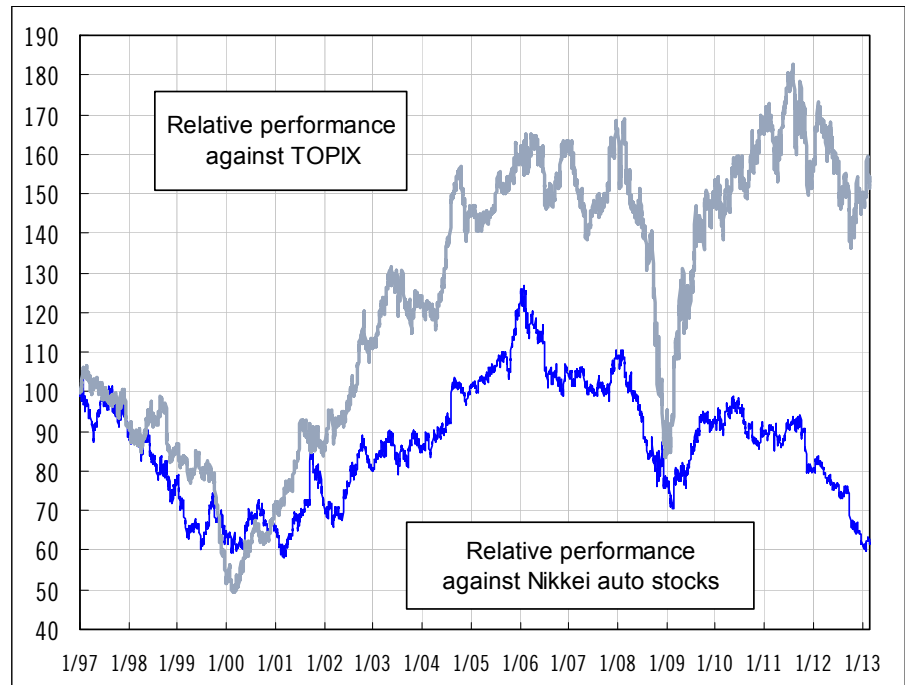
Figure 1. Our rating and target price revisions

		Rating		Target price (¥)		Valuation		Multiple (x)		OP YoY pct chg		OPM		ETR
		Old	New	Old	New	Old	New	Old	New	FY3/13	FY3/14	FY3/13	FY3/14	
6902	Denso	Buy	Buy	4,100	4,300	PER	PER	15	15	58.6%	29.4%	7.3%	8.6%	16.3%
7259	Aisin Seiki	Buy	Buy	3,700	3,800	PER	PER	12	12	25.3%	21.6%	6.0%	6.7%	16.6%
6201	Toyota Industries	Neutral	Neutral	2,280	3,430	PBR	PBR	0.6	0.7	10.3%	19.7%	4.8%	5.3%	7.4%
3116	Toyota Boshoku	Sell	Neutral	660	1,300	PER	PER	9	12	26.7%	37.4%	2.4%	3.1%	3.2%
6995	Tokai Rika	Neutral	Buy	1,130	2,310	PER	PER	9	11	68.7%	26.6%	6.1%	6.9%	54.4%
7276	Koito	Neutral	Neutral	1,090	1,540	PER	PER	9	11	16.0%	15.2%	7.7%	8.1%	5.8%
7283	Aisan	Neutral	Buy	680	1,050	PER	PER	9	10	46.1%	22.5%	4.8%	5.3%	29.7%
6470	Taiho Kogyo	Buy	Neutral	1,010	1,250	PER	PER	10	12	-13.0%	54.8%	3.6%	5.2%	6.0%

Note: ETR = Expected total return. ETR based on the February 25 close.

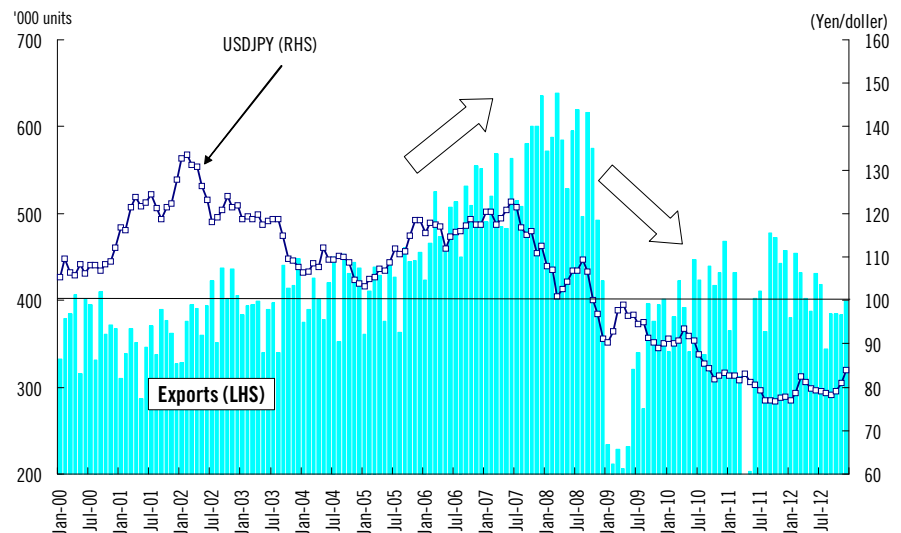
Source: Citi Research.

Figure 2. Auto part sector relative performance: In the big bull market from 2002-2006, growth in domestic production was needed but we expect improvement in relative performance even if the decline in domestic production were to moderate



Source: Nikkei Amsus, Citi Research.

Figure 3. Japan auto export volumes and the yen/dollar rate: Export rise/declines tend to lag changes in the yen/dollar rate



Source: JAMA, Bloomberg, Citi Research.

Figure 4. Toyota Motor calendar year production plans and actual production: Up until the global financial crisis, production tended to beat plans and we note the possibility that overshoot will continue in a virtuous circle on enhanced competitiveness resulting from yen weakness

('000 units)	Period-start plan			Actual production			Divergence rate (actual/plan)		
	Japan	Overseas	Global	Japan	Overseas	Global	Japan	Overseas	Global
2002	3,200	2,070	5,270	3,485	2,151	5,636	9%	4%	7%
2003	3,390	2,480	5,870	3,520	2,558	6,078	4%	3%	4%
2004	3,540	2,970	6,510	3,681	3,043	6,724	4%	2%	3%
2005	3,800	3,480	7,280	3,790	3,571	7,361	0%	3%	1%
2006	4,110	4,000	8,110	4,194	3,899	8,093	2%	-3%	0%
2007	4,270	4,200	8,470	4,226	4,309	8,535	-1%	3%	1%
2008	4,300	4,580	8,880	4,012	4,198	8,211	-7%	-8%	-8%
2009	-	-	-	2,792	3,579	6,371	-	-	-
2010	-	-	-	3,283	4,340	7,623	-	-	-
2011	3,100	4,600	7,700	2,760	4,169	6,929	-11%	-9%	-10%
2012	3,400	5,250	8,650	3,493	5,244	8,737	3%	0%	1%
2013	3,100	5,600	8,700	-	-	-	-	-	-

Source: Company data, Citi Research.

Figure 5. Toyota Motor: Global production forecasts (full-year)

	FY3/01	FY3/02	FY3/03	FY3/04	FY3/05	FY3/06	FY3/07	FY3/08	FY3/09	FY3/10	FY3/11	FY3/12	FY3/13E	FY3/14E	FY3/15E
Total ('000 unit)	5,174	5,196	5,717	6,289	6,875	7,587	8,125	8,690	7,103	7,279	7,342	7,529	8,555	9,150	9,650
Japan	3,422	3,364	3,514	3,558	3,749	3,858	4,185	4,265	3,393	3,207	3,004	3,120	3,365	3,303	3,304
Overseas	1,752	1,832	2,204	2,729	3,125	3,731	3,939	4,425	3,710	4,072	4,338	4,409	5,189	5,847	6,346
North America	1,102	1,092	1,204	1,351	1,467	1,541	1,537	1,624	1,195	1,385	1,375	1,306	1,710	1,950	2,100
Europe	192	260	382	512	596	684	811	817	585	537	448	472	430	460	490
Asia				546	763	1,109	1,146	1,502	1,439	1,749	2,068	2,185	2,540	2,860	3,110
China				59	88	171	313	488	491	722	759	821	710	800	850
Asia other				487	675	937	833	1,014	948	1,027	1,309	1,364	1,830	2,060	2,260
Others	458	480	617	321	299	397	445	482	491	401	447	446	509	577	646
Total (YoY)		0.4%	10.0%	10.0%	9.3%	10.4%	7.1%	7.0%	-18.3%	2.5%	0.9%	2.5%	13.6%	7.0%	5.5%
Japan		-1.7%	4.5%	1.2%	5.4%	2.9%	8.5%	1.9%	-20.4%	-5.5%	-6.3%	3.9%	7.9%	-1.8%	0.0%
Overseas		4.6%	20.3%	23.9%	14.5%	19.4%	5.6%	12.3%	-16.2%	9.8%	6.5%	1.6%	17.7%	12.7%	8.5%
North America		-0.9%	10.3%	12.2%	8.6%	5.1%	-0.3%	5.7%	-26.5%	16.0%	-0.8%	-5.0%	30.9%	14.0%	7.7%
Europe		35.5%	47.3%	33.8%	16.6%	14.7%	18.6%	0.7%	-28.4%	-8.2%	-16.6%	5.4%	-8.9%	7.0%	6.5%
Asia				39.8%	45.3%	3.4%	31.0%	-4.2%	21.5%	18.3%	5.6%	16.2%	12.6%	8.7%	
China				48.7%	95.3%	83.1%	55.7%	0.7%	46.9%	5.2%	8.2%	-13.6%	12.7%	6.3%	
Asia other				38.7%	38.8%	-11.2%	21.7%	-6.5%	8.4%	27.4%	4.2%	34.2%	12.6%	9.7%	
Others		4.8%	28.4%	-48.0%	-6.7%	32.8%	12.0%	8.3%	1.9%	-18.4%	11.7%	-0.3%	14.2%	13.2%	12.1%

Source: Company data, Citi Research.

Figure 6. Toyota Motor: Global production forecasts (quarterly)

	3/11				3/12				3/13			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E
Total (units)	1,813,150	1,872,579	1,864,975	1,791,308	1,190,205	1,956,451	1,990,437	2,392,095	2,234,053	2,144,461	1,966,034	2,210,000
Japan	781,402	831,123	744,228	647,092	410,920	824,091	877,925	1,006,773	862,244	874,881	749,015	879,000
Overseas	1,031,748	1,041,456	1,120,747	1,144,216	779,285	1,132,360	1,112,512	1,385,322	1,371,809	1,269,580	1,217,019	1,331,000
North America	352,503	334,913	331,657	355,720	193,753	278,051	378,615	455,949	460,465	397,510	406,657	445,368
Europe	104,700	97,698	116,269	129,146	96,821	102,116	132,187	140,879	121,396	94,539	104,604	109,461
Asia	463,655	501,861	555,679	547,056	390,156	634,082	491,073	669,761	667,352	646,646	582,008	643,994
China	164,131	182,807	219,509	192,928	124,747	241,069	242,992	212,589	215,812	193,040	127,765	173,383
Asia other	299,524	319,054	336,170	354,128	265,409	393,013	248,081	457,172	451,540	453,606	454,243	470,611
Others	110,890	106,984	117,142	112,294	98,555	118,111	110,637	118,733	122,596	130,885	123,750	132,177
Total (YoY)	31.9%	6.0%	-9.7%	-13.6%	-34.4%	4.5%	6.7%	33.5%	87.7%	9.6%	-1.2%	-7.6%
Japan	32.6%	7.9%	-19.2%	-30.1%	-47.4%	-0.8%	18.0%	55.6%	109.8%	6.2%	-14.7%	-12.7%
Overseas	31.4%	4.5%	-2.1%	-0.2%	-24.5%	8.7%	-0.7%	21.1%	76.0%	12.1%	9.4%	-3.9%
North America	37.2%	0.7%	-19.3%	-7.6%	-45.0%	-17.0%	14.2%	28.2%	137.7%	43.0%	7.4%	-2.3%
Europe	-9.2%	-29.9%	-16.7%	-9.6%	-7.5%	4.5%	13.7%	9.1%	25.4%	-7.4%	-20.9%	-22.3%
Asia	38.6%	17.8%	15.2%	8.1%	-15.9%	26.3%	-11.6%	22.4%	71.0%	2.0%	18.5%	-3.8%
China	18.5%	-1.5%	13.2%	-5.2%	-24.0%	31.9%	10.7%	10.2%	73.0%	-19.9%	-47.4%	-18.4%
Asia other	52.8%	32.8%	16.6%	17.0%	-11.4%	23.2%	-26.2%	29.1%	70.1%	15.4%	83.1%	2.9%
Others	41.8%	8.6%	5.0%	0.1%	-11.1%	10.4%	-5.6%	5.7%	24.4%	10.8%	11.9%	11.3%

Source: Company data, Citi Research.

Thoughts on discounts (regular price revisions)

We forecast the elimination of excess yen appreciation will ease extreme pressure for price discounts. For example, Toyota Boshoku, which relies on the Toyota group for 90% of consolidated sales, discloses the “price fluctuation impact” in accounts. Assuming this is the discount rate applied to sale prices from the previous period, we estimate it will increase from 2.0% (actual) in FY3/12 to 2.3% in FY3/13 and then decline to 1.1% in FY3/14 and 1.3% in FY3/15. The discount rate was around 1% before the global financial crisis, but we believe intensifying competition in China and elsewhere overseas has led to larger discounts.

Forex assumptions

We assume ¥90/\$, ¥120/€, ¥3/baht, and ¥14.5/yuan. Please see Figure 7 for the forex sensitivity of individual companies. The amounts represent the estimated impact on OP of a 1% movement in all currencies against the yen based on sensitivity and segment profits disclosed by companies.

Figure 7. Forex sensitivity overview

Ticker (¥mn)	Company	Impact of ¥1 movement on Consolidated OP		Citi Research OP estimate FY2013	Citi Research exchange rate assumptions		OP Impact/OP		Sensitivity of 1% yen gain versus all currencies
		Against US\$	Against euro		US\$	Euro	US\$	Euro	
3116	Toyota Boshoku	150	-	36,400	90	120	-0.4%	-	-1.2%
5334	NGK Spark Plug	700	400	31,400	90	120	-2.2%	-1.3%	-3.8%
6201	Toyota Industries	800	300	92,500	90	120	-0.9%	-0.3%	-1.4%
6444	Sanden	150	220	7,100	90	120	-2.1%	-3.1%	-5.5%
6470	Taiho Kogyo	30	20	4,800	90	120	-0.6%	-0.4%	-1.1%
6902	Denso	3,200	600	330,000	90	120	-1.0%	-0.2%	-1.4%
6995	Tokai Rika	400	40	28,100	90	120	-1.4%	-0.1%	-1.8%
6923	Stanley Electric	150	20	32,700	90	120	-0.5%	-0.1%	-0.8%
7230	Nissin Kogyo	140	-	13,900	90	120	-1.0%	-	-1.5%
7240	NOK	200	-	31,000	90	120	-0.6%	-	-1.1%
7248	Calsonic Kansei	250	40	18,300	90	120	-1.4%	-0.2%	-1.9%
7251	Keihin	250	-	18,000	90	120	-1.4%	-	-2.0%
7259	Aisin Seiki	1,380	150	185,500	90	120	-0.7%	-0.1%	-1.0%
7276	Koito	100	-	42,400	90	120	-0.2%	-	-0.5%
7283	Aisan Industry	40	-	9,800	90	120	-0.4%	-	-0.8%

Note: Includes Citi Research estimates.

Source: Company data, Citi Research.

Figure 8. Global valuation comparison

		Rating		Price	Mkt	FY1E=	EPS		PER (x)		PBR (x)	OPM	EV/EBITDA (x)		RoE		
Code	Company				Cap	FY1E	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY2E	FY1E	FY2E	FY1E	FY2E
Japan auto parts					(\$ bn)												
3116.T	Toyota Boshoku	2	JPY	1,275.00	2.5	3/13	82.0	107.9	15.5	11.8	1.4	2.4%	3.1%	4.2	3.5	9.0%	11.0%
6201.T	Toyota Industri	2	JPY	3,245.00	10.8	3/13	167.8	216.6	19.3	15.0	0.8	4.8%	5.3%	0.5	0.0	4.4%	5.3%
6470.T	Taiho Kogyo	2	JPY	1,202.00	0.4	3/13	105.3	104.2	11.4	11.5	0.7	3.6%	5.2%	4.2	3.4	6.5%	6.2%
6902.T	Denso	1	JPY	3,750.00	31.9	3/13	214.7	284.2	17.5	13.2	1.4	7.3%	8.6%	4.7	3.8	8.2%	10.1%
6995.T	Tokai Rika	1	JPY	1,516.00	1.5	3/13	29.9	210.4	nm	7.2	0.8	6.1%	6.9%	1.4	1.1	1.7%	11.0%
7259.T	Aisin Seiki	1	JPY	3,310.00	10.0	3/13	247.0	314.1	13.4	10.5	1.2	6.0%	6.7%	2.8	2.5	9.1%	10.7%
7276.T	Koito	2	JPY	1,475.00	2.5	3/13	112.0	140.0	13.2	10.5	1.3	7.7%	8.1%	2.7	2.3	10.5%	11.8%
7283.T	Aisan	1	JPY	822.00	0.5	3/13	-1.8	105.4	nm	7.8	0.8	4.8%	5.3%	2.0	1.8	-0.2%	10.0%
6923.T	Stanley	2	JPY	1,586.00	2.9	3/13	100.0	121.6	15.9	13.0	1.2	10.7%	11.3%	4.1	3.6	7.9%	8.9%
7230.T	Nissin Kogyo	2	JPY	1,478.00	1.0	3/13	94.3	123.7	15.7	12.0	1.1	5.8%	7.2%	4.2	3.5	7.0%	8.7%
7251.T	Keihin	2	JPY	1,378.00	1.1	3/13	66.3	129.8	20.8	10.6	0.8	3.6%	5.6%	3.6	2.9	4.0%	7.6%
7248.T	Calsonic Kansei	1	JPY	414.00	1.2	3/13	16.8	42.2	24.7	9.8	0.9	1.2%	2.2%	4.3	3.1	3.6%	8.7%
5334.T	NGK Spark Plug	2	JPY	1,334.00	3.1	3/13	72.1	94.2	18.5	14.2	1.2	8.0%	11.0%	5.8	4.1	6.6%	8.1%
6444.T	Sanden	2	JPY	372.00	0.5	3/13	13.9	44.0	26.7	8.5	1.1	0.6%	2.8%	10.4	7.0	4.2%	12.5%
7240.T	NOK	2	JPY	1,270.00	2.3	3/13	104.7	115.1	12.1	11.0	0.8	4.4%	5.5%	3.2	2.6	6.9%	7.1%
5101.T	Yokohama Rubber	2	JPY	862.00	3.0	12/12	92.8	95.2	9.3	9.1	1.5	8.7%	9.1%	5.0	4.6	17.6%	15.7%
5108.T	Bridgestone	2	JPY	2,847.00	23.9	12/12	220.9	223.2	12.9	12.8	1.7	9.3%	9.3%	6.0	5.7	14.3%	12.9%
5110.T	Sumitomo Rubber	2	JPY	1,410.00	4.0	12/12	139.5	144.9	10.1	9.7	1.6	9.9%	10.1%	5.5	5.2	17.2%	15.6%
US auto parts																	
BWA.N	Borg Warner	1	USD	72.78	8.4	12/13	5.2	6.2	13.9	11.8	2.1	11.6%	12.1%	7.1	5.8	17.8%	17.6%
GT.O	Goodyear Tire	1H	USD	13.00	3.2	12/13	2.2	2.8	5.8	4.6	2.5	6.0%	6.4%	5.6	5.1	66.7%	48.5%
JCI.N	Johnson Controls	2	USD	30.67	21.0	9/13	2.6	3.1	11.6	9.9	1.5	5.4%	5.9%	7.9	6.8	14.0%	14.5%
LEA.N	Lear Corp	1	USD	53.27	5.1	12/13	4.7	5.5	11.2	9.8	0.7	5.0%	5.2%	4.3	3.8	12.2%	12.9%
MTOR.N	Meritor	1H	USD	4.34	0.4	9/13	0.7	1.0	6.2	4.3	nm	7.3%	5.3%	3.5	5.7		
EU auto parts																	
CONG.DE	Continental	1	EUR	87.89	23.2	12/12	10.6	11.2	8.3	7.8	2.0	9.4%	9.7%	5.5	5.0	22.7%	20.8%
EPED.PA	Faurecia	2	EUR	13.34	2.0	12/12	1.2	1.0	11.5	13.4	1.2	2.5%	2.3%	3.4	3.7	11.8%	10.0%
GKN.L	GKN	1	GBP	2.52	6.2	12/12	0.3	0.3	10.1	9.0	2.7	7.4%	8.2%	8.2	7.2	25.1%	24.9%
MICP.PA	Michelin	1	EUR	67.18	16.2	12/13	9.0	10.1	7.4	6.7	1.2	11.9%	12.2%	5.1	4.6	17.7%	17.2%
PECL.MI	Pirelli	2	EUR	8.33	5.4	12/12	0.9	1.0	9.7	8.3	1.7	13.4%	13.9%	4.7	4.3	17.8%	18.8%
VLOF.PA	Valeo	1	EUR	42.33	4.4	12/13	5.3	6.3	8.0	6.7	1.5	5.9%	6.3%	4.1	3.7	18.8%	19.7%
China auto parts																	
2338.HK	Weichai Power	3	CNY	29.35	7.6	12/12	2.0	2.2	11.7	10.6	1.8	10.8%	11.1%	6.0	5.3	16.2%	15.4%
1899.HK	Xingda Intl	1	CNY	3.52	0.7	12/12	0.2	0.3	13.7	10.7	0.8	11.2%	12.1%	6.6	5.8	6.3%	7.7%
India auto parts																	
BFRG.BO	Bharat Forge	3	INR	218.40	0.9	3/13	10.0	12.8	21.9	17.0	2.1	7.7%	9.0%	8.5	7.1	10.3%	12.1%
Korea auto parts																	
012330.KS	Hyundai Mobis	1	KRW	303,000.00	27.2	12/12	37,031.7	39,736.2	8.2	7.6	1.8	9.4%	9.5%	6.1	4.5	23.8%	20.7%
060980.KS	Mando	3	KRW	130,000.00	2.2	12/12	10,146.3	10,963.3	12.8	11.9	1.6	5.2%	5.2%	6.7	6.0	13.0%	12.7%
161390.KS	Hankook Tire	1	KRW	46,700.00	5.3	12/12	5,169.9	5,816.5	9.0	8.0	1.5	12.7%	12.9%	6.1	5.6	20.8%	17.1%

Note: Share prices as of the February 25 close.

Source: Citi Research.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (25 Feb 13)	¥3,750
Target price	¥4,300
from ¥4,100	
Expected share price return	14.7%
Expected dividend yield	1.6%
Expected total return	16.3%
Market Cap	¥2,980,867M
	US\$31,913M

Price Performance (RIC: 6902.T, BB: 6902 JP)



Denso (6902)

Maintaining Buy: Weak yen, sales growth to offset higher R&D

■ **Reiterating Buy** — Following Q3 results, our opinion on Denso remains unchanged. At the Q3 release, an upward revision to the company's FY3/13 R&D expense budget to ¥325bn from ¥310bn has led to market concern over FY3/14 earnings. However, we believe benefits from the weak yen, growth in sales of new products, and an increase in Toyota's global output can negate higher the impact of higher R&D spending. We reiterate our Buy rating.

■ **Valuation method** — Revisions to our earnings estimates lead our target price to rise to ¥4,3300 (15x our revised FY3/14 EPS estimate of ¥284) from ¥4,100 (15x our previous FY3/14 EPS estimate ¥272). Our 15x target PER represents the average level for FY3/03-FY3/08, when Japanese auto parts maker shares traded on high valuations. Factors like declining domestic auto production and China's anti-Japan sentiment means the external environment is currently more severe. However, we take into consideration Denso's enhanced ability to expand sales and the fact that the weak yen is further improving its competitiveness.

■ **Earnings estimates** — We nudge up our FY3/13 OP estimate to ¥255bn from ¥250bn. We expect weak yen benefits to offset higher R&D spending. We lift our FY3/14 OP estimate to ¥330bn from ¥312bn, primarily to reflect changes to our forex assumptions (to ¥90/\$ from ¥85/\$ and to ¥120/€ from ¥115/€) as well as to our Toyota production assumption (to 9.15mn units from 8.91mn units). We see higher R&D and labor expenses. In FY3/14, we expect OP to recover to 95% of the FY3/08 record high. Each ¥1 movement against the dollar sways OP by ¥3.2bn, while each ¥1 movement against the euro has a ¥0.6bn impact. Among other currencies, Thai baht and the Chinese yuan rates also have a sizable impact on earnings.

■ **Safety technology** — Following the lead of European automakers, Japan's automakers have now begun to equip cars with advanced safety technology as standard. For Japanese automakers to catch up with European automakers, we think Denso's ability to propose systemic solutions will be necessary. In addition to fuel-saving systems, which are already beginning to contribute to earnings, we think safety technology is likely to prove another catalyst over the longer term.

