

Trading company sector

More bullish: BPS boosted by yen weakness, higher equities*

- **Upgrading two** — We upgrade Mitsui & Co. and Sumitomo Corp. and now rate all five companies we cover Buy. Based on estimated total returns, our order of preference is 1) Mitsui & Co. and Mitsubishi Corp., 2) Itochu and Marubeni, and 3) Sumitomo Corp. Given the likely boost to NP and net assets from yen weakness and equity strength, we think trading company shares look undervalued. Between now and end-FY3/13, we believe Itochu and Sumitomo Corp. could appeal on yield.
- **What's changed?** — The boost to BPS from yen weakness and higher equities has been greater than we anticipated. For instance, end-December BPS at Mitsui & Co., at ¥1,580, shot past our old end-March 2013 forecast of ¥1,566, and likewise at Mitsubishi Corp., where BPS reached ¥2,300 versus ¥2,249. We raise our BPS forecasts more than EPS, in light of the impact of high share prices since January and the change in our forex assumption to ¥90/\$ from ¥85/\$. This is the biggest reason for our bullish sector stance. We now rate both Mitsui & Co. and Sumitomo Corp. Buy, as we find them undervalued on PBRs of c0.7x versus double-digit RoE.
- **Three weak yen benefits** — We see three benefits for trading companies from the weak yen: 1) improved yen-denominated profits in resource businesses (energy, metals) and at subsidiaries/export affiliates; 2) increased competitiveness for products made in Japan; and 3) expanded net assets (shareholders' equity) due to improvement in the forex translation adjustment account. Given the existence of subsidiaries with December fiscal year-ends, net assets will likely continue expanding in FY3/14 Q1, and from FY3/14 we look for the emergence of benefits from greater competitiveness for products manufactured in Japan.
- **Two reasons trading companies have lagged** — Despite yen weakening the sector (up nearly 21%) has underperformed TOPIX (up more than 27%) over the past six months. In our view, the lag is due to 1) falling resource profits on non-price factors such as strikes in coking coal businesses, which has shaken confidence in the macro earnings boost scenario, and 2) the slow emergence of net asset boosts (as some subsidiaries have December year-ends) and better competitiveness for Japanese products on yen weakness. We think these impediments will gradually disappear, clearing the way for upside for sector share prices.
- **Market concerns** — Essentially, all firms have double-digit RoEs and yields of over 3%, so we feel they are undervalued on single-digit PERs and PBRs below 1x. But we think the market is concerned that 1) RoE and RoIC have peaked, 2) resource prices have peaked, and 3) easy cash resulting from monetary loosening may mean less disciplined investment. But if trading companies can balance 1) increased profit via asset expansion, 2) improvement in profitability indicators, and 3) greater shareholder returns, shares could rise beyond our and the market's expectations.

*Errors in Figure 7 and the Itochu financial summary have been corrected.

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Itochu	8001	1	1	¥1,200	¥1,250	¥177	¥178
Marubeni	8002	1	1	¥800	¥790	¥117	¥118
Mitsui	8031	2	1	¥1,500	¥1,650	¥173	¥173
Sumitomo	8053	2	1	¥1,200	¥1,300	¥194	¥188
Mitsubishi	8058	1	1	¥2,200	¥2,250	¥208	¥215

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

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Three weak yen benefits to emerge, two factors blocking performance to disappear

Our sector stance is bullish

The trading company sector is up about 21% over the past three months, but over the past six months the sector (just under 21%) has underperformed TOPIX (just above 27%). We think 1) three weak yen benefits are likely to boost sector fundamentals and 2) the two factors causing sector shares to lag will gradually disappear. We lift our stance on the sector to bullish from moderately bullish.

Upgrading Mitsui & Co. and Sumitomo Corp. to Buy

We upgrade Mitsui & Co. and Sumitomo Corp. to Buy and now have Buy ratings on all five Japanese trading companies we cover (Figures 1 and 2). We upgrade Mitsui & Co. because net profit and net assets are up sharply due to yen weakening and stock market strength, making the shares look increasingly undervalued. At Sumitomo Corp., downward revisions appear to have exhausted bad news for now, and between now and the end of FY3/13 the stock's high yield is likely to look appealing. Based on estimated total return at our target price, our order of preference is 1) Mitsui & Co. and Mitsubishi Corp., 2) Itochu and Marubeni, and 3) Sumitomo Corp. Between now and end-FY3/13 we believe Itochu and Sumitomo Corp. could appeal on yield.

Figure 1. Trading company ratings: We upgrade Mitsui & Co. and Sumitomo Corp. and now have Buys on all five names in our coverage

	Rating	TP	Valuation		Share price 2/27	ETR	DPS (¥)		Dividend yield		PBR (x)		PER (x)	
			Target PBR	Relative PBR			3/13E	3/14E	3/13E	3/14E	3/13E	3/14E	3/13E	3/14E
Itochu 8001	Buy (1)	1,250	c 1.00x	90%	1,056	22.3%	41	44	3.9%	4.2%	1.00	0.86	5.9	5.6
Marubeni 8002	Buy (1)	790	c 1.05x	95%	670	21.6%	25	25	3.7%	3.7%	1.05	0.89	5.7	5.4
Mitsui 8031	Neutral (2)→Buy (1)	1,650	c 0.90x	80%	1,365	24.1%	44	49	3.2%	3.6%	0.81	0.75	7.9	7.0
Sumitomo 8053	Neutral (2)→Buy (1)	1,300	c 0.75x	70%	1,129	19.3%	47	49	4.2%	4.3%	0.73	0.66	6.0	5.8
Mitsubishi 8058	Buy (1)	2,250	c 0.85x	75%	1,824	26.3%	54	58	3.0%	3.2%	0.76	0.69	8.5	7.8
Avg.			0.91x	82%		22.7%			3.6%	3.8%	0.87	0.77	6.8	6.3

Source: Citi Research.

Figure 2. Five trading companies: Ratings and reasons

	Rating		Reasons
	Old	New	
Itochu	Buy	Buy	We raise our NP forecasts on yen weakening, etc. We raise our FY3/14 BPS estimate nearly 6% on yen weakness and stock market strength Looks highly undervalued on FY3/14E PBR of c0.9x (FY3/14E RoE above 16%) , dividend yield above 4% appealing
Marubeni	Buy	Buy	We raise our FY3/14 BPS estimate nearly 6% on yen weakness and stock market strength We lower our target multiple slightly because we expect RoE to decline as net assets grow, but upside to our TP remains large
Mitsui	Neutral	Buy	We raise our NP forecasts for FY3/14 and out on yen weakening, etc. We raise our FY3/14 BPS estimate c7% on yen weakness and stock market strength Given FY3/14E RoE above 11% the shares look undervalued on an FY3/14E PBR of c0.75x
Sumitomo	Neutral	Buy	We raise our FY3/14 BPS estimate on yen weakness and stock market strength Looks undervalued on an FY3/14E PBR below 0.7x and dividend yield above 4% versus our double-digit RoE forecast Downward revisions with Q3 results has exhausted bad news. We forecast a profit overshoot in FY3/13 and growth in FY3/14
Mitsubishi	Buy	Buy	We raise our NP forecasts for FY3/14 and out on yen weakening, etc. We raise our FY3/14 BPS estimate nearly 9% on yen weakness and stock market strength We cut our target multiple slightly, but shares still look undervalued on an FY3/14E PBR of c0.7x versus FY3/14E RoE above 9%

Source: Citi Research.

We see the three benefits from yen weakening as:

1. Improved yen-denominated profits for the resource businesses and overseas subsidiaries /export affiliates;
2. Enhanced competitiveness for products made in Japan;
3. Expanded net assets (shareholders' equity) due to improvement in the forex translation adjustment account.

Judging from subsidiaries that close their books in December, it looks likely that net assets will continue to expand through FY3/14 Q1 (Figure 4), while benefits from increased competitiveness for products made in Japan will probably start to emerge next year.

We also see two factors that have caused sector stocks to lag the broader market:

We believe trading company share prices have not sufficiently priced in benefits from yen weakening and stock market strength (Figures 3–6)

1. A large decline in natural resource profits on non-price factors like strikes in the coking coal business, increased costs related to shale gas development, and lower dividends due to increased spending on copper development. This may have shaken confidence that an upturn for the macroeconomic environment will lead to higher trading company profits;
2. Slow emergence for benefits from higher net assets and better competitiveness for products made in Japan stemming from yen weakness.

From FY3/14, we expect these issues will gradually disappear, so further share price appreciation looks likely for the trading company sector on weak yen benefits.

Market concerns

Almost all trading companies we cover offer double-digit RoEs, NP of ¥200bn or more, and yields of 3% or more, so we believe they look undervalued on single-digit PERs and PBRs below 1x. Perhaps we cannot ask for more from the trading companies. However, we think trading company stocks remain undervalued not because the market is looking for share buybacks or higher dividends, but because of concerns that 1) RoE and RoIC may have peaked and 2) an apparent peak for resources prices as well as surplus funds stemming from monetary easing could mean less disciplined spending.

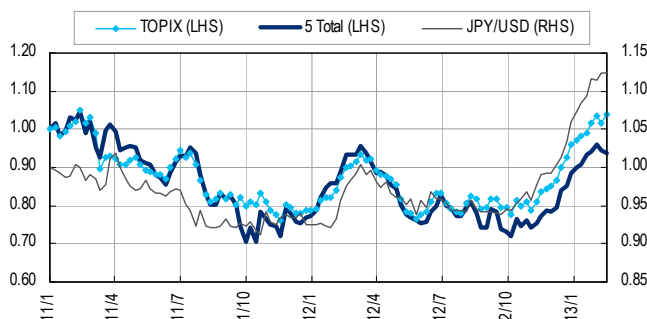
Market wants the same from trading companies and resource majors

Essentially, we think that what the market wants from trading companies amid fears of rising costs and diminishing project returns is to see a better balance between 1) asset growth, 2) shareholder returns, and 3) free cash flow via careful selection of investments and clear targets for RoE and other profitability benchmarks (along with strategies to achieve these goals, such as share buybacks). This tallies with what the market wants from resource majors as well. For reference see our February 11 global metals and mining team's report [Metals & Mining - Diversified Debate II – Why Not To Do NPV Positive Projects](#).

Risks

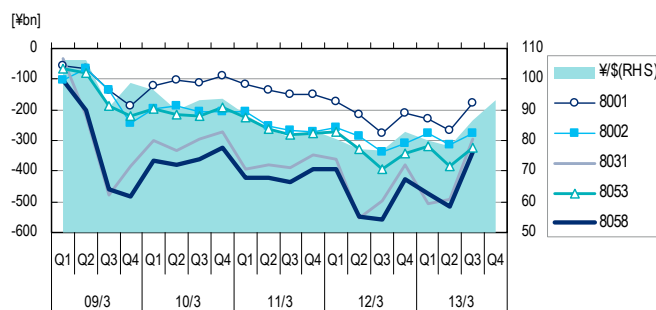
One risk to the scenario of increased NP and net assets via yen weakness and stock market strength is impairment. In October-December, Itochu posted impairment losses on its shale gas assets, while Mitsui and Co. posted impairment losses on its Vale assets. If impairment losses increase it could mean a decline for net assets and have a negative impact on valuations.

Figure 3. Five trading companies: Relationship between share prices, forex, and TOPIX—significant laggards in light of both TOPIX growth and yen weakness



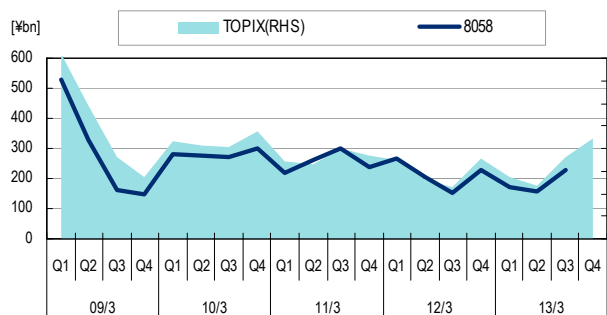
Source: Bloomberg, Citi Research.

Figure 4. Forex translation adjustment accounts at five trading companies: More improvement expected, Mitsubishi shares tend to lag Mitsui shares somewhat



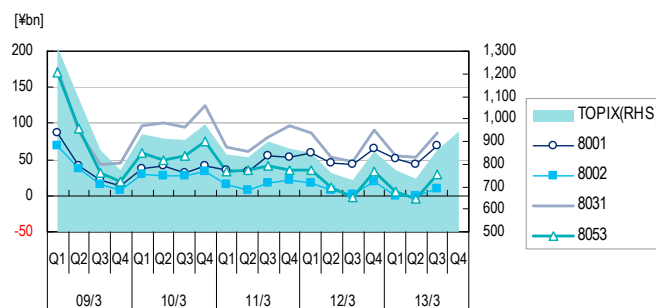
Source: Company Data, Citi Research.

Figure 5. Unrealized gains/losses on marketable securities at Mitsubishi and Co. and TOPIX



Source: Bloomberg, Citi Research.

Figure 6. Unrealized gains/losses on marketable securities at the four other trading companies and TOPIX



Source: Bloomberg, Citi Research.

We raise our BPS forecasts due to yen weakness and stock market strength. As a result, we lower our target multiples slightly for Itochu, Marubeni, and Sumitomo Corp. as the decline in our RoE forecasts for these firms was relatively large (Figures 7 and 8)

Figure 7. Five trading companies: Profitability indicators and changes in our forecasts

	RoE			Versus previous		RoIC			Versus previous	
	3/12	3/13E	3/14E	3/13E	3/14E	3/12	3/13E	3/14E	3/13E	3/14E
Itochu	23.8%	18.6%	16.4%	-0.1ppt	-0.6ppt	7.6%	4.4%	4.6%	-0.7ppt	-0.5ppt
Marubeni	21.2%	20.9%	17.7%	-0.4ppt	-1.0ppt	6.5%	6.1%	5.8%	0.1ppt	0.1ppt
Mitsui	17.4%	11.1%	11.2%	-0.4ppt	-0.2ppt	8.9%	6.3%	6.4%	0.3ppt	0.3ppt
Sumitomo	15.4%	13.0%	12.0%	-0.5ppt	-0.2ppt	5.2%	3.5%	2.8%	0.1ppt	0.0ppt
Mitsubishi	13.5%	9.5%	9.2%	0.0ppt	-0.8ppt	5.5%	4.1%	4.3%	0.1ppt	-0.1ppt
Avg.	18.2%	14.6%	13.3%	-0.3ppt	-0.6ppt	6.8%	5.1%	5.0%	0.2ppt	0.1ppt

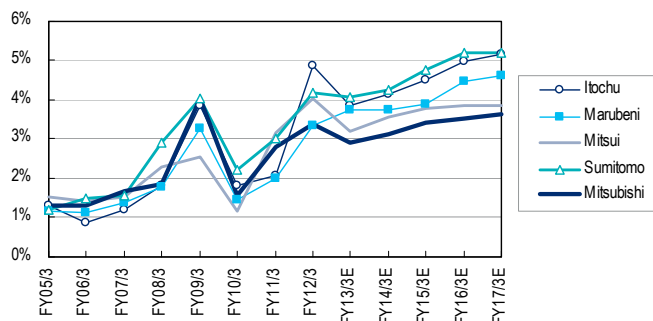
Source: Citi Research.

Figure 8. Five trading companies: NP and BPS—we lift BPS forecasts for Mitsubishi Corp., Mitsui & Co. on yen weakness, stock market strength

	NP							NP YoY			EPS		BPS		Versus previous	
	3/12	3/13E	3/14E	3/15RE	3/13E	3/14E	3/15RE	3/13E	3/14E	3/15RE	3/13E	3/14E	3/13E	3/14E	3/13E	3/14E
Itochu	300.5	282.0	297.0	322.0	280.0	294.0	314.0	-6.2%	5.3%	8.4%	178.4	187.9	1,057	1,229	3.9%	5.6%
Marubeni	172.1	205.0	214.0	228.0	204.0	215.0	225.0	19.1%	4.4%	6.5%	118.1	123.2	640	754	4.6%	5.9%
Mitsui	434.5	316.0	358.0	376.0	315.0	340.0	354.0	-27.3%	13.3%	5.0%	173.2	196.2	1,677	1,830	7.1%	7.1%
Sumitomo	250.7	235.0	243.0	276.0	243.0	243.0	262.0	-6.3%	3.4%	13.6%	188.0	194.4	1,537	1,709	0.9%	2.4%
Mitsubishi	453.8	355.0	384.0	416.0	343.0	385.0	400.0	-21.8%	8.2%	8.3%	215.7	233.3	2,413	2,638	7.3%	8.6%
Total	1,612	1,393	1,496	1,618	1,385	1,477	1,555	-8.5%	6.9%	8.4%						

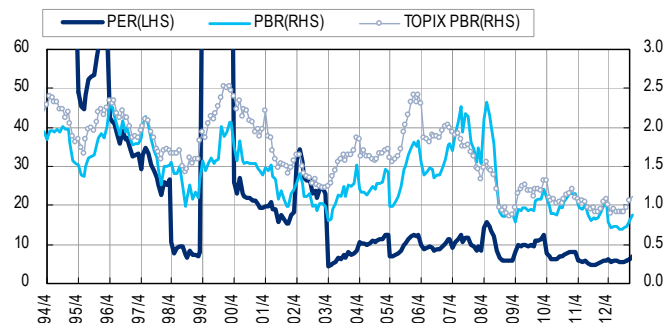
Source: Citi Research.

