

Equities

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Eastern Japan earthquake/Autoparts and tires sector

Alert: We prefer Bridgestone, Aisin Seiki, Denso

- Industry Overview
- The Japan Earthquake

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- **Post-quake update** — We are increasingly being asked what stocks look undervalued in the wake of the post-quake sell off. There are many uncertainties: facility restoration, power supply problems, production and distribution infrastructure, supply chain disruption, forex trends. Taking all this into consideration, we prefer Bridgestone, Aisin Seiki, Denso, and Toyota Industries even though they have performed relatively well up to now.
- **Ranking in terms of % decline since the March 10 close** — Sanden 32%, Taiho Kogyo 30%, Keihin 26%, Calsonic Kansei 26%, Yokohama Rubber 23%, Tokai Rika 23%, Sumitomo Rubber 20%, Nissin Kogyo 19%, Koito Industries 18%, Toyota Industries 16%, NOK 16%, Aisin Seiki 16%, Denso 14%, Aisan Industries 12%, Stanley Electric 12%, Bridgestone 11%. TOPIX has declined 18% over the same period.
- **Bridgestone** — Some facilities in factories north of Kanto have been damaged, although production is steadily returning to normal. We understand priority is being given to truck tires as they will be crucial to the reconstruction effort. In-house power generation systems will be used to minimize the impact of planned power outages. As Bridgestone is building a vertically integrated business model (a high proportion of parts are made in-house) we think supply chain disruption will be relatively limited.
- **Major Toyota suppliers** — It will be a while before production restarts at facilities in the Tohoku region, but in Aichi prefecture, where the majority of production bases are located, we think production should be back up quickly. We look for Aisin Seiki to benefit from strong automatic transmission (AT) system sales overseas, Denso from sales to customers in North America, and Toyota Industries from forklift sales. We also like these stocks from a liquidity perspective.

Yokohama Rubber (5101.T; ¥337; 2M); Bridgestone (5108.T; ¥1,578; 1M); Sumitomo Rubber Industries (5110.T; ¥728; 1M); Toyota Industries (6201.T; ¥2,265; 2M); Sanden (6444.T; ¥262; 2M); Taiho Kogyo (6470.T; ¥585; 1H); Denso (6902.T; ¥2,512; 1M); Stanley Electric (6923.T; ¥1,258; 2M); Tokai Rika (6995.T; ¥1,180; 2M); Nissin Kogyo (7230.T; ¥1,200; 1H); NOK (7240.T; ¥1,284; 2M); Calsonic Kansei (7248.T; ¥294; 2H); Keihin (7251.T; ¥1,251; 1M); Aisin Seiki (7259.T; ¥2,538; 1M); Koito Manufacturing (7276.T; ¥1,134; 1M); Aisan Industry (7283.T; ¥829; 1M)

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

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