Consol.	Sales		OP			RP		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/11A	3,131,460	5.2	188,331	37.8	6.0	207,228	35.7	143,033	94.8	177	21.1
3/12A	3,154,630	0.7	160,732	-14.7	5.1	180,754	-12.8	89,298	-37.6	111	33.8
3/13CE	3,410,000	8.1	225,000	40.0	6.6	243,000	34.4	138,000	54.5	171	21.9
3/13CRE	3,450,000	9.4	240,000	49.3	7.0	263,000	45.5	160,000	79.2	201	18.6
3/13E	3,470,000	10.0	250,000	55.5	7.2	268,000	48.3	158,100	77.0	196	19.1
3/13RE	3,492,000	10.7	255,000	58.6	7.3	278,000	53.8	173,000	93.7	215	17.5
3/14E	3,704,000	6.7	312,000	24.8	8.4	330,000	23.1	219,000	38.5	272	13.8
3/14RE	3,857,000	10.5	330,000	29.4	8.6	346,000	24.5	229,000	32.4	284	13.2
3/15E	3,963,000	7.0	355,000	13.8	9.0	373,000	13.0	249,000	13.7	309	12.1
3/15RE	4,166,000	8.0	370,000	12.1	8.9	386,500	11.7	257,500	12.4	320	11.7

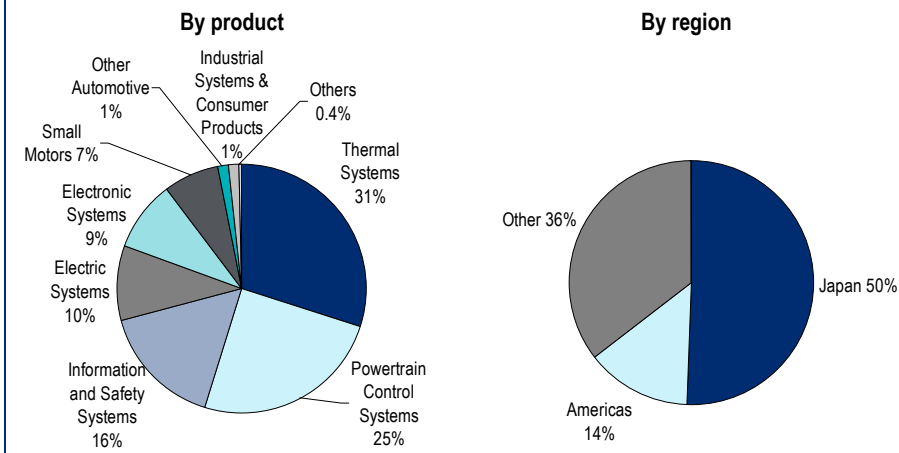
A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

Denso (6902) Investment Dashboard

Reasons to Buy

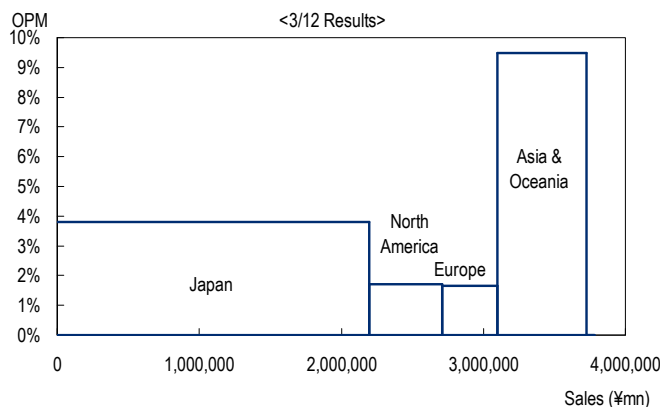
- We anticipate growth in sales of fuel-saving components such as idling-stop systems, direct injection components, and hybrid vehicle parts
- Denso swiftly developed products whose costs had been halved. We expect it to grow sales of these products to non-Japanese automakers in emerging markets
- We expect to see a rise in unit prices for sales to Toyota Motor, on factors such as increased adoption of hybrid vehicle components
- We see growth in sales of safety parts
- We believe Denso can maintain a profit uptrend longer term as margins rise

Sales breakdown (FY3/12)



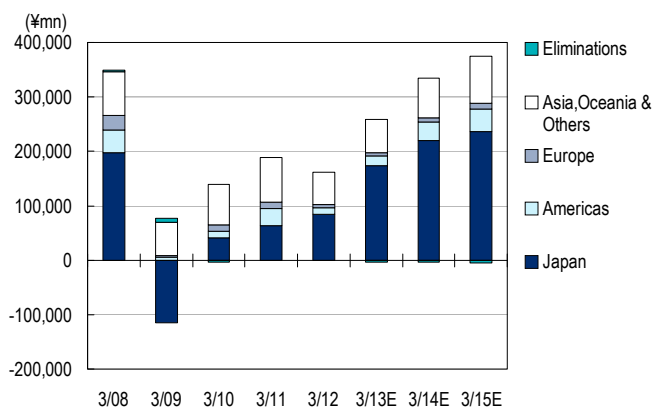
Source: Company data, Citi Research.

Business portfolio



Source: Company data.

OP by segment

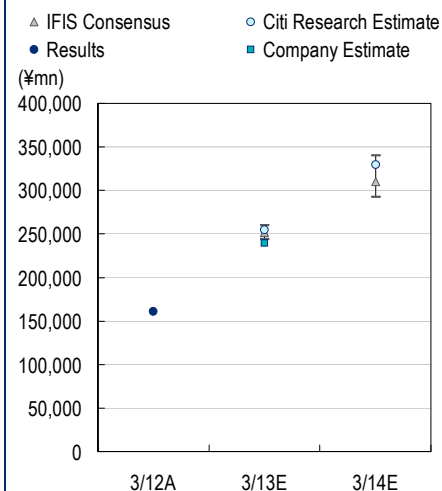


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

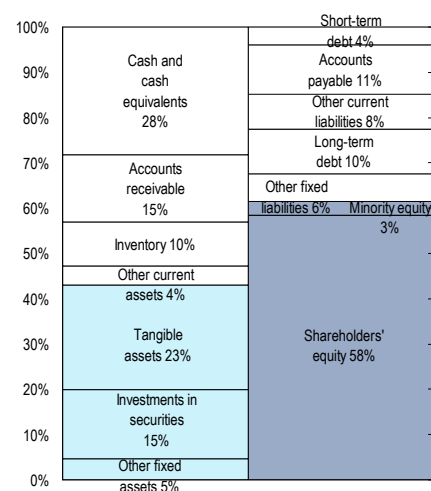
- If the impact of anti-Japan demonstrations in China ends quickly and Japanese automakers' sales of vehicles in China normalize
- If auto demand grows more than expected in Japan and overseas on factors such as economic stimulus measures
- If the yen were to weaken further

OP forecast comparison



Source: Company data, IFIS (13/2/21), Citi Research.

Balance sheet (end-FY3/13 Q3)



Source: Company data.

Figure 9. Denso: Consolidated earnings model

Consolidated Earnings Model

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY13/3E	FY14/3E	FY15/3E
Sales	3,609,700	4,025,076	3,142,665	2,976,709	3,131,460	3,154,630	3,492,000	3,857,000	4,166,000
YoY pct chg	13.2%	11.5%	-21.9%	-5.3%	5.2%	0.7%	10.7%	10.5%	8.0%
CoGS	2,990,370	3,314,890	2,850,990	2,559,993	2,661,963	2,719,890	2,949,000	3,224,000	3,481,000
Pct of sales	82.8%	82.4%	90.7%	86.0%	85.0%	86.2%	84.5%	83.6%	83.6%
Gross profit	619,330	710,186	291,675	416,716	469,497	434,740	543,000	633,000	685,000
Gross margin	17.2%	17.6%	9.3%	14.0%	15.0%	13.8%	15.5%	16.4%	16.4%
SG&A expenses	316,262	361,534	328,984	280,076	281,166	274,008	288,000	303,000	315,000
Pct of sales	8.8%	9.0%	10.5%	9.4%	9.0%	8.7%	8.2%	7.9%	7.6%
Operating profit	303,068	348,652	-37,309	136,640	188,331	160,732	255,000	330,000	370,000
Operating margin	8.4%	8.7%	-1.2%	4.6%	6.0%	5.1%	7.3%	8.6%	8.9%
YoY pct chg	13.7%	15.0%	NM	NM	37.8%	-14.7%	58.6%	29.4%	12.1%
Net nonoperating income	19,060	19,656	1,982	16,032	18,897	20,022	23,000	16,000	16,500
Net financial income	12,515	19,142	18,827	6,174	8,967	9,486	10,000	11,000	11,500
Equity-method earnings	1,469	3,468	0	0	3,273	4,671	4,000	4,000	4,000
Recurring profit	322,128	368,308	-35,327	152,672	207,228	180,754	278,000	346,000	386,500
Recurring margin	8.9%	9.2%	-1.1%	5.1%	6.6%	5.7%	8.0%	9.0%	9.3%
YoY pct chg	13.8%	14.3%	NM	NM	35.7%	-12.8%	53.8%	24.5%	11.7%
Net extraordinary items	-2,417	-3,479	-63,956	-5,759	4,439	-17,271	0	0	0
Pretax profit	319,711	364,829	-99,283	146,913	211,667	163,483	278,000	346,000	386,500
Total tax	99,968	100,307	-19,846	67,602	52,771	61,324	87,000	97,000	108,000
Effective tax rate	31.3%	27.5%	20.0%	46.0%	24.9%	37.5%	31.3%	28.0%	27.9%
Minority interest	-14,573	-20,105	-4,648	-5,884	-15,863	-12,861	-18,000	-20,000	-21,000
Net profit	205,170	244,417	-84,085	73,427	143,033	89,298	173,000	229,000	257,500
Net margin	5.7%	6.1%	-2.7%	2.5%	4.6%	2.8%	5.0%	5.9%	6.2%
YoY pct chg	20.9%	19.1%	NM	NM	94.8%	-37.6%	93.7%	32.4%	12.4%
No. of shares ('000s)	814,485	812,721	805,850	805,901	805,867	805,901	805,901	805,901	805,901
DPS (¥)	45.0	54.0	40.0	27.0	46.0	46.0	60.0	80.0	90.0
EPS (¥)	251.9	300.7	-104.3	91.1	177.5	110.8	214.7	284.2	319.5
CFPS (¥)	521.9	626.2	238.9	386.3	417.1	334.9	440.5	515.0	566.4
Capex	312,500	343,800	314,400	114,400	145,100	179,400	208,000	230,000	257,000
Depreciation	219,900	264,500	276,600	237,900	193,100	180,600	182,000	186,000	199,000
R&D	279,900	311,500	297,100	270,100	290,100	298,400	330,000	340,000	360,000
Free cash flow	112,570	165,117	-121,885	196,927	191,033	90,498	147,000	185,000	199,500
EBITDA	522,968	613,152	239,291	374,540	381,431	341,332	437,000	516,000	569,000
Exchange rate (¥/\$)	116	113	101	91	86	79	83	90	90
RoE	9.4%	11.3%	-4.7%	3.8%	7.3%	4.4%	7.9%	9.7%	10.2%
RoC	11.6%	13.5%	-1.6%	6.3%	9.4%	7.5%	11.2%	13.5%	14.1%
WACC	7.1%	7.4%	6.8%	6.7%	6.7%	6.5%	6.6%	6.9%	7.0%
Factors Contributing to Change in Profits									
Cost reductions	45,000	50,000	40,000	48,300	35,600	19,000	34,701	45,396	46,284
Utilization	114,500	108,900	-273,600	-12,100	96,700	35,400	79,100	61,300	91,600
Change in product mix	-28,600	-17,900	-43,200	4,700	-33,700	-17,500	-1,000	-20,000	-20,000
Depreciation	-34,700	-44,600	-12,100	38,700	44,800	12,500	-1,400	-4,000	-13,000
Cost of labor	-30,400	-32,000	-31,300	17,800	-15,500	-12,300	-17,000	-30,000	-30,000
Material cost	-40,000	-11,000	-11,000	17,300	-13,000	-8,000	2,000	0	-10,000
Forex fluctuations	29,800	14,900	-56,600	-43,800	-34,000	-30,700	14,000	42,000	0
Others	-19,100	-22,700	1,900	103,000	-29,200	-26,000	-16,000	-20,000	-25,000
Change in OP	36,500	45,600	-385,900	173,900	51,700	-27,600	94,401	74,696	39,884
Geographic Segment Breakdown									
Sales	3,609,700	4,025,076	3,142,665	2,976,709	3,131,460	3,154,630	3,492,000	3,857,000	4,166,000
Japan	2,541,261	2,725,892	2,145,636	2,041,315	2,112,934	2,197,632	2,457,000	2,537,000	2,654,000
Americas	769,081	832,284	559,767	532,171	596,373	569,845	692,000	819,400	901,400
North America					536,040	512,117	630,000	751,200	826,400
South America and others					60,333	57,728	62,000	68,200	75,000
Europe	519,299	620,277	462,484	411,083	401,332	387,192	365,000	400,600	420,600
Asia Pacific	480,201	616,157	507,683	534,106	652,468	626,721	740,000	880,000	990,000
Elimination	-700,142	-769,534	-532,905	-541,966	-631,647	-626,760	-762,000	-780,000	-800,000
Operating profit	303,068	348,652	-37,309	136,640	188,331	160,732	255,000	330,000	370,000
Japan	215,317	197,508	-114,680	40,903	63,388	83,866	173,000	220,500	235,500
Americas	29,188	41,532	5,074	12,905	31,837	11,940	18,500	33,000	42,500
North America					25,364	8,771	15,000	28,000	36,000
South America and others					6,473	3,169	3,500	5,000	6,500
Europe	12,161	26,547	3,610	10,683	10,929	6,379	6,500	7,500	10,000
Asia Pacific	45,921	80,428	60,469	75,369	83,021	59,491	60,000	73,000	87,000
Elimination	481	2,637	8,218	-3,220	-844	-944	-3,000	-4,000	-5,000

Source: Company data, Citi Research.

Figure 10. Denso: Consolidated balance sheet and cash flow statement

Consolidated Balance Sheet

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Total assets	3,765,135	3,643,418	3,018,438	3,364,070	3,380,433	3,607,697	3,754,261	3,881,390	4,127,139
Current assets	1,502,843	1,578,070	1,266,802	1,755,122	1,864,511	2,120,108	2,190,672	2,273,801	2,461,550
Cash & deposits, marketable securities	370,443	450,349	494,019	783,004	933,627	1,022,142	1,085,333	1,068,950	1,172,454
Notes & receivables	660,879	658,012	369,587	564,028	486,722	620,156	612,626	676,661	730,871
Inventories	313,679	310,446	255,526	266,264	288,736	324,513	339,416	374,894	404,928
Fixed assets	2,262,292	2,065,348	1,751,636	1,608,948	1,515,922	1,487,589	1,563,589	1,607,589	1,665,589
Tangible fixed assets	1,085,979	1,115,026	1,034,633	902,700	823,228	800,888	876,888	920,888	978,888
Investment & others	1,156,375	928,279	697,044	688,570	675,572	671,173	671,173	671,173	671,173
Total shareholders' equity & liabilities	3,765,135	3,643,418	3,018,438	3,364,070	3,380,433	3,607,697	3,754,261	3,881,390	4,127,139
Total liabilities	1,478,179	1,360,741	1,117,719	1,331,806	1,307,990	1,490,496	1,444,914	1,388,015	1,428,295
Total current liabilities	995,360	970,406	608,065	761,752	792,471	813,342	867,760	810,861	851,141
Notes & accounts payable	490,972	534,321	281,734	422,997	394,801	457,782	462,200	505,301	545,581
Short-term debt	142,098	55,559	50,574	45,527	93,978	59,756	109,756	9,756	9,756
Total long-term liabilities	482,819	390,335	509,654	570,054	515,519	677,154	577,154	577,154	577,154
Bonds & CBs	50,339	50,254	150,173	190,000	190,000	190,000	90,000	90,000	90,000
Long-term debt	94,332	105,115	155,867	173,931	115,622	273,344	273,344	273,344	273,344
Minority interests	112,948	121,361	109,166	112,935	106,582	104,627	122,627	142,627	163,627
Total shareholders' equity	2,174,008	2,161,316	1,791,553	1,919,329	1,965,861	2,012,574	2,186,720	2,350,748	2,535,217
Interest bearing debt	286,769	210,928	356,614	409,458	399,600	523,100	473,100	373,100	373,100
Average interest rate	2.1%	2.7%	2.0%	1.5%	1.3%	1.4%	1.2%	1.2%	1.2%
Equity ratio (%)	57.7%	59.3%	59.4%	57.1%	58.2%	55.8%	58.2%	60.6%	61.4%
Debt-to-equity ratio (%)	68.0%	63.0%	62.4%	69.4%	66.5%	74.1%	66.1%	59.0%	56.3%
BPS	2,669	2,659	2,223	2,382	2,439	2,497	2,713	2,917	3,146
Net Cash	83,674	239,421	137,405	373,546	534,027	499,042	612,233	695,850	799,354

Cash flow

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Cash flow from operations									
Net profit	205,170	244,417	-84,085	73,427	143,033	89,298	173,000	229,000	257,500
Depreciation	219,873	263,519	276,624	237,944	193,082	180,648	182,000	186,000	199,000
Change in working capital	-34,174	16,830	67,766	-78,845	6,491	-86,515	-2,955	-56,411	-43,964
Others	15,674	47,897	-50,390	124,615	52,921	-6,749	21,859	21,441	26,471
Subtotal	406,543	572,663	209,915	357,141	395,527	176,682	373,904	380,030	439,007
Cash flow from investments activities									
Capex	-311,196	-341,363	-317,805	-126,991	-143,988	-173,469	-208,000	-230,000	-257,000
Others	-1,707	-22,386	83,499	-28,124	-183,898	-97,770	0	0	0
Subtotal	-312,903	-363,749	-234,306	-155,115	-327,886	-271,239	-208,000	-230,000	-257,000
Cash flow from financing activities									
Change in interest-bearing debt	7,733	-70,712	163,238	55,393	-2,027	127,283	-50,000	-100,000	0
Dividends	-33,779	-39,925	-45,329	-20,954	-29,013	-37,878	-42,713	-56,413	-68,502
Share buybacks	-53,170	-9,347	-22,562	-19	-165	-12	0	0	0
Others	-696	-1,903	-5,021	-5,267	-13,568	-10,574	-10,000	-10,000	-10,000
Subtotal	-79,912	-121,887	90,326	29,153	-44,773	78,819	-102,713	-166,413	-78,502
Adjustments	9,664	-15,355	-24,135	56	-15,967	-7,479	0	0	0
Change in cash	23,392	71,672	41,800	231,235	6,901	-23,217	63,191	-16,383	103,505

Source: Company data, Citi Research.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (25 Feb 13)	¥3,310
Target price	¥3,800
from ¥3,700	
Expected share price return	14.8%
Expected dividend yield	1.8%
Expected total return	16.6%
Market Cap	¥932,863M
	US\$9,987M

Price Performance (RIC: 7259.T, BB: 7259 JP)



Aisin Seiki (7259)

Maintaining Buy: Record high profit likely in FY3/14

■ **Reiterating Buy** — We consider it positive that during the post-Q3 results conference call Aisin Seiki said that while it would continue to carry out upfront investments it would balance investments against annual earnings levels. Another positive is the likelihood that details of its longer term targets will be announced at the FY3/13 results briefing, which is expected to take place in April. We expect the weak yen and increased output at Toyota to lift earnings to a new high in FY3/14. We consider the shares undervalued at the current c10x level (based on our FY3/14 estimates).

■ **Valuation method** — The changes to our earnings estimates lifts our target price to ¥3,800 (12x our revised FY3/14 estimate of ¥314) from ¥3,700 (12x our previous FY3/14 estimate of ¥306). We anticipate a near-term slowdown in growth in the non-Toyota automatic transmission business, so we think a PER in line with the parts sector average of 12x is appropriate. However, if a clear medium-term growth scenario were to emerge, we think valuations could rise to 14x, which is the average at which the shares traded in FY3/03-FY3/08, when Japanese parts makers were highly rated.

■ **Earnings estimates** — We fine-tune our estimates for FY3/13. We think weak yen benefits can negate the impact of upfront investments. We revise up our FY3/14 OP estimate to ¥185.5bn from ¥178.1bn, primarily to reflect changes to our forex assumptions (to ¥90/\$ from ¥85/\$ and to ¥120/€ from ¥115/€) as well as to our Toyota production assumption (to 9.15mn units from 8.91mn units). We think Aisin Seiki could see record high profit in FY3/14.

Consol.	Sales		OP			RP		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	2,257,436	9.9	137,267	56.8	6.1	147,895	55.8	69,645	319.4	247	13.4	
3/12A	2,304,168	2.1	121,832	-11.2	5.3	129,140	-12.7	55,498	-20.3	197	16.8	
3/13CE	2,500,000	8.5	140,000	14.9	5.6	144,000	11.5	64,000	15.3	227	14.6	
3/13CRE	2,510,000	8.9	145,000	19.0	5.8	149,000	15.4	65,000	17.1	231	14.4	
3/13E	2,529,800	9.8	151,800	24.6	6.0	155,800	20.6	70,800	27.6	251	13.2	
3/13RE	2,523,600	9.5	152,600	25.3	6.0	156,600	21.3	69,600	25.4	247	13.4	
3/14E	2,667,700	5.5	178,100	17.3	6.7	182,100	16.9	86,100	21.6	306	10.8	
3/14RE	2,756,500	9.2	185,500	21.6	6.7	189,500	21.0	88,500	27.2	314	10.5	
3/15E	2,798,300	4.9	199,200	11.8	7.1	203,200	11.6	96,200	11.7	341	9.7	
3/15RE	2,894,700	5.0	206,500	11.3	7.1	210,500	11.1	99,500	12.4	353	9.4	

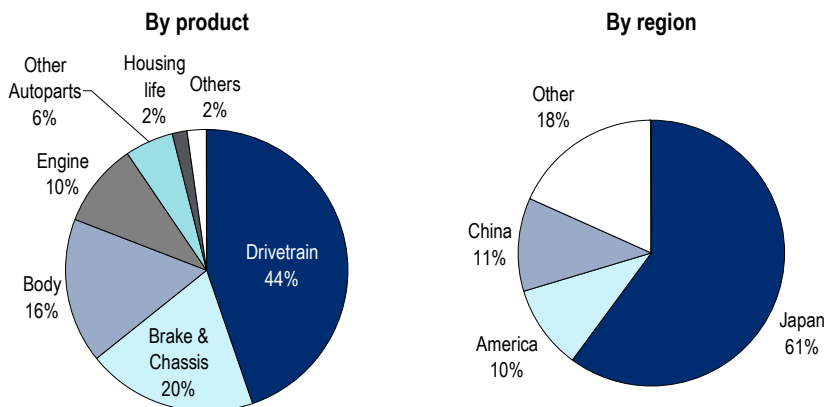
A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

Aisin Seiki (7259) Investment Dashboard

Reasons to Buy/Sell

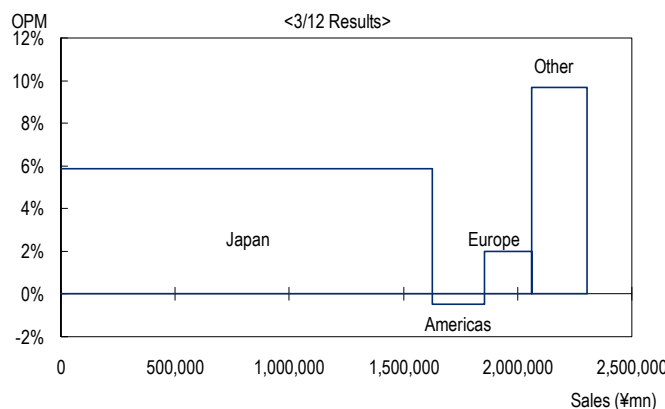
- We see automatic transmissions driving earnings over the longer run. We anticipate greater adoption in China, where only c30% of vehicles are automatic, and volume growth with European automakers
- We expect record-high earnings in FY3/14, as Aisin Seiki absorbs the upfront investment burden
- Low PER

Sales breakdown (FY3/12)



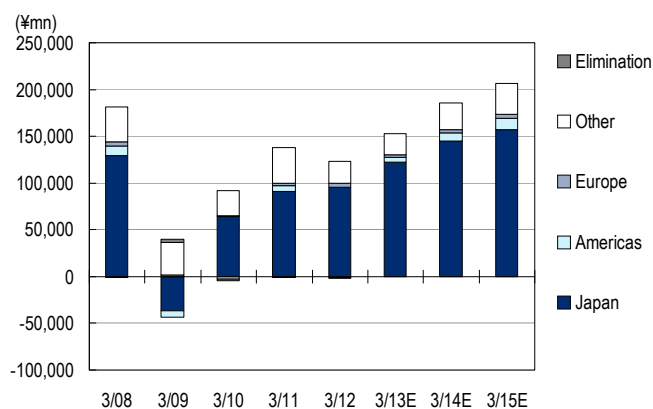
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

OP by segment

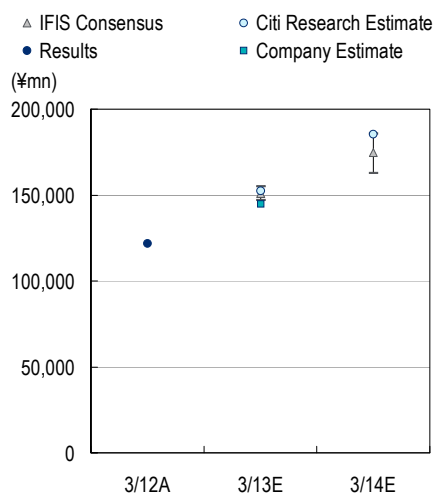


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

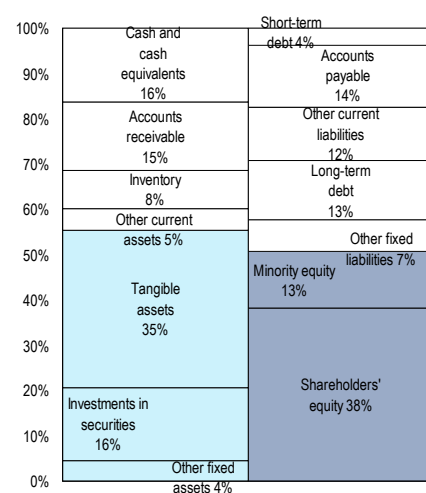
- If auto demand grows and the automatic transmission diffusion rate increases beyond our expectations in China
- If auto demand grows more than expected in Japan and overseas on factors such as economic stimulus measures
- If the yen were to weaken further

OP forecast comparison



Source: Company data, IFIS (13/2/21), Citi Research.

Balance sheet (end-FY3/13 Q3)



Source: Company data.