Figure 9. Dividend yields at the five trading companies: High yield at Sumitomo



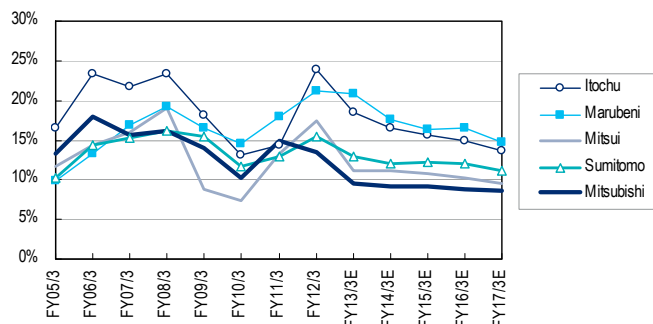
Source: Bloomberg, Citi Research.

Figure 10. Average PER and PBR for five trading companies, TOPIX PBR



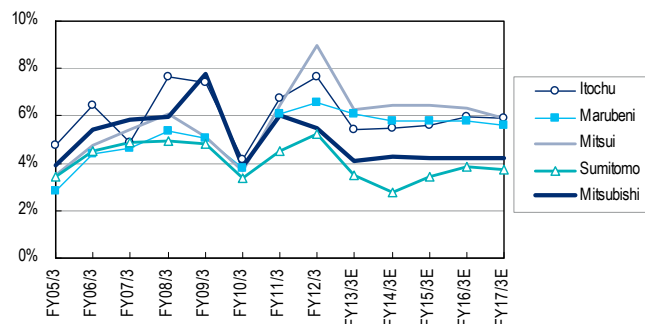
Source: Bloomberg, Citi Research.

Figure 11. RoE at the five trading companies: Apparent peak



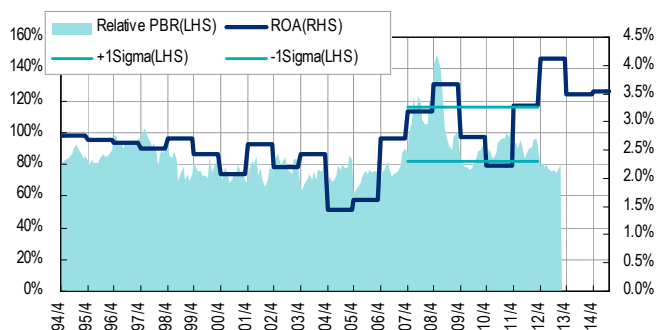
Source: Company data, Citi Research.

Figure 12. RoIC at the five trading companies: Apparent peak



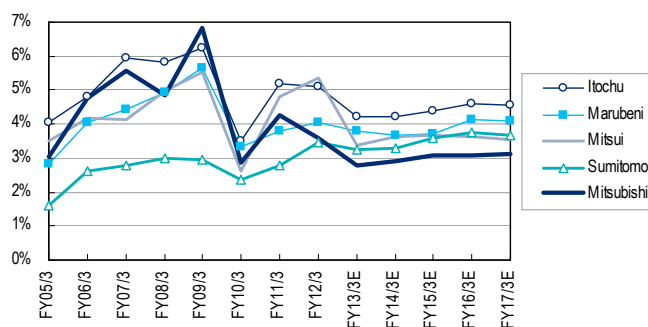
Source: Company data, Citi Research.

Figure 13. Relative PBR and RoA at five trading companies: Looking undervalued



Source: Bloomberg, Citi Research.

Figure 14. Five trading companies: RoA



Source: Bloomberg, Citi Research.

Figure 15. Our forex and commodity price assumptions: We assume ¥90/\$ for FY3/14 and out

	3/10	3/11	3/12	3/13E	3/14E	3/15E	3/16E	3/17E
Forex								
USD (¥/\$)	93.0	85.7	79.1	82.5	90.0	90.0	90.0	90.0
USD (CY) (¥/US\$)	93.7	87.8	79.7	79.9	90.0	90.0	90.0	90.0
Real (¥/R)	49.7	49.5	46.7	40.0	40.0	40.0	40.0	40.0
Oil and gas								
Brent Oil (CY) (\$/bbl)	62.6	82.5	110.2	109.9	101.3	93.0	90.7	93.0
Dubai Oil (\$/bbl)	68.0	82.0	109.9	110.0	101.0	92.7	90.4	92.7
Henry Hub (CY) (US\$/MMBtu)	3.9	4.4	4.0	2.8	3.6	4.1	4.8	4.9
Metals and other resources								
Hard Coking Coal (\$/MT)	128	215	291	194	186	213	213	219
Hard Coking Coal (CY) (\$/MT)	172	191	289	211	174	213	213	218
Thermal Coal (\$/MT)	70.0	98.0	125.0	96.1	101.5	113.8	116.3	120.0
Thermal Coal (CY) (\$/MT)	83.8	91.0	121.9	104.8	98.8	111.5	115.0	120.0
Iron Ore (\$/MT)	102.1	158.6	161.5	126.8	117.5	122.3	119.8	113.8
Iron Ore (CY) (\$/MT)	88.2	146.9	167.8	128.5	120.0	122.3	122.3	115.0
Copper (c/lb)	275	369	384	359	359	347	338	326
Copper (\$/MT)	6,063	8,135	8,465	7,906	7,925	7,650	7,450	7,193
Copper (CY) (c/lb)	234	341	399	360	361	353	340	331
Copper (CY) (\$/MT)	5,159	7,524	8,796	7,945	7,965	7,775	7,500	7,300
Silver (CY) (\$/oz)	14.5	20.2	35.3	31.2	31.0	26.5	23.3	20.5
Aluminum (CY) (\$/MT)	1,712	2,173	2,423	2,049	2,100	2,175	2,250	2,100
Nickel (CY) (\$/lb)	6.7	9.9	10.4	8.0	9.0	11.1	10.9	10.0
Zinc (CY) (\$/MT)	1,732	2,161	2,191	1,963	2,058	2,125	2,220	2,200
Lead (CY) (\$/MT)	1,744	2,148	2,399	2,072	2,113	2,200	2,250	2,200

Note: Forex assumptions from our Japan trading company team. Commodity price assumptions are from our commodity team.

Source: Citi Research.

Figure 16. NP sensitivity to forex rates and commodity prices: Weak yen a positive

(\$mn)	FX			TIBOR %	Oil (\$/bbl)	Iron Ore (\$/MT)	Coal(\$/MT)		Copper (\$100/MT)	Aluminum (\$100/MT)	Nickel (\$/lb)	Zinc (\$100/MT)
	JPY/USD	JPY/AUD	JPY/BRR				Coking	Thermal				
Itochu	2,000			-5,000	240	740	480					
Marubeni	1,300				300				600			
Mitsui	1,600	1,900	800		1,200	1,900					1,800	
Sumitomo	1,300				40	260	140	90	230			860
Mitsubishi	2,000				1,000				1,300	1,000		

Note: Impact on net profit from changes in market conditions. In addition to the above there are impacts on the forex translation adjustment account in net assets. The above figures represent the impact of a ¥1 weakening of the yen against the USD, Australian dollar, and Brazilian real, (2) a 1ppt rise in the yen interest rate, (3) a \$1/bbl rise in the crude oil price, (4) a \$1/MT rise in the iron ore price, (5) a \$1/MT rise in the price of coking coal (6) \$1/MT rise in the price of thermal coal, (7) a \$100/MT rise in copper prices, (8) a \$100/MT rise in aluminum prices, (9) a \$1/lb rise in the price of nickel, and (10) a \$100/MT rise in zinc prices for each company.

Source: Company data, Citi Research.

Figure 17. Valuations

		Rating		Price	Mkt	FY1E=	EPS	PER (x)		PBR (x)		OPM	DY EV/EBITDA (x)		RoE		
Code	Company				Cap		FY1E	FY2E	FY1E	FY2E	FY1E	FY2E	FY2E	FY1E	FY2E	FY1E	FY2E
Traiding companies					(\$ bn)												
8001.T	Itochu	1	JPY	1,056.00	18.1	3/13	178.4	187.9	5.9	5.6	1.0	1.9%	4.2%	7.2	6.0	18.6%	16.4%
8002.T	Marubeni	1	JPY	670.00	12.6	3/13	118.1	123.2	5.7	5.4	1.0	1.4%	3.7%	6.5	5.5	20.9%	17.7%
8031.T	Mitsui	1	JPY	1,365.00	27.0	3/13	173.2	196.2	7.9	7.0	0.8	3.1%	3.6%	3.6	2.8	11.1%	11.2%
8053.T	Sumitomo	1	JPY	1,129.00	15.3	3/13	187.9	194.3	6.0	5.8	0.7	2.9%	4.3%	6.0	5.1	13.0%	12.0%
8058.T	Mitsubishi	1	JPY	1,824.00	32.6	3/13	215.3	232.9	8.5	7.8	0.8	1.2%	3.2%	7.9	6.8	9.5%	9.2%
Energy (Oil)																	
1605.T	Inpex	1	JPY	484,000.00	19.2	3/13	52,042.0	38,346.8	9.3	12.6	0.8	55.4%	1.4%	0.2	0.8	8.4%	5.8%
5020.T	JX Hld	1	JPY	555.00	15.0	3/13	82.8	74.8	6.7	7.4	0.7	2.8%	2.9%	4.5	4.4	11.2%	9.3%
Global Mining																	
BLT.L	BHP Billiton	2	USD	20.96	187.7	6/13	2.4	2.9	13.3	11.0	2.4	34.3%	3.9%	7.3	6.1	16.4%	20.3%
VALE.N	Vale	1	USD	18.53	94.3	12/12	2.0	2.0	9.0	9.2	1.2	31.8%	4.1%	5.8	5.8	13.3%	12.3%
RIO.L	Rio Tinto	1	USD	35.35	94.0	12/13	5.7	7.1	9.4	7.5	1.5	31.2%	4.1%	4.6	3.5	18.7%	18.7%
AAL.L	Anglo American	2	USD	19.53	41.2	12/13	2.5	2.9	11.6	10.3	1.0	22.4%	3.8%	5.1	4.6	8.4%	9.0%
Copper Mining																	
FCX.N	Freeport Mcmoran	2	USD	32.27	30.6	12/13	4.1	4.4	7.9	7.4	1.5	37.3%	3.9%	3.8	3.4	20.7%	19.2%
ANTO.L	Antofagasta	3	USD	11.15	16.7	12/12	1.3	1.3	13.1	13.4	2.3	45.2%	2.6%	4.5	5.0	18.7%	15.4%
Coal Mining																	
ADRO.JK	Adaro Energy	2	USD	1,600.00	5.3	12/12	0.0	0.0	11.7	15.5	2.0	20.0%	1.9%	5.7	6.8	17.7%	12.3%
1898.HK	China Coal	2	CNY	7.32	12.5	12/12	0.6	0.5	9.2	11.5	0.9	10.9%	2.5%	5.7	5.8	10.0%	7.5%
Global Trading																	
ADEL.BO	Adani Ent	1	INR	224.05	4.6	3/13	9.9	21.4	22.6	10.5	1.2	12.4%	0.4%	15.0	9.0	7.7%	10.7%
NOBG.SI	Noble Grp	1	USD	1.18	6.2	12/12	0.1	0.1	10.3	8.1	1.2	1.8%	3.2%	8.3	7.2	12.7%	14.7%
OLAM.SI	Olam Inter	1	SGD	1.67	3.4	6/13	0.1	0.2	11.2	9.7	1.1	5.5%	3.0%	8.6	8.4	11.6%	12.2%

Note: Share prices as of the February 27 close.

Source: Citi Research.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (27 Feb 13)	¥1,056
Target price	¥1,250
from ¥1,200	
Expected share price return	18.4%
Expected dividend yield	3.9%
Expected total return	22.3%
Market Cap	¥1,669,025M
	US\$18,146M

Price Performance (RIC: 8001.T, BB: 8001 JP)



Itochu (8001)

Maintaining Buy: Appealing on high RoE, high yield, low PBR

- **Conclusion** — We revise our forecasts for Itochu and raise our target price slightly, to ¥1,250 (FY3/14E PBR of c1.05x) from ¥1,200 (c1.0x our previous FY3/14 BPS forecast), but maintain our Buy rating. We rate the shares Buy for a number of reasons: 1) we raise our NP forecast due to the weak yen; 2) in light of yen weakness and rising share prices, we increase our end-FY3/14 BPS forecast by nearly 6%; 3) we lower our target multiple slightly as growth in net assets has resulted in lower RoE, but we consider the shares undervalued at about 0.9x our FY3/14 BPS forecast (with our RoE forecast just over 16x). We also think a dividend yield of more than 4% is appealing.
- **FY3/13E** — We raise our FY3/13 NP forecast to ¥282bn (–6.2% YoY) from ¥280bn. We lower our expectations of profit from the energy segment (by ¥5bn, mainly due to impairment of shale gas and oil assets) and others, but raise our forecasts for the ICT, general products & realty segment (+¥5bn), and the foods segment (+¥3bn) based on anticipated one-time gains. We think the company NP target of ¥280bn is achievable.
- **FY3/14E** — We also raise our FY3/14 NP forecast slightly, to ¥297bn (+5.3% YoY) from ¥294bn. We adjust our forex assumption to ¥90/\$ from ¥85/\$ but also factor in recent resource prices. We lower our estimates for metals & minerals, for textiles, and for machinery after minor downward adjustments to our FY3/13 forecasts, but raise our estimate for the energy and chemical segment in light of yen depreciation and recent oil prices. We expect YoY profit growth in energy (weaker yen, rebound from impairment losses, falling oil prices), metals & minerals (weaker yen), and foods (new consolidation of Dole business), which should exceed profit declines in textiles (dropout of one-time gains) and machinery (same).
- **Outlook** — We think the shares look undervalued on FY3/14E PER below 6x given the company's high RoE and high dividend yield. The acquisition of Dole operations seems to us a good strategic move for growth in a business area with relatively low volatility. On the other hand, the share price is up about 20% since the start of the year, more than the other four trading companies. Factors that could support further share price growth include 1) strategies to boost profitability in non-resource businesses that it has acquired over the past year or two, such as the Dole units, Metsa Fibre, and Kwik-Fit, and 2) the setting of profitability targets for RoE, RoIC, etc., as well as steps to meet these targets (such as share buybacks).

Consol.	Sales		Pretax Profit		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	11,392,589	10.5	182,332	17.6	161,114	25.7	102	10.4	
3/12A	11,978,276	5.1	341,174	87.1	300,505	86.5	190	5.6	
3/13CE	12,900,000	7.7	275,000	-19.4	280,000	-6.8	177	6.0	
3/13E	12,115,000	1.1	319,000	-6.5	280,000	-6.8	177	6.0	
3/13RE	12,120,000	1.2	333,000	-2.4	282,000	-6.2	178	5.9	
3/14E	12,201,000	0.7	337,000	5.6	294,000	5.0	186	5.7	
3/14RE	12,543,000	3.5	352,000	5.7	297,000	5.3	188	5.6	
3/15E	11,939,000	-2.1	360,000	6.8	314,000	6.8	199	5.3	
3/15RE	12,318,000	-1.8	381,000	8.2	322,000	8.4	204	5.2	

