

## Japan Equity Strategist

### Given yen weakness Japanese equities do not look overvalued on PER

#### ■ Equities

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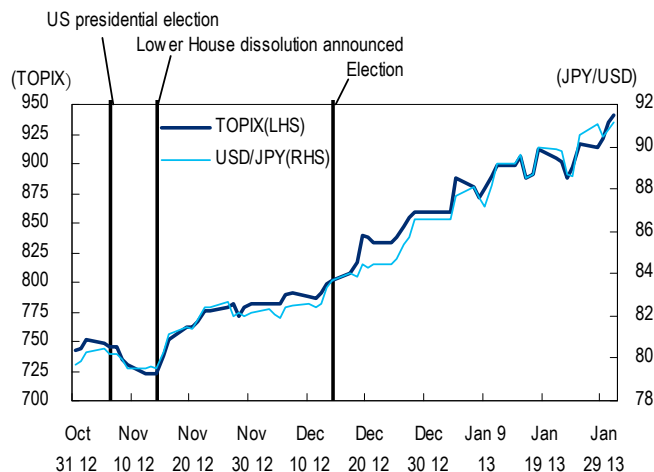
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- **Given yen weakness TOPIX PER does not look high** — The yen has fallen swiftly since November, so we think analyst earnings forecasts have yet to fully factor in current yen weakness. Therefore, we calculate PER based on a TOPIX EPS estimate that factors in the impact of yen weakness. Despite its sharp rise since November we do not think the TOPIX PER looks high in light of yen weakness.
- **Forex assumptions as of November 2012** — On November 14, 2012, Bloomberg's FY3/14 TOPIX EPS forecast was ¥64.4. We assume this forecast was based on ¥80/\$ and ¥100/€.
- **FY3/14 EPS forecast factoring in yen weakness** — We estimate that for every ¥1/\$ change TOPIX EPS rises by 0.42 points, while for every ¥1/€ rise there is an 0.15 point increase. If we assume forex rates as of January 31 (¥91.1/\$ and ¥123.7/€) continue throughout FY3/14, it would boost TOPIX EPS by 8.1 points, and if we add this to our November 14 TOPIX EPS estimate we get 72.5 (Figure 3).
- **Equities do not look overvalued on PER given yen weakness** — On January 31, TOPIX was 940.25. Using our FY3/14 TOPIX EPS estimate that factors in yen weakness the TOPIX PER is 13.0x (Figure 3). This is below the average (based on the following year's EPS forecast) since 2006 of 16.5x and also below the levels when Mr. Abe was last PM (2006-7). Given the impact of the yen weakness on earnings, we do not think Japanese equities are overvalued even on PER.

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

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Figure 1. TOPIX and ¥/\$ rate



Source: Datastream, Citi Research.

Figure 2. Impact of yen weakness on FY3/14 TOPIX EPS

Impact of depreciation by 1 yen FY14/3 TOPIX EPS

USD/JPY	0.42
EUR/JPY	0.15

Source: Citi Research

Figure 3. TOPIX PER should January 31 forex rates persist throughout FY3/14 (based on FY3/14E EPS)

	TOPIX	USD/JPY	EUR/JPY	FY14/3 EPS Bloomberg	FY13PER	Changes in FX (USD, EUR)		Impact on TOPIX EPS		FY14/3 EPS Weak yen	FY13PER Weak yen
						USD	EUR	USD	EUR		
11/14/12	722.41	80.0	100.0	64.4	11.2						
1/31/13	940.25	91.1	123.7	63.7	14.8	11.1	23.7	4.6	3.5	72.5	13.0

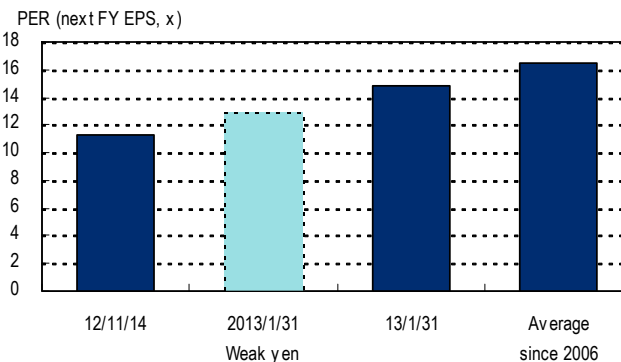
Source: Bloomberg, Citi Research.

Figure 4. TOPIX PER (based on following year EPS forecasts)



Source: Bloomberg, Citi Research.

Figure 5. TOPIX PER (based on following year EPS forecasts)



Source: Bloomberg, Citi Research.

## Appendix A-1

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