Figure 11. Aisin Seiki: Consolidated earnings model

Consolidated Earnings Model

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Sales	2,378,611	2,700,405	2,214,492	2,054,474	2,257,436	2,304,168	2,523,600	2,756,500	2,894,700
YoY pct chg	12.2%	13.5%	-18.0%	-7.2%	9.9%	2.1%	9.5%	9.2%	5.0%
CoGS	2,060,667	2,315,204	2,023,144	1,791,771	1,938,035	1,999,785	2,183,000	2,377,000	2,490,200
Pct of sales	86.6%	85.7%	91.4%	87.2%	85.9%	86.8%	86.5%	86.2%	86.0%
Gross profit	317,944	385,201	191,348	262,703	319,400	304,382	340,600	379,500	404,500
Gross margin	13.4%	14.3%	8.6%	12.8%	14.1%	13.2%	13.5%	13.8%	14.0%
SG&A expenses	186,909	204,716	194,837	175,156	182,134	182,551	188,000	194,000	198,000
Pct of sales	7.9%	7.6%	8.8%	8.5%	8.1%	7.9%	7.4%	7.0%	6.8%
Operating profit	131,035	180,485	-3,489	87,547	137,266	121,832	152,600	185,500	206,500
Operating margin	5.5%	6.7%	-0.2%	4.3%	6.1%	5.3%	6.0%	6.7%	7.1%
YoY pct chg	11.0%	37.7%	NM	NM	56.8%	-11.2%	25.3%	21.6%	11.3%
Net nonoperating income	3,253	5,824	-1,477	7,395	10,628	7,308	4,000	4,000	4,000
Net financial income	1,189	2,174	2,616	-3,396	-2,080	-824	0	0	0
Equity-method earnings	6,302	8,730	1,769	4,600	7,832	6,322	6,000	6,000	6,000
Recurring profit	134,287	186,309	-4,965	94,942	147,894	129,140	156,600	189,500	210,500
Recurring margin	5.6%	6.9%	-0.2%	4.6%	6.6%	5.6%	6.2%	6.9%	7.3%
YoY pct chg	7.3%	38.7%	NM	NM	55.8%	-12.7%	21.3%	21.0%	11.1%
Net extraordinary items	0	0	-10,017	-37,276	0	0	0	0	0
Pretax profit	134,287	186,309	-14,983	57,665	147,894	129,140	156,600	189,500	210,500
Total tax	44,776	57,698	16,402	19,425	46,664	46,389	54,000	65,000	72,000
Effective tax rate	33.3%	31.0%	-109.5%	33.7%	31.6%	35.9%	34.5%	34.3%	34.2%
Minority interest	-22,622	-36,956	6,235	-21,634	-31,586	-27,253	-33,000	-36,000	-39,000
Net profit	66,889	91,655	-25,149	16,605	69,643	55,497	69,600	88,500	99,500
Net margin	2.8%	3.4%	-1.1%	0.8%	3.1%	2.4%	2.8%	3.2%	3.4%
YoY pct chg	9.5%	37.0%	NM	NM	319.4%	-20.3%	25.4%	27.2%	12.4%
No. of shares ('000s)	284,944	281,443	281,457	281,433	281,439	281,787	281,787	281,787	281,787
DPS (¥)	40.0	60.0	40.0	30.0	50.0	50.0	60.0	75.0	85.0
EPS (¥)	234.7	325.7	-89.4	59.0	247.5	196.9	247.0	314.1	353.1
CFPS (¥)	744.6	920.7	557.5	661.9	762.1	685.6	754.5	857.0	935.1
Capex	197,800	212,000	220,200	83,800	133,200	150,700	199,000	205,000	186,000
Depreciation	145,276	167,482	182,057	169,667	144,831	137,700	143,000	153,000	164,000
R&D	103,700	115,300	115,900	101,100	101,100	121,400	130,000	140,000	150,000
Free cash flow	14,365	47,137	-63,292	102,472	81,274	42,497	13,600	36,500	77,500
EBITDA	276,311	347,967	178,568	257,214	282,097	259,532	295,600	338,500	370,500
Exchange Rate (¥/\$)	116	113	101	91	86	79	83	90	90
RoE	8.8%	11.9%	-4.0%	2.5%	10.1%	7.6%	8.8%	10.3%	10.6%
RoC	7.8%	10.3%	-0.2%	6.0%	10.0%	8.3%	9.4%	10.6%	11.5%
WACC	6.0%	6.0%	5.2%	5.1%	5.4%	5.7%	5.8%	6.0%	6.1%
Parent & main subsidiaries									
Sales									
Aisin Seiki	786,900	878,900	714,700	718,900	681,500	710,100	760,517	760,517	775,727
Aisin AW	845,800	958,300	748,900	737,800	854,500	915,100	965,175	1,017,658	1,059,071
Aisin Takaoka	228,200	261,700	228,700	179,100	210,500	194,400	215,000	230,000	245,000
Aisin AI	141,900	188,000	143,500	105,200	119,200	118,900	135,000	151,000	160,000
Advics	374,400	417,200	359,500	328,100	383,200	384,300	445,000	490,000	535,000
Operating profit									
Aisin Seiki	28,500	35,500	-15,000	13,800	18,900	15,600	25,174	32,113	34,478
Aisin AW	51,800	72,300	1,100	44,300	61,300	60,000	65,611	74,816	84,261
Aisin Takaoka	11,000	14,700	1,700	6,800	14,100	8,700	9,300	14,000	17,000
Aisin AI	8,600	14,100	1,300	-2,100	3,300	3,100	5,900	7,000	8,000
Advics	4,000	5,800	-2,400	5,100	3,700	4,800	11,800	13,000	15,000
AT production('000 unit)	5,369	5,869	4,367	4,408	5,195	5,658	6,257	6,677	6,992
MT production('000 unit)	1,690	2,170	1,730	1,350	1,590	1,470	1,730	1,834	1,944
Factors contributing to change in OP									
Volume and Mix	23,000	53,000	-178,200	-47,200	42,100	-29,200	17,792	15,666	13,167
Cost reductions	27,000	30,000	25,000	84,000	27,000	27,000	29,954	30,283	35,834
Forex fluctuations	5,800	-800	-13,400	-14,000	-10,100	-8,700	6,300	17,000	0
Material cost	-11,000	-1,000	-9,700	7,700	-10,000	-1,300	5,000	0	-2,000
Depreciation cost	-22,200	-22,200	-14,600	12,400	24,800	7,100	-5,300	-10,000	-11,000
Other	-9,700	-9,600	7,100	48,000	-24,100	-10,300	-23,000	-20,000	-15,000
Geographic segment breakdown									
Sales Total	2,378,611	2,700,404	2,214,492	2,054,474	2,257,436	2,304,168	2,523,600	2,756,500	2,894,700
Japan	1,668,562	1,862,816	1,508,976	1,505,919	1,584,600	1,627,800	1,724,100	1,763,600	1,799,000
Americas	373,537	406,396	304,836	219,059	247,700	228,200	296,000	388,200	427,000
Europe	174,837	195,442	163,204	134,121	167,300	205,300	204,500	229,300	236,200
Other	161,673	235,750	237,475	195,374	257,600	242,600	299,000	375,400	432,500
OP Total	131,034	180,484	-3,489	87,546	137,266	121,832	152,600	185,500	206,500
Japan	99,015	128,989	-36,353	63,760	90,900	95,800	121,900	144,500	157,000
Americas	8,088	11,021	-7,350	-2,825	5,900	-1,100	5,500	9,000	12,000
Europe	3,910	4,010	1,425	1,339	2,900	4,100	3,000	4,000	4,500
Other	20,840	37,389	34,713	26,843	38,400	23,500	22,200	28,000	33,000
Elimination	-819	-927	4,076	-1,571	-1,000	-600	0	0	0

Source: Company data, Citi Research.

Figure 12. Aisin Seiki: Consolidated balance sheet and cash flow statement

Consolidated Balance Sheet

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Total assets	2,037,896	2,097,727	1,731,689	1,981,988	1,978,225	2,073,836	2,205,161	2,342,023	2,476,115
Current assets	767,369	869,917	613,581	928,135	933,825	1,011,566	1,072,892	1,157,754	1,269,846
Cash & deposits, marketable securities	137,250	197,929	150,237	356,078	412,984	370,439	380,759	411,484	491,453
Notes & receivables	363,726	373,697	199,437	312,372	254,499	370,443	405,721	443,165	465,383
Inventories	168,762	175,360	150,232	141,838	149,351	165,150	180,878	197,571	207,476
Fixed assets	1,270,526	1,227,810	1,118,108	1,053,853	1,044,399	1,062,269	1,132,269	1,184,269	1,206,269
Tangible fixed assets	839,192	875,773	841,571	721,520	693,608	695,135	765,135	817,135	839,135
Investment & others	415,194	331,150	257,631	316,874	335,683	350,194	350,194	350,194	350,194
Total shareholders' equity & liabilities	2,037,895	2,097,726	1,731,688	1,981,988	1,978,225	2,073,835	2,205,161	2,342,023	2,476,115
Total liabilities	1,082,042	1,103,134	917,182	1,110,099	1,060,521	1,104,528	1,136,161	1,169,657	1,189,202
Total current liabilities	679,070	704,280	455,682	597,436	576,029	678,305	709,938	743,434	762,979
Notes & accounts payable	359,873	372,058	194,397	296,788	276,310	345,277	376,910	410,406	429,951
Short-term debt	45,518	28,647	36,960	45,768	35,636	56,628	56,628	56,628	56,628
Total long-term liabilities	402,972	398,854	461,499	512,662	484,491	426,223	426,223	426,223	426,223
Bonds & CBs	20,000	39,988	69,989	79,990	70,275	70,212	70,212	70,212	70,212
Long-term debt	221,076	227,664	287,985	313,631	292,639	228,967	228,967	228,967	228,967
Minority interests	196,941	226,867	193,481	214,981	228,741	241,436	274,436	310,436	349,436
Total shareholders' equity	758,912	767,725	621,025	656,908	688,963	727,871	794,564	861,930	937,478
Interest bearing debt	286,594	296,299	394,934	439,389	398,550	355,807	355,807	355,807	355,807
Average interest rate>	1.2%	1.3%	1.0%	1.4%	1.5%	1.6%	1.7%	1.7%	1.7%
Equity ratio (%)	37.2%	36.6%	35.9%	33.1%	34.8%	35.1%	36.0%	36.8%	37.9%
Debt-to-equity ratio (%)	142.6%	143.7%	147.7%	169.0%	153.9%	151.7%	143.0%	135.7%	126.9%
BPS	2,663	2,728	2,206	2,334	2,448	2,583	2,820	3,059	3,327
Net Cash	-149,344	-98,370	-244,697	-83,311	14,434	14,632	24,952	55,677	135,646

Cash flow

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Cash flow from operations									
Net profit	66,889	91,655	-25,149	16,605	69,643	55,497	69,600	88,500	99,500
Depreciation	145,276	167,482	182,057	169,667	144,831	137,700	143,000	153,000	164,000
Change in working capital	-8,973	-650	13,032	-1,180	24,779	-64,373	-19,373	-20,641	-12,579
Others	25,210	40,760	-55,272	118,696	34,374	38,467	40,182	40,364	43,364
Subtotal	228,402	299,247	114,668	303,788	273,627	167,291	233,409	261,223	294,285
Cash flow from investments activities									
Capex	-224,433	-204,845	-231,175	-105,713	-117,956	-145,143	-199,000	-205,000	-186,000
Others	-12,181	-12,999	7,423	-225,917	132,789	-50,022	0	0	0
Subtotal	-236,614	-217,844	-223,752	-331,630	14,833	-195,165	-199,000	-205,000	-186,000
Cash flow from financing activities									
Change in interest-bearing debt	25,265	9,617	102,421	43,323	-41,139	-42,266	0	0	0
Dividends	-9,952	-13,687	-18,573	-5,634	-12,666	-14,080	-15,498	-19,021	-22,543
Others	-1,952	-23,612	-8,105	-2,872	-10,127	-10,191	-8,591	-6,477	-5,773
Subtotal	13,361	-27,682	75,743	34,817	-63,932	-66,537	-24,089	-25,498	-28,316
Adjustments	2,946	217	-13,100	1,947	-5,076	-2,112	0	0	0
Change in cash	8,095	53,938	-46,441	8,922	219,452	-96,522	10,320	30,725	79,969

Source: Company data, Citi Research.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (25 Feb 13)	¥3,245
Target price	¥3,430
from ¥2,280	
Expected share price return	5.7%
Expected dividend yield	1.7%
Expected total return	7.4%
Market Cap	¥1,011,417M
	US\$10,828M

Price Performance (RIC: 6201.T, BB: 6201 JP)



Toyota Industries (6201)

Maintaining Neutral: Still concerns about the industrial vehicle business in Europe

- **Maintaining Neutral** — The share price is closely correlated with that of Toyota Motor, in which Toyota Industries has a sizeable holding. The demand outlook for forklifts in Europe is increasingly murky, while in the auto business, upfront investments in areas such as compressors are taking priority. Our FY3/14 forecasts put the shares on a PER of c15x. Toyota Industries has the top global market share for forklifts and compressors, and while there is considerable potential to grow sales we do not believe the shares are undervalued at the current PER. Investors see Toyota Industries as an asset play and in the near term we believe the share price will hinge on what happens with Toyota Motor's shares.
- **Valuation method** — Reflecting revisions to our forecasts and target multiple, we raise our target price to ¥3,430 (fair PBR of 0.7x applied to our FY3/14 BPS estimate of ¥4,904) from ¥2,280 (0.6x FY3/14 BPS estimate of ¥3,801). We raise our target multiple because of an increase to our sector PBR estimate to reflect a weaker yen.
- **Earnings estimates** — We trim our FY3/13 OP forecast to ¥77.3bn. We expect OP to miss guidance of ¥80bn because of a decline in industrial vehicle and compressor volumes. We raise our FY3/14 OP forecast to ¥92.5bn from ¥81.3bn, mainly to reflect revisions to our forex assumptions. In Europe, we forecast industrial vehicle demand growth will be held to +2% YoY because of capex restraint, but that lineup expansion and sales promotion efforts will enable Toyota Industries to grow sales by 4%. In the auto business, we expect a new RAV4 and compressor volume growth to lift earnings, but investment in the localization of compressor parts to weigh on earnings. Profit sensitivity to every ¥1 fluctuation against the dollar and the euro is ¥0.8bn and ¥0.3bn, respectively.

Consol.	Sales		OP			RP		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	1,479,839	7.4	68,799	212.7	4.6	73,913	132.7	47,209	nm	152	21.4	
3/12A	1,543,352	4.3	70,094	1.9	4.5	80,867	9.4	58,596	24.1	188	17.3	
3/13CE	1,650,000	6.9	85,000	21.3	5.2	93,000	15.0	55,000	-6.1	176	18.4	
3/13CRE	1,600,000	3.7	80,000	14.1	5.0	88,000	8.8	51,000	-13.0	164	19.8	
3/13E	1,578,000	2.2	78,000	11.3	4.9	88,000	8.8	52,000	-11.3	167	19.5	
3/13RE	1,601,000	3.7	77,300	10.3	4.8	89,300	10.4	52,300	-10.7	168	19.3	
3/14E	1,596,000	1.1	81,300	4.2	5.1	91,300	3.8	58,300	12.1	187	17.3	
3/14RE	1,740,000	8.7	92,500	19.7	5.3	106,500	19.3	67,500	29.1	217	15.0	
3/15E	1,643,000	2.9	88,700	9.1	5.4	98,700	8.1	63,200	8.4	203	16.0	
3/15RE	1,804,000	3.7	99,000	7.0	5.5	115,000	8.0	72,500	7.4	233	14.0	

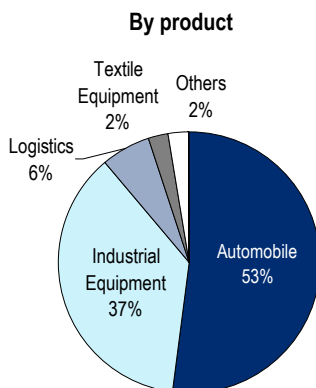
A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

Toyota Industries (6201) Investment Dashboard

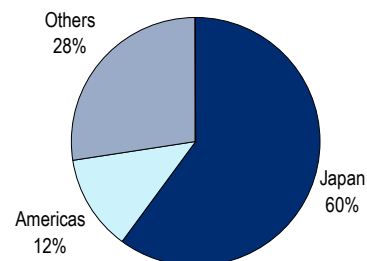
Reasons for our Neutral rating

- The shares move in close tandem with those of Toyota Motor and we find the current PBR (the average post-GFC) to be reasonable
- If the fundamentals were to improve to the point where the shares could be valued on PER, this could trigger a rerating
- There is a lack of visibility on demand in Europe for forklifts

Sales breakdown (FY3/12)

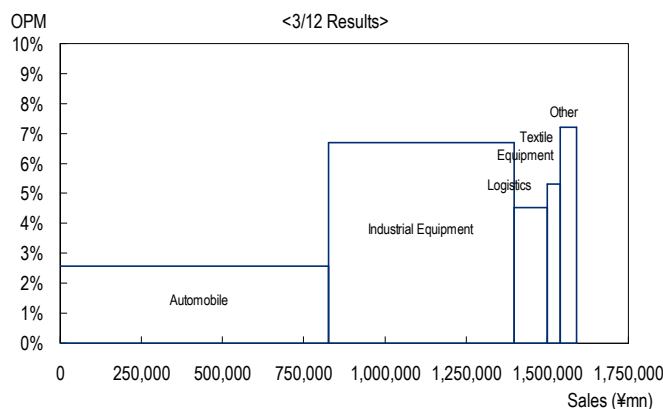


By region



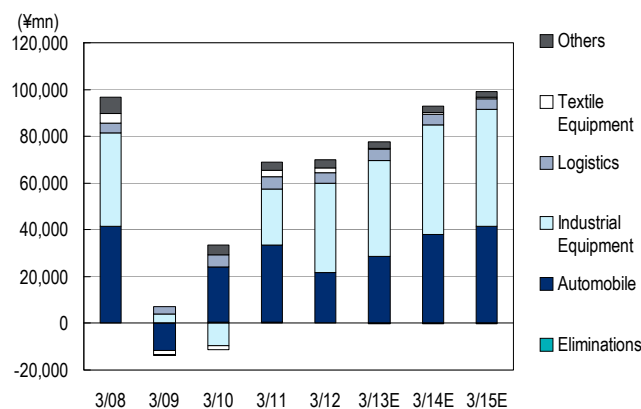
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

OP by segment

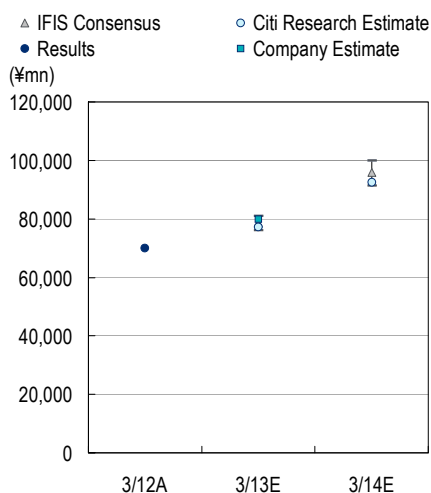


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

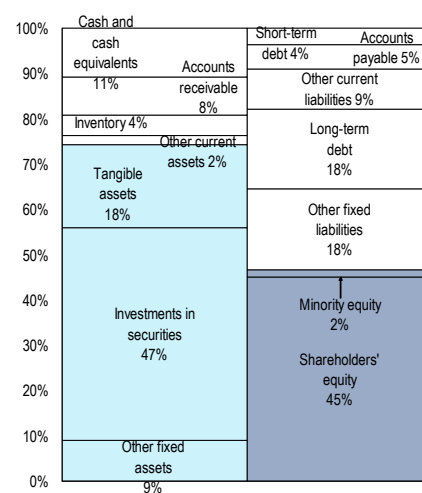
- Domestic and overseas forklift and auto demand growing more than we expect on economic stimulus measures, etc.
- Further yen weakening

OP forecast comparison



Source: Company data, IFIS (13/2/21), Citi Research.

Balance sheet (end-FY3/13 Q3)



Source: Company data.

Figure 13. Toyota Industries: Consolidated earnings model

Consolidated Earnings Model

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Sales	1,878,398	2,000,536	1,584,252	1,377,769	1,479,839	1,543,352	1,601,000	1,740,000	1,804,000
YoY pct chg	24.7%	6.5%	-20.8%	-13.0%	7.4%	4.3%	3.7%	8.7%	3.7%
CoGS	1,586,781	1,678,493	1,389,002	1,194,399	1,250,313	1,301,617	1,348,700	1,465,500	1,520,000
Pct of sales	84.5%	83.9%	87.7%	86.7%	84.5%	84.3%	84.2%	84.2%	84.3%
Gross profit	291,617	322,043	195,250	183,370	229,526	241,734	252,300	274,500	284,000
Gross margin	15.5%	16.1%	12.3%	13.3%	15.5%	15.7%	15.8%	15.8%	15.7%
SG&A expenses	201,662	225,189	201,871	161,367	160,727	171,641	175,000	182,000	185,000
Pct of sales	10.7%	11.3%	12.7%	11.7%	10.9%	11.1%	10.9%	10.5%	10.3%
Operating profit	89,955	96,853	-6,621	22,002	68,798	70,092	77,300	92,500	99,000
Operating margin	4.8%	4.8%	-0.4%	1.6%	4.6%	4.5%	4.8%	5.3%	5.5%
YoY pct chg	40.5%	7.7%	NM	NM	212.7%	1.9%	10.3%	19.7%	7.0%
Net nonoperating income	18,530	29,635	20,966	9,754	5,114	10,773	12,000	14,000	16,000
Net financial income	23,452	30,134	30,688	8,254	8,374	10,957	15,000	17,000	19,000
Recurring profit	108,485	126,488	14,343	31,756	73,911	80,865	89,300	106,500	115,000
Recurring margin	5.8%	6.3%	0.9%	2.3%	5.0%	5.2%	5.6%	6.1%	6.4%
YoY pct chg	34.5%	16.6%	-88.7%	121.4%	132.7%	9.4%	10.4%	19.3%	8.0%
Net extraordinary items	-85	5,866	-37,591	-43,099	-4,631	4,599	-7,000	0	0
Pretax profit	108,400	132,354	-23,247	-11,343	69,279	85,464	82,300	106,500	115,000
Total tax	41,541	44,529	16,488	12,882	20,221	24,693	29,000	37,000	40,000
Effective tax rate	38.3%	33.6%	-70.9%	-113.6%	29.2%	28.9%	35.2%	34.7%	34.8%
Minority interest	-7,390	-7,365	6,968	-2,048	-1,852	-2,177	-1,000	-2,000	-2,500
Net profit	59,469	80,460	-32,767	-26,273	47,205	58,594	52,300	67,500	72,500
Net margin	3.2%	4.0%	-2.1%	-1.9%	3.2%	3.8%	3.3%	3.9%	4.0%
YoY pct chg	26.3%	35.3%	NM	NM	NM	24.1%	-10.7%	29.1%	7.4%
No. of shares ('000s)	312,075	311,590	311,578	311,571	311,565	311,687	311,687	311,687	311,687
DPS (¥)	50.0	60.0	40.0	30.0	50.0	50.0	55.0	60.0	65.0
EPS (¥)	190.6	258.2	-105.2	-84.3	151.5	188.0	167.8	216.6	232.6
CFPS (¥)	429.0	526.8	174.7	150.6	351.5	379.8	363.5	434.7	473.2
Capex	129,000	104,200	104,400	26,900	38,200	58,400	100,000	100,000	90,000
Depreciation	74,400	83,700	87,200	73,200	62,300	59,800	61,000	68,000	75,000
R&D	34,548	36,750	33,646	26,826	27,788	32,070	38,000	44,000	50,000
Free Cash Flow	4,869	59,960	-49,967	20,027	71,305	59,994	13,300	35,500	57,500
EBITDA	164,355	180,553	80,579	95,202	131,098	129,892	138,300	160,500	174,000
Exchange Rate (¥/\$)	117	114	101	93	86	79	83	90	90
ROE	3.4%	5.8%	-3.5%	-2.5%	4.6%	5.1%	4.2%	5.2%	5.3%
ROIC	7.1%	7.5%	-0.5%	2.1%	6.8%	6.7%	7.1%	8.0%	8.3%
WACC	6.3%	6.1%	5.3%	5.3%	5.3%	5.4%	5.5%	5.6%	5.6%
Car air-conditioning compressor('000 units)	20,450	21,860	16,710	16,710	18,830	21,550	23,500	24,300	25,500
Vehicle('000 units)	350	368	282	291	295	278	265	280	280
Engine('000 units)	489	511	439	502	614	610	663	700	740
Materials handling equipment('000 units)	215	203	169	111	153	184	187	195	205
Factors Contributing to Change in OP									
Change in OP	25,915	6,898	-103,474	28,623	46,796	1,294	7,208	15,200	6,500
Cost reductions	21,500	20,000	23,500	23,000	22,100	18,000	18,000	18,000	19,000
Volume and Mix	29,000	18,500	-99,000	-59,000	32,800	3,600	6,500	13,000	9,000
Labor costs	-7,600	-6,400	-3,700	14,500	-5,500	-7,000	-6,500	-7,000	-7,000
Material costs	-9,500	-6,800	-13,500	10,500	-6,400	-4,000	0	0	-500
Forex	5,200	400	-8,400	-3,800	-5,800	-5,800	2,500	9,500	0
Depreciation	-10,000	-9,300	-3,500	14,000	10,900	0	0	-7,000	-7,000
Others	-2,685	-9,502	1,126	29,423	-1,304	-3,506	-13,292	-11,300	-7,000
Business Segment									
Sales	1,878,398	2,000,536	1,584,252	1,377,769	1,479,839	1,543,352	1,601,000	1,740,000	1,804,000
Automobile	926,028	995,252	774,389	791,166	825,319	826,924	867,000	943,000	975,000
Industrial Equipment	768,042	786,589	643,587	432,618	491,330	571,187	586,000	651,000	682,000
Logistics	96,746	125,533	121,753	114,282	115,842	102,387	105,000	105,000	105,000
Textile Equipment	58,409	66,271	29,603	20,936	42,807	38,596	43,000	43,000	45,000
Others	80,248	85,666	65,821	48,619	46,279	50,495	47,000	47,000	47,000
Elimination	-51,077	-58,777	-50,902	-29,853	-41,740	-46,236	-47,000	-49,000	-50,000
Operating profit	89,955	96,853	-6,621	22,002	68,798	70,092	77,300	92,500	99,000
Automobile	33,592	41,518	-11,504	23,663	32,876	21,239	28,800	38,000	41,500
Industrial Equipment	47,201	39,841	3,770	-9,549	23,999	38,241	41,000	47,000	50,000
Logistics	1,780	4,230	2,901	5,294	5,397	4,632	4,600	4,600	4,600
Textile Equipment	1,081	4,297	-2,058	-1,836	2,592	2,049	500	500	500
Others	6,328	6,708	-46	3,971	3,445	3,639	2,700	2,700	2,700
Elimination	-30	0	315	459	485	290	-300	-300	-300

Source: Company data, Citi Research.