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

8001.T: Fiscal year end 31-Mar						Price: ¥1,056; TP: ¥1,250; Market Cap: ¥1,669,025m; Recomm: Buy					
Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	11,392,589	11,978,276	12,120,000	12,543,000	12,318,000	PE (x)	10.5	5.6	6.0	5.7	5.3
Cost of sales	-10,416,211	-10,947,829	-11,252,000	-11,640,000	-11,393,000	PB (x)	1.5	1.2	1.0	0.9	0.8
Gross profit	976,378	1,030,447	868,000	903,000	925,000	EV/EBITDA (x)	6.8	6.3	7.3	6.0	5.2
Gross Margin (%)	8.6	8.6	7.2	7.2	7.5	FCF yield (%)	10.5	-10.9	-0.6	1.4	4.6
EBITDA (Adj)	332,042	349,791	294,000	327,000	348,000	Dividend yield (%)	1.7	4.1	3.8	4.1	4.5
EBITDA Margin (Adj) (%)	2.9	2.9	2.4	2.6	2.8	Payout ratio (%)	18	23	23	23	24
Depreciation	-75,960	-77,171	-78,000	-85,000	-86,000	ROE (%)	14.3	23.8	18.6	16.4	15.6
Amortisation	0	0	0	0	0	Cashflow (¥m)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	256,082	272,620	216,000	242,000	262,000	EBITDA	332,042	349,791	294,000	327,000	348,000
EBIT Margin (Adj) (%)	2.2	2.3	1.8	1.9	2.1	Working capital	-94,900	-94,898	53,000	-33,000	14,000
Net interest	-3,500	5,018	5,000	4,000	3,000	Other	98,219	-42,063	43,000	29,000	29,000
Non-op/Except	-70,250	63,536	112,000	106,000	116,000	Operating cashflow	335,361	212,830	390,000	323,000	391,000
PreTax Profit	182,332	341,174	333,000	352,000	381,000	Capex	-157,990	-396,880	-400,000	-300,000	-313,000
Tax	-68,592	-122,029	-127,000	-134,000	-145,000	Net acq/disposals	-63,692	-27,273	0	0	0
Extraord./Min.Int./Pref.div.	47,374	81,360	76,000	79,000	86,000	Other	-9,184	7,838	1,000	0	0
Reported net profit	161,114	300,505	282,000	297,000	322,000	Investing cashflow	-230,866	-416,315	-399,000	-300,000	-313,000
Net Margin (%)	1.4	2.5	2.3	2.4	2.6	Dividends paid	-26,102	-40,335	-70,000	-65,000	-70,000
Core NPAT	161,114	300,505	282,000	297,000	322,000	Financing cashflow	53,202	84,704	-10,000	-23,000	-77,000
Per share data	2011	2012	2013E	2014E	2015E	Net change in cash	153,192	-120,267	-19,000	0	1,000
Reported EPS (¥)	102	190	178	188	204	Free cashflow to s/holders	177,371	-184,050	-10,000	23,000	78,000
Core EPS (¥)	102	190	178	188	204	Other Index (Ymn or %)	2011	2012	2013E	2014E	2015E
EPS* (¥)	102	190	178	188	204	tNOPAT	229,744	287,293	190,000	215,000	237,000
DPS (¥)	18	44	41	44	48	tBusinessProfit	342,496	400,402	244,000	282,000	312,000
CFPS (¥)	212	135	247	204	247	tEBITDA	418,456	477,573	322,000	367,000	398,000
FCFPS (¥)	112	-116	-6	15	49	tROIC	6.8	7.6	4.4	4.6	4.8
BVPS (¥)	732	863	1,057	1,229	1,388	OOIC	9.9	5.7	9.1	7.0	8.0
Wtd avg ord shares (m)	1,581	1,581	1,581	1,581	1,581						
Wtd avg diluted shares (m)	1,581	1,581	1,581	1,581	1,581						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	10.5	5.1	1.2	3.5	-1.8						
EBIT (Adj) (%)	73.7	6.5	-20.8	12.0	8.3						
Core NPAT (%)	25.7	86.5	-6.2	5.3	8.4						
Core EPS (%)	25.7	86.5	-6.2	5.3	8.4						
Balance Sheet (¥m)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	641,736	521,432	500,000	500,000	500,000						
Accounts receivables	1,551,756	1,823,730	1,764,000	1,826,000	1,793,000						
Inventory	504,342	574,345	568,000	588,000	575,000						
Net fixed & other tangibles	842,457	868,601	1,039,000	1,124,000	1,195,000						
Goodwill & intangibles	191,065	284,109	285,000	285,000	285,000						
Financial & other assets	1,945,353	2,435,056	2,705,000	2,900,000	3,088,000						
Total assets	5,676,709	6,507,273	6,861,000	7,223,000	7,436,000						
Accounts payable	1,236,561	1,434,241	1,421,000	1,470,000	1,438,000						
Short-term debt	288,973	450,968	709,000	826,000	675,000						
Long-term debt	2,160,772	2,259,717	2,062,000	1,987,000	2,131,000						
Provisions & other liab	591,449	666,206	666,000	666,000	666,000						
Total liabilities	4,277,755	4,811,132	4,858,000	4,949,000	4,910,000						
Shareholders' equity	1,156,270	1,363,797	1,671,000	1,942,000	2,194,000						
Minority interests	242,684	332,344	332,000	332,000	332,000						
Total equity	1,398,954	1,696,141	2,003,000	2,274,000	2,526,000						
Net debt	1,808,009	2,189,253	2,271,000	2,313,000	2,306,000						
Net debt to equity (%)	129.2	129.1	113.4	101.7	91.3						

Note: Consolidated data. * EPS: NP/Est Shares OS.

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com



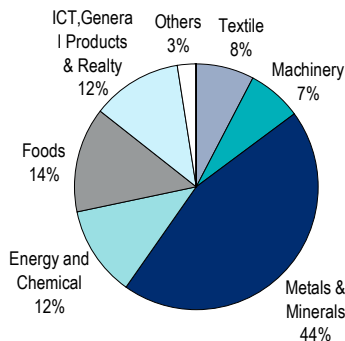
Itochu Corp. (8001) Investment Dashboard

Reasons to Buy

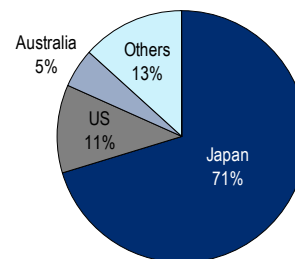
- Profits: We anticipate growth in FY3/14
- Strategy: Lower risk of medium-term profit decline than peers thanks to support from stable non-resource businesses
- Shareholder returns: Dividend yield is high

Sales breakdown (FY3/12)

By product



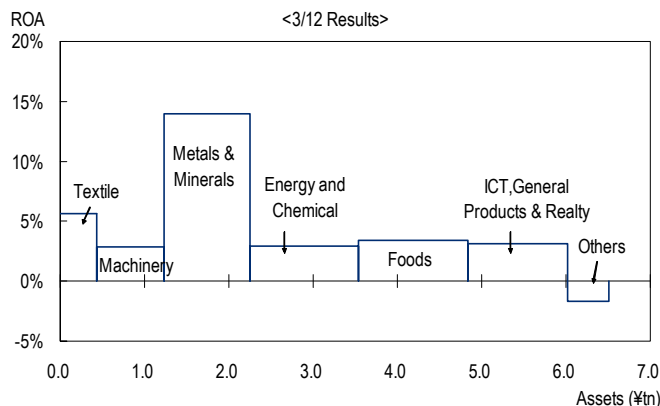
By region



Source: Company data, Citi Research.

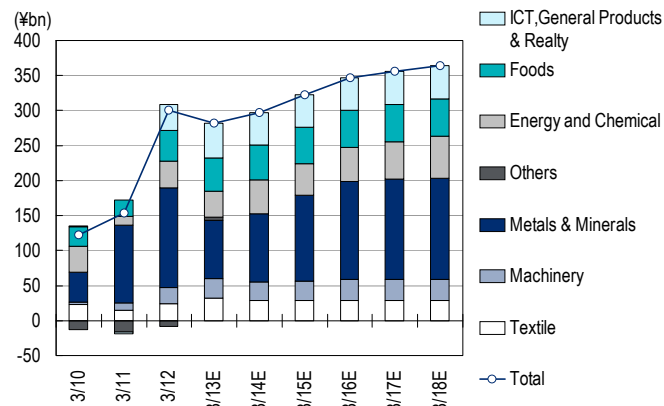
Business portfolio

<3/12 Results>



Source: Company data, Citi Research.

NP by segment

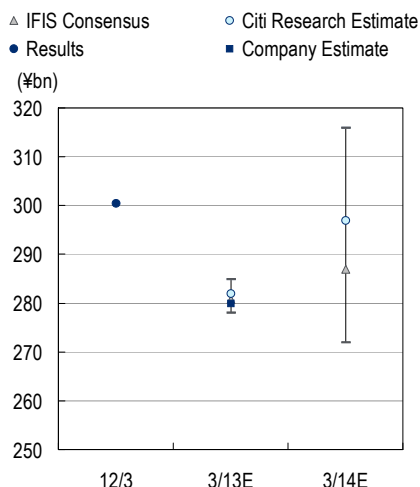


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

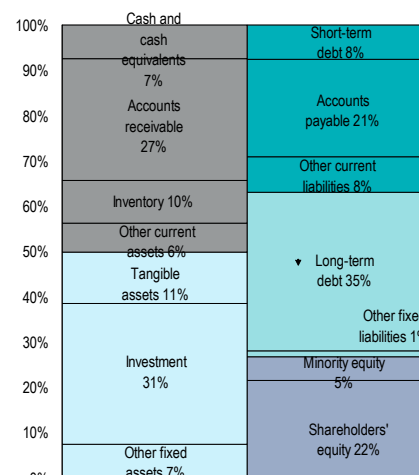
- Resources: Declines in the prices of resources to which Itochu is highly exposed, such as iron ore and coal
- Greater-than-expected deterioration in the Chinese economy, causing profits to decline markedly in Itochu's China non-resource businesses

NP forecast comparison



Source: Company data, IFIS (Feb 22), Citi Research.

Balance sheet (end-FY3/13 Q2)



Source: Company data.

Figure 18. Itochu: NP by segment (¥bn)

NP	3/12							3/13	3/14	3/15	3/16	3/13	3/14	3/15
		Q1	Q2	Q3	Q4E	Q4CE	FYCE	FYRE	FYRE	FYRE	FYRE	FYE	FYE	FYE
Textile	24.4	8.5	9.5	7.0	7.0	5.4	30.0	32.0	29.0	29.0	29.0	32.0	30.0	30.0
Machinery	23.1	5.9	8.8	7.0	6.0	7.6	30.0	28.0	26.0	28.0	30.0	29.0	27.0	27.0
Metals & Minerals	142.1	24.6	18.4	14.0	23.9	24.9	84.0	83.0	98.0	122.0	140.0	85.0	103.0	122.0
Energy and Chemical	37.8	8.3	6.7	5.7	23.4	31.4	45.0	37.0	48.0	45.0	48.0	42.0	40.0	38.0
• Energy	20.1	5.1	2.8	-5.2	16.5	23.3	26.0	19.2	32.0	29.0	32.0	24.0	25.0	23.0
• Chemicals	17.7	3.2	3.9	3.9	7.0	8.0	19.0	18.0	16.0	16.0	16.0	18.0	15.0	15.0
Foods	43.8	10.9	14.4	9.7	9.0	5.7	44.0	47.0	50.0	52.0	53.0	44.0	50.0	52.0
ICT, General Products & Realty	37.6	8.4	15.0	8.6	13.8	9.8	46.0	50.0	46.0	46.0	47.0	45.0	44.0	45.0
• ICT	16.8	3.2	4.4	4.3	3.8	5.6	17.5	15.7	17.0	17.0	18.0	15.6	17.0	17.0
• Real estate, insurance, logistics	17.7	3.1	5.3	6.0	7.0	5.1	19.5	21.4	18.0	18.0	18.0	18.4	17.0	18.0
• Construction, finance	3.1	2.1	5.3	2.6	3.0	-1.0	9.0	13.0	11.0	11.0	11.0	11.0	10.0	10.0
Adjustments/eliminations	-8.3	4.0	-1.2	0.0	-9.0	-12.8	1.0	5.0	0.0	0.0	0.0	3.0	0.0	0.0
Total	300.5	70.7	71.6	52.0	73.9	71.9	280.0	282.0	297.0	322.0	347.0	280.0	294.0	314.0

Source: Company data, Citi Research.

Figure 19. Itochu: Our segment NP forecasts (¥bn)

	3/07	3/08	3/09	3/10	3/11	3/12	3/13RE	3/14RE	3/15RE	3/13E	3/14E	3/15E
Resource	80.7	88.8	99.9	63.0	102.4	149.3	90.2	118.0	139.0	97.0	116.0	133.0
#Coal					32.9	18.8	2.9	14.2	29.0	11.9	20.8	30.4
#Iron Ore					72.3	110.4	61.7	71.8	81.1	60.1	69.6	78.9
#Copper					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
#Oil & Gas					-2.8	20.1	19.2	32.0	29.0	24.0	25.0	23.0
#Other resource					-1.0	0.0	6.4	0.0	-0.1	1.0	0.6	0.7
Non-resource	96.4	128.5	65.5	65.2	58.6	151.2	191.8	179.0	183.0	183.0	178.0	181.0
#Machinery	21.1	21.4	-15.5	3.7	10.3	23.1	28.0	26.0	28.0	29.0	27.0	27.0
#Material	12.4	32.4	27.8	19.6	27.0	39.0	37.9	36.5	36.5	37.8	35.5	35.5
#Living	34.0	68.7	55.9	54.3	30.2	97.4	121.2	116.5	118.5	113.2	115.5	118.5
#Others	28.8	6.1	-2.8	-12.4	-9.0	-8.3	4.8	0.0	0.0	3.0	0.0	0.0
Total	177.1	217.3	165.4	128.2	161.0	300.5	282.0	297.0	322.0	280.0	294.0	314.0
(Breakdown)												
Non-resource	54%	59%	40%	51%	36%	50%	68%	60%	57%	65%	61%	58%
Resource	46%	41%	60%	49%	64%	50%	32%	40%	43%	35%	39%	42%

Source: Company data, Citi Research (actuals include some estimates).

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (27 Feb 13)	¥670
Target price	¥790
from ¥800	
Expected share price return	17.9%
Expected dividend yield	3.7%
Expected total return	21.6%
Market Cap	¥1,163,173M
	US\$12,646M

Price Performance (RIC: 8002.T, BB: 8002 JP)



Marubeni (8002)

Maintaining Buy: Focus on balance between asset growth and balance sheet improvement

- **Conclusion** — We revise our forecasts for Marubeni and lower our target price slightly, to ¥790 (FY3/14E PBR of c1.05x) from ¥800 (c1.1x our previous FY3/14 BPS forecast). We maintain our Buy rating. Due to yen weakening and rising share prices, our FY3/14 BPS forecast increases by about 6%, and even though we have cut our target multiple slightly to reflect lower RoE resulting from higher net assets, we still consider the shares undervalued.
- **FY3/13E** — We raise our FY3/13 NP forecast slightly, to ¥205bn (+19% YoY) from ¥204bn. We lower our estimates for foods and retail (–¥3bn), metals and mineral resources (–¥2bn), and overseas subsidiaries and branches (–¥2.5bn), but increase our estimates for the lifestyle business (+¥2bn), transportation machinery (+¥4bn), and power projects and infrastructure (+¥2bn). We think NP guidance of ¥200bn is achievable.
- **FY3/14E** — We lower our FY3/14 NP forecast slightly, to ¥214bn (+4.4% YoY) from ¥215bn. We adjust our forex assumption to ¥90/\$ from ¥85/\$, but we also factor in the drop-out of one-off gains in FY3/13 and progress toward targets through Q3. By segment, we revise down for metals and mineral resources (in light of our FY3/13 downward revision and current resource prices) and for foods and retail and forest products, while we raise our estimates for energy (yen weakening, prevailing oil price effects) and for transportation machinery, among others. We expect YoY profit growth in segments including foods (new consolidation of Gavilon) and energy (yen weakening, falling oil prices) to exceed profit declines in areas such as metals and minerals (higher costs in copper) and transportation machinery (dropout of one-time gains).
- **Outlook** — We will be interested to see if there are measures in the next medium-term plan, due out in May, that might allow Marubeni to achieve both asset growth and balance-sheet improvement. Another important point is progress a year down the road for projects in which the company has decided to invest, such as Gavilon and the Roy Hill iron ore project.

Consol.	Sales		Pretax Profit		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	9,020,468	13.3	135,765	-1.3	136,541	43.3	79	8.5	
3/12A	10,584,393	17.3	179,455	32.2	172,125	26.1	99	6.8	
3/13CE	10,600,000	0.1	275,000	53.2	200,000	16.2	115	5.8	
3/13E	10,542,000	-0.4	191,900	6.9	204,000	18.5	117	5.7	
3/13RE	10,523,000	-0.6	191,700	6.8	205,000	19.1	118	5.7	
3/14E	11,953,000	13.4	217,700	13.4	215,000	5.4	124	5.4	
3/14RE	11,979,000	13.8	215,100	12.2	214,000	4.4	123	5.4	
3/15E	12,072,000	1.0	228,700	5.1	225,000	4.7	130	5.2	
3/15RE	12,115,000	1.1	229,300	6.6	228,000	6.5	131	5.1	

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

8002.T: Fiscal year end 31-Mar						Price: ¥670; TP: ¥790; Market Cap: ¥1,163,173m; Recomm: Buy					
Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	9,020,468	10,584,393	10,523,000	11,979,000	12,115,000	PE (x)	8.5	6.8	5.7	5.4	5.1
Cost of sales	-8,498,316	-10,042,939	-9,979,000	-11,414,000	-11,545,000	PB (x)	1.5	1.4	1.0	0.9	0.8
Gross profit	522,152	541,454	544,000	565,000	570,000	EV/EBITDA (x)	7.4	6.6	6.5	5.5	5.0
Gross Margin (%)	5.8	5.1	5.2	4.7	4.7	FCF yield (%)	6.2	4.0	-23.0	-4.5	2.2
EBITDA (Adj)	217,916	229,826	224,000	248,000	253,000	Dividend yield (%)	1.8	3.0	3.7	3.7	3.9
EBITDA Margin (Adj) (%)	2.4	2.2	2.1	2.1	2.1	Payout ratio (%)	15	20	21	20	20
Depreciation	-72,142	-72,511	-74,000	-77,000	-77,000	ROE (%)	18.0	21.2	20.9	17.7	16.3
Amortisation	0	0	0	0	0	Cashflow (¥m)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	145,774	157,315	150,000	171,000	176,000	EBITDA	217,916	229,826	224,000	248,000	253,000
EBIT Margin (Adj) (%)	1.6	1.5	1.4	1.4	1.5	Working capital	-13,626	-99,816	-8,000	-66,000	-7,000
Net interest	1,067	9,541	-1,000	-1,000	0	Other	5,754	42,589	16,000	6,000	12,000
Non-op/Except	-11,076	12,599	42,700	45,100	53,300	Operating cashflow	210,044	172,599	232,000	188,000	258,000
PreTax Profit	135,765	179,455	191,700	215,100	229,300	Capex	-138,415	-125,891	-500,000	-240,000	-232,000
Tax	-64,539	-83,949	-72,000	-85,000	-90,000	Net acq/disposals	21,548	-128,291	0	0	0
Extraord./Min.Int./Pref.div.	65,315	76,619	85,300	83,900	88,700	Other	-11,628	-19,507	0	0	0
Reported net profit	136,541	172,125	205,000	214,000	228,000	Investing cashflow	-128,495	-273,689	-500,000	-240,000	-232,000
Net Margin (%)	1.5	1.6	1.9	1.8	1.9	Dividends paid	-18,234	-28,654	-35,000	-43,000	-43,000
Core NPAT	136,541	172,125	205,000	214,000	228,000	Financing cashflow	-17,010	171,913	149,000	26,000	-26,000
Per share data	2011	2012	2013E	2014E	2015E	Net change in cash	45,214	61,309	-119,000	-26,000	0
Reported EPS (¥)	79	99	118	123	131	Free cashflow to s/holders	71,629	46,708	-268,000	-52,000	26,000
Core EPS (¥)	79	99	118	123	131	Other Index (Ymn or %)	2011	2012	2013E	2014E	2015E
EPS* (¥)	79	99	118	123	131	tNOPAT	166,055	186,427	197,000	209,000	223,000
DPS (¥)	12	20	25	25	26	tBusinessProfit	229,123	250,720	263,000	282,000	293,000
CFPS (¥)	121	99	134	108	149	tEBITDA	301,265	323,231	337,000	359,000	370,000
FCFPS (¥)	41	27	-154	-30	15	tROIC (%)	6.1	6.5	6.1	5.8	5.8
BVPS (¥)	446	491	640	754	860	OOIC (%)	7.7	6.1	7.2	5.2	6.7
Wtd avg ord shares (m)	1,736	1,736	1,736	1,736	1,736						
Wtd avg diluted shares (m)	1,736	1,736	1,736	1,736	1,736						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	13.3	17.3	-0.6	13.8	1.1						
EBIT (Adj) (%)	22.6	7.9	-4.6	14.0	2.9						
Core NPAT (%)	43.3	26.1	19.1	4.4	6.5						
Core EPS (%)	43.3	26.1	19.1	4.4	6.5						
Balance Sheet (¥m)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	644,060	729,718	700,000	700,000	700,000						
Accounts receivables	987,404	1,120,170	1,179,000	1,342,000	1,357,000						
Inventory	372,156	443,186	439,000	502,000	508,000						
Net fixed & other tangibles	795,420	793,894	970,000	1,013,000	1,052,000						
Goodwill & intangibles	85,406	85,815	86,000	86,000	86,000						
Financial & other assets	1,794,643	1,957,104	2,251,000	2,413,000	2,574,000						
Total assets	4,679,089	5,129,887	5,625,000	6,056,000	6,277,000						
Accounts payable	936,693	1,060,746	1,107,000	1,267,000	1,281,000						
Short-term debt	354,163	334,888	443,000	782,000	482,000						
Long-term debt	2,021,241	2,268,552	2,344,000	2,074,000	2,391,000						
Provisions & other liab	535,262	549,931	550,000	550,000	550,000						
Total liabilities	3,847,359	4,214,117	4,444,000	4,673,000	4,704,000						
Shareholders' equity	773,592	852,172	1,112,000	1,309,000	1,494,000						
Minority interests	58,138	63,598	69,000	74,000	79,000						
Total equity	831,730	915,770	1,181,000	1,383,000	1,573,000						
Net debt	1,731,344	1,873,722	2,087,000	2,156,000	2,173,000						
Net debt to equity (%)	208.2	204.6	176.7	155.9	138.1						

