

Equities

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Machinery sector

Alert: Diverging trends; what has moved over the past three days

- Industry Overview
- The Japan Earthquake

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- **Some stocks are up** – In the three trading days between the market close last Friday, approximately fifteen minutes after the first shake hit the Tohoku region, and the close today three machinery sector stocks have finished higher: Komatsu, Nabtesco and THK. In spite of its Ibaraki plant being next to the coast in Hitachi Naka, Komatsu is probably being seen as a potential beneficiary of the reconstruction work that is necessary from now in the Tohoku region. As a supplier to Komatsu there may be some knock-on effects for Nabtesco, but we are more surprised to see the price action at THK even allowing for the fact that there has been very little direct damage on the company.
- **The worst performers** – Given its strong presence in the nuclear field, albeit in pressurized water reactors, it has not been a surprise to see MHI fall by 15% since the close last Friday. We have been more surprised to see a drop of 16% at Daikin and a 13% retreat at Amada. Daikin does have a chemical plant in Kashima but the company says that it was not damaged by the earthquake. Its a/c plants are in western Japan. Amada has a small plant in Fukushima that makes peripheral equipment and it reports that there was some damage. However, as mentioned by many other companies, an additional worry for the company is disrupted logistics.
- **Global leaders** – In this extremely difficult time, we note the resilient performance of some of the blue-chip names in the sector. For example, between the close last Friday and today, Fanuc, SMC, Keyence and Kubota are only down by 1%-4%. Even though the bulk of production for each of these companies is in Japan, they all have strong market positions in overseas markets and we see no reason why there should be any change in their long-term competitive positions. The machinery sector in Japan has been hit by the events of last Friday and there could well be further disruptions over the coming months due to power cuts in the areas served by Tokyo Electric Power, but we do not doubt the ability of many companies in the sector to maintain their leading position in global markets.

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