Figure 14. Toyota Industries: Consolidated balance sheet and cash flow statement

Consolidated Balance Sheet

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Total assets	3,585,857	2,965,585	2,327,432	2,589,246	2,481,452	2,656,984	2,799,054	2,863,915	2,925,217
Current assets	568,001	595,612	567,967	672,801	670,893	769,356	792,426	825,287	871,589
Cash & deposits, marketable securities	140,581	156,178	228,581	359,356	331,084	366,959	407,145	414,418	448,938
Notes & receivables	234,611	244,035	158,798	163,708	152,121	195,391	180,246	195,895	203,101
Inventories	120,737	124,631	102,160	88,348	104,261	116,446	114,475	124,414	128,990
Fixed assets	3,017,856	2,369,972	1,759,464	1,916,444	1,810,559	1,887,628	2,006,628	2,038,628	2,053,628
Tangible fixed assets	605,922	622,847	589,264	531,977	497,278	481,053	520,053	552,053	567,053
Investment & others	2,299,117	1,597,439	1,051,391	1,301,744	1,233,940	1,177,591	1,257,591	1,257,591	1,257,591
Total shareholders' equity and liabilities	3,585,857	2,965,584	2,327,432	2,589,245	2,481,451	2,656,983	2,799,054	2,863,915	2,925,217
Total liabilities	1,775,374	1,511,588	1,349,762	1,484,316	1,405,512	1,459,142	1,485,056	1,499,118	1,505,680
Total current liabilities	558,405	538,041	414,379	434,941	511,944	579,527	573,441	587,503	594,065
Notes & accounts payable	205,168	214,084	104,658	141,787	144,956	168,465	162,379	176,441	183,003
Short-term debt	130,863	106,026	121,615	106,262	141,908	177,214	177,214	177,214	177,214
Total long-term liabilities	1,216,969	973,547	935,382	1,049,375	893,568	879,615	911,615	911,615	911,615
Bonds & CBs	250,761	230,766	231,501	231,401	205,649	187,238	187,238	187,238	187,238
Long-term debt	141,567	185,513	285,340	299,208	236,602	249,183	249,183	249,183	249,183
Minority interests	58,878	56,345	45,715	46,978	45,589	54,051	55,051	57,051	59,551
Total shareholders' equity	1,751,605	1,397,651	931,955	1,057,951	1,030,350	1,143,790	1,258,947	1,307,746	1,359,986
Interest bearing debt	523,191	522,305	638,456	636,871	584,159	613,635	613,635	613,635	613,635
Average interest rate	3.4%	3.7%	3.1%	2.8%	2.7%	2.6%	2.6%	2.6%	2.6%
Equity / Total assets (%)	48.8%	47.1%	40.0%	40.9%	41.5%	43.0%	45.0%	45.7%	46.5%
Debt-to-equity ratio (%)	101.4%	108.2%	144.8%	140.3%	136.4%	127.6%	118.0%	114.6%	110.7%
BPS	5,613	4,486	2,991	3,396	3,307	3,670	4,039	4,196	4,363
Net Cash	-382,610	-366,127	-409,875	-277,515	-253,075	-246,676	-206,490	-199,217	-164,697

Consolidated cash flow

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Cash flow from operations									
Net profit	59,469	80,460	-32,767	-26,273	47,205	58,594	52,300	67,500	72,500
Depreciation	106,060	119,905	125,543	110,119	89,576	87,368	88,568	95,568	102,568
Change in working capital	-20,035	-6,545	-28,140	52,721	-1,863	-35,633	11,029	-11,526	-5,220
Others	31,973	-5,015	1,132	66,885	18,743	-8,611	29,653	-1,347	-848
Subtotal	177,467	188,805	65,768	203,452	153,661	101,718	181,550	150,195	169,000
Cash flow from investments activities									
Capex	-155,550	-135,561	-122,422	-48,312	-48,085	-76,638	-125,000	-125,000	-115,000
Others	-8,896	-3,228	8,205	11,457	-139,489	67,235	0	0	0
Subtotal	-164,446	-138,789	-114,217	-36,855	-187,574	-9,403	-125,000	-125,000	-115,000
Cash flow from financing activities									
Change in interest-bearing debt	22,677	-11,433	142,104	5,005	-52,523	33,619	0	0	0
Dividends	-13,250	-17,489	-19,318	-6,231	-14,020	-15,581	-16,364	-17,922	-19,480
Others	-29,176	-5,070	-1,815	-37,004	-19,185	-7,759	0	0	0
Subtotal	-19,749	-33,992	120,971	-38,230	-85,728	10,279	-16,364	-17,922	-19,480
Adjustments	2,700	-3,309	-5,795	1,211	-2,382	-1,348	0	0	0
Change in cash	-4,028	12,715	66,727	129,578	-122,023	101,246	40,186	7,273	34,520

Source: Company data, Citi Research.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Neutral	2
from Sell	
Price (25 Feb 13)	¥1,275
Target price	¥1,300
from ¥660	
Expected share price return	2.0%
Expected dividend yield	1.3%
Expected total return	3.2%
Market Cap	¥236,261M
	US\$2,529M

Price Performance (RIC: 3116.T, BB: 3116 JP)



Toyota Boshoku (3116)

Upgrading to Neutral: Toyota Motor to regain competitiveness on yen weakness

- **Upgrading to Neutral** — We upgrade to Neutral from Sell as Toyota Boshoku derives more than 90% of its sales from Toyota Motor and we believe it will reap the benefits of a recovery in the automaker's competitiveness supported by a weaker yen. We do not believe a Buy rating is warranted because the FY3/14E PER of 12x does not look particularly compelling, profit margins are low and earnings visibility is poor in the Americas, Europe and Africa, and exposure to China is high. If further yen weakening supports a larger-than-expected increase in exports of the Lexus and other high-margin models, we believe Toyota Boshoku's investment appeal could increase, as it is a ready beneficiary of mix improvement. Also, the company is working to capture orders in new fields, including motor cores for Toyota hybrids. This, together with non-Toyota business, could provide opportunities for longer-term earnings growth.
- **Valuation method** — Reflecting revisions to our forecasts and target multiple, we raise our target price to ¥1,300 (fair PER of 12x applied to our FY3/14 EPS estimate of ¥108) from ¥660 (9x FY3/14 EPS estimate of ¥73). We raise our target multiple because of an increase in sector valuations driven by yen weakening and because we believe Toyota Boshoku is well placed to benefit from a recovery in Toyota's competitiveness. Our target PER of 12x is the same as our fair value multiple for the auto parts sector.
- **Earnings estimates** — We lower our FY3/13 OP forecast to ¥26.5bn in view of delays to profitability improvement in the Americas. However, we view the company's Q4 domestic earnings outlook as conservative and therefore expect OP to exceed guidance of ¥24bn. We forecast FY3/14 OP of ¥36.4bn. We estimate profit will be boosted by a weaker yen (by ¥4bn) as well as by easing price declines, an increase in Toyota global production volume, and a decline in start-up costs in Brazil. Exchange rates have a large conversion impact on profit denominated in baht, yuan, and other Asian currencies.

Consol.	Sales		OP			RP		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	983,727	3.1	36,856	46.6	3.7	36,026	49.7	11,466	66.6	62	20.6	
3/12A	964,295	-2.0	20,911	-43.3	2.2	23,226	-35.5	3,235	-71.8	17	73.0	
3/13CE	1,010,000	4.7	30,000	43.5	3.0	30,000	29.2	13,000	301.9	70	18.2	
3/13CRE	1,070,000	11.0	24,000	14.8	2.2	29,000	24.9	13,000	301.9	70	18.2	
3/13E	1,024,200	6.2	28,000	33.9	2.7	28,400	22.3	13,500	317.3	73	17.5	
3/13RE	1,083,200	12.3	26,500	26.7	2.4	31,500	35.6	15,200	369.9	82	15.5	
3/14E	976,800	-4.6	24,500	-12.5	2.5	26,000	-8.5	13,600	0.7	73	17.4	
3/14RE	1,165,000	7.6	36,400	37.4	3.1	39,400	25.1	20,000	31.6	108	11.8	
3/15E	998,200	2.2	26,500	8.2	2.7	28,000	7.7	14,200	4.4	77	16.6	
3/15RE	1,194,700	2.5	38,500	5.8	3.2	41,500	5.3	21,100	5.5	114	11.2	

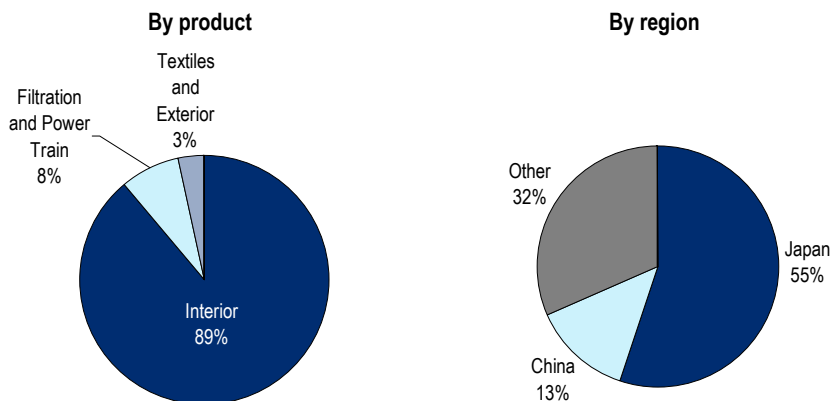
A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

Toyota Boshoku (3116) Investment Dashboard

Reasons for our Neutral rating

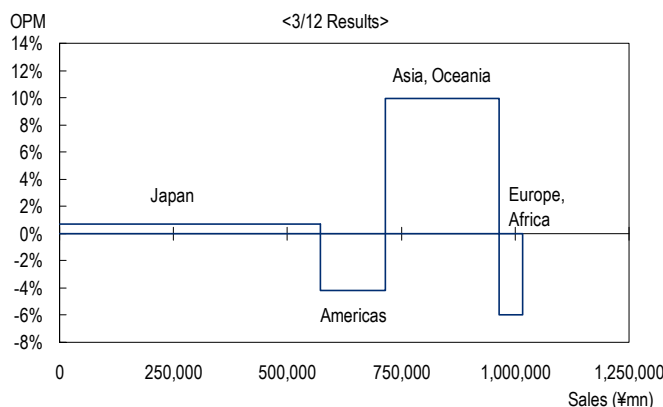
- Toyota Boshoku is a ready beneficiary of a recovery in Toyota Motor competitiveness on yen weakness but valuations do not look compelling
- Lack of earnings visibility remains in the Americas, Europe, and Africa
- A lack of visibility remains on the Senkaku/Diaoyu islands
- We think it will take time for growth in sales to automakers other than Toyota to materialize

Sales breakdown (FY3/10 and FY3/12)



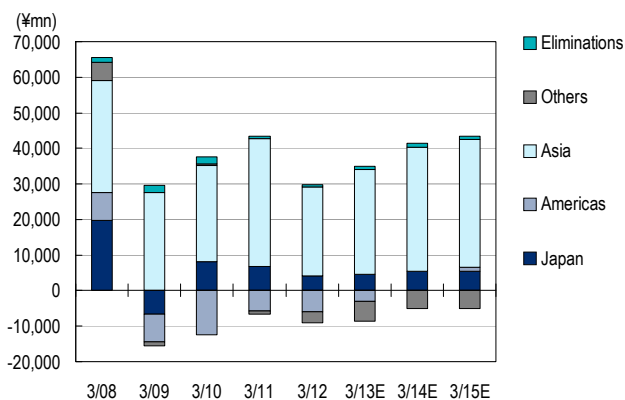
Note: FY3/10A for sales by product, FY3/12A for sales by sales by region. Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

OP by segment

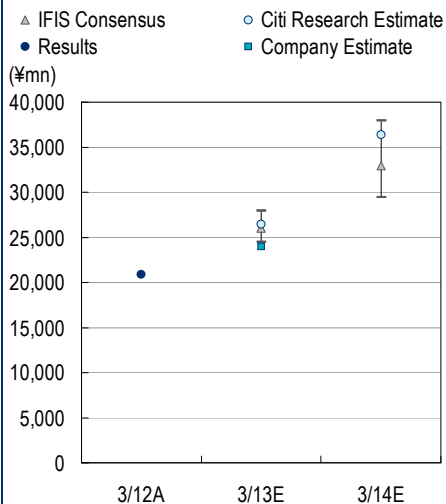


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

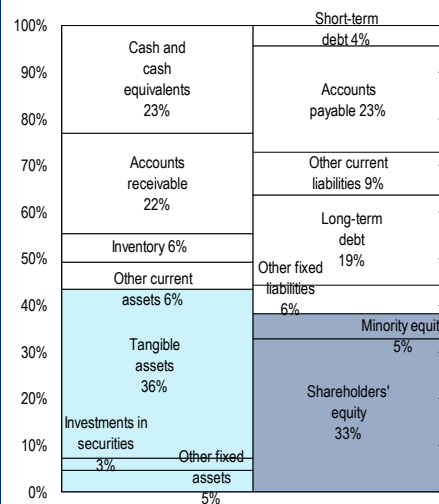
- Domestic production of Lexuses and other vehicles that are good for the mix could increase beyond our expectations on recovery of export competitiveness by Toyota Motor
- Anti-Japanese demonstrations in China could subside and Japan automakers could normalize their China auto sales more quickly than envisaged
- Earnings could improve by more than expected in the Americas, Europe, and Africa

OP forecast comparison



Source: Company data, IFIS (13/2/21), Citi Research.

Balance sheet (end-FY3/13 Q3)



Source: Company data.

Figure 15. Toyota Boshoku: Consolidated earnings model

Consolidated Earnings Model

(¥mn)	3/07A	3/08A	3/09A	3/10A	3/11A	3/12A	3/13E	3/14E	3/15E
Sales	1,082,756	1,233,789	979,775	953,729	983,727	964,295	1,083,200	1,165,000	1,194,700
YoY pct chg	23.4%	13.9%	-20.6%	-2.7%	3.1%	-2.0%	12.3%	7.6%	2.5%
CoGS	995,096	1,122,776	916,645	880,320	895,077	885,098	996,700	1,070,100	1,096,700
Pct of sales	91.9%	91.0%	93.6%	92.3%	91.0%	91.8%	92.0%	91.9%	91.8%
Gross profit	87,660	111,013	63,130	73,409	88,650	79,196	86,500	94,900	98,000
Gross margin	8.1%	9.0%	6.4%	7.7%	9.0%	8.2%	8.0%	8.1%	8.2%
SG&A expenses	39,278	45,417	49,076	48,266	51,794	58,286	60,000	58,500	59,500
Pct of sales	3.6%	3.7%	5.0%	5.1%	5.3%	6.0%	5.5%	5.0%	5.0%
Operating profit	48,382	65,596	14,054	25,143	36,856	20,910	26,500	36,400	38,500
Operating margin	4.5%	5.3%	1.4%	2.6%	3.7%	2.2%	2.4%	3.1%	3.2%
YoY pct chg	43.3%	35.6%	-78.6%	78.9%	46.6%	-43.3%	26.7%	37.4%	5.8%
Net non-operating income	3,761	99	-762	-1,076	-830	2,315	5,000	3,000	3,000
Net interest income	-143	246	51	-788	-541	-377	-400	-400	-400
Recurring profit	52,143	65,695	13,292	24,067	36,026	23,225	31,500	39,400	41,500
Recurring margin	4.8%	5.3%	1.4%	2.5%	3.7%	2.4%	2.9%	3.4%	3.5%
YoY pct chg	37.8%	26.0%	-79.8%	81.1%	49.7%	-35.5%	35.6%	25.1%	5.3%
Net extraordinary items	-1,253	1,605	0	-1,091	-2,412	-3,288	0	0	0
Pretax profit	50,890	67,300	13,292	22,976	33,614	19,937	31,500	39,400	41,500
Total Tax	15,068	14,045	11,973	8,649	13,606	11,412	11,000	13,400	14,100
Effective tax rate	29.6%	20.9%	90.1%	37.6%	40.5%	57.2%	35.0%	34.0%	34.0%
Minority interest	-5,716	-12,536	-6,383	-7,445	-8,542	-5,291	-5,300	-6,000	-6,300
Net profit	30,106	40,719	-5,064	6,882	11,466	3,232	15,200	20,000	21,100
Net margin	2.8%	3.3%	-0.5%	0.7%	1.2%	0.3%	1.4%	1.7%	1.8%
YoY pct chg	42.1%	35.3%	NA	NA	66.6%	-71.8%	370.3%	31.6%	5.5%
No. of shares ('000s, term end)	187,286	186,837	186,321	185,847	185,303	185,303	185,303	185,303	185,303
No. of shares ('000s, term average)	187,273	186,995	186,496	185,989	185,489	185,303	185,303	185,303	185,303
DPS	24.0	35.0	20.0	13.0	16.0	16.0	16.0	20.0	22.0
EPS	160.8	217.8	-27.2	37.0	61.8	17.4	82.0	107.9	113.9
CFPS	317.6	393.9	142.7	225.8	236.2	187.4	260.1	291.4	302.7
Capex	47,550	52,962	60,496	43,076	41,229	37,500	37,000	40,000	45,000
Depreciation	29,378	32,941	31,672	35,121	32,342	31,500	33,000	34,000	35,000
R&D	26,404	31,717	28,968	30,021	32,434	32,543	32,500	33,500	34,500
Free cash flow	11,934	20,698	-33,888	-1,073	2,579	-2,768	11,200	14,000	11,100
EBITDA	77,760	98,537	45,726	60,264	69,198	52,410	59,500	70,400	73,500
ROE	18.7%	21.9%	-3.2%	4.2%	6.9%	2.0%	8.8%	10.5%	10.2%
ROIC	15.6%	19.3%	4.0%	7.1%	10.3%	5.9%	7.2%	9.6%	9.6%
WACC	7.2%	6.7%	5.0%	5.0%	5.1%	4.4%	4.5%	4.7%	4.9%
Seat production unit('000 unit)	6,328	6,597	5,582	5,360	5,860	5,960	6,937	7,212	7,578
Japan	3,970	4,090	3,260	3,050	2,880	3,020	3,358	3,294	3,294
America	858	837	712	740	970	800	1,010	1,151	1,243
Asia (Inc. Oceania from 3/11)	1,060	1,210	1,210	1,280	1,770	1,750	2,160	2,337	2,589
Other (Inc. Oceania till 3/10)	440	460	400	290	240	390	410	430	451
Geographic segment									
Sales	1,082,755	1,233,789	979,775	953,729	983,727	964,295	1,083,200	1,165,000	1,194,700
Japan	681,614	749,290	614,730	590,960	572,729	572,342	614,200	602,500	602,500
America	230,330	233,536	153,686	166,438	177,172	142,460	177,900	208,900	214,300
Asia (Inc. Oceania from 3/11)	152,839	221,971	201,304	203,298	263,086	250,134	285,100	336,800	354,500
Other (Inc. Oceania till 3/10)	51,026	70,378	50,576	39,893	24,773	50,979	61,000	71,800	78,400
Elimination	-33,054	-41,388	-40,521	-46,861	-54,033	-51,620	-55,000	-55,000	-55,000
OP	48,381	65,596	14,054	25,143	36,856	20,910	26,500	36,400	38,500
Japan	22,042	19,783	-6,709	8,201	6,812	4,189	4,500	5,400	5,500
America	12,683	7,716	-7,730	-12,407	-5,700	-5,928	-3,000	0	1,000
Asia(Inc. Oceania from 3/11)	12,928	31,584	27,632	27,006	35,845	24,950	29,500	35,000	36,000
Other(Inc. Oceania till 3/10)	143	5,101	-1,042	336	-912	-3,048	-5,500	-5,000	-5,000
Elimination	583	1,409	1,903	2,006	811	747	1,000	1,000	1,000
Factors contributing to change in OP									
Volume	14,600	17,200	-51,500	11,000	11,700	-15,900	5,600	9,900	2,100
Cost reductions	27,000	31,400	-46,400	-1,400	13,400	-4,900	12,500	5,800	5,400
Price	16,400	17,000	11,300	16,700	18,600	20,000	28,000	26,000	26,800
Labor cost	-13,300	-10,000	-9,000	-5,600	-13,400	-19,300	-22,200	-11,900	-15,100
Depreciation	-5,300	-6,700	-2,800	3,500	-2,300	-5,500	-4,500	-5,500	-6,000
Material cost	-3,100	-3,500	-900	-4,700	2,900	700	-1,500	-1,000	-1,000
Other expense	0	0	-600	0	0	0	0	0	0
New consolidation	-6,300	-8,300	1,300	6,400	-5,000	-4,300	-6,900	-7,000	-7,000
Forex	-2,800	-2,500	-1,000	-1,900	-1,000	-1,400	-500	-500	-1,000
	2,000	-200	-3,400	-2,000	-1,500	-1,200	700	4,000	0

Source: Company data, Citi Research.

Figure 16. Toyota Boshoku: Consolidated balance sheet and cash flow statement

Consolidated balance sheet

(¥mn)	3/07A	3/08A	3/09A	3/10A	3/11A	3/12A	3/13E	3/14E	3/15E
Total assets	464,748	527,622	466,506	546,486	504,472	597,654	593,466	645,121	632,709
Current assets	267,325	315,684	247,610	319,622	279,177	372,052	363,864	409,519	387,107
Cash & deposits, marketable securities	61,490	93,306	106,684	116,403	119,272	156,684	156,520	167,502	170,088
Notes & receivables	153,364	163,639	80,987	149,520	110,201	154,029	142,783	176,443	150,921
Inventories	26,737	29,182	33,706	22,966	23,492	26,425	29,647	30,659	31,185
Fixed assets	197,422	211,939	218,895	226,864	225,294	225,602	229,602	235,602	245,602
Tangible fixed assets	164,724	175,872	186,457	194,055	190,277	189,832	193,832	199,832	209,832
Investment	12,851	9,025	7,330	7,236	10,766	10,499	10,499	10,499	10,499
Total shareholders' equity & liabilities	464,748	527,622	466,506	546,486	504,472	597,653	593,466	645,121	632,709
Total liabilities	266,950	300,741	277,467	349,941	307,479	407,306	393,084	429,574	401,154
Total current liabilities	236,935	239,138	145,351	217,677	185,282	272,204	257,983	294,473	266,053
Notes & accounts payable	158,226	164,685	91,402	152,802	110,225	158,305	144,084	180,574	152,154
Short-term debt	23,955	18,888	12,069	13,347	18,746	51,463	51,463	51,463	51,463
Current portion of bonds	0	0	0	0	0	0	0	0	0
Total long-term liabilities	30,015	61,603	132,116	132,263	122,196	135,101	135,101	135,101	135,101
Bonds & CBs	0	0	0	0	0	0	0	0	0
Long-term debt	6,214	37,020	107,013	105,897	94,244	103,918	103,918	103,918	103,918
Net assets	197,797	226,880	189,038	196,545	196,992	190,347	200,382	215,547	231,555
Shareholder equity	160,851	186,356	158,003	164,282	165,065	161,015	173,250	189,915	207,123
Owners' equity	156,795	190,417	177,125	181,260	189,001	189,454	201,689	218,354	235,562
Other	4,056	-4,061	-19,122	-16,978	-23,936	-28,439	-28,439	-28,439	-28,439
Minority interests	36,929	40,368	30,632	31,637	31,055	28,360	26,160	24,660	23,460
Interest bearing debt	30,169	55,908	119,082	119,244	112,990	155,381	155,381	155,381	155,381
Average interest rate	5.7%	4.6%	2.0%	1.5%	1.4%	1.3%	1.3%	1.3%	1.3%
Equity ratio (%)	34.6%	35.3%	33.9%	30.1%	32.7%	26.9%	29.2%	29.4%	32.7%
Debt-to-equity ratio (%)	166.0%	161.4%	175.6%	213.0%	186.3%	253.0%	226.9%	226.2%	193.7%
Net Cash	31,321	37,398	-12,398	-2,841	6,282	1,303	1,139	12,121	14,707
BPS	859	997	848	884	891	869	935	1,025	1,118

Consolidated cash flow

(¥mn)	3/07A	3/08A	3/09A	3/10A	3/11A	3/12A	3/13E	3/14E	3/15E
Cash flow from operations									
Net profit	30,106	40,719	-5,064	6,882	11,466	3,232	15,200	20,000	21,100
Depreciation	29,378	32,941	31,672	35,121	32,342	31,529	33,000	34,000	35,000
Change in working capital	1,024	-9,997	2,433	4,687	-5,906	4,013	-6,197	1,817	-3,422
Others	11,649	8,708	6,070	17,498	22,728	8,146	5,298	6,000	6,300
Subtotal	72,157	72,371	35,111	64,188	60,630	46,920	47,301	61,817	58,978
Cash flow from investments activities									
Capex	-43,011	-50,372	-60,229	-45,522	-37,331	-35,675	-37,000	-40,000	-45,000
Others	-2,937	-2,063	-7,510	4,185	-3,131	-40,433	0	0	0
Subtotal	-45,948	-52,435	-67,739	-41,337	-40,462	-76,108	-37,000	-40,000	-45,000
Cash flow from financing activities									
Change in interest-bearing debt	-118	27,800	65,092	-3,698	-5,384	40,714	0	0	0
Dividends	-3,367	-5,608	-6,531	-1,863	-2,969	-2,781	-2,965	-3,335	-3,891
Others	-2,400	-6,138	-11,036	-7,986	-6,992	-7,185	-7,500	-7,500	-7,500
Subtotal	-5,885	16,054	47,525	-13,547	-15,345	30,748	-10,465	-10,835	-11,391
Adjustments	509	-3,799	-4,720	1,363	-3,996	-1,562	0	0	0
Change in cash	20,833	32,191	10,177	10,667	827	-2	-164	10,981	2,586

Source: Company data, Citi Research.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy	1
from Neutral	
Price (25 Feb 13)	¥1,516
Target price	¥2,310
from ¥1,130	
Expected share price return	52.4%
Expected dividend yield	2.0%
Expected total return	54.4%
Market Cap	¥136,914M
	US\$1,466M

Price Performance
(RIC: 6995.T, BB: 6995 JP)



Tokai Rika (6995)

Upgrading to Buy: Undervalued, lots of room to gain

- **Upgrading to Buy** — We upgrade to Buy from Neutral, as Tokai Rika derives 80% of its sales from Toyota Motor and we believe it will reap the benefits of a recovery in Toyota's competitiveness supported by a weaker yen. The shares look significantly undervalued on a FY3/14E PER of 7x. Another positive is the scenario for smart key diffusion in emerging markets over the longer term. There are still quality concerns about older designs, but signs that quality control measures are working is reassuring.
- **Valuation method** — Reflecting revisions to our forecasts and target multiple, we raise our target price to ¥2,310 (fair-value PER of 11x applied to our FY3/14 EPS estimate of ¥210) from ¥1,130 (9x FY3/14 EPS estimate of ¥125). We raise our target multiple because of an increase in sector valuations driven by yen weakening and because we believe Tokai Rika is well placed to benefit from a recovery in Toyota's competitiveness. Our target PER of 11x is below our 12x fair value multiple for the auto parts sector because we cannot rule out quality risks given the nature of Tokai Rika's products.
- **Earnings estimates** — We forecast FY3/13 OP of ¥22.2bn, slightly higher than guidance of ¥21.5bn, but mainly on different forex assumptions. We forecast FY3/14 OP of ¥28.1bn. We estimate profit will be boosted by a weaker yen (by ¥4bn) as well as by easing price declines and an increase in Toyota global production volume. Our forecasts assume ¥90/\$ and ¥120/€. Tokai Rika assumes Q4 rates of ¥85/\$ and ¥115/€. Profit sensitivity to every ¥1 fluctuation against the dollar and the euro is ¥400mn and ¥40mn, respectively. Profit is also affected by the translation of earnings denominated in baht, yuan, and other Asian currencies. Forex sensitivity is relatively high because many products (electronic components, etc.) are supplied from Japan.
- **Topics** — 1) IMVs account for about half of Toyota's ASEAN production volume. Tokai Rika has secured orders for smart keys and other high value-added accessories for the next IMV model. Tokai Rika benefited from smart key diffusion in Japan in the 2000s and this indication of diffusion in emerging markets over the longer-term is positive. 2) Recalls were accompanied by large extraordinary losses, but these were mainly related to old designs. Quality control measures implemented over the last few years (for example, an increase in assumed switch usage frequency to 300,000 times from 20,000 times) has reduced the failure rate for new models. 3) One of the reasons the recall became so large was that the parts involved played important functions and were crucial to safety. We believe Tokai Rika supplied a large proportion of these parts to Toyota, and that the loss of orders is unlikely. Also, we understand Tokai Rika has been securing orders for emerging markets.