Note: Consolidated data. * EPS: NP/Est Shares OS.

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com

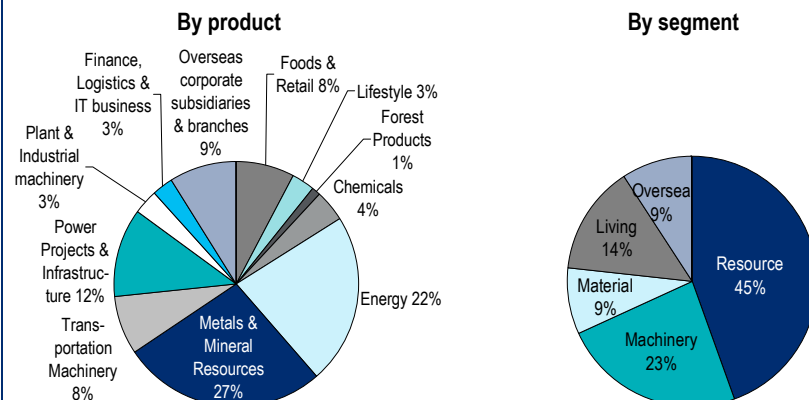


Marubeni (8002) Investment Dashboard

Reasons to Buy

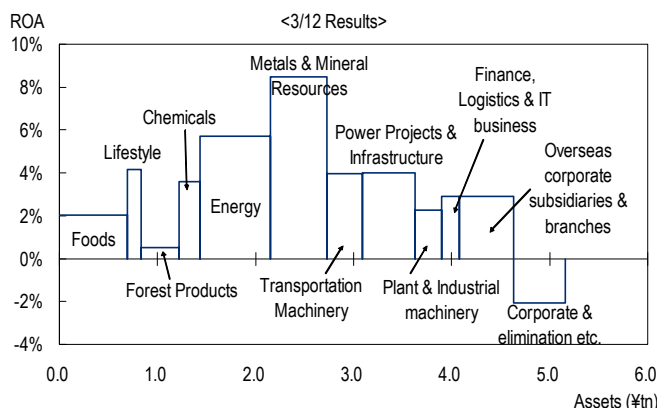
- Profits (1): Only company for which we forecast profit growth in FY3/13
- Profits (2): We anticipate growth in FY3/14
- Strategy: Gavilon acquisition, etc., should mean non-resource businesses drive earnings growth

Sales breakdown (FY3/12)



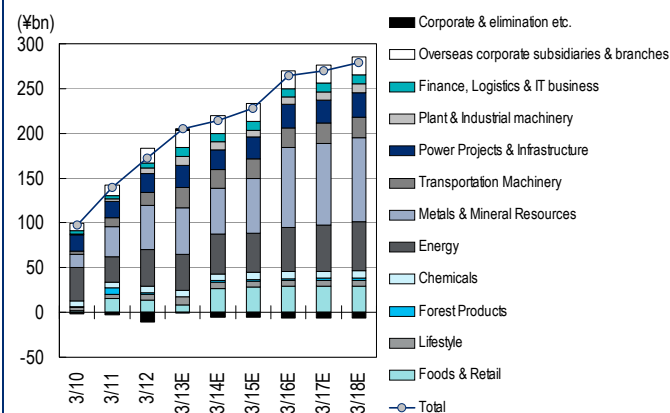
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

NP by segment

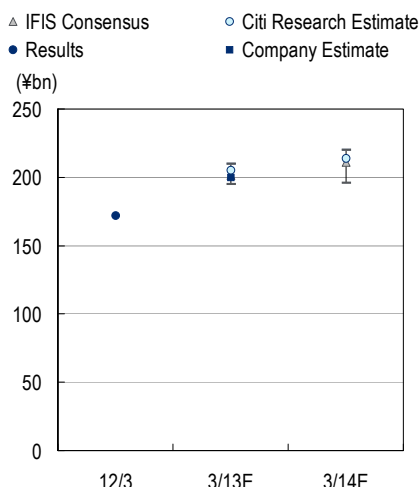


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

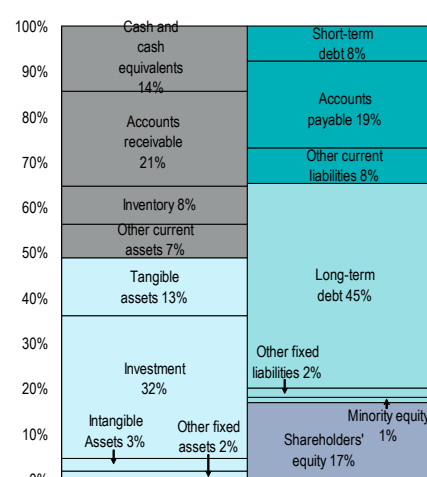
- Non-resource businesses: Damage to food and grain businesses due to bad weather
- Resources: Decline in the price of copper, to which exposure is relatively high
- Balance sheet: A rapid increase in interest payments due to higher rates

NP forecast comparison



Source: Company data, IFIS (Feb 22), Citi Research.

Balance sheet (end-FY3/13 Q2)



Source: Company data.

Figure 20. Marubeni: NP by segment (¥bn)

NP	3/12							3/13	3/14	3/15	3/16	3/13	3/14	3/15
		Q1	Q2	Q3	Q4E	Q4CE	FYCE							
Foods & Retail	14.0	3.1	-0.4	4.0	4.1	5.6	9.5	8.0	27.0	28.0	29.0	11.0	30.0	31.0
Lifestyle	6.1	1.2	1.8	2.0	4.1	4.6	9.5	9.0	7.0	7.0	7.0	7.0	7.0	7.0
Forest Products	2.0	1.0	-0.8	0.0	-0.9	0.1	0.0	-1.0	1.4	1.7	1.8	0.0	3.1	3.3
Chemicals	7.5	1.9	2.6	1.5	1.8	1.8	7.5	7.5	8.0	8.0	8.0	8.0	7.0	7.0
Energy	40.9	12.6	9.1	6.7	9.0	6.0	37.0	40.0	44.0	44.0	49.0	40.0	37.0	39.0
Metals & Mineral Resources	49.3	16.5	12.8	10.5	12.2	12.7	52.5	52.0	51.0	61.0	89.0	54.0	57.0	64.0
Transportation Machinery	14.3	4.3	4.8	4.5	4.5	2.0	20.5	23.0	21.5	22.0	22.5	19.0	18.0	18.5
Power Projects & Infrastructure	21.4	7.5	4.7	5.3	4.7	4.7	25.0	25.0	21.5	24.0	26.0	23.0	22.5	23.0
Plant & Industrial machinery	6.1	1.4	0.3	2.0	5.5	5.5	10.0	10.0	9.0	8.0	8.0	10.0	9.0	8.0
Finance, Logistics & IT business	5.3	1.7	3.3	1.6	3.1	3.1	10.0	10.0	9.0	9.5	9.5	10.0	10.0	10.5
Overseas corporate subsidiaries & branches	16.1	1.7	10.4	4.0	5.3	7.8	21.5	19.0	20.0	20.0	20.0	21.5	20.5	20.5
Corporate & elimination etc.	-10.9	-0.4	4.2	-2.0	-1.2	-6.3	-3.0	2.1	-5.4	-5.2	-5.8	0.6	-5.8	-6.5
Total	172.1	52.4	52.9	40.1	52.6	47.6	200.0	205.0	214.0	228.0	264.0	204.0	215.0	225.0

Source: Company data, Citi Research.

Figure 21. Marubeni: Our segment NP forecasts (¥bn)

	3/07	3/08	3/09	3/10	3/11	3/12	3/13RE	3/14RE	3/15RE	3/13E	3/14E	3/15E
Resource	56.1	60.4	73.4	52.4	56.0	79.2	81.0	84.0	94.0	83.0	83.0	92.0
#Coal		2.4	16.1	10.3	17.2	22.9	13.5	16.4	29.4	16.8	23.0	29.9
#Iron Ore		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
#Copper		14.4	5.6	7.8	11.3	14.9	25.6	25.6	24.4	24.5	22.9	23.2
#Oil & Gas		19.3	45.0	29.1	20.5	30.9	33.1	36.9	36.6	30.5	27.6	29.6
#Other resource		24.3	6.7	5.2	7.0	10.5	8.8	5.1	3.6	11.2	9.5	9.3
Non-resource	63.2	86.8	37.8	42.9	80.5	92.9	31.0	31.0	31.0	121.0	132.0	133.0
#Machinery	18.0	31.1	23.1	23.5	31.4	41.8	58.0	52.0	54.0	52.0	49.5	49.5
#Material	11.0	25.4	20.3	8.7	24.0	26.2	23.8	28.0	27.9	24.1	26.2	26.4
#Living	12.2	12.6	-12.0	8.8	23.4	25.3	27.0	43.0	44.5	28.0	47.0	48.5
#Others	22.0	17.8	6.4	2.0	1.7	-0.4	15.2	7.0	7.6	16.9	9.3	8.6
Total	119.3	147.2	111.2	95.3	136.5	172.1	205.0	214.0	228.0	204.0	215.0	225.0
Breakdown												
Non-resource	53%	59%	34%	45%	59%	54%	60%	61%	59%	59%	61%	59%
Resource	47%	41%	66%	55%	41%	46%	40%	39%	41%	41%	39%	41%

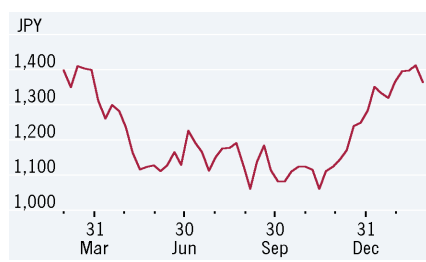
Source: Company data, Citi Research (actuals include some estimates).

Company Focus

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

Buy	1
<i>from Neutral</i>	
Price (27 Feb 13)	¥1,365
Target price	¥1,650
<i>from ¥1,500</i>	
Expected share price return	20.9%
Expected dividend yield	3.2%
Expected total return	24.1%
Market Cap	¥2,491,049M
	US\$27,083M

Price Performance (RIC: 8031.T, BB: 8031 JP)



Mitsui & Co. (8031)

Upgrading to Buy: Increasingly undervalued on yen weakness and equity strength

- **Upgrading to Buy** — We revise our forecasts and raise our target price to ¥1,650 (FY3/14E PBR of c0.9x, unchanged) from ¥1,500 (c0.9x our previous FY3/14 forecast). We raise our NP forecasts for FY3/14 and out, factoring in a weaker yen, and raise our FY3/14 BPS estimate by almost 7% to reflect a weaker yen and stock market gains. Our new forecasts put the shares on a FY3/14 PBR of 0.75x versus RoE of more than 11%. We believe this valuation is compelling and upgrade to Buy from Neutral.
- **FY3/13E** — We edge up our NP forecast to ¥316bn (–27% YoY) from ¥315bn. By segment, we lower forecasts for iron and steel products (by ¥12bn) and for chemicals (by ¥3bn) in light of one-off losses, but revise up for mineral and metal resources (by ¥7bn), for energy (by ¥5bn), and for lifestyle (by ¥5bn) to reflect the impact of a weaker yen and one-off profits. NP guidance is ¥310bn.
- **FY3/14E** — We raise our NP forecast to ¥358bn (+13% YoY) from ¥340bn to reflect a change to our forex assumption (to ¥90/\$ from ¥85/\$) and recent resource price trends. By segment, we revise up for mineral and metal resources (by ¥10bn) and energy (by ¥13bn). On a YoY basis, we forecast growth for mineral and metal resources (weaker yen, one-off losses dropping out), iron and steel products (one-off losses dropping out), and machinery and infrastructure (valuation losses on IPP derivatives dropping out), but a decline for energy (lower oil prices) and lifestyle (dropout of sales gains in the previous period).
- **Outlook** — As a company likely in our view to maintain NP of more than ¥300bn and RoE of more than 11% despite adverse macro conditions (forex, resources prices, etc.), we believe Mitsui & Co. is undervalued on a PBR below 1x. If in addition to growing NP, Mitsui & Co. makes announcements that further reassure investors—for example, 1) that it will not hesitate to implement share buybacks and other measures to achieve its medium-term plan RoE target and 2) it will maintain a 25% or greater dividend payout ratio even during profit slumps to show consideration to shareholders—we would expect valuations to rise over the medium term.

Consol.	Sales		Pretax Profit		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	9,942,472	6.2	272,697	116.4	306,659	104.8	168	8.1	
3/12A	10,481,166	5.4	413,211	51.5	434,497	41.7	238	5.7	
3/13CE	na	na	300,000	-27.4	310,000	-28.7	170	8.0	
3/13E	10,120,000	-3.4	302,000	-26.9	315,000	-27.5	173	7.9	
3/13RE	10,160,000	-3.1	268,000	-35.1	316,000	-27.3	173	7.9	
3/14E	10,160,000	0.4	302,000	0.0	340,000	7.9	186	7.3	
3/14RE	10,200,000	0.4	292,000	9.0	358,000	13.3	196	7.0	
3/15E	10,140,000	-0.2	283,000	-6.3	354,000	4.1	194	7.0	
3/15RE	10,220,000	0.2	279,000	-4.5	376,000	5.0	206	6.6	

