

Mitsubishi Motors (7211)

Alert: Announces new medium-term plan, with the profit targets set as minimal must-reach goals

- **Our take on the medium-term plan briefing** — At the briefing, which was held after the market close, we found the following positive. First, MMC is emphasizing that the medium-term plan OP goal by FY3/17 of ¥135bn (OPM of 5.2%) is one that can certainly be achieved. With the conservative assumption for ASEAN OP being that it stays below the anticipated FY3/14 level, we see opportunities. Second, MMC appears to be aiming to sell close to 60,000 PHEVs in FY3/15 in Japan and Europe. It commented at the results briefing last week that the target was around 50,000 but we understand room for maneuver in battery and motor production has opened up. Apparently, MMC expects further volume growth in FY3/16 and out on a North America launch. It commented that it is optimistic about profit growth in Europe in its medium-term plan on growth in sales of highly profitable PHEVs.
- **Our take on the share price** — There were no surprises in the announcement that MMC will endeavor to raise ¥210bn through a capital increase via a public offering and buy back the preferred shares at a 25% discount. If the offering does not go well and preferred shares remain, MMC has at least increased the possibility that it will be able to pay dividends on the common shares by lowering the dividend yield on the preferred to 2% from 5%. However, dilution calculated at the November 6 share price is around 45% and we estimate that if MMC reaches the medium-term plan goal, the PER would be just under 12x (assuming a tax rate of 33%), so we would not assert that the shares are undervalued. Moving forward, we see the key point as being to what extent MMC can build up profits above and beyond the medium-term plan targets.

Neutral	2
Price (06 Nov 13)	¥1,114
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	-
Market Cap	¥693,657M US\$7,042M

Price Performance (RIC: 7211.T, BB: 7211 JP)



Arifumi Yoshida

+81-3-6270-4725

arifumi.yoshida@citi.com

Manabu Hagiwara

+81-3-6270-4805

manabu.hagiwara@citi.com

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Mitsubishi Motors

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

We believe risks facing the auto sector include 1) forex trends, 2) domestic sales trends, and 3) North American sales trends. Risks for MMC include: 1) progress toward the achievement of the new medium-term plan; 2) sales volumes and sales incentives in North America and Europe; 3) sales trends in Asia and other regions and in Russia, which are the regions driving earnings; 4) sharp forex movements; and 5) the impact of soaring raw material prices. If these factors manifest themselves differently than we have anticipated, earnings may differ from our forecasts.

Appendix A-1

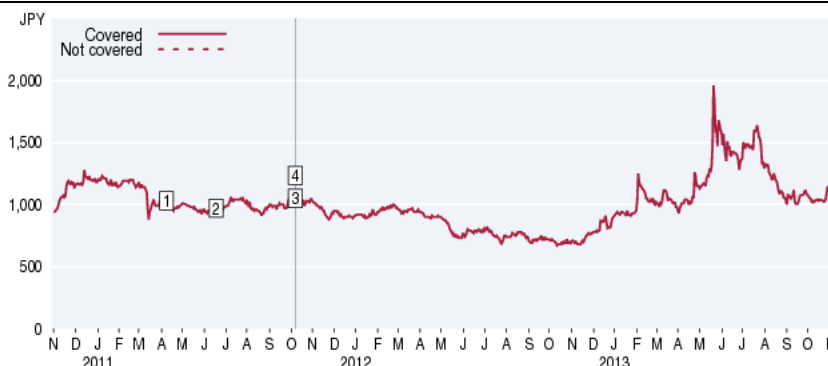
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Mitsubishi Motors (7211) Ratings and Target Price History Fundamental Research

Analyst: Arifumi Yoshida
Covered since March 29 2013



	Date	Rating	Target Price	Closing Price
1	8-Apr-11	*3S	*800	990
2	17-Jun-11	*2M	*1,000	930

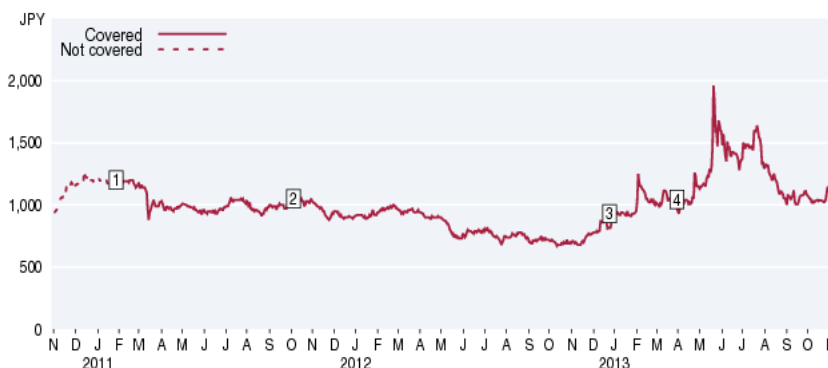
* Indicates change

	Date	Rating	Target Price	Closing Price
3	7-Oct-11	Stock rating system changed	-	-
4	7-Oct-11	*2	-	1,020

Rating/target price changes above reflect Eastern Standard Time

Mitsubishi Motors (7211) Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Arifumi Yoshida
Covered since March 29 2013



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD LP	-	1,180
2	5-Oct-11	*REM LP	-	1,010

* Indicates change

	Date	Rating	Target Price	Closing Price
3	25-Dec-12	*ADD LP	-	820
4	29-Mar-13	*REM LP	-	980

Rating/target price changes above reflect Eastern Standard Time

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	Buy	Hold	Sell	Buy	Hold	Sell
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