Consol.	Sales		OP			RP		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥		X
3/11A	327,622	-1.0	18,907	4.8	5.8	20,059	-1.5	5,236	-58.5	58		26.1
3/12A	319,577	-2.5	13,157	-30.4	4.1	14,978	-25.3	8,125	55.2	90		16.9
3/13CE	356,000	11.4	23,000	74.8	6.5	23,500	56.9	15,000	84.6	166		9.1
3/13CRE	363,000	13.6	21,000	59.6	5.8	22,000	46.9	2,000	-75.4	22		68.4
3/13E	344,900	7.9	18,300	39.1	5.3	18,700	24.8	2,100	-74.2	23		65.2
3/13RE	366,100	14.6	22,200	68.7	6.1	23,200	54.9	2,700	-66.8	30		50.7
3/14E	338,000	-2.0	17,000	-7.1	5.0	18,000	-3.7	11,300	438.1	125		12.1
3/14RE	408,600	11.6	28,100	26.6	6.9	29,100	25.4	19,000	603.7	210		7.2
3/15E	346,100	2.4	19,000	11.8	5.5	20,000	11.1	12,600	11.5	140		10.9
3/15RE	424,900	4.0	29,900	6.4	7.0	30,900	6.2	20,100	5.8	223		6.8

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

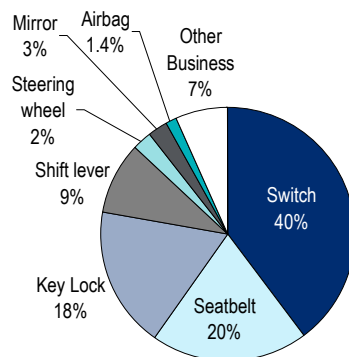
Tokai Rika (6995) Investment Dashboard

Reasons to Buy

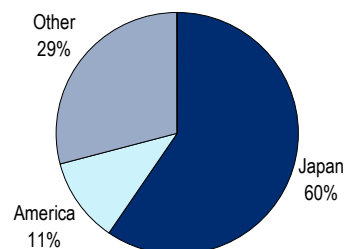
- Sales to the Toyota group account for a hefty 80% of all sales and we think Tokai Rika should readily benefit from a recovery in Toyota Motor's competitiveness on the weak yen
- Looks very undervalued on PER
- Smart keys likely to spread in emerging markets over the long run
- While risk remains over the quality issue for old designs, recently Tokai Rika has been succeeding with preventative actions

Sales breakdown (FY3/12)

By product



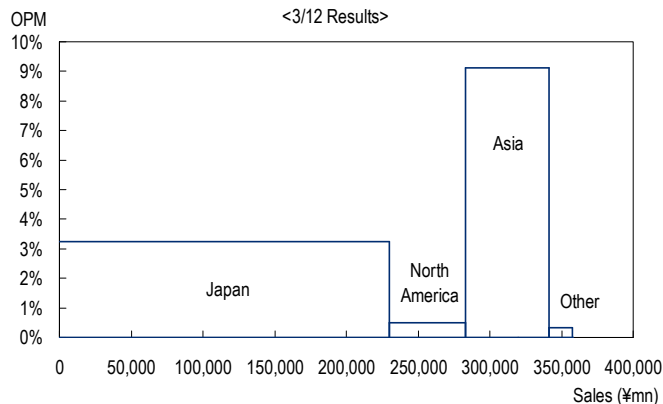
By region



Source: Company data, Citi Research.

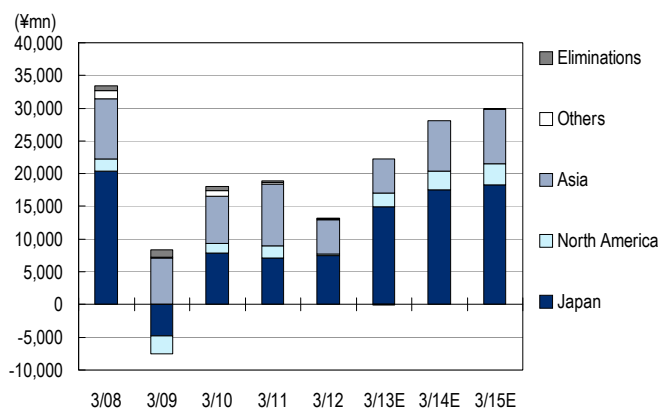
Business portfolio

<3/12 Results>



Source: Company data, Citi Research.

OP by segment

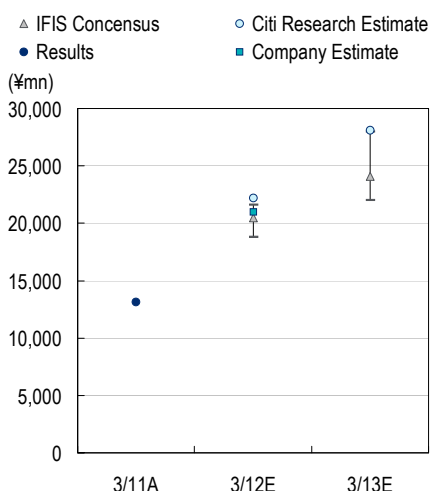


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

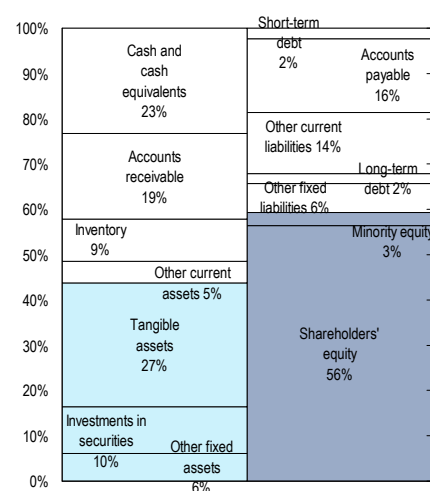
- Domestic production of Lexuses and other vehicles that are good for the mix could increase beyond our expectations on recovery of export competitiveness by Toyota Motor
- Anti-Japanese demonstrations in China could subside and Japan automakers could normalize their China auto sales more quickly than envisaged
- The weakening of the yen could accelerate

OP forecast comparison



Source: Company data, IFIS (13/2/21), Citi Research.

Balance sheet (end-FY3/13 Q3)



Source: Company data.

Figure 17. Tokai Rika: Earnings model

Earnings Model

(¥mn)	3/07A	3/08A	3/09A	3/10A	3/11A	3/12A	3/13E	3/14E	3/15E
Sales	405,139	440,001	337,417	331,014	327,622	319,577	366,100	408,600	424,900
YoY pct chg	11.5%	8.6%	-23.3%	-1.9%	-1.0%	-2.5%	14.6%	11.6%	4.0%
CoGS	349,574	373,099	302,710	283,607	279,820	280,552	316,300	351,200	365,000
Pct of sales	86.3%	84.8%	89.7%	85.7%	85.4%	87.8%	86.4%	86.0%	85.9%
Gross profit	55,565	66,902	34,707	47,407	47,802	39,025	49,800	57,400	59,900
Gross margin	13.7%	15.2%	10.3%	14.3%	14.6%	12.2%	13.6%	14.0%	14.1%
SG&A expenses	30,665	33,526	33,895	29,374	28,895	25,868	27,600	29,300	30,000
Pct of sales	7.6%	7.6%	10.0%	8.9%	8.8%	8.1%	7.5%	7.2%	7.1%
Operating profit	24,900	33,376	811	18,032	18,906	13,156	22,200	28,100	29,900
Operating margin	6.1%	7.6%	0.2%	5.4%	5.8%	4.1%	6.1%	6.9%	7.0%
YoY pct chg	25.8%	34.0%	-97.6%	2123.4%	4.8%	-30.4%	68.7%	26.6%	6.4%
Net nonoperating income	1,600	1,038	209	2,341	1,152	1,821	1,000	1,000	1,000
Net interest income	119	272	552	316	382	392	400	400	400
Equity method earnings	390	451	125	85	237	596	100	100	100
Recurring profit	26,500	34,414	1,020	20,372	20,058	14,977	23,200	29,100	30,900
Recurring margin	6.5%	7.8%	0.3%	6.2%	6.1%	4.7%	6.3%	7.1%	7.3%
YoY pct chg	22.3%	29.9%	-97.0%	1897.3%	-1.5%	-25.3%	54.9%	25.4%	6.2%
Net extraordinary items	1,135	-1,775	-117	-40	-12,652	-421	-17,000	0	0
Pretax profit	27,635	32,639	903	20,331	7,405	14,556	6,200	29,100	30,900
Total tax	9,056	10,183	-902	7,014	1,483	6,322	3,000	9,500	10,100
Effective tax rate	32.8%	31.2%	-99.9%	34.5%	20.0%	43.4%	48.4%	32.6%	32.7%
Minority interest	-629	-1,173	-741	-713	-688	-110	-500	-600	-700
Net profit	17,950	21,283	1,063	12,603	5,234	8,123	2,700	19,000	20,100
Net margin	4.4%	4.8%	0.3%	3.8%	1.6%	2.5%	0.7%	4.7%	4.7%
YoY pct chg	20.9%	18.6%	-95.0%	1085.6%	-58.5%	55.2%	-66.8%	603.7%	5.8%
No. of shares ('000s)	89,904	90,255	90,317	90,324	90,317	90,314	90,314	90,314	90,314
DPS (¥)	34.0	48.0	32.0	32.0	30.0	30.0	30.0	40.0	40.0
EPS (¥)	199.7	235.8	11.8	139.5	58.0	89.9	29.9	210.4	222.6
CFPS (¥)	377.5	433.3	220.4	322.9	223.3	239.9	184.9	376.5	399.7
Capex	20,368	21,189	15,852	11,122	11,707	16,406	16,000	18,000	20,000
Depreciation	15,989	17,824	18,842	16,565	14,937	13,543	14,000	15,000	16,000
R&D	17,734	18,324	17,907	16,607	16,969	17,590	18,500	19,000	19,500
Free cash flow	13,571	17,918	4,053	18,046	8,464	5,260	700	16,000	16,100
EBITDA	40,889	51,200	19,653	34,597	33,843	26,699	36,200	43,100	45,900
Exchange rate(¥/US\$)	115	112	101	91	85	78	83	90	90
RoE	12.3%	13.4%	0.7%	7.9%	3.3%	5.0%	1.6%	10.5%	10.0%
RoIC	12.6%	16.6%	0.5%	9.9%	11.9%	7.5%	11.9%	14.2%	14.4%
WACC	7.9%	8.0%	7.9%	7.5%	7.5%	7.5%	7.5%	7.6%	7.6%
Geographical Segment	3/07A	3/08A	3/09A	3/10A	3/11A	3/12A	3/13E	3/14E	3/15E
Consolidated sales	405,139	440,001	337,417	331,014	327,622	319,577	366,100	408,600	424,900
Japan	294,831	314,629	246,113	244,399	233,373	229,833	259,100	270,100	275,060
North America	83,949	88,154	55,624	57,507	57,793	53,429	66,000	81,000	85,920
Asia	47,150	61,926	50,376	50,453	60,214	57,733	67,000	82,000	86,920
Others	28,047	28,416	18,793	16,100	15,197	16,370	16,500	18,000	19,500
Eliminations	-48,838	-53,125	-33,490	-37,446	-38,956	-37,789	-42,500	-42,500	-42,500
Consolidated OP	24,899	33,376	811	18,031	18,906	13,156	22,200	28,100	29,900
Japan	17,330	20,346	-4,730	7,840	7,113	7,462	15,000	17,600	18,300
North America	1,915	1,875	-2,843	1,496	1,812	270	2,000	2,800	3,200
Asia	4,460	9,229	7,140	7,189	9,452	5,270	5,300	7,700	8,300
Others	976	1,187	140	935	301	52	-100	0	100
Eliminations	217	737	1,104	570	226	99	0	0	0
Factors contributing to change in OP	5,100	8,400	-32,600	17,200	900	-5,800	9,043	5,900	1,800
Volume	7,700	10,600	-26,500	2,600	1,600	1,400	11,000	5,400	5,300
Price factor	-3,300	-4,100	-4,100	-1,200	-3,600	-6,500	-6,200	-4,000	-4,500
Cost reductions	7,900	7,400	8,500	12,300	7,600	5,200	7,200	6,000	6,500
Forex fluctuations	2,100	300	-3,400	-4,600	-3,800	-2,800	2,000	4,000	0
Labor cost	-4,300	-4,500	-2,800	2,100	-1,000	-1,900	-2,700	-3,000	-3,000
Depreciation cost	-2,255	-1,900	-1,000	2,300	1,600	1,400	-457	-1,000	-1,000
Other expense	-275	-900	-2,900	4,000	-600	-2,100	-1,500	-1,500	-1,500
Material cost	-2,200	1,500	-400	-300	-900	-500	-300	0	0
Change in accounting term	-270	0	0	0	0	0	0	0	0

Source: Company data, Citi Research.

Figure 18. Tokai Rika: Consolidated balance sheet and cash flow statement

Consolidated Balance Sheet

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Total assets	259,990	270,873	226,584	269,737	259,704	273,217	276,612	298,132	321,120
Current assets	146,097	140,421	97,523	151,620	150,976	156,598	154,993	173,513	192,501
Cash & deposits, marketable securities	39,648	38,347	28,624	58,295	72,635	61,992	58,951	67,718	82,965
Notes & receivables	69,907	68,858	35,766	59,796	41,643	59,581	57,980	64,711	67,292
Inventories	24,476	22,976	20,348	21,640	22,459	23,004	26,041	29,064	30,223
Fixed assets	113,893	130,452	129,061	118,117	108,727	116,619	121,619	124,619	128,619
Tangible fixed assets	82,315	83,974	80,057	74,113	69,932	72,870	77,870	80,870	84,870
Investment & others	27,705	44,247	45,867	41,485	36,771	42,147	42,147	42,147	42,147
Total shareholders' equity & liabilities	259,989	270,872	226,583	269,736	259,704	273,216	276,612	298,132	321,120
Total liabilities	111,560	108,922	76,204	106,186	98,579	108,018	107,923	113,456	115,644
Total current liabilities	93,210	90,306	56,630	79,789	72,954	84,340	84,245	89,778	91,966
Notes & accounts payable	58,311	55,442	28,928	46,250	38,716	50,240	50,145	55,678	57,866
Short-term debt	5,260	3,842	4,821	4,947	4,287	7,234	7,234	7,234	7,234
Bond maturing in one year	0	0	0	0	0	0	0	0	0
Total long-term liabilities	18,350	18,616	19,574	26,397	25,625	23,678	23,678	23,678	23,678
Bonds & CBs	0	0	0	0	0	0	0	0	0
Long-term debt	0	0	1,308	8,286	7,878	5,956	5,956	5,956	5,956
Minority interests	2,763	3,064	3,196	3,744	3,801	3,339	3,839	4,439	5,139
Total shareholders' equity	145,666	158,886	147,183	159,806	157,324	161,859	164,850	180,237	200,337
Interest bearing debt	5,260	3,842	6,129	13,233	12,165	13,190	13,190	13,190	13,190
Average interest rate>	8.1%	12.2%	7.8%	2.2%	2.2%	2.4%	2.3%	2.3%	2.3%
Equity ratio (%)	56.0%	58.7%	65.0%	59.2%	60.6%	59.2%	59.6%	60.5%	62.4%
Debt-to-equity ratio (%)	76.6%	68.6%	51.8%	66.4%	62.7%	66.7%	65.5%	62.9%	57.7%
Net cash	34,388	34,505	22,495	45,062	60,470	48,802	45,761	54,528	69,775
BPS	1,620	1,760	1,630	1,769	1,742	1,792	1,825	1,996	2,218

Cash flow

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Cash flow from operations									
Net profit	17,950	21,283	1,063	12,603	5,234	8,123	2,700	19,000	20,100
Depreciation	15,989	17,824	18,842	16,565	14,937	13,543	14,000	15,000	16,000
Change in working capital	-6,026	-1,025	7,813	-7,777	9,121	-7,266	-1,530	-4,221	-1,553
Others	97	5,879	-7,652	11,259	1,664	-567	498	149	4,313
Subtotal	28,010	43,961	20,066	32,650	30,956	13,833	15,668	29,928	38,860
Cash flow from investments activities									
Capex	-20,368	-21,189	-15,852	-11,122	-11,707	-16,406	-16,000	-18,000	-20,000
Others	-6,409	-10,595	-9,401	1,909	279	-5,935	0	0	0
Subtotal	-26,777	-31,784	-25,253	-9,213	-11,428	-22,341	-16,000	-18,000	-20,000
Cash flow from financing activities									
Change in interest-bearing debt	517	-1,297	857	7,177	-681	1,315	0	0	0
Dividends	-2,551	-3,866	-4,424	-1,446	-3,608	-2,530	-2,709	-3,161	-3,613
Others	-6,356	74	-153	-119	-506	-612	0	0	0
Subtotal	-8,390	-5,089	-3,720	5,612	-4,795	-1,827	-2,709	-3,161	-3,613
Adjustments	738	-1,562	-1,505	271	-1,598	-545	0	0	0
Change in cash	-6,419	5,526	-10,412	29,320	13,135	-10,880	-3,041	8,767	15,247

Source: Company data, Citi Research.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (25 Feb 13)	¥1,475
Target price	¥1,540
from ¥1,090	
Expected share price return	4.4%
Expected dividend yield	1.4%
Expected total return	5.8%
Market Cap	¥237,030M
	US\$2,538M

Price Performance (RIC: 7276.T, BB: 7276 JP)



Koito Manufacturing (7276)

Maintaining Neutral: Elimination of cartel issues and other uncertainties necessary for premium

- **Maintaining Neutral** — We believe sales mix improvement driven by the diffusion of high-value-added LED headlights will cover the impact of a decline in domestic auto production, to which Koito is highly exposed. However, we believe concerns about the cartel issue and other uncertainties must be eliminated to attach a premium. Our FY3/14 forecasts put the shares on a PER of just under 11x, which we believe is reasonable.
- **Valuation method** — Reflecting revisions to our forecasts and target multiple, we raise our target price to ¥1,540 (fair PER of 11x applied to our FY3/14 EPS estimate of ¥140) from ¥1,090 (9x FY3/14 EPS estimate of ¥121). We raise our target multiple because of an increase in sector valuations driven by yen weakening. Our target PER of 11x is the below our 12x fair value multiple for the auto parts sector; while we view the expanding adoption of value-added headlights and new orders as warranting a premium, we set our target below the sector average because of uncertainties associated with the cartel issue and compensation demands related to the aircraft seat problem.
- **Earnings estimates** — We forecast FY3/13 OP of ¥36.8bn. We expect guidance of ¥35bn to be eclipsed thanks to an increase Toyota production, a recovery in Japanese automaker production in China, and a weaker yen. We forecast FY3/14 OP of ¥42.4bn, with growth supported by higher volume and lower start-up costs in North America, and expanding high value-added headlight sales in Japan. Chinese subsidiaries also have a March year-end and we forecast sales and profit will increase because of a low YoY comparison base. A high local procurement ratio means that the profit translation difference is the main forex impact. We forecast this will boost profit by ¥1.1bn in FY3/14.

Consol.	Sales		OP			RP		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	428,977	5.0	37,435	3.8	8.7	34,320	-4.6	10,012	61.0	62	23.7	
3/12A	430,929	0.5	31,726	-15.3	7.4	31,497	-8.2	13,393	33.8	83	17.7	
3/13CE	475,000	10.2	39,500	24.5	8.3	37,500	19.1	18,000	34.4	112	13.2	
3/13CRE	465,000	7.9	35,000	10.3	7.5	35,500	12.7	17,000	26.9	106	13.9	
3/13E	461,200	7.0	34,700	9.4	7.5	33,200	5.4	17,200	28.4	107	13.8	
3/13RE	475,300	10.3	36,800	16.0	7.7	37,300	18.4	18,000	34.4	112	13.2	
3/14E	470,700	2.1	37,300	7.5	7.9	37,100	11.7	19,500	13.4	121	12.2	
3/14RE	523,530	10.1	42,400	15.2	8.1	42,900	15.0	22,500	25.0	140	10.5	
3/15E	497,900	5.8	42,800	14.7	8.6	42,600	14.8	21,900	12.3	136	10.8	
3/15RE	550,130	5.1	46,800	10.4	8.5	47,300	10.3	25,000	11.1	156	9.5	

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

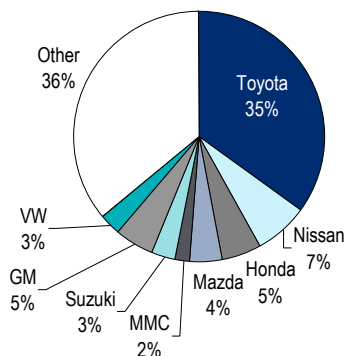
Koito Manufacturing (7276) Investment Dashboard

Reasons for our Neutral rating

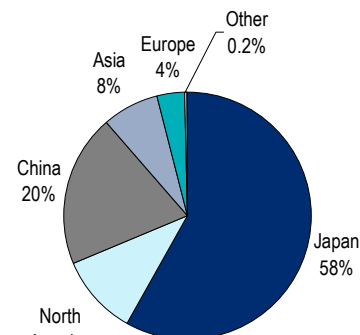
- Growth in the use of high-value-added headlights and expansion in sales to new automakers have been behind the premium but there remains a lack of visibility on the cartel issue and at current valuations we do not find the shares cheap
- Koito is not particularly directly sensitive to yen weakness and benefits less than peers

Sales breakdown (FY3/12)

By customer

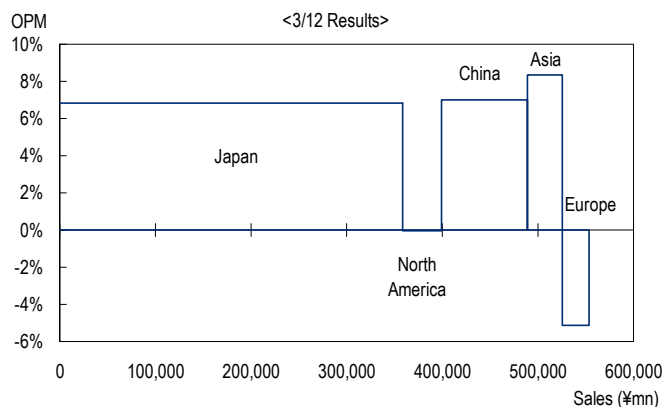


By region



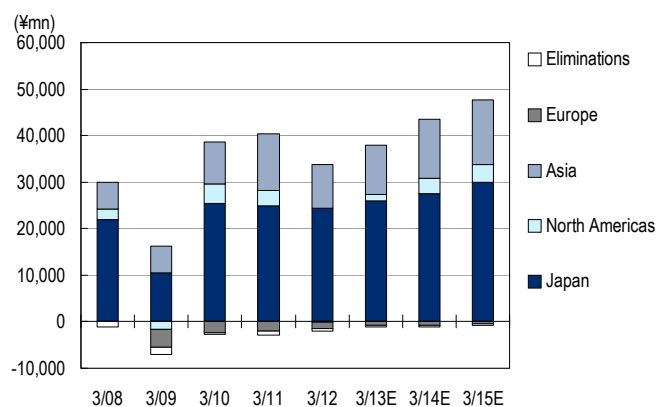
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

OP by segment

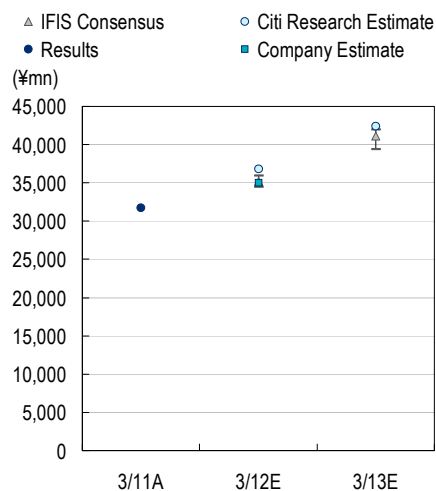


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

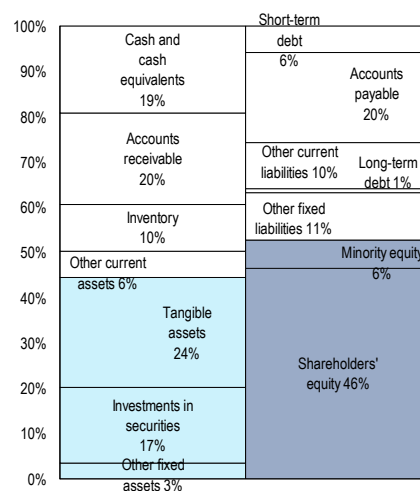
- Resolution of the cartel issue and the aircraft seat compensation issue
- Greater-than-expected growth in domestic auto production on yen weakness
- Greater-than-expected auto demand in Japan and overseas on economic stimulus measures

OP forecast comparison



Source: Company data, IFIS (13/2/21), Citi Research.