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

8031.T: Fiscal year end 31-Mar						Price: ¥1,365; TP: ¥1,650; Market Cap: ¥2,491,049m; Recomm: Buy					
Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	9,942,472	10,481,166	10,160,000	10,200,000	10,220,000	PE (x)	8.1	5.7	7.9	7.0	6.6
Cost of sales	-9,083,249	-9,602,887	-9,329,000	-9,338,000	-9,360,000	PB (x)	1.1	0.9	0.8	0.7	0.7
Gross profit	859,223	878,279	831,000	862,000	860,000	EV/EBITDA (x)	3.5	3.1	3.6	2.8	2.2
Gross Margin (%)	8.6	8.4	8.2	8.5	8.4	FCF yield (%)	1.5	-2.4	-9.6	3.1	2.6
EBITDA (Adj)	464,391	501,859	429,000	474,000	480,000	Dividend yield (%)	3.4	4.0	3.2	3.6	3.8
EBITDA Margin (Adj) (%)	4.7	4.8	4.2	4.6	4.7	Payout ratio (%)	28	23	25	25	25
Depreciation	-147,388	-153,475	-160,000	-160,000	-160,000	ROE (%)	13.3	17.4	11.1	11.2	10.8
Amortisation	0	0	0	0	0	Cashflow (¥m)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	317,003	348,384	269,000	314,000	320,000	EBITDA	464,391	501,859	429,000	474,000	480,000
EBIT Margin (Adj) (%)	3.2	3.3	2.6	3.1	3.1	Working capital	-79,416	-127,931	92,000	-6,000	-3,000
Net interest	50,303	81,021	68,000	57,000	57,000	Other	119,499	7,056	-11,000	-40,000	-44,000
Non-op/Except	-94,609	-16,194	-69,000	-79,000	-98,000	Operating cashflow	504,474	380,984	510,000	428,000	433,000
PreTax Profit	272,697	413,211	268,000	292,000	279,000	Capex	-468,227	-439,760	-750,000	-350,000	-368,000
Tax	-203,901	-172,622	-143,000	-156,000	-149,000	Net acq/disposals	-545	2,718	0	0	0
Extraord./Min.Int./Pref.div.	237,863	193,908	191,000	222,000	246,000	Other	-15,249	-1,149	0	0	0
Reported net profit	306,659	434,497	316,000	358,000	376,000	Investing cashflow	-484,021	-438,191	-750,000	-350,000	-368,000
Net Margin (%)	3.1	4.1	3.1	3.5	3.7	Dividends paid	-56,589	-98,571	-100,000	-80,000	-89,000
Core NPAT	306,659	434,497	316,000	358,000	376,000	Financing cashflow	33,820	57,394	203,000	-78,000	-65,000
Per share data	2011	2012	2013E	2014E	2015E	Net change in cash	39,660	-9,947	-37,000	0	0
Reported EPS (¥)	168	238	173	196	206	Free cashflow to s/holders	36,247	-58,776	-240,000	78,000	65,000
Core EPS (¥)	168	238	173	196	206	Other Index (Ymn or %)	2011	2012	2013E	2014E	2015E
EPS* (¥)	168	238	173	196	206	tNOPAT	339,465	499,688	390,000	433,000	457,000
DPS (¥)	47	55	44	49	52	tBusinessProfit	627,910	691,689	595,000	649,000	672,000
CFPS (¥)	276	209	279	235	237	tEBITDA	775,298	845,164	755,000	809,000	832,000
FCFPS (¥)	20	-32	-132	43	36	tROIC (%)	6.5	8.9	6.3	6.4	6.5
BVPS (¥)	1,297	1,447	1,677	1,830	1,987	OOIC (%)	9.6	6.8	8.2	6.3	6.1
Wtd avg ord shares (m)	1,825	1,825	1,825	1,825	1,825						
Wtd avg diluted shares (m)	1,825	1,825	1,825	1,825	1,825						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	6.2	5.4	-3.1	0.4	0.2						
EBIT (Adj) (%)	119.4	9.9	-22.8	16.7	1.9						
Core NPAT (%)	104.8	41.7	-27.3	13.3	5.0						
Core EPS (%)	104.8	41.7	-27.3	13.3	5.0						
Balance Sheet (¥m)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	1,449,235	1,436,329	1,400,000	1,400,000	1,400,000						
Accounts receivables	1,921,286	2,055,661	1,984,000	1,991,000	1,995,000						
Inventory	467,355	515,758	507,000	507,000	509,000						
Net fixed & other tangibles	1,057,533	1,283,522	1,601,000	1,616,000	1,640,000						
Goodwill & intangibles	87,525	110,307	110,000	110,000	110,000						
Financial & other assets	3,615,190	3,610,246	4,164,000	4,446,000	4,754,000						
Total assets	8,598,124	9,011,823	9,766,000	10,070,000	10,408,000						
Accounts payable	1,316,772	1,342,343	1,354,000	1,355,000	1,358,000						
Short-term debt	558,945	679,789	652,000	641,000	557,000						
Long-term debt	2,818,529	2,898,218	3,229,000	3,242,000	3,350,000						
Provisions & other liab	1,350,544	1,230,663	1,231,000	1,231,000	1,231,000						
Total liabilities	6,044,790	6,151,013	6,466,000	6,469,000	6,496,000						
Shareholders' equity	2,366,192	2,641,318	3,061,000	3,339,000	3,626,000						
Minority interests	187,142	219,492	239,000	262,000	286,000						
Total equity	2,553,334	2,860,810	3,300,000	3,601,000	3,912,000						
Net debt	1,928,239	2,141,678	2,481,000	2,483,000	2,507,000						
Net debt to equity (%)	75.5	74.9	75.2	69.0	64.1						

Note: Consolidated data. * EPS: NP/Est Shares OS.

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com

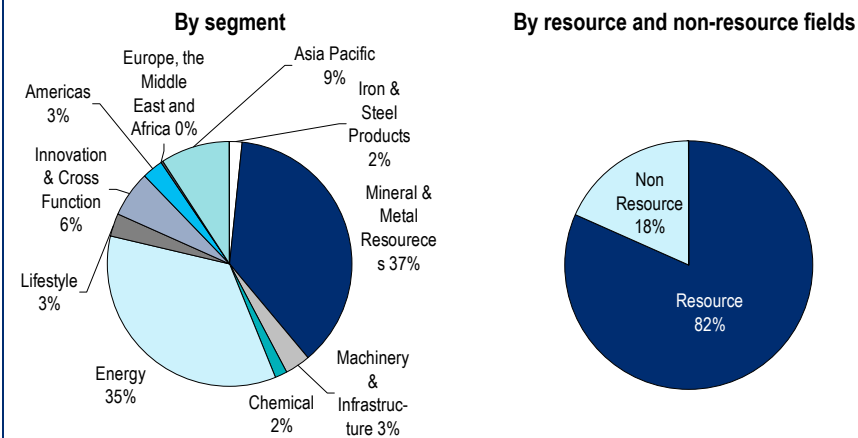


Mitsui & Co. (8031) Investment Dashboard

Reasons to Buy

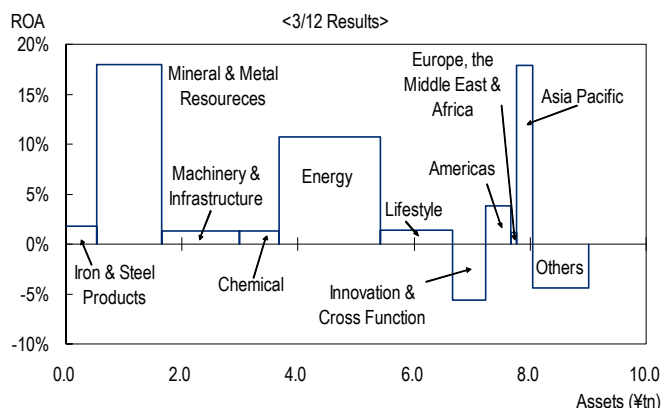
- Profits: We look for growth in FY3/14
- Valuations: The shares look undervalued on an FY3/14E PBR of 0.75x versus an FY3/14E RoE of 11%+
- Growth potential: Long-term profit growth likely given strong cost competitiveness in iron ore as well as the Mozambique natural gas business, where reserves are expected to increase further

NP breakdown (FY3/12)



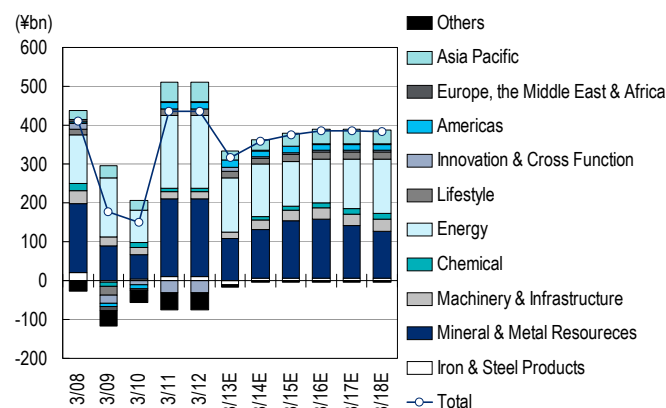
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

NP by segment

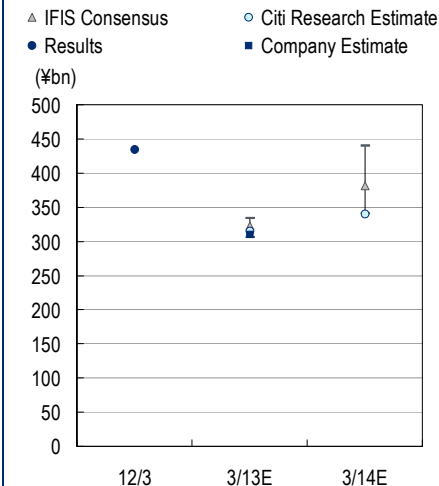


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

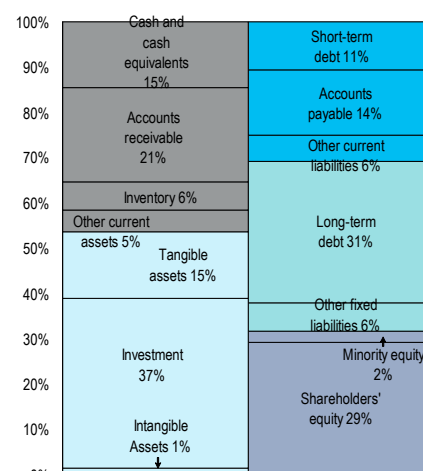
- Resources: Fall in prices for iron ore, to which exposure is large
- Non-resource businesses: Lower than expected profits from chemicals and iron/steel

NP forecast comparison



Source: Company data, IFIS (Feb 22), Citi Research.

Balance sheet (end-FY3/13 Q2)



Source: Company data.

Figure 22. Mitsui & Co.: NP by segment (¥bn)

NP	3/12							3/13	3/14	3/15	3/16	3/13	3/14	3/15
		Q1	Q2	Q3	Q4E	Q4CE	FYCE							
Iron & Steel Products	9.5	-1.9	1.1	1.0	-2.9	10.1	3.0	-10.0	6.0	6.0	7.0	2.0	5.0	6.0
Mineral & Metal Resources	201.3	30.3	19.3	27.0	31.3	23.3	100.0	108.0	126.0	149.0	152.0	101.0	116.0	140.0
Machinery & Infrastructure	17.7	4.3	4.6	4.0	5.0	4.0	17.0	18.0	25.0	26.0	28.0	17.0	22.0	25.0
Chemical	9.1	1.1	-2.1	1.5	1.9	4.9	2.0	-1.0	7.0	10.0	14.0	2.0	8.0	11.0
Energy	188.1	56.3	22.6	23.0	18.0	10.0	130.0	138.0	135.0	116.0	112.0	133.0	122.0	99.0
Lifestyle	17.0	2.5	2.4	5.0	2.1	-2.9	13.0	18.0	15.0	18.0	18.0	13.0	17.0	19.0
Innovation & Cross Function	-32.2	3.4	2.6	-0.9	1.5	0.5	9.0	10.0	4.0	4.0	4.0	7.0	5.0	5.0
Americas	16.4	3.7	5.1	4.0	4.6	3.6	17.0	18.0	16.0	16.0	16.0	18.0	15.0	15.0
Europe, the Middle East and Africa	1.2	0.0	-0.5	0.0	0.8	0.8	0.0	0.0	1.0	1.0	2.0	0.0	2.0	2.0
Asia Pacific	49.2	8.9	7.9	4.5	0.2	4.2	27.0	23.0	27.0	34.0	36.0	22.0	28.0	32.0
Others	-42.7	-4.1	0.7	0.0	-0.3	-2.3	-8.0	-6.0	-4.0	-4.0	-4.0	0.0	0.0	0.0
Total	434.5	104.4	65.1	69.1	62.1	56.1	310.0	316.0	358.0	376.0	385.0	315.0	340.0	354.0

Source: Company data, Citi Research.

Figure 23. Mitsui & Co.: Our segment NP forecasts (¥bn)

NP	3/07	3/08	3/09	3/10	3/11	3/12	3/13RE	3/14RE	3/15RE	3/13E	3/14E	3/15E
Resource	204.0	323.7	273.3	161.9	263.9	439.1	269.0	288.0	299.0	256.0	266.0	271.0
#Coal				13.4	23.6	29.6	-9.7	-1.9	13.4	-5.8	6.2	12.0
#Iron Ore				67.6	186.3	233.5	145.7	159.4	171.7	132.9	146.7	160.5
#Copper				8.6	9.5	7.2	10.1	16.4	24.6	10.4	13.7	21.4
#Oil & Gas				70.1	31.3	158.5	147.7	136.9	102.6	138.8	115.8	87.0
#Other resource				2.2	13.2	10.4	-24.8	-22.8	-13.3	-20.3	-16.4	-9.9
Non-resource	105.5	86.4	-95.7	-12.2	42.9	-4.7	47.0	70.0	77.0	59.0	74.0	83.0
#Machinery	33.6	34.4	21.8	20.4	43.0	22.3	18.0	25.0	26.0	17.0	22.0	25.0
#Material	39.9	38.5	-15.0	18.9	36.0	28.1	-11.0	13.0	16.0	4.0	13.0	17.0
#Living	4.3	16.4	-23.6	-19.0	6.2	-13.9	28.0	19.0	22.0	20.0	22.0	24.0
#Others	19.8	-3.1	-79.0	-32.5	-42.3	-41.1	12.0	13.0	13.0	18.0	17.0	17.0
Total	301.5	410.0	177.6	149.7	306.7	434.5	316.0	358.0	376.0	315.0	340.0	354.0
Breakdown												
Non-resource	38%	25%	-22%	2%	14%	6%	13%	22%	23%	19%	23%	25%
Resource	62%	75%	122%	98%	86%	94%	87%	78%	77%	81%	77%	75%

Source: Company data, Citi Research (actuals include some estimates).

Company Focus

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

Buy	1
from Neutral	
Price (27 Feb 13)	¥1,129
Target price	¥1,300
from ¥1,200	
Expected share price return	15.1%
Expected dividend yield	4.2%
Expected total return	19.3%
Market Cap	¥1,411,657M
	US\$15,347M

Price Performance (RIC: 8053.T, BB: 8053 JP)



Sumitomo Corp. (8053)

Upgrading to Buy: Bad news exhausted, dividend yield high

- **Upgrading to Buy** — We revise our forecasts and raise our target price to ¥1,300 (FY3/14E PBR of c0.75x, unchanged) from ¥1,200 (PBR of c0.75x on our previous FY3/14 BPS forecast). We upgrade to Buy from Neutral. We are bullish as 1) we raise our FY3/14 BPS estimate to reflect a weaker yen and equity gains; 2) a dividend yield above 4% is the highest of the five trading companies we cover; 3) our FY3/14 forecasts put the shares on a PBR of less than 0.7x versus a double-digit RoE, which we view as compelling; and 4) we believe the cuts to guidance announced with Q3 results exhaust bad news. Also, we forecast a profit overshoot in FY3/13 and profit growth in FY3/14.
- **FY3/13E** — We lower our NP forecast to ¥235bn (–6.3% YoY) from ¥243bn. We do so mainly because we revise down for the others segment (companywide) based on progress through Q3 and the company's downward revisions. By segment, we maintain our forecast for YoY profit growth for media network & lifestyle retail (profit on the sale of the shopping channel) and infrastructure (contribution of new IPP projects), but forecast profit declines for mineral resources and chemicals (decline in resource prices, one-off costs related to mines in Australia).
- **FY3/14E** — Our NP forecast is unchanged at ¥243bn (+3.4% YoY). We revise our forex assumption to ¥90/\$ from ¥85/\$, but leave our forecast unchanged in consideration of weak profits for resources/chemicals, lifestyle, construction, and real estate in FY3/13. YoY, we forecast profit declines for media network & lifestyle retail (gains on sales dropping out), and transportation and construction (one-off profits dropping out), but profit growth for mineral resources and chemicals (volume growth, rebound from one-off losses) and metal products (recovery in steel demand in Asia)
- **Outlook** — Sumitomo Corp.'s resource profit weighting is low and the benefits of a weaker yen should thus be small compared with other trading companies. However, the market's hopes for ever-increasing profit growth from ever-increasing resource prices have faded significantly, and in that sense Sumitomo Corp.'s strategy of improving profitability via asset reshuffling would appear to be the correct one. If the next medium-term plan includes profitability targets (RoE, RoIC, etc.) and the company announces it will aim to expand while remaining selective about investment, market sentiment may improve. Also, further yen weakening would likely strengthen competitiveness and profits in areas such as steel, steel piping, and construction equipment.

Consol.	Sales		Pretax Profit		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	8,349,371	7.6	184,883	25.3	200,222	21.1	160	7.1	
3/12A	8,273,043	-0.9	230,759	24.8	250,669	25.2	200	5.6	
3/13CE	8,100,000	-2.1	357,000	54.7	260,000	3.7	208	5.4	
3/13CRE	7,600,000	-8.1	308,000	33.5	230,000	-8.2	184	6.1	
3/13E	8,000,000	-3.3	231,500	0.3	243,000	-3.1	194	5.8	
3/13RE	8,000,000	-3.3	221,500	-4.0	235,000	-6.3	188	6.0	
3/14E	8,077,000	1.0	237,500	2.6	243,000	0.0	194	5.8	
3/14RE	8,067,000	0.8	238,600	7.7	243,000	3.4	194	5.8	
3/15E	8,289,000	2.6	250,700	5.6	262,000	7.8	209	5.4	
3/15RE	8,290,000	2.8	262,700	10.1	276,000	13.6	221	5.1	

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

8053.T: Fiscal year end 31-Mar						Price: ¥1,129; TP: ¥1,300; Market Cap: ¥1,411,657m; Recomm: Buy					
Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	8,349,371	8,273,043	8,000,000	8,067,000	8,290,000	PE (x)	7.1	5.6	6.0	5.8	5.1
Cost of sales	-7,485,377	-7,354,218	-7,190,000	-7,293,000	-7,482,000	PB (x)	0.9	0.8	0.7	0.7	0.6
Gross profit	863,994	918,825	810,000	774,000	808,000	EV/EBITDA (x)	6.8	5.6	6.0	5.1	4.5
Gross Margin (%)	10.3	11.1	10.1	9.6	9.7	FCF yield (%)	9.7	9.9	4.4	3.0	3.0
EBITDA (Adj)	344,038	374,983	295,000	318,000	337,000	Dividend yield (%)	3.2	4.4	4.2	4.3	4.9
EBITDA Margin (Adj) (%)	4.1	4.5	3.7	3.9	4.1	Payout ratio (%)	22	25	25	25	25
Depreciation	-160,553	-155,126	-86,000	-87,000	-90,000	ROE (%)	12.9	15.4	13.0	12.0	12.3
Amortisation	0	0	0	0	0	Cashflow (¥m)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	183,485	219,857	209,000	231,000	247,000	EBITDA	344,038	374,983	295,000	318,000	337,000
EBIT Margin (Adj) (%)	2.2	2.7	2.6	2.9	3.0	Working capital	-121,429	-119,985	-9,000	-8,000	-32,000
Net interest	-8,079	-3,862	-4,000	-4,000	-3,000	Other	-3,107	-64,581	-24,000	-33,000	-28,000
Non-op/Except	9,477	14,764	16,500	11,600	18,700	Operating cashflow	219,502	190,417	262,000	277,000	277,000
PreTax Profit	184,883	230,759	221,500	238,600	262,700	Capex	-82,789	-49,953	-200,000	-235,000	-235,000
Tax	-70,671	-77,715	-77,000	-79,000	-90,000	Net acq/disposals	-268,615	25,678	0	0	0
Extraord./Min.Int./Pref.div.	86,010	97,625	90,500	83,400	103,300	Other	-117,974	-11,421	1,000	0	0
Reported net profit	200,222	250,669	235,000	243,000	276,000	Investing cashflow	-469,378	-35,696	-199,000	-235,000	-235,000
Net Margin (%)	2.4	3.0	2.9	3.0	3.3	Dividends paid	-38,752	-55,003	-63,000	-59,000	-61,000
Core NPAT	200,222	250,669	235,000	243,000	276,000	Financing cashflow	155,879	-33,273	-170,000	-72,000	-42,000
Per share data	2011	2012	2013E	2014E	2015E	Net change in cash	-109,975	117,602	-107,000	-30,000	0
Reported EPS (¥)	160	200	188	194	221	Free cashflow to s/holders	136,713	140,464	62,000	42,000	42,000
Core EPS (¥)	160	200	188	194	221	Other Index (Ymn or %)	2011	2012	2013E	2014E	2015E
EPS* (¥)	160	200	188	194	221	tNOPAT	218,401	256,622	172,220	143,520	185,820
DPS (¥)	36	50	47	49	55	tBusinessProfit	300,282	353,951	218,700	175,600	231,500
CFPS (¥)	176	152	209	221	221	tEBITDA	460,835	509,077	304,700	262,600	321,500
FCFPS (¥)	109	112	50	34	34	tROIC	4.5	5.2	3.5	2.8	3.5
BVPS (¥)	1,256	1,351	1,537	1,709	1,881	OOIC	4.6	3.9	5.3	5.4	5.2
Wtd avg ord shares (m)	1,250	1,250	1,250	1,250	1,250						
Wtd avg diluted shares (m)	1,251	1,251	1,251	1,251	1,251						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	7.6	-0.9	-3.3	0.8	2.8						
EBIT (Adj) (%)	52.2	19.8	-4.9	10.5	6.9						
Core NPAT (%)	21.1	25.2	-6.3	3.4	13.6						
Core EPS (%)	21.1	25.2	-6.3	3.4	13.6						
Balance Sheet (¥m)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	716,381	847,634	800,000	800,000	800,000						
Accounts receivables	1,511,442	1,514,360	1,489,000	1,502,000	1,543,000						
Inventory	698,810	707,105	684,000	694,000	712,000						
Net fixed & other tangibles	1,168,997	960,572	1,025,000	1,114,000	1,200,000						
Goodwill & intangibles	348,993	331,618	332,000	332,000	332,000						
Financial & other assets	2,785,879	2,865,480	2,977,000	3,093,000	3,223,000						
Total assets	7,230,502	7,226,769	7,307,000	7,535,000	7,810,000						
Accounts payable	1,026,160	1,102,326	1,045,000	1,060,000	1,087,000						
Short-term debt	850,435	632,267	641,000	649,000	681,000						
Long-term debt	2,916,963	2,981,548	2,866,000	2,845,000	2,832,000						
Provisions & other liab	754,854	709,440	709,000	709,000	709,000						
Total liabilities	5,548,412	5,425,581	5,261,000	5,263,000	5,309,000						
Shareholders' equity	1,570,468	1,689,056	1,922,000	2,136,000	2,351,000						
Minority interests	111,622	112,132	124,000	136,000	150,000						
Total equity	1,682,090	1,801,188	2,046,000	2,272,000	2,501,000						
Net debt	3,051,017	2,766,181	2,707,000	2,694,000	2,713,000						
Net debt to equity (%)	181.4	153.6	132.3	118.6	108.5						

Note: Consolidated data. * EPS: NP/Est Shares OS.

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com

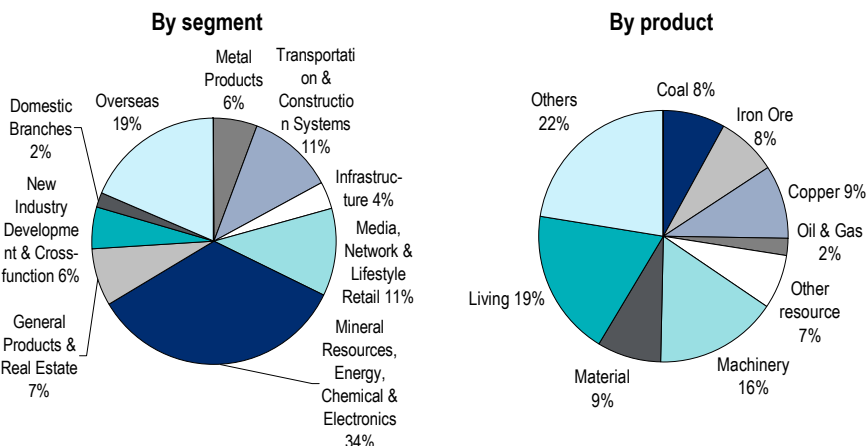


Sumitomo Corp. (8053) Investment Dashboard

Reasons to Buy

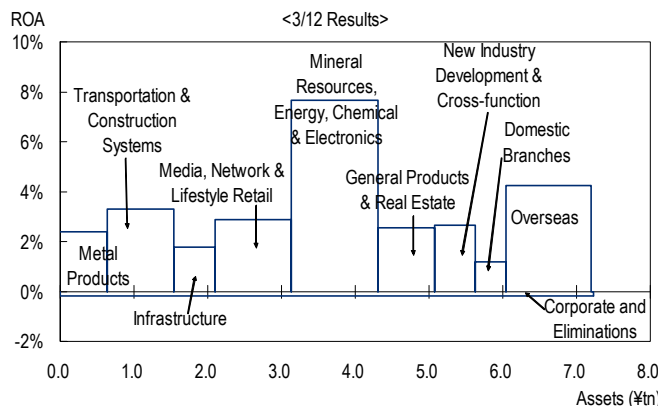
- Profits: We look for profit growth in FY3/14
- Valuations (1): Highest yield of the five trading companies we cover
- Valuations (2): FY3/14E PBR below 0.7x looks undervalued versus double-digit RoE
- Earnings power in a wide range of fields appealing

NP breakdown (FY3/12)



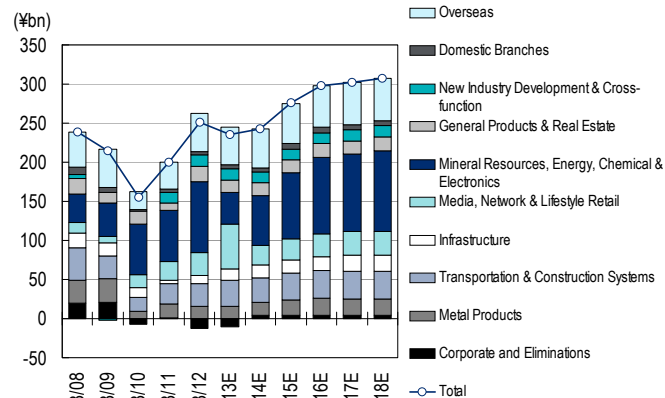
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

NP by segment

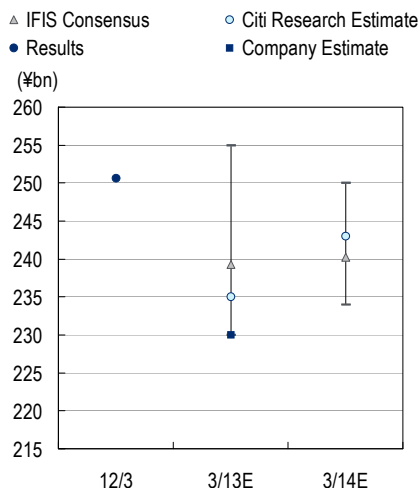


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

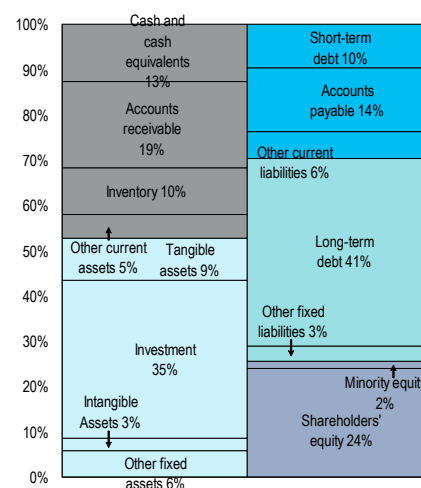
- Resources: A fall in prices for coal, iron ore, and copper, to which Sumitomo Corp. is highly exposed
- Business sentiment: If business sentiment were to improve sharply, the high yield could look less appealing

NP forecast comparison



Source: Company data, IFIS (Feb 22), Citi Research.

Balance sheet (end-FY3/13 Q2)



Source: Company data.

Figure 24. Sumitomo Corp.: NP by segment (¥bn)

NP	3/12							3/13	3/14	3/15	3/16	3/13	3/14	3/15
		Q1	Q2	Q3	Q4	Q4CE	FYCE							
Metal Products	15.4	4.0	3.1	3.4	4.4	NA	NA	15.5	17.0	20.0	22.0	14.5	16.0	17.5
Transportation & Construction Systems	29.6	9.5	7.3	7.7	5.6	NA	NA	33.0	31.0	34.0	35.5	32.0	32.0	32.0
Infrastructure	10.0	1.5	3.2	4.3	5.7	NA	NA	15.0	16.5	17.0	17.6	15.0	15.0	15.5
Media, Network & Lifestyle Retail	29.8	5.0	37.5	5.3	5.3	NA	NA	57.0	25.0	27.0	29.0	53.0	24.0	24.0
Mineral Resources, Energy, Chemical & Electronics	89.8	12.9	9.3	11.8	9.0	NA	NA	41.0	64.0	84.0	98.0	43.0	66.0	82.0
General Products & Real Estate	19.7	4.1	2.7	4.0	6.3	NA	NA	16.0	16.0	17.0	17.5	16.0	17.4	17.4
New Industry Development & Cross-function	14.6	3.1	3.5	4.7	3.5	NA	NA	14.0	14.0	14.0	14.0	14.5	13.0	13.0
Domestic Regional Business Units and Offices	5.0	0.9	1.5	1.5	1.5	NA	NA	5.3	5.7	6.5	7.0	5.5	5.8	6.2
Overseas Subsidiaries and Branches	48.9	15.9	10.7	11.0	10.2	NA	NA	47.7	50.0	52.0	53.0	49.7	50.1	50.6
Others	-12.1	-8.3	1.7	2.0	-5.5	NA	NA	-10.0	4.0	4.0	4.0	-0.6	4.0	4.0
Total	250.7	48.7	80.7	55.7	46.4	41.4	230.0	235.0	243.0	276.0	298.0	243.0	243.0	262.0

Source: Company data, Citi Research.

Figure 25. Sumitomo Corp.: Our segment NP forecasts (¥bn)

NP	3/07	3/08	3/09	3/10	3/11	3/12	3/13RE	3/14RE	3/15RE	3/13E	3/14E	3/15E
Resource	37.9	34.3	46.0	69.2	61.8	88.5	38.7	60.5	80.6	39.5	62.5	78.5
#Coal				10.7	25.9	19.9	0.6	8.5	15.0	2.3	12.0	14.5
#Iron Ore				8.6	7.8	19.8	16.0	19.7	28.8	14.0	18.1	27.3
#Copper			5.9	18.9	22.5	23.5	7.9	8.3	6.8	7.9	8.2	6.7
#Oil & Gas			1.1	9.2	3.7	5.4	5.0	4.3	4.2	5.3	4.4	3.6
#Other resource				21.8	1.9	19.9	9.2	19.7	25.8	10.0	19.8	26.4
Non-resource	173.1	204.6	169.1	85.9	138.5	162.1	130.9	130.9	130.9	203.5	180.5	183.5
#Machinery	48.6	66.2	51.9	33.8	34.7	45.7	56.0	55.8	59.7	55.3	55.4	55.9
#Material	56.6	63.4	57.7	19.6	45.4	48.5	48.1	52.4	56.8	49.9	52.5	54.4
#Living	39.1	40.7	23.0	32.8	46.4	64.1	88.3	56.4	59.8	84.5	54.8	55.0
#Others	28.8	34.4	36.6	-0.3	11.9	3.8	4.0	18.0	19.2	13.9	17.9	18.1
Total	211.0	238.9	215.1	155.1	200.2	250.7	235.0	243.0	276.0	243.0	243.0	262.0
Breakdown												
Non-resource	82%	86%	79%	55%	69%	65%	84%	75%	71%	84%	74%	70%
Resource	18%	14%	21%	45%	31%	35%	16%	25%	29%	16%	26%	30%

Source: Company data, Citi Research (actuals include some estimates).

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (27 Feb 13)	¥1,824
Target price	¥2,250
from ¥2,200	
Expected share price return	23.4%
Expected dividend yield	3.0%
Expected total return	26.3%
Market Cap	¥3,003,587M
	US\$32,655M

Price Performance

(RIC: 8058.T, BB: 8058 JP)



Mitsubishi Corp. (8058)

Reiterating Buy: we expect the announcement of measures to attain profitability targets

- **Reiterating Buy** — We revise our forecasts and raise our target price to ¥2,250 (FY3/14E PBR of c0.85x) from ¥2,200 (FY3/14E PBR of c0.9x). We reiterate our Buy rating. We are bullish as 1) we raise our NP forecast for FY3/15 to reflect a weaker yen; 2) we raise our FY3/14 BPS estimate by almost 9% to reflect a weaker yen and equity gains; 3) we lower our target PBR as we expect RoE to decline amid net asset growth but still believe the shares are significantly undervalued on a FY3/14E PBR of c0.7x versus RoE of more than 9%.
- **FY3/13E** — We raise our NP forecast to ¥355bn (–22% YoY) from ¥343bn. By segment, we raise our forecasts for energy (by ¥10bn), living essentials (by ¥5bn), metals (by ¥4bn), and industrial finance, logistics & development (by ¥2bn), but revise down for machinery (by ¥3bn) and chemicals (by ¥6bn). Our revisions are based on Q3 results and recent commodity price trends. We see ample scope for upside to NP guidance of ¥330bn.
- **FY3/14E** — We trim our NP forecast to ¥384bn (+8.2% YoY) from ¥385bn. We change our forex assumption to ¥90/\$ from ¥85/\$, but factor in recent crude and coal prices, as well as the slump in petrochemicals in FY3/13, resulting in a small downward revision. YoY, we forecast profit declines for energy (lower oil prices) and industrial finance, logistics & development, but growth for metals (volume growth, cost reductions, weaker yen) and machinery (auto-related profit growth).
- **Outlook** — As a company that should in our view be able to maintain NP of more than ¥350bn despite the negative impact of low commodity prices, a strong yen, and strikes in the coking coal business, we believe Mitsubishi Corp. is undervalued on a PBR of less than 1x. However, RoE appears likely to remain in single digits. If the next medium-term plan, scheduled to be announced in May, includes RoE and RoIC targets and the company announces share buybacks and other measures to reach these profitability targets, we believe market sentiment could improve and valuations could rise.