Balance sheet (end-FY3/13 Q3)



Source: Company data.

Figure 19. Koito: Consolidated earnings model

Consolidated Earnings Model

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Sales	452,520	470,648	400,232	408,430	428,977	430,929	475,300	523,530	550,130
YoY pct chg	13.8%	4.0%	-15.0%	2.0%	5.0%	0.5%	10.3%	10.1%	5.1%
CoGS	395,650	404,414	355,703	339,072	358,300	365,193	402,853	443,798	464,694
Pct of sales	87.4%	85.9%	88.9%	83.0%	83.5%	84.7%	84.8%	84.8%	84.5%
Gross profit	56,870	66,234	44,529	69,357	70,677	65,736	72,448	79,732	85,436
Gross margin	12.6%	14.1%	11.1%	17.0%	16.5%	15.3%	15.2%	15.2%	15.5%
SG&A expenses	35,540	37,274	35,397	33,303	33,242	34,010	35,648	37,332	38,636
Pct of sales	7.9%	7.9%	8.8%	8.2%	7.7%	7.9%	7.5%	7.1%	7.0%
Operating profit	21,330	28,959	9,131	36,054	37,434	31,725	36,800	42,400	46,800
Operating margin	4.7%	6.2%	2.3%	8.8%	8.7%	7.4%	7.7%	8.1%	8.5%
YoY pct chg	-4.2%	35.8%	-68.5%	294.9%	3.8%	-15.3%	16.0%	15.2%	10.4%
Net nonoperating income	3,272	1,438	144	-71	-3,115	-229	500	500	500
Net financial income	506	850	1,128	595	-52	-82	300	300	300
Recurring profit	24,600	30,397	9,275	35,983	34,319	31,496	37,300	42,900	47,300
Recurring margin	5.4%	6.5%	2.3%	8.8%	8.0%	7.3%	7.8%	8.2%	8.6%
YoY pct chg	-4.1%	23.6%	-69.5%	288.0%	-4.6%	-8.2%	18.4%	15.0%	10.3%
Net extraordinary items	198	-300	-1,295	-22,252	-16,729	-4,403	-3,500	-1,000	-1,000
Pretax profit	24,799	30,097	7,980	13,731	17,590	27,093	33,800	41,900	46,300
Total tax	9,622	11,677	2,051	9,736	11,850	10,599	11,800	14,700	16,200
Effective Tax Rate	38.8%	38.8%	25.7%	70.9%	67.4%	39.1%	34.9%	35.1%	35.0%
Minority interest	-1,802	-2,837	-1,886	2,222	4,271	-3,102	-4,000	-4,700	-5,100
Net profit	13,375	15,583	4,042	6,217	10,012	13,391	18,000	22,500	25,000
Net margin	3.0%	3.3%	1.0%	1.5%	2.3%	3.1%	3.8%	4.3%	4.5%
YoY pct chg	5.1%	16.5%	-74.1%	53.8%	61.0%	33.7%	34.4%	25.0%	11.1%
No. of shares ('000s)	160,717	160,712	160,707	160,704	160,700	160,699	160,699	160,699	160,699
DPS (¥)	22.0	23.0	20.0	18.0	19.0	19.0	20.0	21.0	22.0
EPS (¥)	83.2	97.0	25.2	38.7	62.3	83.3	112.0	140.0	155.6
CFPS (¥)	222.3	253.4	191.4	189.9	194.2	204.7	221.5	255.1	276.9
Capex	34,489	27,667	31,164	15,757	16,400	21,400	26,000	22,000	26,000
Depreciation	22,347	25,140	26,716	24,296	21,200	19,500	17,600	18,500	19,500
R&D	20,716	20,889	18,848	17,300	17,177	17,611	18,000	18,500	19,000
Free Cash Flow	1,233	13,056	-406	14,756	14,812	11,491	9,600	19,000	18,500
EBITDA	43,677	54,099	35,847	60,350	58,634	51,225	54,400	60,900	66,300
RoE	8.9%	10.3%	2.8%	4.2%	6.8%	8.4%	9.9%	11.2%	11.3%
RoIC	8.0%	10.9%	3.7%	15.2%	17.7%	13.8%	14.4%	15.6%	16.3%
WACC	5.9%	5.9%	5.7%	6.1%	6.7%	6.8%	6.9%	6.9%	7.0%
Geographic Segment Breakdown									
Sales	452,520	470,648	400,232	408,430	428,977	430,929	475,300	523,530	550,130
Japan	353,485	400,919	351,490	351,702	357,166	358,313	374,500	379,200	386,500
North Americas	55,525	58,250	42,518	45,220	45,452	40,689	58,600	77,420	83,580
Asia	92,425	99,380	86,034	101,287	120,436	126,307	141,600	163,910	175,450
-China					86,080	89,698	95,600	112,510	120,050
-Other Asia					34,356	36,609	46,000	51,400	55,400
Europe	49,386	49,574	33,401	27,414	24,418	28,260	24,600	27,000	28,600
Eliminations	-98,302	-137,475	-113,211	-117,195	-118,496	-122,643	-124,000	-124,000	-124,000
Operating profit	21,328	28,958	9,131	36,054	37,434	31,725	36,800	42,400	46,800
Japan	15,851	22,014	10,463	25,393	24,881	24,427	26,000	27,600	29,900
North Americas	2,540	2,202	-1,587	4,133	3,412	-13	1,400	3,200	3,800
Asia	3,637	5,773	5,779	9,185	12,082	9,355	10,500	12,700	13,900
-China					7,916	6,291	6,600	7,800	8,400
-Other Asia					4,166	3,064	3,900	4,900	5,500
Europe	314	44	-3,846	-2,300	-2,067	-1,445	-800	-800	-500
Eliminations	-1,014	-1,075	-1,676	-357	-874	-598	-300	-300	-300

Source: Company data, Citi Research.

Figure 20. Koito: Consolidated balance sheet and cash flow statement

Consolidated Balance Sheet

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Total assets	385,300	388,585	351,869	357,530	338,760	363,273	391,106	423,214	454,005
Current assets	179,885	178,494	143,962	182,216	182,048	202,995	216,428	245,036	269,327
Cash & deposits, marketable securities	29,227	24,716	24,926	41,932	56,682	60,511	69,869	84,696	101,388
Notes & receivables	98,092	95,951	70,209	86,937	73,405	93,916	92,275	101,638	106,802
Inventories	38,547	39,810	37,452	42,153	41,121	37,817	43,533	47,950	50,387
Fixed assets	205,415	210,090	207,906	175,314	156,711	160,278	174,678	178,178	184,678
Tangible fixed assets	103,045	101,677	98,458	87,989	81,490	85,068	99,468	102,968	109,468
Investment & others	101,403	107,440	107,949	85,578	73,749	74,022	74,022	74,022	74,022
Total shareholders' equity & liabilities	385,300	388,584	351,869	357,529	338,759	363,272	391,106	423,214	454,005
Total liabilities	204,866	204,236	177,384	179,914	170,345	180,356	183,404	191,687	195,913
Total current liabilities	155,703	151,681	130,871	142,704	124,033	137,441	140,489	148,772	152,998
Notes & accounts payable	80,395	78,378	57,641	75,174	69,303	78,443	81,491	89,774	94,000
Short-term debt	36,313	33,846	43,737	35,714	20,265	22,854	22,854	22,854	22,854
Total long-term liabilities	49,162	52,554	46,512	37,209	46,311	42,915	42,915	42,915	42,915
Bonds & CBs	0	0	0	0	0	0	0	0	0
Long-term debt	19,936	23,513	17,198	6,967	5,964	2,883	2,883	2,883	2,883
Minority interests	30,881	32,635	32,301	28,951	21,767	22,638	26,638	31,338	36,438
Total shareholders' equity	149,553	151,713	142,184	148,664	146,647	160,278	181,064	200,189	221,654
Interest bearing debt	56,249	57,359	60,935	42,681	26,229	25,737	25,737	25,737	25,737
Average interest rate>	2.5%	2.4%	1.9%	1.7%	2.9%	2.6%	2.7%	2.7%	2.7%
Equity ratio (%)	38.8%	39.0%	40.4%	41.6%	43.3%	44.1%	46.3%	47.3%	48.8%
Debt-to-equity ratio (%)	137.0%	134.6%	124.8%	121.0%	116.2%	112.5%	101.3%	95.8%	88.4%
Net cash	-27,022	-32,643	-36,009	-749	30,453	34,774	44,132	58,959	75,651
BPS	931	944	885	925	913	997	1,127	1,246	1,379

Consolidated cash flow

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Cash flow from operations									
Net profit	13,375	15,583	4,042	6,217	10,012	13,391	18,000	22,500	25,000
Depreciation	22,347	25,140	26,716	24,296	21,253	19,517	17,600	18,500	19,500
Change in working capital	-1,583	-2,607	6,409	-5,326	8,121	-26,026	-1,027	-5,498	-3,373
Others	4,414	2,406	-5,896	23,281	11,602	25,192	4,919	5,619	6,019
Subtotal	38,553	40,522	31,271	48,468	50,988	32,074	39,492	41,121	47,146
Cash flow from investments activities									
Capex	-34,988	-28,306	-27,189	-14,447	-17,765	-22,933	-26,000	-22,000	-26,000
Others	2,348	-14,285	-1,651	-2,356	-20,022	-4,252	0	0	0
Subtotal	-32,640	-42,591	-28,840	-16,803	-37,787	-27,185	-26,000	-22,000	-26,000
Cash flow from financing activities									
Change in interest-bearing debt	2,860	3,356	5,981	-17,392	-15,399	24	0	0	0
Dividends	-3,532	-3,524	-3,857	-2,572	-3,212	-2,893	-3,134	-3,294	-3,455
Others	-1,142	-851	-1,693	-982	-1,412	-1,735	-1,000	-1,000	-1,000
Subtotal	-1,814	-1,019	431	-20,946	-20,023	-4,604	-4,134	-4,294	-4,455
Adjustments	159	-199	103	-201	-465	30	0	0	0
Change in cash	4,258	-3,287	2,964	10,518	-7,287	315	9,358	14,827	16,691

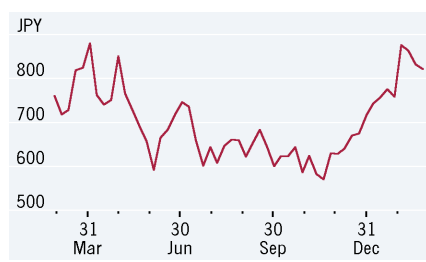
Source: Company data, Citi Research.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy	1
<i>from Neutral</i>	
Price (25 Feb 13)	¥822
Target price	¥1,050
<i>from ¥680</i>	
Expected share price return	27.7%
Expected dividend yield	1.9%
Expected total return	29.7%
Market Cap	¥45,610M
	US\$488M

Price Performance (RIC: 7283.T, BB: 7283 JP)



Aisan Industry (7283)

Upgrading to Buy: We forecast a record profit in FY3/14

■ **Upgrading to Buy** — Investors are mainly concerned about the Indonesian motorcycle business, anti-Japan demonstrations in China, slowing growth in South Korea, and quality-related extraordinary losses. But even allowing for these concerns we forecast Aisan will post a record OP in FY3/14, and therefore upgrade to Buy. We forecast profit will grow on a decline in rare earth prices, the weak yen, expanding auto exports to ASEAN countries, and an increase in Toyota's global production volume. There is still a risk of a net loss in FY3/13 because of quality-related extraordinary losses, but as investor focus is already shifting to FY3/14 we do not believe this will cause large drop in the share price. We believe the shares are significantly undervalued on FY3/14 PER of around 8x.

■ **Valuation method** — Reflecting revisions to our forecasts and target multiple, we raise our target price to ¥1,050 (fair-value PER of 10x applied to our FY3/14 EPS estimate of ¥105) from ¥680 (9x FY3/14 EPS estimate of ¥76). We raise our target multiple because of an increase in sector valuations driven by yen weakening. Our target PER of 10x is the below our 12x fair value multiple for the auto parts sector because we apply a discount for low liquidity and there is still a risk of quality-related extraordinary losses.

■ **Earnings estimates** — We forecast FY3/13 OP of ¥8bn. Despite anti-Japan protests in China and slowing motorcycle demand in Indonesia, we believe Aisan will reach its initial Asia segment OP guidance thanks to brisk auto exports to ASEAN countries and rationalization benefits. We expect such factors as above-plan domestic profits supported by a weaker yen to lift overall OP above guidance of ¥7.5bn. But we factor in a quality-related extraordinary loss of ¥5bn (our estimate) and therefore view a net loss as a possibility. We forecast FY3/14 OP of ¥9.8bn—an all-time high. We estimate lower rare earth prices and a weaker yen will boost profit by ¥0.8bn, and we see auto export growth to ASEAN countries and Toyota global production volume as tailwinds. We expect a stronger won and stiffer competition in South Korea, and we cannot foresee a large earnings recovery in China, but we expect this to be covered by the aforementioned positives. While motorcycle market conditions in Indonesia are tough, we expect Aisan to benefit from the spread of fuel injection.

Consol.	Sales		OP			RP		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥		X
3/11A	150,849	9.7	6,026	38.4	4.0	5,270	19.0	327	-79.3	6		139.5
3/12A	149,892	-0.6	5,477	-9.1	3.7	4,888	-7.2	1,812	454.1	33		25.2
3/13CE	165,000	10.1	7,500	36.9	4.5	7,000	43.2	4,000	120.8	72		11.4
3/13E	163,400	9.0	7,500	36.9	4.6	7,200	47.3	4,200	131.8	76		10.9
3/13RE	167,900	12.0	8,000	46.1	4.8	8,000	63.7	-100	nm	-2		nm
3/14E	165,100	1.0	7,500	0.0	4.5	7,200	0.0	4,200	0.0	76		10.9
3/14RE	185,000	10.2	9,800	22.5	5.3	9,800	22.5	5,850	nm	105		7.8
3/15E	171,400	3.8	8,600	14.7	5.0	8,300	15.3	4,800	14.3	87		9.5
3/15RE	194,000	4.9	10,700	9.2	5.5	10,700	9.2	6,400	9.4	115		7.1

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

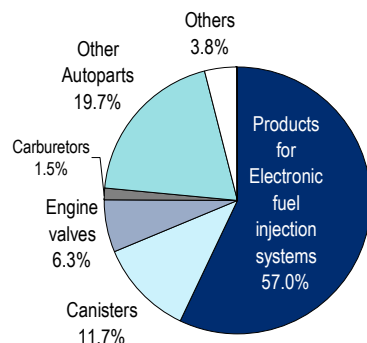
Aisan Industry (7283) Investment Dashboard

Reasons to Buy

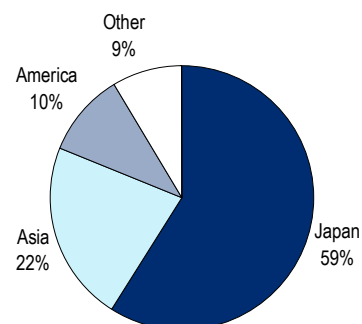
- We think record high earnings are possible in FY3/14, on growth in Toyota Motor's global production, falling rare earth prices, and yen weakness
- The quality issue is a risk but we think the equity market has already priced in the risk of extraordinary losses to a degree
- Low PER

Sales breakdown (FY3/12)

By product

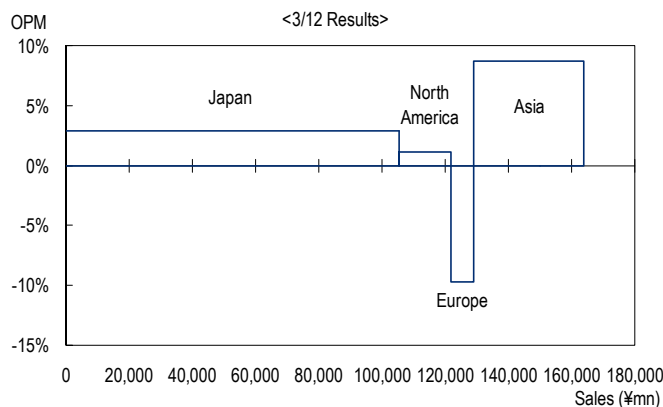


By region



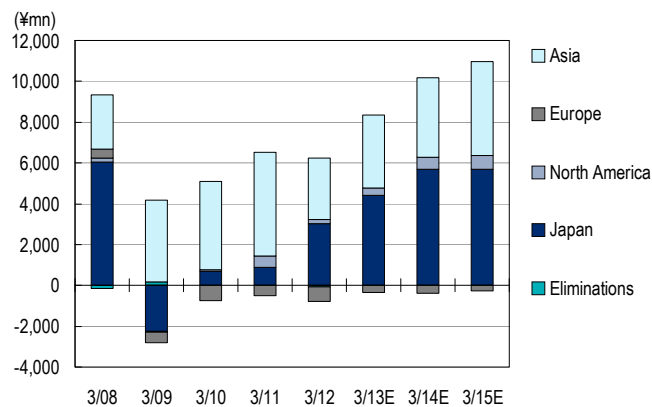
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

OP by segment

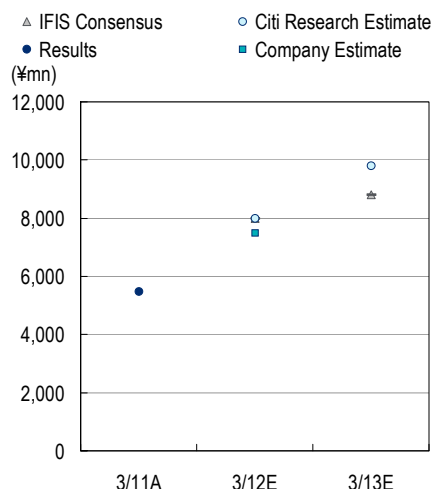


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

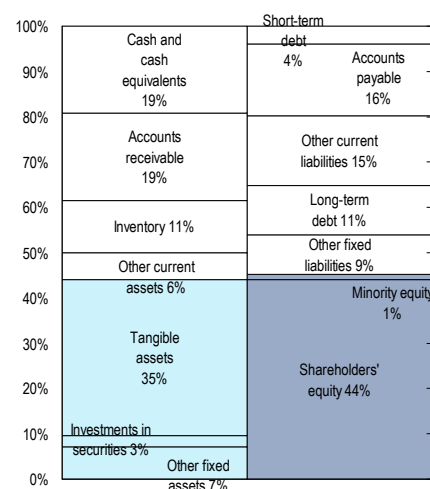
- Anti-Japanese demonstrations in China could subside and Japan automakers could normalize their China auto sales more quickly than envisaged
- Auto demand could grow more than we expect in Japan and overseas
- The yen could weaken further
- Indonesian motorcycle demand could recover

OP forecast comparison



Source: Company data, IFIS (13/2/21), Citi Research.

Balance sheet (end-FY3/13 Q3)



Source: Company data.

Figure 21. Aisan Industry: Earnings model

Earnings Model

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Sales	175,003	189,589	158,583	137,464	150,849	149,892	167,900	185,000	194,000
YoY pct chg	11.7%	8.3%	-16.4%	-13.3%	9.7%	-0.6%	12.0%	10.2%	4.9%
CoGS	154,690	167,129	144,908	121,844	130,627	131,663	146,400	161,100	168,800
Pct of sales	88.4%	88.2%	91.4%	88.6%	86.6%	87.8%	87.2%	87.1%	87.0%
Gross profit	20,313	22,460	13,675	15,620	20,222	18,229	21,500	23,900	25,200
Gross margin	11.6%	11.8%	8.6%	11.4%	13.4%	12.2%	12.8%	12.9%	13.0%
SG&A expenses	12,315	13,248	12,293	11,266	14,196	12,752	13,500	14,100	14,500
Pct of sales	7.0%	7.0%	7.8%	8.2%	9.4%	8.5%	8.0%	7.6%	7.5%
Operating profit	7,998	9,211	1,382	4,353	6,025	5,477	8,000	9,800	10,700
Operating margin	4.6%	4.9%	0.9%	3.2%	4.0%	3.7%	4.8%	5.3%	5.5%
YoY pct chg	8.9%	15.2%	-85.0%	215.0%	38.4%	-9.1%	46.1%	22.5%	9.2%
Net non-operating income	168	-968	-3,271	74	-756	-589	0	0	0
Net interest income	-286	-248	-50	-121	-76	-89	-100	-100	-100
Recurring profit	8,165	8,243	-1,889	4,427	5,269	4,888	8,000	9,800	10,700
Recurring margin	4.7%	4.3%	-1.2%	3.2%	3.5%	3.3%	4.8%	5.3%	5.5%
YoY pct chg	10.6%	1.0%	NA	NA	19.0%	-7.2%	63.7%	22.5%	9.2%
Net extraordinary items	-2,451	-108	-5,301	-1,426	-5,130	-117	-4,900	0	0
Pretax profit	5,714	8,135	-7,189	3,001	138	4,770	3,100	9,800	10,700
Total Tax	2,252	2,651	-1,407	1,229	-499	2,792	2,900	3,600	3,900
Effective tax rate	39.4%	32.6%	19.6%	41.0%	-361.6%	58.5%	93.5%	36.7%	36.4%
Minority interest	-177	-173	59	-191	-312	-167	-300	-350	-400
Net profit	3,285	5,311	-5,722	1,580	325	1,811	-100	5,850	6,400
Net margin	1.9%	2.8%	-3.6%	1.1%	0.2%	1.2%	-0.1%	3.2%	3.3%
YoY pct chg	-18.5%	61.7%	NM	NM	-79.4%	457.2%	NM	NM	9.4%
No. of shares ('000s)	55,329	55,490	55,489	55,488	55,488	55,487	55,487	55,487	55,487
DPS (¥)	14.0	19.0	14.0	14.0	14.0	14.0	16.0	20.0	24.0
EPS (¥)	59.4	95.7	-103.1	28.5	5.9	32.6	-1.8	105.4	115.3
CFPS (¥)	212.7	274.1	93.6	201.7	162.7	186.5	151.4	267.6	286.6
Capex	13,674	10,890	10,920	6,500	7,158	9,285	10,500	10,000	11,000
Depreciation	8,486	9,897	10,918	9,614	8,704	8,535	8,500	9,000	9,500
R&D	6,500	7,208	7,035	6,534	7,308	7,375	7,300	7,400	7,500
Free cash flow	-1,903	4,318	-5,724	4,694	1,871	1,061	-2,100	4,850	4,900
EBITDA	16,484	19,108	12,300	13,967	14,729	14,012	16,500	18,800	20,200
RoE	5.0%	7.4%	-9.9%	2.6%	0.6%	3.2%	-0.2%	9.6%	9.7%
RoIC	6.9%	7.2%	1.2%	3.9%	5.6%	4.8%	6.8%	7.9%	8.3%
WACC	7.2%	7.1%	6.7%	6.8%	6.4%	6.1%	6.1%	6.2%	6.3%
Geographic segment									
Sales	175,003	189,589	158,583	137,464	150,849	149,892	167,900	185,000	194,000
Japan	117,488	119,508	95,924	87,338	90,921	92,692	97,000	99,000	101,000
North Americas	23,509	27,656	21,742	15,467	18,758	16,376	22,300	27,200	29,300
Europe	13,359	16,141	12,991	7,878	7,075	6,847	6,900	7,700	8,100
Asia	20,646	26,282	27,924	26,780	34,094	33,976	41,700	51,100	55,600
Operating profit	7,998	9,211	1,382	4,353	6,025	5,477	8,000	9,800	10,700
Japan	6,395	6,027	-2,236	669	861	3,034	4,430	5,680	5,680
North Americas	185	198	-37	89	559	180	330	600	700
Europe	-64	437	-525	-729	-510	-688	-340	-380	-280
Asia	1,505	2,680	4,002	4,300	5,092	3,030	3,580	3,900	4,600
Elimination	-24	-132	179	22	23	-80	0	0	0
Factors contributing to change in OP									
Cost reductions	3,230	3,460	3,600	3,500	2,700	3,500	4,000	3,500	3,500
Volume	2,780	3,020	-7,000	-2,600	5,200	800	4,600	2,100	2,400
Cost of labor	-920	-850	-1,000	-500	-1,300	-900	-300	-800	-900
Price	-1,370	-1,370	-1,500	-1,100	-2,000	-2,400	-4,000	-2,300	-2,600
Depreciation cost	-1,000	-1,410	-1,100	1,300	900	200	0	-500	-500
Forex fluctuations	NA	100	-1,500	-1,300	-900	-1,300	100	300	0
Material cost	-1,410	-220	0	0	0	-1,900	0	500	0
Others	-659	-1,517	671	3,671	-2,928	1,452	-1,877	-1,000	-1,000

Source: Company data, Citi Research.