Consol.	Sales		Pretax Profit		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	19,233,443	12.5	530,105	78.0	464,543	69.0	282	6.5	
3/12A	20,126,321	4.6	458,970	-13.4	453,849	-2.3	275	6.6	
3/13CE	20,000,000	-0.6	280,000	-39.0	330,000	-27.3	200	9.1	
3/13E	19,592,000	-2.7	286,000	-37.7	343,000	-24.4	208	8.8	
3/13RE	19,586,000	-2.7	303,000	-34.0	355,000	-21.8	215	8.5	
3/14E	19,453,000	-0.7	325,000	13.6	385,000	12.2	233	7.8	
3/14RE	19,814,000	1.2	329,000	8.6	384,000	8.2	233	7.8	
3/15E	19,412,000	-0.2	341,000	4.9	400,000	3.9	243	7.5	
3/15RE	19,829,000	0.1	372,000	13.1	416,000	8.3	252	7.2	

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

8058.T: Fiscal year end 31-Mar						Price: ¥1,824; TP: ¥2,250; Market Cap: ¥3,003,587m; Recomm: Buy					
Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	19,233,443	20,126,321	19,586,000	19,814,000	19,829,000	PE (x)	6.5	6.6	8.5	7.8	7.2
Cost of sales	-18,083,541	-18,998,461	-18,535,000	-18,731,000	-18,748,000	PB (x)	0.9	0.9	0.8	0.7	0.6
Gross profit	1,149,902	1,127,860	1,051,000	1,083,000	1,081,000	EV/EBITDA (x)	6.5	7.1	7.9	6.8	6.1
Gross Margin (%)	6.0	5.6	5.4	5.5	5.5	FCF yield (%)	1.6	-5.9	1.4	5.5	4.8
EBITDA (Adj)	459,960	416,550	357,000	378,000	380,000	Dividend yield (%)	3.6	3.6	3.0	3.2	3.5
EBITDA Margin (Adj) (%)	2.4	2.1	1.8	1.9	1.9	Payout ratio (%)	23	24	25	25	25
Depreciation	-143,819	-145,428	-150,000	-150,000	-150,000	ROE (%)	15.0	13.5	9.5	9.2	9.2
Amortisation	0	0	0	0	0	Cashflow (¥m)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	316,141	271,122	207,000	228,000	230,000	EBITDA	459,960	416,550	357,000	378,000	380,000
EBIT Margin (Adj) (%)	1.6	1.3	1.1	1.2	1.2	Working capital	-253,421	-124,976	22,000	-26,000	-2,000
Net interest	113,902	112,296	113,000	115,000	119,000	Other	124,665	259,120	162,000	163,000	195,000
Non-op/Except	100,062	75,552	-17,000	-14,000	23,000	Operating cashflow	331,204	550,694	541,000	515,000	573,000
PreTax Profit	530,105	458,970	303,000	329,000	372,000	Capex	-283,520	-728,149	-500,000	-350,000	-430,000
Tax	-198,680	-169,178	-108,000	-117,000	-132,000	Net acq/disposals	88,576	-399,577	0	0	0
Extraord./Min.Int./Pref.div.	133,118	164,057	160,000	172,000	176,000	Other	-67,657	26,813	0	0	0
Reported net profit	464,543	453,849	355,000	384,000	416,000	Investing cashflow	-262,601	-1,100,913	-500,000	-350,000	-430,000
Net Margin (%)	2.4	2.3	1.8	1.9	2.1	Dividends paid	-77,261	-116,802	-107,000	-89,000	-95,000
Core NPAT	464,543	453,849	355,000	384,000	416,000	Financing cashflow	76,749	599,059	-128,000	-165,000	-143,000
Per share data	2011	2012	2013E	2014E	2015E	Net change in cash	128,198	44,209	-87,000	0	0
Reported EPS (¥)	282	275	215	233	252	Free cashflow to s/holders	47,684	-177,455	41,000	165,000	143,000
Core EPS (¥)	282	275	215	233	252	Other Index (Ymn or %)	2011	2012	2013E	2014E	2015E
EPS* (¥)	282	275	215	233	252	tNOPAT	447,295	440,836	366,000	402,000	409,000
DPS (¥)	65	65	54	58	63	tBusinessProfit	615,323	586,975	468,000	516,000	524,000
CFPS (¥)	201	334	328	312	347	tEBITDA	759,142	732,403	618,000	666,000	674,000
FCFPS (¥)	29	-108	25	100	87	tROIC (%)	6.0	5.5	4.1	4.3	4.2
BVPS (¥)	1,967	2,131	2,413	2,638	2,833	OOIC (%)	4.5	6.8	6.1	5.5	5.9
Wtd avg ord shares (m)	1,644	1,645	1,645	1,645	1,645						
Wtd avg diluted shares (m)	1,648	1,649	1,649	1,649	1,649						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	12.5	4.6	-2.7	1.2	0.1						
EBIT (Adj) (%)	73.5	-14.2	-23.7	10.1	0.9						
Core NPAT (%)	69.0	-2.3	-21.8	8.2	8.3						
Core EPS (%)	68.9	-2.4	-21.8	8.2	8.3						
Balance Sheet (¥m)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	1,352,896	1,388,302	1,300,000	1,300,000	1,300,000						
Accounts receivables	3,143,460	3,383,176	3,287,000	3,325,000	3,327,000						
Inventory	970,675	965,057	971,000	981,000	982,000						
Net fixed & other tangibles	1,904,823	2,318,990	2,594,000	2,657,000	2,722,000						
Goodwill & intangibles	126,274	0	0	0	0						
Financial & other assets	3,774,647	4,532,795	4,833,000	5,061,000	5,292,000						
Total assets	11,272,775	12,588,320	12,985,000	13,324,000	13,623,000						
Accounts payable	1,879,958	2,108,171	2,040,000	2,062,000	2,063,000						
Short-term debt	1,125,548	1,321,652	1,420,000	1,339,000	1,394,000						
Long-term debt	3,188,749	3,760,101	3,641,000	3,646,000	3,543,000						
Provisions & other liab	1,528,575	1,571,619	1,571,000	1,571,000	1,571,000						
Total liabilities	7,722,830	8,761,543	8,672,000	8,618,000	8,571,000						
Shareholders' equity	3,233,342	3,507,818	3,973,000	4,343,000	4,664,000						
Minority interests	316,603	318,959	340,000	363,000	388,000						
Total equity	3,549,945	3,826,777	4,313,000	4,706,000	5,052,000						
Net debt	2,961,401	3,693,451	3,761,000	3,685,000	3,637,000						
Net debt to equity (%)	83.4	96.5	87.2	78.3	72.0						

Note: Consolidated data. * EPS: NP/Est Shares OS.

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com



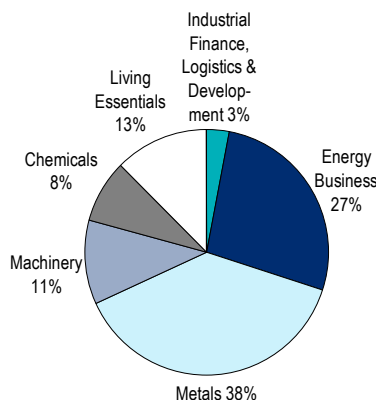
Mitsubishi Corp. (8058) Investment Dashboard

Reasons to Buy

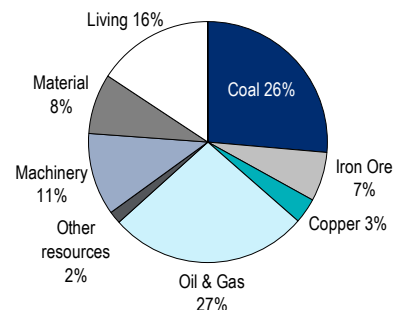
- Profits: We look for continuing medium-term profit growth from FY3/14
- Coal: Volume growth and cost-cutting should boost profits
- Copper: Easing off in investment to expand, contribution from new investments

NP breakdown (FY3/12)

By segment



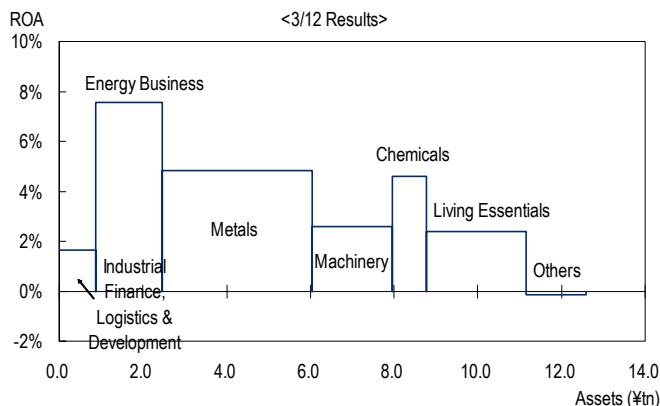
By product



Source: Company data, Citi Research.

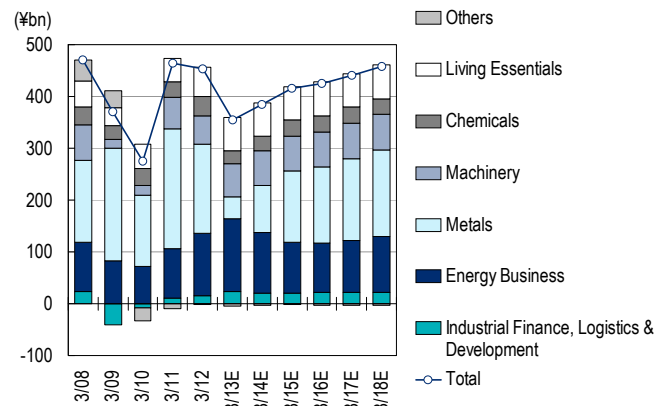
Business portfolio

<3/12 Results>



Source: Company data, Citi Research.

NP by segment

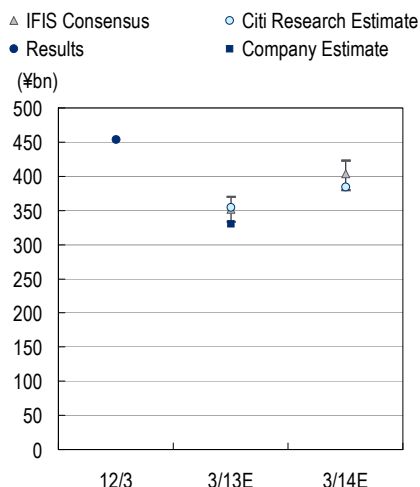


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

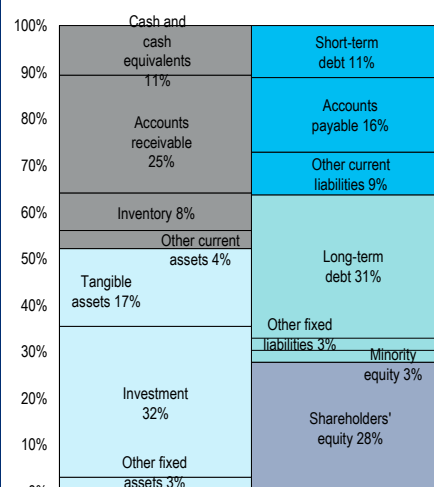
- Non-resources: Deterioration in operating environment for Southeast Asia auto business
- Resources: Bad weather or further industrial relations problems in Australian coal business, to which exposure is high

NP forecast comparison



Source: Company data, IFIS (Feb 22), Citi Research.

Balance sheet (end-FY3/13 Q2)



Source: Company data.

Figure 26. Mitsubishi Corp.: NP by segment (¥bn)

NP	3/12								3/13 FYRE	3/14 FYRE	3/15 FYRE	3/16 FYRE	3/13 FYE	3/14 FYE	3/15 FYE
		Q1	Q2	Q3	Q4E	Q4CE	FYCE								
Industrial Finance, Logistics & Development	14.9	2.9	6.4	6.0	6.9	4.9	22.0	24.0	21.0	21.0	22.0	22.0	22.0	20.0	21.0
Energy Business	120.6	54.3	38.9	16.0	20.1	10.1	130.0	140.0	117.0	97.0	95.0	130.0	104.0	89.0	
Metals	172.1	6.0	7.3	3.0	20.6	13.6	35.0	42.0	90.0	138.0	147.0	38.0	99.0	124.0	
Machinery	54.5	17.1	17.4	17.0	16.8	11.8	60.0	65.0	68.0	68.0	68.0	68.0	67.0	68.0	
Chemicals	37.1	7.2	6.5	8.0	5.5	11.5	30.0	24.0	28.0	30.0	31.0	30.0	33.0	34.0	
Living Essentials	56.6	9.3	14.0	20.5	16.9	17.9	66.0	65.0	63.0	64.0	65.0	60.0	65.0	66.0	
Others	-2.0	1.3	1.9	-5.0	-15.5	-23.5	-13.0	-5.0	-3.0	-2.0	-3.0	-5.0	-3.0	-2.0	
Total	453.8	98.1	91.9	66.0	71.4	46.4	330.0	355.0	384.0	416.0	425.0	343.0	385.0	400.0	

Source: Company data, Citi Research.

Figure 27. Mitsubishi Corp.: Our segment NP forecasts (¥bn)

	3/07	3/08	3/09	3/10	3/11	3/12	3/13RE	3/14RE	3/15RE	3/13E	3/14E	3/15E
Resource	260.5	252.4	299.5	209.9	325.5	292.8	182.0	207.0	235.0	168.0	203.0	213.0
#Coal	108.1	61.7	191.7	112.8	135.8	119.3	1.2	35.0	73.0	-1.2	38.3	54.9
#Iron Ore	14.1	13.8	27.1	9.9	60.5	30.2	14.0	18.0	22.5	14.0	19.0	22.8
#Copper	44.5	42.8	26.0	15.1	31.8	15.0	26.0	31.0	34.6	23.1	34.3	38.2
#Oil & Gas	74.1	94.2	82.8	71.9	94.0	120.6	140.0	117.0	97.0	130.0	104.0	89.0
#Other resource	16.1	13.9	10.4	0.1	3.4	7.6	0.8	6.0	7.9	2.1	7.4	8.1
Non-resource	155.0	218.4	70.1	65.0	139.1	161.1	173.0	177.0	181.0	175.0	182.0	187.0
#Machinery	58.0	68.1	17.8	18.0	61.4	54.5	65.0	68.0	68.0	68.0	67.0	68.0
#Material	20.0	34.7	26.8	32.4	29.1	37.1	24.0	28.0	30.0	30.0	33.0	34.0
#Living	48.3	51.0	33.6	46.8	57.8	71.6	89.0	84.0	85.0	82.0	85.0	87.0
#Others	-3.1	40.4	33.2	-24.6	-9.2	-2.0	-5.0	-3.0	-2.0	-5.0	-3.0	-2.0
Total	415.5	470.9	369.6	274.8	464.5	453.8	355.0	384.0	416.0	343.0	385.0	400.0
Breakdown												
Non-resource	37%	46%	19%	24%	30%	35%	49%	46%	44%	51%	47%	47%
Resource	63%	54%	81%	76%	70%	65%	51%	54%	56%	49%	53%	53%

Source: Company data, Citi Research (actuals include some estimates).

Itochu

Investment strategy

We rate the shares of Itochu Buy (1) with a ¥1,250 target price.

As with other trading companies, Itochu does business in a wide range of domains and regions. Although its net D/E ratio is somewhat high, its business portfolio is well balanced with resources accounting for about 50% of profits. Profits from its non-resource businesses are high, as is its RoA, and profitability indicators like OOIC and RoE are also high. We also note that the firm has considerable exposure to China and Brazil. We rate the shares Buy because 1) we forecast profit growth for FY3/14 as well; 2) we envisage expansion in domains with low earnings volatility thanks to deals like the acquisition of two Dole units; 3) the risk of a medium-term earnings decline appears to be lower than at peers, thanks to support from stable non-resource business, and 4) we thus expect the dividend yield to remain high, in line with company policy on shareholder returns. Moving forward, we look for Itochu to generate synergies with the Dole businesses and focus on improving the ICT, general products, and realty segment, where acquisitions have been slow to bear fruit. If it looks likely that profits could rise in these areas, then the market could re-rate Itochu.

Valuation

We use PBR as our valuation metric for Itochu, with a particular emphasis on TOPIX-relative levels. We do so because 1) sector stocks are high beta and strongly correlated with the market, 2) there is a strong correlation between RoIC and RoA and relative PBR, 3) historical relative PBRs have been mainly range-bound and reflect qualitative factors well, and 4) NP, which is the most important profit metric because of the scale of earnings garnered from equity in earnings and dividends, is very volatile, due to extraordinary gains and losses, and PERs are thus difficult to use.

In calculating our target price, we set the relative PBR at 90%, slightly below its historical average, in light of our expectations for 1) profit growth in FY3/14, 2) improvement in RoIC (although it is currently lower than its historical average), and 3) steady profit expansion in non-resource businesses. Based on the TOPIX PBR we set our target PBR at about 1.0x, and apply this to our FY3/14 BPS forecast.

Our target price of ¥1,250 corresponds to a dividend yield of 3.5% on our FY3/14 forecasts and 3.8% on our FY3/15 forecasts, which seems appropriate as it is within the sector range.

Risks

We see downside risks to our target price as 1) profits from acquisitions like the Dole deal resulting in profits far lower than expected; 2) the shares looking less appealing on yield should Itochu lower its dividend payout ratio; 3) deteriorating conditions (in terms of weather, politics, and labor) in resource-producing areas like Brazil and Australia; and 4) a fall for the TOPIX PBR due to economic slowness. On the other hand, upside risks are 1) better-than-expected synergies from the Dole business and other acquisitions; 2) a rise in prices for natural resources to which Itochu is highly exposed (iron ore, coal, etc.); 3) an increase in dividend payout; and 4) a rise for the TOPIX PBR due to an economic upturn.

We estimate the sensitivity of NP to price fluctuations as 1) -¥2bn or so for every ¥1/\$ appreciation, 2) -¥5bn or so for every 1% rise in the yen interest rate, 3) +¥240mn or so for every \$1/bbl increase in the Brent crude price, 4) +¥740mn or so for every \$1/MT rise in the iron ore price, and 5) +¥480mn or so for every \$1/MT rise in the price of coking coal. If these factors manifest themselves differently than we have anticipated, the share price may not achieve our target price.

Marubeni

Investment strategy

We rate the shares of Marubeni Buy (1), with a ¥790 target price.

As with other trading companies, Marubeni does business in a wide range of domains and regions. Its D/E ratio is relatively high, although it has improved versus its historical average, and its equity capital ratio is low. However, resources account for just below 50% of profits, which seems a good level given current resource prices, and profit levels are relatively high in copper and machinery. In addition, the RoA for non-resource businesses and the overall RoE and RoIC are relatively high as well. We rate the shares Buy because 1) we anticipate increased profits in both FY3/13 and FY3/14; 2) we look for non-resource business-driven profit growth via factors like the acquisition of the grain major Gaviion; and 3) Marubeni is being aggressive, for instance bringing iron ore into its business portfolio via participation in the Roy Hill business. If it looks more likely that the firm can grow assets and improve its balance sheet, then we could see a re-rating.