Figure 22. Aisan Industry: Consolidated balance sheet and cash flow statement

Consolidated Balance Sheet

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Total assets	135,586	139,754	114,697	122,353	125,541	137,406	135,466	142,816	149,516
Current assets	68,597	68,850	48,941	61,973	69,670	80,680	76,766	83,116	88,316
Cash & deposits, marketable securities	17,728	15,870	12,213	16,181	23,667	23,952	20,700	22,500	25,100
Notes & receivables	30,460	31,192	18,083	25,566	22,990	32,171	30,900	34,000	35,700
Inventories	12,992	13,533	11,944	11,976	12,498	14,630	15,200	16,700	17,600
Fixed assets	66,988	70,904	65,756	60,380	55,871	56,726	58,700	59,700	61,200
Tangible fixed assets	56,674	57,972	52,423	48,062	45,443	45,335	47,300	48,300	49,800
Investment & others	8,930	11,236	11,390	10,613	9,094	10,317	10,317	10,317	10,317
Total shareholders' equity & liabilities	135,586	139,754	114,697	122,353	125,540	137,405	135,466	142,816	149,516
Total liabilities	67,865	66,954	55,662	61,068	67,673	79,010	77,800	80,100	81,300
Total current liabilities	56,776	52,721	41,110	45,936	49,421	51,619	50,400	52,700	53,900
Notes & accounts payable	30,148	25,962	13,808	19,442	16,830	23,822	22,600	24,900	26,100
Short-term debt	8,251	8,120	5,913	3,738	3,412	3,297	3,297	3,297	3,297
Current portion of bonds	109	39	3,231	2,355	3,279	44	0	0	0
Total long-term liabilities	11,088	14,233	14,552	15,131	18,252	27,390	27,400	27,400	27,400
Bonds & CBs	0	0	0	0	0	0	0	0	0
Long-term debt	2,611	5,607	5,429	6,073	8,787	15,741	15,741	15,741	15,741
Minority interests	1,438	1,465	1,019	1,295	1,162	1,266	1,566	1,916	2,316
Total shareholders' equity	66,283	71,335	58,016	59,990	56,705	57,129	56,100	60,800	65,900
Interest bearing debt	10,971	13,766	14,573	12,166	15,478	19,082	19,038	19,038	19,038
Average interest rate>	4.8%	4.7%	2.7%	1.9%	1.6%	1.4%	1.3%	1.3%	1.3%
Equity ratio (%)	48.9%	51.0%	50.6%	49.0%	45.2%	41.6%	41.4%	42.6%	44.1%
Debt-to-equity ratio (%)	102.4%	93.9%	95.9%	101.8%	119.3%	138.3%	138.7%	131.7%	123.4%
Net Cash	6,757	2,104	-2,360	4,015	8,189	4,870	1,662	3,462	6,062
BPS	1,198	1,286	1,046	1,081	1,022	1,030	1,011	1,096	1,188

Consolidated cash flow

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Cash flow from operations									
Net profit	3,285	5,311	-5,722	1,580	325	1,811	-100	5,850	6,400
Depreciation	8,486	9,897	10,918	9,614	8,704	8,535	8,500	9,000	9,500
Change in working capital	2,887	-5,288	-217	-1,442	-1,585	-4,783	-521	-2,300	-1,400
Others	845	46	4,885	2,773	5,419	708	245	249	321
Subtotal	15,503	9,966	9,864	12,525	12,863	6,271	8,124	12,799	14,821
Cash flow from investments activities									
Capex	-13,674	-10,890	-10,920	-6,500	-7,158	-9,285	-10,500	-10,000	-11,000
Others	873	-2,860	-914	1,328	168	894	0	0	0
Subtotal	-12,801	-13,750	-11,834	-5,172	-6,990	-8,391	-10,500	-10,000	-11,000
Cash flow from financing activities									
Change in interest-bearing debt	248	2,592	2,089	-2,530	3,644	3,739	-44	0	0
Dividends	-773	-830	-1,054	-665	-887	-665	-832	-999	-1,221
Others	49	128	-225	-309	-216	-262	0	0	0
Subtotal	-476	1,890	810	-3,504	2,541	2,812	-876	-999	-1,221
Adjustments	-44	76	-2,153	166	-1,182	-275	0	0	0
Change in cash	2,182	-1,818	-3,313	4,015	7,232	417	-3,252	1,800	2,600

Source: Company data, Citi Research.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Neutral	2
from Buy	
Price (25 Feb 13)	¥1,202
Target price	¥1,250
from ¥1,010	
Expected share price return	4.0%
Expected dividend yield	2.0%
Expected total return	6.0%
Market Cap	¥34,030M
	US\$364M

Price Performance (RIC: 6470.T, BB: 6470 JP)



Taiho Kogyo (6470) Downgrading to Neutral on price action

■ **Downgrading to Neutral** — Despite large downward revisions to full-year guidance with Q3 results, the share price has risen sharply on expectations of a new sales growth story for sliding bearings, a production in which Taiho Kogyo is very competitive. The shares are now trading on a PER of 12x on our FY3/14 forecasts, which we do not view as compelling, and we downgrade to Neutral. The shares are well below book (PBR of around 0.7x), but the historical average PBR is the same and at this time we believe this valuation looks reasonable. An upgrade may be warranted if progress on rationalization measures that have fallen behind schedule in FY3/13 and a decline in new business start-up costs further boost FY3/14 earnings expectations.

■ **Valuation method** — Reflecting revisions to our forecasts and target multiple, we raise our target price to ¥1,250 (fair-value PER of 12x applied to our FY3/14 EPS estimate of ¥104) from ¥1,010 (10x FY3/14 EPS estimate of ¥101). We raise our target multiple because of an increase in sector valuations driven by yen weakening. We believe a target PER in line with our 12x fair value multiple for the auto parts sector is appropriate. We could apply a discount for low liquidity but this would be offset by top line-led growth potential.

■ **Earnings estimates** — We forecast FY3/13 OP of ¥3.1bn, slightly ahead of guidance of ¥3bn, as we expect a small overshoot in Q4 on a weaker yen. We expect a large NP increase because of the re-booking of DTAs. We forecast FY3/14 OP will climb 54.8% YoY to ¥4.8bn. We expect sliding bearings sales growth to lift overall volume and improve the sales mix, and we forecast an OP margin of more than 5% for the first time since FY3/08. Profit sensitivity to every ¥1 fluctuation against the dollar and the euro is ¥30mn and ¥20mn, respectively. We assume rates of ¥90/\$ and ¥120/€, and we estimate forex will boost OP by around ¥0.5bn in FY3/14. We revise down our FY3/15 forecasts but this is because we take into account the upfront investment burden, as the number of items that Taiho Kogyo can sell to automakers other than Toyota Motor, aside from bearings, is building up.

Consol.	Sales		OP			RP		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥		X
3/11A	78,656	11.7	2,903	99.4	3.7	3,041	59.9	2,037	480.3	68		17.6
3/12A	81,809	4.0	3,566	22.8	4.4	3,889	27.9	2,008	-1.4	71		16.8
3/13CE	88,000	7.6	4,600	29.0	5.2	4,400	13.1	2,600	29.5	93		13.0
3/13CRE	85,000	3.9	3,000	-15.9	3.5	3,100	-20.3	2,900	44.4	103		11.7
3/13E	87,000	6.3	4,000	12.2	4.6	3,950	1.6	2,420	20.5	86		14.0
3/13RE	85,000	3.9	3,100	-13.1	3.6	3,200	-17.7	2,960	47.4	105		11.4
3/14E	90,700	4.3	4,700	17.5	5.2	4,650	17.7	2,850	17.8	101		11.9
3/14RE	92,500	8.8	4,800	54.8	5.2	4,800	50.0	2,930	-1.0	104		11.5
3/15E	97,300	7.3	6,200	31.9	6.4	6,150	32.3	3,780	32.6	134		8.9
3/15RE	99,000	7.0	5,700	18.8	5.8	5,700	18.8	3,480	18.8	124		9.7

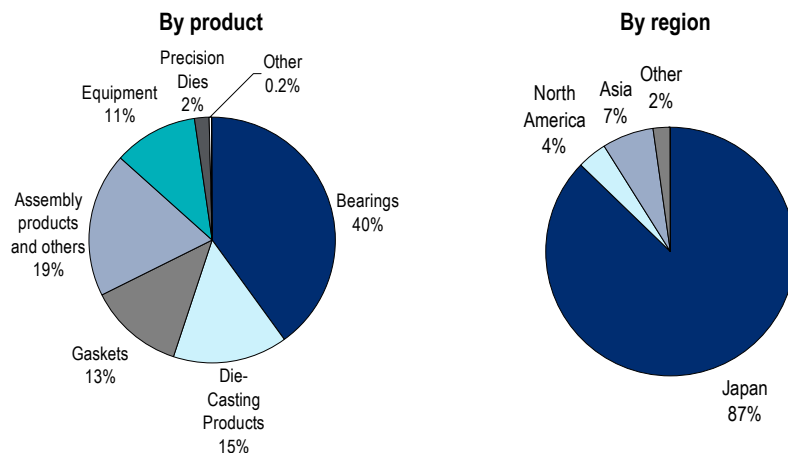
A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

Taiho Kogyo (6470) Investment Dashboard

Reasons for our Neutral rating

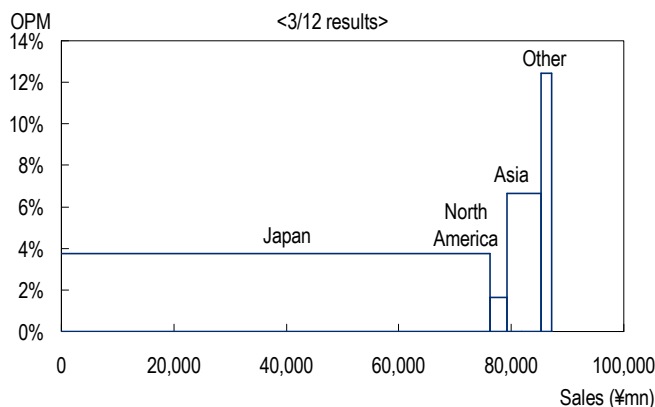
- We expect to see Taiho Kogyo boost sales of engine bearings, in which it is highly competitive, to automakers other than Toyota, but we detect no undervaluation
- Lack of visibility remains on losses associated with new product ramps and streamlining delays

Sales breakdown (FY3/12)



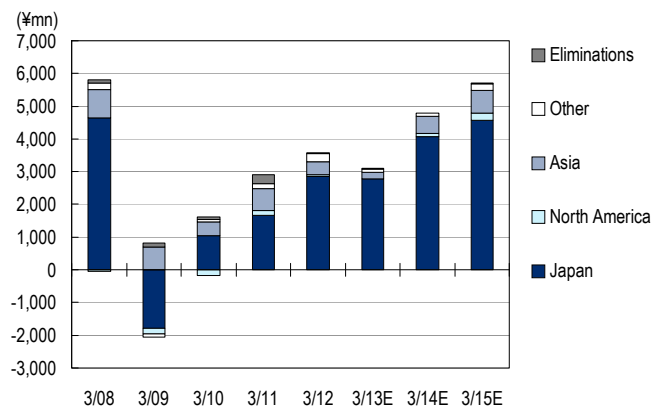
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

OP by segment

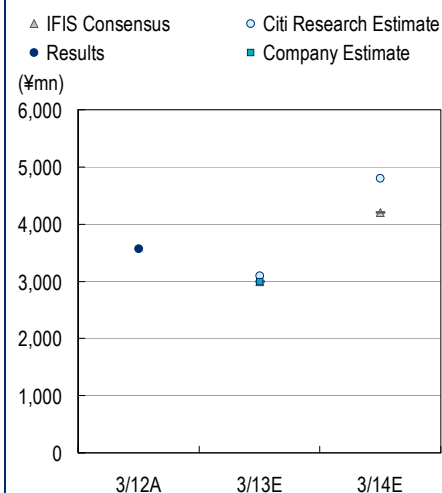


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

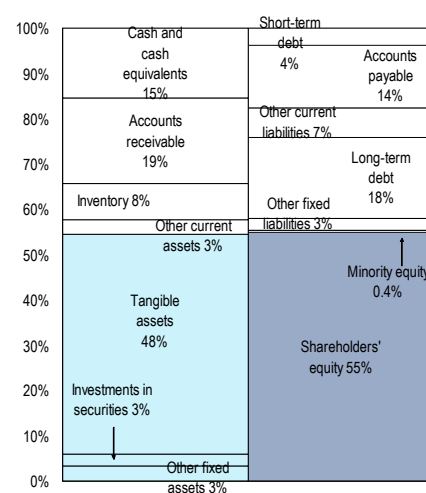
- If issues such as new product ramp-up losses and the delays to streamlining are resolved earlier than we expect and FY3/14 earnings grow
- If volumes grow more than we expect on a recovery in Toyota Motor's competitiveness
- If yen weakening accelerates

OP forecast comparison



Source: Company data, IFIS (13/2/21), Citi Research.

Balance sheet (end-FY3/13 Q3)



Source: Company data.

Figure 23. Taiho Kogyo: Earnings model

Earnings Model

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Sales	105,860	108,883	90,152	70,442	78,656	81,809	85,000	92,500	99,000
YoY Pct chg	10.6%	2.9%	-17.2%	-21.9%	11.7%	4.0%	3.9%	8.8%	7.0%
CoGS	91,797	92,602	81,118	59,697	65,107	66,963	70,400	75,700	80,800
Pct of sales	86.7%	85.0%	90.0%	84.7%	82.8%	81.9%	82.8%	81.8%	81.6%
Gross Profit	14,062	16,281	9,034	10,745	13,549	14,846	14,600	16,800	18,200
Gross margin	13.3%	15.0%	10.0%	15.3%	17.2%	18.1%	17.2%	18.2%	18.4%
SG&A expense	9,908	10,525	10,258	9,289	10,646	11,280	11,500	12,000	12,500
Pct of sales	9.4%	9.7%	11.4%	13.2%	13.5%	13.8%	13.5%	13.0%	12.6%
Operating Profit	4,154	5,756	-1,223	1,455	2,902	3,565	3,100	4,800	5,700
Operating margin	3.9%	5.3%	-1.4%	2.1%	3.7%	4.4%	3.6%	5.2%	5.8%
YoY Pct chg	32.7%	38.6%	NM	NM	99.5%	22.8%	-13.0%	54.8%	18.8%
Net nonoperating income	132	-136	-170	446	138	323	100	0	0
Net interest income	-184	-91	-88	-194	-155	-141	-150	-150	-150
Recurring Profit	4,286	5,620	-1,393	1,901	3,040	3,888	3,200	4,800	5,700
Recurring margin	4.0%	5.2%	-1.5%	2.7%	3.9%	4.8%	3.8%	5.2%	5.8%
YoY Pct chg	33.4%	31.1%	NM	NM	59.9%	27.9%	-17.7%	50.0%	18.8%
Net extraordinary items	-15	115	-862	2	-315	-730	0	0	0
Pretax profit	4,271	5,735	-2,254	1,903	2,725	3,158	3,200	4,800	5,700
Total Tax	1,560	1,918	-510	1,528	639	1,151	180	1,800	2,140
Effective tax rate	36.5%	33.4%	22.6%	80.3%	23.4%	36.4%	5.6%	37.5%	37.5%
Minority interest	-110	-123	-67	-25	-50	0	-60	-70	-80
Net profit	2,599	3,694	-1,812	349	2,036	2,005	2,960	2,930	3,480
Net margin	2.5%	3.4%	-2.0%	0.5%	2.6%	2.5%	3.5%	3.2%	3.5%
YoY Pct chg	45.9%	42.1%	NM	NM	483.4%	-1.5%	47.6%	-1.0%	18.8%
No. of shares ('000s, non-diluted)	27,667	28,011	28,070	28,070	28,070	28,111	28,111	28,111	28,111
No. of shares ('000s, diluted)	31,074	31,418	31,477	31,477	28,070	28,111	28,111	28,111	28,111
DPS(¥)	21.0	30.0	20.0	20.0	20.0	22.0	24.0	30.0	36.0
EPS(¥)	93.9	131.9	-64.6	12.4	72.5	71.3	105.3	104.2	123.8
CFPS(¥)	358.7	386.9	198.0	228.0	280.0	251.2	290.3	296.3	333.7
Capex	9,240	9,645	7,193	1,890	2,456	6,123	5,500	7,000	7,000
Depreciation	7,324	7,143	7,371	6,050	5,823	5,057	5,200	5,400	5,900
R&D	1,542	1,501	1,466	1,499	2,496	3,021	3,100	3,300	3,500
Free cash flow	683	1,192	-1,634	4,509	5,403	939	2,660	1,330	2,380
EBITDA	11,478	12,899	6,148	7,505	8,725	8,622	8,300	10,200	11,600
RoE	5.7%	7.7%	-4.3%	0.8%	4.7%	4.5%	6.4%	6.0%	6.8%
RoIC	4.0%	5.6%	-1.3%	1.6%	3.4%	4.1%	3.5%	5.2%	6.0%
WACC	6.2%	6.9%	6.1%	6.2%	7.0%	6.9%	7.0%	7.1%	7.2%
Geographic segment									
Sales Total	105,860	108,883	90,152	70,442	78,655	81,809	85,000	92,500	99,000
Japan	98,478	100,876	82,642	66,497	72,592	76,176	80,000	85,000	89,000
North America	4,379	3,765	2,780	2,036	3,051	3,067	3,600	4,600	5,600
Asia	4,622	6,542	6,025	4,446	6,353	6,007	6,300	7,600	9,000
Others	3,076	3,246	2,398	1,506	1,753	1,898	1,600	1,800	1,900
Eliminations	-4,697	-5,546	-3,694	-4,045	-5,094	-5,341	-6,500	-6,500	-6,500
OP Total	4,154	5,756	-1,223	1,455	2,902	3,565	3,100	4,800	5,700
Japan	3,123	4,645	-1,786	1,056	1,616	2,859	2,780	4,080	4,580
North America	-23	-52	-170	-162	206	50	0	100	200
Asia	541	865	686	399	852	399	200	500	700
Others	409	212	-94	84	180	236	100	100	200
Eliminations	103	84	142	77	50	20	20	20	20

Source: Company data, Citi Research.

Figure 24. Taiho Kogyo: Consolidated balance sheet and cash flow statement

Consolidated Balance Sheet

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Total assets	102,442	103,702	85,997	87,527	79,213	84,069	87,045	90,177	93,662
Current assets	45,161	46,416	31,901	38,053	34,211	39,263	41,940	43,472	45,857
Cash & deposits, marketable securities	14,181	15,029	11,117	15,151	10,678	12,866	14,614	13,960	14,452
Notes & receivables	21,090	20,495	12,182	15,105	15,154	17,593	18,279	19,892	21,290
Inventories	6,697	7,404	5,926	5,499	5,827	6,241	6,484	7,057	7,552
Fixed assets	57,280	57,286	54,095	49,473	45,002	44,805	45,105	46,705	47,805
Tangible fixed assets	50,147	51,405	48,128	43,987	39,893	40,342	40,642	42,242	43,342
Investment & others	6,595	5,337	5,281	4,838	4,560	3,847	3,847	3,847	3,847
Total shareholders' equity & liabilities	102,442	103,702	85,996	87,526	79,213	84,068	87,045	90,177	93,662
Total liabilities	55,814	55,370	43,518	44,516	35,737	39,633	40,265	41,240	42,178
Total current liabilities	27,813	33,630	20,557	24,570	19,833	20,269	20,901	21,876	22,814
Notes & accounts payable	15,605	17,174	8,031	10,402	10,252	12,314	12,946	13,921	14,859
Short-term debt	4,357	2,883	7,369	8,657	3,695	1,142	1,142	1,142	1,142
Total long-term liabilities	28,000	21,739	22,960	19,945	15,903	19,364	19,364	19,364	19,364
Bonds & CBs	16,000	10,999	5,999	0	0	0	0	0	0
Long-term debt	6,954	6,222	13,149	16,709	13,281	16,965	16,965	16,965	16,965
Minority interests	1,271	391	321	322	350	304	364	434	514
Total shareholders' equity	45,357	47,941	42,157	42,688	43,126	44,131	46,416	48,503	50,971
Interest bearing debt	27,311	20,104	26,517	25,366	16,976	18,107	18,107	18,107	18,107
Average interest rate>	1.1%	1.3%	1.0%	1.2%	1.5%	1.3%	1.4%	1.4%	1.4%
Equity ratio (%)	44.3%	46.2%	49.0%	48.8%	54.4%	52.5%	53.3%	53.8%	54.4%
Debt-to-equity ratio (%)	123.1%	115.5%	103.2%	104.3%	82.9%	89.8%	86.7%	85.0%	82.7%
BPS(non diluted)	1,639	1,712	1,502	1,521	1,536	1,570	1,651	1,725	1,813
Net Cash	-13,130	-5,075	-15,400	-10,215	-6,298	-5,241	-3,493	-4,147	-3,655

Consolidated cash flow

(¥mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12A	FY3/13E	FY3/14E	FY3/15E
Cash flow from operations									
Net profit	2,599	3,694	-1,812	349	2,036	2,005	2,960	2,930	3,480
Depreciation	7,379	7,244	7,475	6,121	5,942	5,147	5,200	5,400	5,900
Change in working capital	-1,475	1,355	-33	-52	-837	-1,069	-298	-1,210	-956
Others	36	-172	-1,330	1,563	-142	269	57	9	20
Subtotal	8,539	12,121	4,300	7,981	6,999	6,352	7,919	7,129	8,444
Cash flow from investments activities									
Capex	-9,761	-9,886	-8,280	-2,299	-2,227	-4,882	-5,500	-7,000	-7,000
Others	441	960	560	-910	251	796	0	0	0
Subtotal	-9,320	-8,926	-7,720	-3,209	-1,976	-4,086	-5,500	-7,000	-7,000
Cash flow from financing activities									
Change in interest-bearing debt	-958	-2,201	1,689	-1,176	-8,277	1,125	0	0	0
Dividends	-494	-667	-841	-449	-617	-561	-671	-783	-952
Others	388	179	54	-57	-48	-24	0	0	0
Subtotal	-1,064	-2,689	902	-1,682	-8,942	540	-671	-783	-952
Other adjustments	182	215	-815	103	-277	-155	0	0	0
Change in cash	-1,663	721	-3,333	3,193	-4,196	2,651	1,748	-654	492

Source: Company data, Citi Research.

Denso

Investment strategy

We rate the shares of Denso Buy, with a ¥4,300 target price. Longer term, we forecast earnings growth will outpace auto production because of expanding sales of fuel-efficient products and "half-cost" products. In fuel-saving components, we anticipate the growing adoption of idling stop systems, direct-injection injectors, common-rail systems, and parts for HVs (inverters, motors). In the "Cost Half Project", on which Denso embarked in 2009, ahead of other Toyota affiliates, the company has been working on development activities with unorthodox thinking and has been building up orders from local Chinese automakers, among others. We expect to see sales expansion begin in earnest from FY3/13. Denso is leaving behind its old high-cost ways and has been acquiring the development skills to enable it to emerge victorious in low-cost products, too. Over the longer run, we also see considerable growth potential in the stable parts and aftermarket businesses.

Valuation

We use PER to set our Denso target price. We derive our PER target based on profit growth potential, profitability (RoIC, RoIC-WACC spread), historical PERs, and the market and sector PERs and global comparisons.

Our ¥4,300 target price is based on a target PER of 15x and our FY3/14 EPS estimate of ¥284. We set our 15x target at the average level for FY3/03-FY3/08, when Japanese auto parts maker shares traded on high valuations.

Risks

We believe risks to our target price include: 1) demands for discounts from automakers; 2) forex changes (a ¥1 change affects OP by about ¥3.2bn against the dollar and ¥0.6bn against the euro); 3) production trends at Toyota, which accounts for some 50% of sales; 4) trends at the Big 3 US automakers; 5) a fall in the average price of parts supplied per vehicle as a result of model mix deterioration; 6) the prices of raw materials such as copper and aluminum; 7) the possibility extraordinary losses related to an ongoing anti-trust investigation; and 8) geopolitical risk resulting from the Japan-China territorial issue. If these factors manifest themselves differently than we have anticipated, the share price may vary from our target price.

Aisin Seiki

Investment strategy

We rate the shares of Aisin Seiki Buy (1), with a target price of ¥3,800. In FY3/14 we think the firm will offset upfront spending via weak yen benefits and a rise in Toyota's production volume, which should push profits near record levels. Yen weakening works to Aisin Seiki's advantage in the automatic transmission order fight with South Korean and European makers, the threat posed by which is a longer-term concern. It is also likely to serve as a positive in expansion of sales of products other than automatic transmissions such as engine and brake components. The shares are on an FY3/14E PER significantly below the TOPIX average, so we think they remain significantly undervalued.

Valuation

We use PER to set our Aisin Seiki target price. We derive fair value PER from consideration of earnings growth potential, profitability (RoIC levels, RoIC - WACC spreads, etc.), historical PER levels, market and sector PER levels, and global comparisons.

We set our Aisin Seiki target price at ¥3,800, derived from our FY3/14 EPS forecast of ¥314 and a PER of 12x. We anticipate sluggish growth for ATs targeting non-Toyota customers in the near term, so we think a PER in line with the parts sector average of 12x is appropriate. However, we note that during periods when there is a clear medium-term growth scenario (as with FY3/03-FY3.08, when Japanese parts makers were highly rated), the shares have traded on an average of 14x.

Risks

We believe risks to our target price include the following: 1) demands for lower prices from automakers; 2) production volume trends at the Toyota group, on which Aisin Seiki depends for almost 70% of sales; 3) raw material prices, including aluminum and steel scrap; 4) a growth slowdown in automatic transmission volumes on moves by automakers to bring production in-house, competition with DCTs, competition with overseas manufacturers, and the swift spread of EVs; 5) a fall in the average price of parts supplied per vehicle as a result of model mix deterioration; 6) forex (we estimate each ¥1 change in the dollar rate affects OP by about ¥1.38bn and each ¥1 change in the euro rate by ¥0.15bn); and 7) geopolitical risk resulting from the Japan-China territorial issue. If these factors manifest themselves differently than we have anticipated, the share price may vary from our target price.

Toyota Industries

Investment strategy

We rate the shares of Toyota Industries Neutral (2), with a ¥3,430 target price. The share price is closely correlated with that of Toyota Motor, in which Toyota Industries has a sizeable holding. Recently, there has been a growing lack of visibility on the demand outlook for forklifts in Europe. In the auto segment, the upfront investment burden in areas such as compressors is coming before returns. Toyota Industries has the top global market share for forklifts and compressors, and while we think it is likely to expand sales, given the current PER we do not believe the shares look particularly undervalued at. Investors view Toyota Industries as an asset play and in the near term we believe its share price will hinge on what happens with Toyota Motor shares.

Valuation

We set our ¥3,430 target price in the following way. Based on our end-FY3/14 BPS forecast of ¥4,196, we derive an adjusted BPS of ¥4,904 as we factor in after-tax valuation gains/losses on the company's shareholdings in Toyota Motor (approximately 208mn shares) and Denso (approximately 76mn shares).

We derive our target price from this adjusted BPS and a PBR of 0.7x (the PBR average since the onset of the global financial crisis). In calculating unrealized gains/losses, we use our target prices for Denso and Toyota Motor.

Risks

We believe risks to our target price include the following. First, if Toyota Industries is valued for its assets, valuations could vary with the share prices of Toyota Motor and Denso. Second, global economic trends and auto production trends have a major bearing on fundamentals such as earnings and profit growth, as Toyota Industries commands the leading share of the global market in its mainstay areas of forklifts and car air-conditioner compressors. Third, we see a risk that the volume of engine and auto assembly work obtained from Toyota Motor could fall sharply if the Toyota group overhauls its production strategy. If these factors manifest themselves differently than we have anticipated, the share price could vary from our target price.

Toyota Boshoku

Investment strategy

We rate the shares of Toyota Boshoku Neutral (2), with a ¥1,300 target price. Sales to Toyota Motor are a hefty 90% of total sales, and we conclude that the company is well positioned to benefit from the recovery of competitiveness at the automaker on yen weakness. However, we do not find the shares undervalued on the FY3/14E PER, and also take into account low profitability in the Americas, Europe, and Africa and a lack of visibility on earnings there, as well as high exposure to China, so we do not rate the shares Buy. If growth in exported vehicles such as Lexuses exceeds our expectations on yen weakness moving forward, Toyota Boshoku would likely find it easy to improve its mix, and the shares could become a more appealing investment. The company is also clearly making advances into new areas, having won an order for motor cores for hybrids from Toyota Motor and this, together with expansion in sales to automakers other than Toyota Motor, could bring opportunities over the longer run.

Valuation

We use PER to set our Toyota Boshoku target price. We derive fair value PER from consideration of earnings growth potential, profitability (RoIC levels, RoIC - WACC spreads, etc.), historical PER levels, market and sector PER levels, and global comparisons. We set our Toyota Boshoku target price at ¥1,300. We derive this from our FY3/14 EPS forecast of ¥108 and a PER of 12x. Low profitability and lack of visibility on earnings in the Americas, Europe, and Africa, as well as the high dependence on China might be considered to warrant a PER discount but we also take into account the way Toyota Boshoku's benefits from a recovery in competitiveness at Toyota Motor on yen weakness.

Risks

Risks include the following: 1) demands from automakers for lower prices, 2) a lower share of the market at Toyota Motor, on intensifying competition in emerging markets and elsewhere, 3) greater-than-expected production retooling expenses as new models ramp-up, 4) changes in Toyota Motor production volumes and the model mix, 5) a slowdown in auto demand in China and 6) geopolitical risk resulting from the Japan-China territorial issue. If the impact of any of these factors varies from our expectations, the share price may diverge from our target price.

Tokai Rika

Investment strategy

We rate the shares of Tokai Rika Buy (1), with a ¥2,310 target price. Tokai Rika benefits from the improved competitiveness of Toyota Motor on yen weakness. On the FY3/14E PER, we find the shares very undervalued. We see the emerging scenario of smart key growth in emerging markets over the longer run a positive. While we sense some risk remains on quality, which has been a concern, in past design and manufacturing legacies, recently Tokai Rika has been generating results from activities to prevent quality issues emerging, which is reassuring.

Valuation

We use PER to set our Tokai Rika target price. We derive fair value PER from consideration of profit growth potential, profitability (ROIC levels, ROIC - WACC spreads, etc.), historical PER levels, and PER levels across the market and the sector.

We set our Tokai Rika target price at ¥2,310, derived from our FY3/14 EPS forecast of ¥210 and a PER of 11x, a 10% discount to sector fair value of 12x given the properties of its products and our inability to completely exclude quality risks.

Risks

We see the following risks to our target price. First, there could be stepped-up demands for price cuts from automakers. Second, the prices of copper, zinc, and other materials could continue to rise. Third, there could be volatility in production volumes and changes in the model mix at customer Toyota, which accounts for some 80% of sales. Fourth, currency fluctuations could have an unanticipated impact (each ¥1 rise in the value of the yen against the dollar has an estimated negative OP impact of ¥0.4bn). Fifth, there could be issues with product quality. Sixth, there could be extraordinary losses related to an ongoing anti-trust investigation. Finally, we note the geopolitical risk associated with the Chinese-Japanese territorial dispute. If these factors manifest themselves differently than we have expected, the share price could diverge from our target price.

Koito Manufacturing

Investment strategy

We rate the shares of Koito Neutral (2), with a ¥1,540 target price. We think the growth story is intact, on 1) rising ASPs over the longer run on growth in the adoption of LED lights and adaptive driving beam (ADB) lights, 2) market share growth on new orders, and 3) expansion in China, where Koito has the top market share, but we do not detect much undervaluation currently, given the lack of visibility on the cartel impact.

Valuation

We use PER to set our Koito target price. We derive fair value PER from consideration of profit growth potential, profitability (ROIC levels, ROIC - WACC spreads, etc.), historical PER levels, and PER levels across the market and the sector.

We set our Koito target price at ¥1,540, a PER of 11x, below our auto parts sector fair value PER of 12x, applied to FY3/14E EPS of ¥140. A premium might be considered to be warranted given the expansion in the use of high-value-added

headlights and our expectation of expansion in sales to new customers, but there remains a lack of visibility on the cartel issue and the question of damages compensation in aircraft seats.

Risks

We believe risks to our target price include the following: 1) demands from automakers for lower prices, 2) global auto production (Koito has a global auto light market share of around 19%), 3) new product orders and new facility ramps, 4) trends in plastic and other input prices, 5) the emergence of safety measure costs or compensation payments with regard to the airline seat problem, 6) the cartel issue, and 7) geopolitical risk connected with the Japan-China territorial issue. If these factors manifest themselves differently than we have anticipated, the share price may vary from our target price.

Aisan Industry

Investment strategy

We rate the shares of Aisan Industry Buy (1), with a ¥1,050 target price. The markets concerns about Aisan revolve around motorcycle operations in Indonesia, the impact of anti-Japanese demonstrations in China, which has been the growth driver, a growth slowdown at the South Korean facility, and the booking of extraordinary losses related to quality. Even given these concerns, we think Aisan can reach record OP in FY3/14. We anticipate contributions in FY3/14 from lower rare earth prices, yen weakness, expansion in autos in ASEAN, and growth in global production at Toyota Motor. We note the lingering risk of a net loss in FY3/13 on the emergence of quality-related extraordinary losses but feel that the market's attention is shifting to FY3/14 earnings, so we do not think a loss would lead to a big sell-off in the shares. We think the shares are very undervalued on the FY3/14E PER.

Valuation

We use PER to set our Aisan Industry target price. We derive fair value PER from consideration of profit growth potential, profitability (ROIC levels, ROIC-WACC spreads, etc.), historical PER levels, and PER levels across the market and the sector. We set our Aisan Industry target price at ¥1,050, using a PER of 10x applied to FY3/14E EPS of ¥105. We discount our 12x sector fair value PER (itself a 10% discount from the TOPIX average PER). We factor in a discount for low liquidity and the lingering risk of quality-related extraordinary losses emerging.

Risks

We see the following target price risks: 1) automaker demands for lower prices; 2) sales trends at the Toyota group, to which 65% of sales go (Toyota Motor alone accounts for 50% of Aisan's sales); 3) possible production disruptions when ramping up new products and new plants; 4) volatility in prices for raw materials like rare earth; 5) intensifying competition in the Hyundai Motor business; 6) quality problems; 7) forex levels, and 8) geopolitical risk associated with the Japan-China territorial issue. If any of these factors manifest themselves differently from our expectations, the share price may diverge from our target price.

Taiho Kogyo

Investment strategy

We rate the shares of Taiho Kogyo Neutral (2), with a ¥1,250 target price. The shares have shot up on expectations over expansion in sales to new customers of sliding bearings, in which the company is highly competitive, regardless of its big downward revisions to its FY3/13 estimates at Q3 results. We think undervalued has diminished and rate the shares Neutral. We feel that progress with streamlining, which has lagged in FY3/13, and contraction in new product ramp-up losses could warrant a rerating if they open up further upside to FY3/14 earnings.

Valuation

We use PER to set our Taiho Kogyo target price. We derive fair value PER from consideration of profit growth potential, profitability (ROIC levels, ROIC-WACC spreads, etc.), historical PER levels, and PER levels across the market and the sector.

We set our Taiho Kogyo target price at ¥1,250, using a PER of 12x FY3/14E EPS of ¥104. Our target PER of 12x is equal to the sector average. While the shares tend to be discounted due to low liquidity, we like the impressive growth potential on sales expansion.

Risks

We see the following target price risks: 1) automakers could demand price cuts; 2) valuations could remain low due to Taiho Kogyo's modest market cap of around ¥35bn and its low trading liquidity; 3) the company is highly dependent on sales to its largest customer, Toyota, whose sales trends have a substantial impact on Taiho Kogyo's earnings; 4) we are concerned about the potential for production disruptions and quality issues stemming from aggressive new product launches; 5) the OP impact of a ¥1 change is ¥30mn for the dollar and ¥20mn for the euro; and 6) there is geopolitical risk stemming from the Japan-China territorial issue. If the impact of any of these factors varies from our expectations, the share price may diverge from our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Taiho Kogyo (6470)

Ratings and Target Price History

Fundamental Research

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	26-Feb-10	1M	*760	598
2	2-Jun-10	*2M	*780	735
3	2-Sep-10	*2H	*610	553
4	4-Jan-11	*1H	*1,070	757

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Jun-11	1H	*1,040	696
6	30-Sep-11	1H	*950	766
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	950	725

	Date	Rating	Target Price	Closing Price
9	1-Jun-12	1	*1,040	897
10	23-Oct-12	1	*1,010	778

Rating/target price changes above reflect Eastern Standard Time

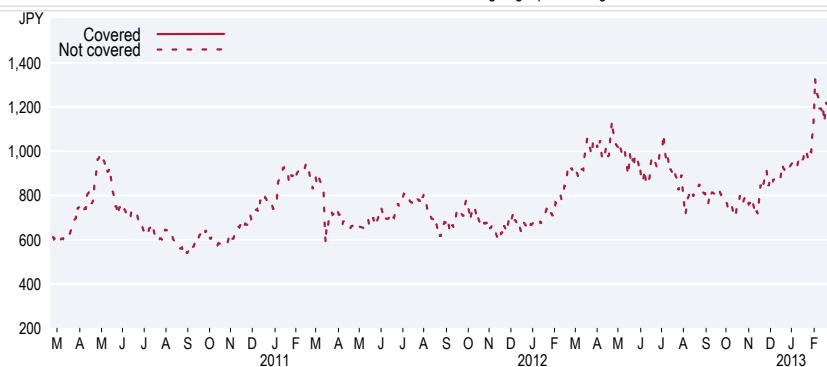
Taiho Kogyo (6470)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Arifumi Yoshida



* Indicates change

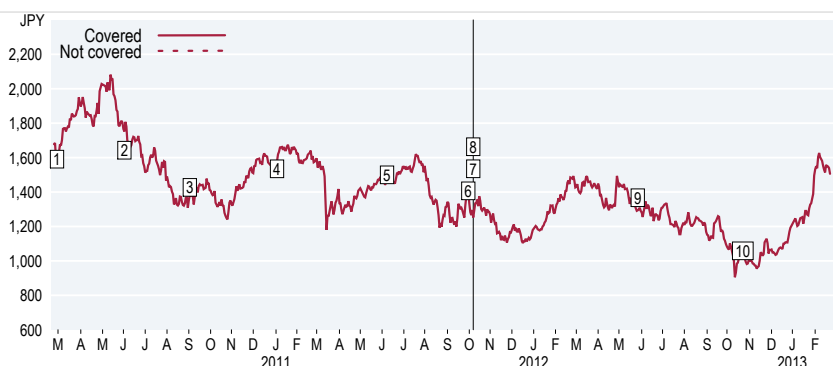
Rating/target price changes above reflect Eastern Standard Time

Tokai Rika (6995)

Ratings and Target Price History

Fundamental Research

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	26-Feb-10	1M	*1,940	1,599
2	2-Jun-10	*2M	*1,910	1,752
3	2-Sep-10	2M	*1,460	1,385
4	4-Jan-11	2M	*1,670	1,579

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Jun-11	*1H	*1,940	1,454
6	30-Sep-11	1H	*1,720	1,406
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	1,720	1,252

	Date	Rating	Target Price	Closing Price
9	28-May-12	1	*1,560	1,294
10	23-Oct-12	*2	*1,130	1,033

Rating/target price changes above reflect Eastern Standard Time

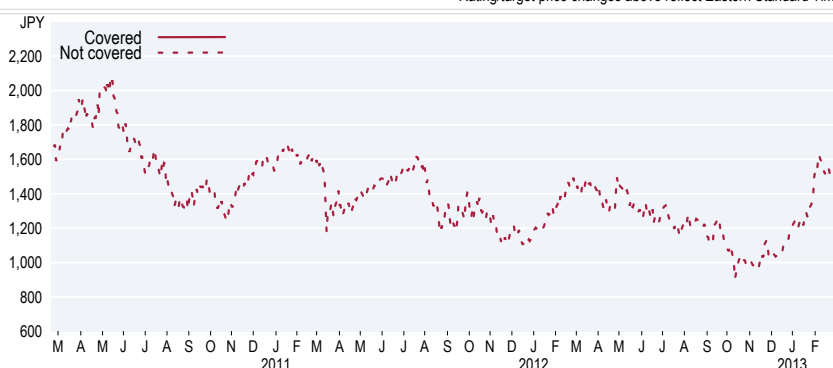
Tokai Rika (6995)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Arifumi Yoshida



* Indicates change

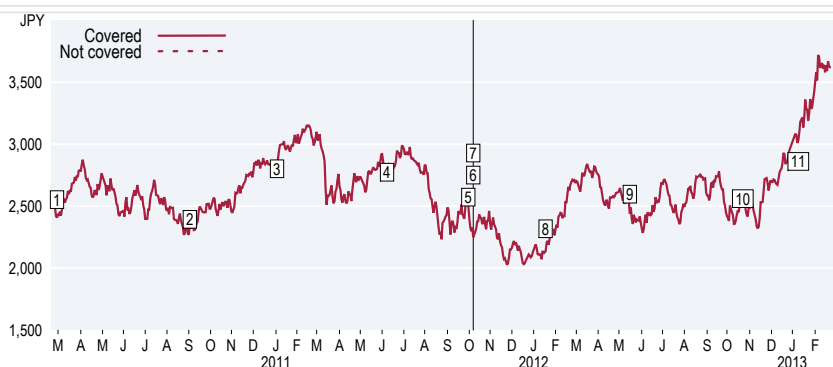
Rating/target price changes above reflect Eastern Standard Time

Denso (6902)

Ratings and Target Price History

Fundamental Research

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	26-Feb-10	1M	*2,800	2,408
2	2-Sep-10	1M	*2,700	2,340
3	4-Jan-11	1M	*3,600	2,841
4	8-Jun-11	*1H	*3,900	2,824

* Indicates change

	Date	Rating	Target Price	Closing Price
5	30-Sep-11	1H	*3,400	2,511
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*1	3,400	2,249
8	18-Jan-12	1	*3,000	2,136

	Date	Rating	Target Price	Closing Price
9	16-May-12	1	*3,200	2,440
10	23-Oct-12	1	*3,000	2,561
11	9-Jan-13	1	*4,100	3,030

Rating/target price changes above reflect Eastern Standard Time

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD MP	-	3,035
2	30-Jun-11	*REM MP	-	2,982

	Date	Rating	Target Price	Closing Price
3	29-Dec-11	*ADD MP	-	2,096
4	18-Jul-12	*REM MP	-	2,462

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	2-Jun-10	1M	*3,000	2,481
2	2-Sep-10	1M	*2,800	2,227
3	4-Jan-11	1M	*3,600	2,908
4	8-Jun-11	*1H	*4,000	2,888

	Date	Rating	Target Price	Closing Price
5	30-Sep-11	1H	*3,600	2,606
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*1	3,600	2,336
8	18-Jan-12	1	*3,100	2,246

	Date	Rating	Target Price	Closing Price
9	16-May-12	1	*3,200	2,571
10	23-Oct-12	1	*3,000	2,386
11	9-Jan-13	1	*3,700	2,714

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD MP	-	3,160
2	30-Jun-11	*REM MP	-	3,100

	Date	Rating	Target Price	Closing Price
3	8-Jul-11	*ADD MP	-	3,125
4	3-Jul-12	*REM MP	-	2,675

Date	Rating	Target Price	Closing Price
5 18-Sep-12	*ADD MP	-	2,502

* Indicates change

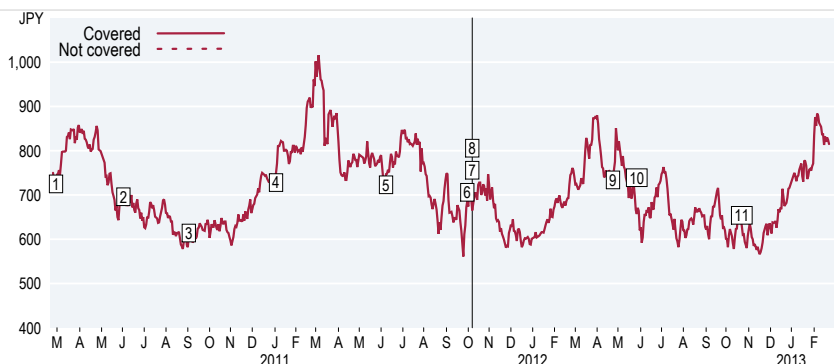
Rating/target price changes above reflect Eastern Standard Time

Aisan Industry (7283)

Ratings and Target Price History

Fundamental Research

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	26-Feb-10	1M	*970	732
2	2-Jun-10	1M	*850	679
3	2-Sep-10	1M	*800	608
4	4-Jan-11	1M	*950	750

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Jun-11	*1H	*1,020	747
6	30-Sep-11	1H	*890	686
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	890	665

	Date	Rating	Target Price	Closing Price
9	24-Apr-12	1	*940	745
10	28-May-12	1	*880	657
11	23-Oct-12	*2	*680	630

Rating/target price changes above reflect Eastern Standard Time

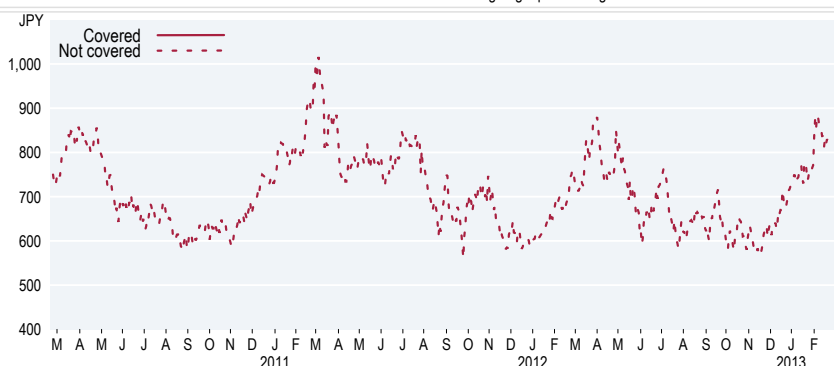
Aisan Industry (7283)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Arifumi Yoshida



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Toyota Industries (6201)

Ratings and Target Price History

Fundamental Research

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	26-Feb-10	2M	*2,570	2,335
2	2-Jun-10	2M	*2,490	2,330
3	2-Sep-10	2M	*2,220	2,168
4	4-Jan-11	2M	*2,800	2,538

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Jun-11	*2H	*2,700	2,375
6	30-Sep-11	2H	*2,400	2,280
7	5-Oct-11	2H	*2,380	2,120
8	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
9	7-Oct-11	*2	2,380	2,126
10	3-Apr-12	2	*2,520	2,516
11	22-May-12	2	*2,350	2,117
12	23-Oct-12	2	*2,280	2,323

Rating/target price changes above reflect Eastern Standard Time

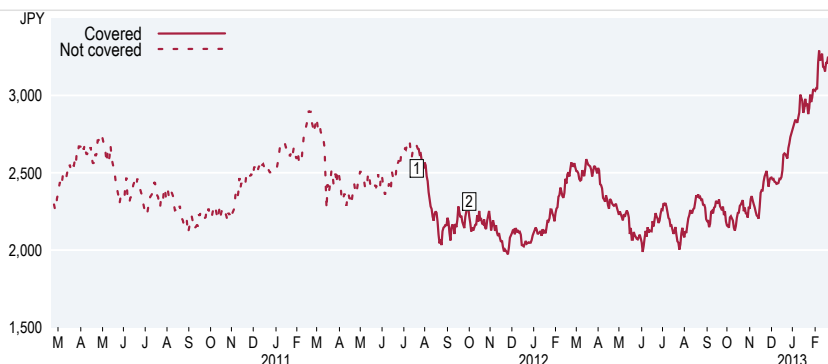
Toyota Industries (6201)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
[1]	20-Jul-11	*ADD LP	-	2,674

	Date	Rating	Target Price	Closing Price
[2]	3-Oct-11	*REM LP	-	2,216

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Toyota Boshoku (3116)

Ratings and Target Price History

Fundamental Research

Analyst: Arifumi Yoshida

Covered since June 8 2011



	Date	Rating	Target Price	Closing Price
[1]	8-Jun-11	*2H	*1,400	1,229
[2]	30-Sep-11	2H	*1,170	1,120

	Date	Rating	Target Price	Closing Price
[3]	7-Oct-11	Stock rating system changed	-	-
[4]	7-Oct-11	*2	-	991

	Date	Rating	Target Price	Closing Price
[5]	23-Oct-12	*3	*660	811

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Toyota Boshoku (3116)

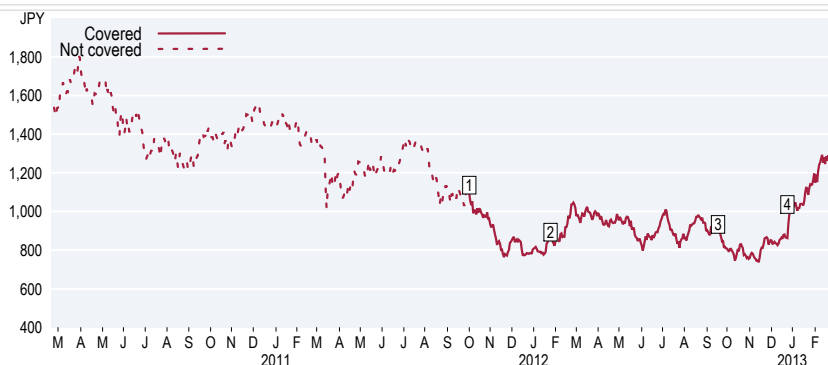
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Arifumi Yoshida

Covered since June 8 2011



	Date	Rating	Target Price	Closing Price
[1]	3-Oct-11	*ADD LP	-	1,092
[2]	25-Jan-12	*REM LP	-	893

	Date	Rating	Target Price	Closing Price
[3]	18-Sep-12	*ADD LP	-	916
[4]	25-Dec-12	*REM LP	-	862

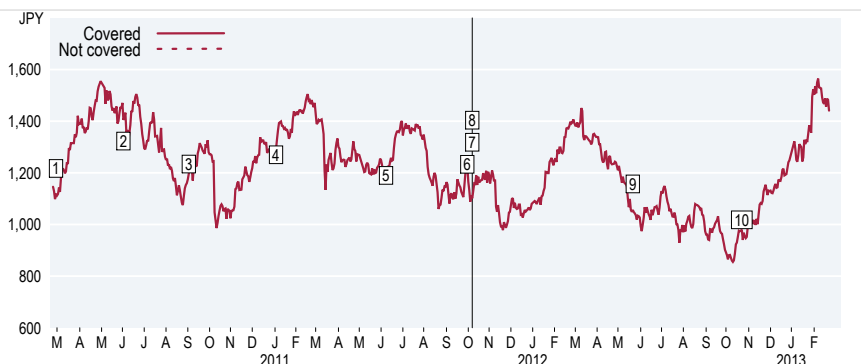
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Koito Manufacturing (7276)

Ratings and Target Price History Fundamental Research

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	26-Feb-10	1M	*1,280	1,119
2	2-Jun-10	1M	*1,660	1,405
3	2-Sep-10	1M	*1,610	1,197
4	4-Jan-11	1M	*1,580	1,292

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Jun-11	*1H	*1,710	1,206
6	30-Sep-11	1H	*1,470	1,233
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	1,470	1,101

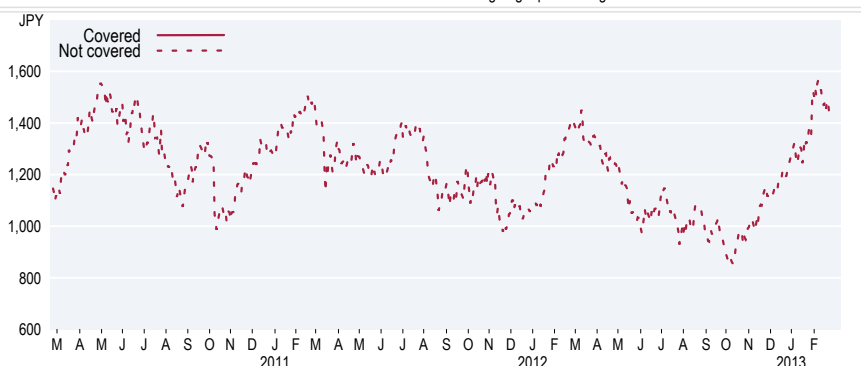
	Date	Rating	Target Price	Closing Price
9	22-May-12	1	*1,380	1,056
10	23-Oct-12	*2	*1,090	980

Rating/target price changes above reflect Eastern Standard Time

Koito Manufacturing (7276)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Arifumi Yoshida



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Motor, Valeo SA, Aisin Seiki, Bridgestone, Johnson Controls Inc, Aisan Industry, Calsonic Kansei, Goodyear Tire & Rubber Co, Continental AG, Mando, Meritor Inc, Yokohama Rubber, Bharat Forge, Michelin, Weichai Power, Toyota Industries, Lear Corporation, Faurecia, Borg Warner Inc, Nissin Kogyo, GKN Plc, Sanden.

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Citi Research Equity Ratings Distribution

Data current as of 31 Dec 2012

Citi Research Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
49%	38%	12%	7%	86%	7%
53%	49%	45%	60%	49%	55%

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Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 25 February 2013 03:00 PM on the issuer's primary market.

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