Valuation

We use PBR as our valuation metric for Marubeni, with a particular emphasis on TOPIX-relative levels. We do so because 1) sector stocks are high beta and strongly correlated with the market, 2) there is a strong correlation between RoIC and RoA and relative PBR, 3) historical relative PBRs have been mainly range-bound and reflect qualitative factors well, and 4) NP, which is the most important profit metric because of the scale of earnings garnered from equity in earnings and dividends, is very volatile, due to extraordinary gains and losses, and PERs are thus difficult to use.

In calculating our target price, we set the relative PBR at 95%, slightly below its historical average, to reflect 1) the likelihood of a fourth consecutive year of profit growth in FY3/14, 2) the likelihood that RoIC will remain in line with the historical average, and 3) the possibility that balance sheet improvement could be smaller than Marubeni is expecting. Based on the TOPIX PBR we set our target PBR at about 1.05x, and apply this to our FY3/14 BPS forecast. Our target price of ¥790 corresponds to a dividend yield of 3.2% on our FY3/14 forecasts and 3.3% on FY3/15. These seem appropriate as they are in line with the sector averages.

Risks

We see downside risks to our target price as 1) lower-than-expected profits via acquisitions like Gaviion; 2) a hit to the food and grain business from poor weather; 3) a rise in interest payments due to higher interest rates; and 4) a fall for the TOPIX PBR due to economic slowness. On the other hand, upside risks are 1) greater-than-expected synergies (profits) from Gaviion and other acquisitions; 2) a rise in prices for resources to which Marubeni is highly exposed (copper, etc.); 3) a rise in the dividend payout; and 4) a rise for the TOPIX PBR due to an economic upturn.

We estimate the sensitivity of NP to price fluctuations as 1) -¥1.3bn or so for every ¥1/\$ appreciation, 2) +¥300mn or so for every \$1/bbl increase in the WTI crude price, and 3) +¥600mn or so for every \$100/MT rise in the price of copper. If these factors manifest themselves differently than we have anticipated, the share price may not achieve our target price.

Mitsui & Co.

Investment strategy

We rate the shares of Mitsui & Co. Buy (1), with a target price of ¥1,650.

As with other trading companies, Mitsui does business in a wide range of domains and regions. Its balance sheet is extremely healthy, and it is a leader in terms of resource business RoA, overall RoIC, dividend payout, and profits from metals and energy. On the other hand, it lags peers somewhat in RoE, dividend yield, and non-resource business RoA/profits. Mitsui's exposure to Brazil is high via its investment in Vale, and its exposure to South America more generally rose via its investment in copper (in Chile) in 2012. We see as positive the highly cost-competitive iron ore business as well as long-term profit generating potential for the Mozambique natural gas business (which is thought to have abundant reserves). Although we assume that iron ore prices will be soft and Mitsui's non-resource business profitability will remain low, given yen weakness we think profit growth at Mitsui will outstrip that at its four peers. As we also expect RoE to remain in double digits we rate the shares Buy. Going forward we see the key points as whether acquisitions in the chemicals and foods sectors bear fruit and whether shareholders' return is expanded by hiking dividend payouts and setting a floor level for the overall dividend.

Valuation

We use PBR as our valuation metric for Mitsui, with a particular emphasis on TOPIX-relative levels. We do so because 1) sector stocks are high beta and strongly correlated with the market, 2) there is a strong correlation between RoIC and RoA and relative PBR, 3) historical relative PBRs have been mainly range-bound and reflect qualitative factors well, and 4) NP, which is the most important profit metric because of the scale of earnings garnered from equity in earnings and dividends, is very volatile, due to extraordinary gains and losses, and PERs are thus difficult to use.

In calculating our target price, we set the relative PBR at 80%, in line with the low end of the historical range, to reflect the likelihood of two straight years of profit decline through FY3/14, the likelihood that RoIC (already below the historical average) will decline, the firm's healthy balance sheet, and our commodity team's bearish outlook on iron ore prices. Based on the TOPIX PBR assumption we set our target PBR at about 0.9x, and apply this to our FY3/14 BPS forecast. Our target price of ¥1,650 corresponds to a dividend yield of 3.0% on our FY3/14 forecasts and 3.2% on FY3/15. These seem appropriate as they are in line with the sector averages.

Risks

We see downside risks to our target price as 1) continued sluggish profits in non-resource businesses; 2) a fall in the price of iron ore; 3) deteriorating conditions (in terms of weather, politics, and labor) in resource-producing areas like Brazil and Australia; and 4) a fall for the TOPIX PBR due to economic slowness. On the other

hand, upside risks are 1) past spending in non-resource businesses bearing fruit; 2) a rise in the price of iron ore; 3) expanded shareholders' return via the raising of the dividend payout; 4) a rise in RoE due to share buybacks; and 5) a rise for the TOPIX PBR due to an economic upturn.

We estimate the sensitivity of NP to price fluctuations as 1) -¥1.6bn or so for every ¥1/\$ appreciation, 2) -¥1.9bn or so for every ¥1/AUD appreciation, 3) -¥800mn or so for every ¥1/BRL appreciation, 4) +¥1.2bn or so for every \$1/bbl rise in the crude price, 5) +¥1.9bn or so for every \$1/MT rise in the iron ore price, and 5) +¥1.8bn or so for every \$1/lb rise in the nickel price. If these factors manifest themselves differently than we have anticipated, the share price may not achieve our target price.

Sumitomo Corp.

Investment strategy

We rate the shares of Sumitomo Corp. Buy (1), with a target price of ¥1,300.

As with other trading companies, Sumitomo does business in a wide range of domains and regions. Sumitomo lags peers in terms of profitability metrics like RoE and RoIC, but it is ahead of peers in dividend yield, RoA (in both resources and non-resources), non-resource profits, particularly in materials and machinery. In addition, it has a high exposure to Indonesia, Thailand, and other parts of Asia, but it has less of a bias than at other firms. We see the key issue facing Sumitomo as its relatively low RoIC and the low profit growth expected for FY3/14, but we rate the shares Buy to reflect 1) wide range of profit drivers; 2) low share price volatility; and 3) relatively high dividend yield. If it looks like the firm will boost shareholders' return further via measures like raising the dividend payout or that profits in the resource business will rise soon, then the market may look more favorably on Sumitomo relative to peers.

Valuation

We use PBR as our valuation metric for Sumitomo, with a particular emphasis on TOPIX-relative levels. We do so because 1) sector stocks are high beta and strongly correlated with the market, 2) there is a strong correlation between RoIC and RoA and relative PBR, 3) historical relative PBRs have been mainly range-bound and reflect qualitative factors well, and 4) NP, which is the most important profit metric because of the scale of earnings garnered from equity in earnings and dividends, is very volatile, due to extraordinary gains and losses, and PERs are thus difficult to use.

In calculating our target price, we set the relative PBR at 70%, in line with the low end of the historical range, to reflect our forecast that Sumitomo will post just a small YoY NP increase FY3/14, our outlook that RoIC will remain below its historical average, the likelihood that the net D/E ratio will fall below 1.5x, and relatively low share price volatility. Based on the TOPIX PBR assumption we set our target PBR at about 0.75x and apply this to our FY3/14 BPS forecast.

Our target price of ¥1,300 corresponds to a dividend yield of 3.8% on our FY3/14 forecasts and 4.2% on FY3/15. These seem appropriate as they are somewhat above sector averages.

Risks

We see downside risks to our target price as 1) a slow ramp-up for the Madagascar nickel business; 2) deterioration for the metal business on a downturn for the auto sector; 3) a fall in the TOPIX PBR due to an economic downturn. To the upside, we see risks as 1) a rapid recovery for the metal business on an upturn for the auto sector; 2) expanded shareholders' return due to factors like raising the dividend payout; and 3) a rise in the TOPIX PBR on an economic upturn.

We estimate the sensitivity of NP to price fluctuations as 1) -¥1.3bn or so for every ¥1/\$ appreciation; 2) +¥40mn or so for every \$1/bbl rise in the Brent crude price; 3) +¥140mn or so for every \$1/MT rise in the price of coking coal; 4) +¥90mn or so for every \$1/MT rise in the price of thermal coal; 5) +¥260mn for every \$1/MT rise in the price of iron ore; 6) +¥30mn or so for every \$1/MT rise in the manganese ore price; 7) +¥230mn or so for every \$100/MT rise in the copper price; 8) +¥430mn for every \$1/oz rise in the silver price; 9) +¥860mn or so for every \$100/MT rise in the zinc price, and 10) +¥250mn or so for every \$100/MT rise in the lead price. If these factors manifest themselves differently than we have anticipated, the share price may not achieve our target price.

Mitsubishi Corp.

Investment strategy

We rate Mitsubishi Corp. Buy (1), with a target price of ¥2,250.

As with other trading companies, Mitsubishi does business in a wide range of domains and regions. Although it lags other firms in terms of profitability indicators like RoIC, RoA, and RoE, its balance sheet is healthy, and it is ahead of peers in terms of metals profit generation (particularly in coal) and profit levels in machinery. In addition, Mitsubishi is highly exposed to Indonesia, where it operates an auto business, and Chile, where it has invested in the copper business. We rate the shares Buy because 1) we anticipate improvement for the coal business thanks to higher volumes and cost cuts; 2) in copper we look for a decline in investment related to expansion and benefits from new investment; and 3) we anticipate profit growth will continue over the medium term. If it looks as if the firm will 1) raise shareholders' return by upping the dividend payout, 2) work to boost profitability (RoE, RoIC), and 3) increase non-resource profits, then we could see a re-rating.

Valuation

We use PBR as our valuation metric for Mitsubishi Corp., with a particular emphasis on TOPIX-relative levels. We do so because 1) sector stocks are high beta and strongly correlated with the market, 2) there is a strong correlation between RoIC and RoA and relative PBR, 3) historical relative PBRs have been mainly range-bound and reflect qualitative factors well, and 4) NP, which is the most important profit metric because of the scale of earnings garnered from equity in earnings and dividends, is very volatile, due to extraordinary gains and losses, and PERs are thus difficult to use.

In calculating our target price, we set the relative PBR at 75%, at the low end of the historical range, to reflect expectations for profit growth in FY3/14 and beyond, a recovery in the core coal business, a healthy balance sheet with a net D/E ratio below 1x, an RoIC below the historical average, and an RoE expected to fall below 10%. We use PBR as our valuation metric for Mitsubishi, with a particular emphasis

on TOPIX-relative levels. Based on the TOPIX PBR assumption we set our target PBR at about 0.85x, which we apply to our FY3/14 BPS forecast.

Our target price of ¥2,250 corresponds to a dividend yield of 3.1% on our FY3/14 forecasts and 3.4% on FY3/15. These are below sector averages, but we think them appropriate given the healthy balance sheet and expectations for further profit growth.

Risks

We see downside risks to our target price as 1) poor weather and further labor troubles in Australia, where Mitsubishi operates its core coking coal business; 2) worsening auto market conditions in Southeast Asia; 3) a further decline for RoE and a prolonged stay at low levels; and 4) a fall in the TOPIX PBR due to an economic downturn. To the upside, we see risks as 1) a rise in the price of coking coal; 2) an upturn for auto market conditions in Southeast Asia; 3) expanded shareholders' return via measures like lifting the dividend payout; 4) a rise in RoE via share buybacks; and 5) a rise in the TOPIX PBR due to an economic upturn.

We estimate the sensitivity of NP to price fluctuations as 1) -¥2bn or so for every ¥1/\$ appreciation; 2) +¥1bn or so for every \$1/bbl rise in the crude price; 3) +¥1.3bn or so for every \$100/MT increase in the copper price; and 4) +¥1bn or so for every \$100/MT rise in the aluminum price. If these factors manifest themselves differently than we have anticipated, the share price may not achieve 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.

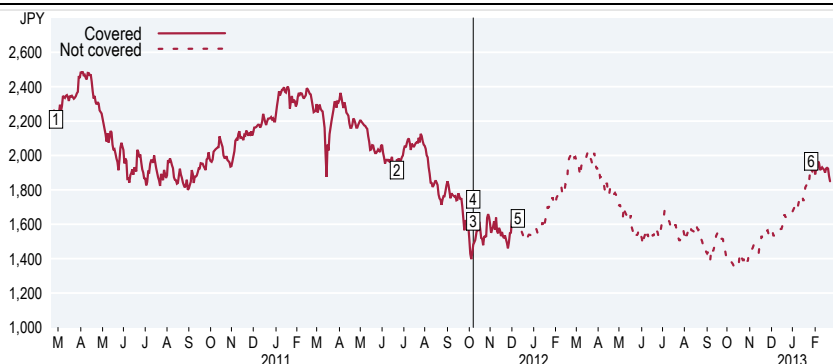
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Mitsubishi Corp. (8058)

Ratings and Target Price History Fundamental Research

Analyst: Takashi Miyazaki

Covered since January 28 2013



	Date	Rating	Target Price	Closing Price
1	24-Feb-10	1M	*2,900	2,220
2	22-Jun-11	1M	*2,400	1,977

* Indicates change

	Date	Rating	Target Price	Closing Price
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	2,400	1,481

	Date	Rating	Target Price	Closing Price
5	9-Dec-11	Coverage terminated		
6	28-Jan-13	1	*2,200	1,918

Rating/target price changes above reflect Eastern Standard Time

Mitsubishi Corp. (8058)

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

Analyst: Takashi Miyazaki

Covered since January 28 2013



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD MP	-	2,324

* Indicates change

	Date	Rating	Target Price	Closing Price
2	8-Jul-11	*REM MP	-	2,099

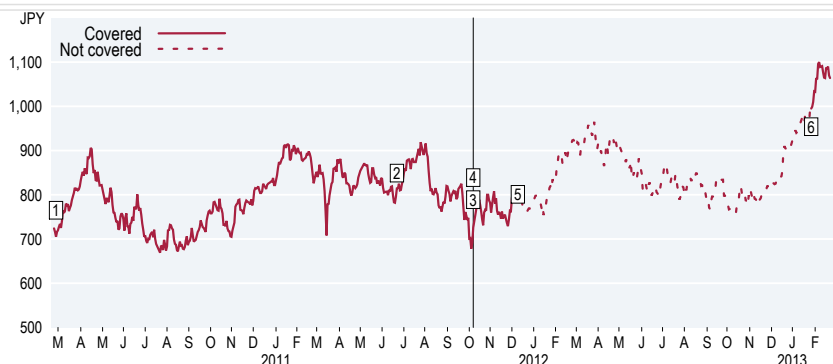
Rating/target price changes above reflect Eastern Standard Time

Itochu (8001)

Ratings and Target Price History Fundamental Research

Analyst: Takashi Miyazaki

Covered since January 28 2013



	Date	Rating	Target Price	Closing Price
1	25-Feb-10	1M	*1,000	705
2	22-Jun-11	1M	*1,150	816

* Indicates change

	Date	Rating	Target Price	Closing Price
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	1,150	726

	Date	Rating	Target Price	Closing Price
5	9-Dec-11	Coverage terminated		
6	28-Jan-13	1	*1,200	995

Rating/target price changes above reflect Eastern Standard Time

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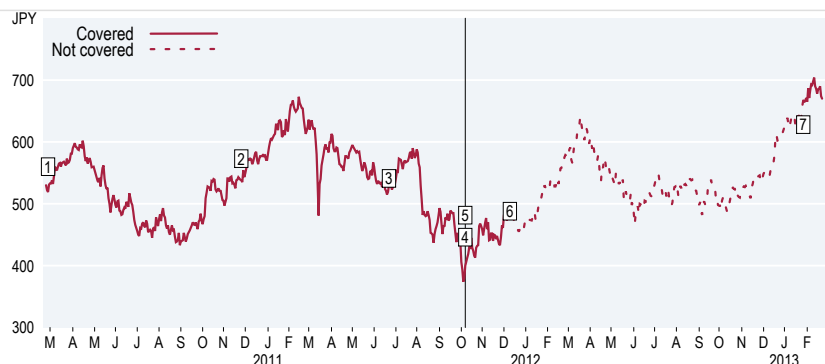


Marubeni (8002)

Ratings and Target Price History Fundamental Research

Analyst: Takashi Miyazaki

Covered since January 28 2013



	Date	Rating	Target Price	Closing Price
1	24-Feb-10	2H	*600	522
2	25-Nov-10	2H	*630	538
3	22-Jun-11	*1M	*650	530

* Indicates change

	Date	Rating	Target Price	Closing Price
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*1	650	400
6	9-Dec-11	Coverage terminated		

	Date	Rating	Target Price	Closing Price
7	28-Jan-13	1	*800	667

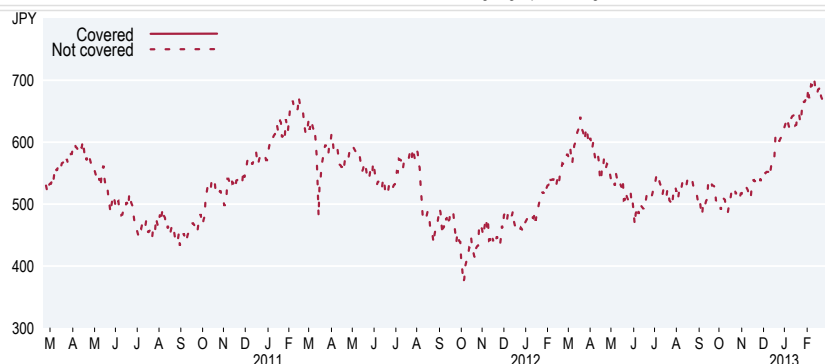
Rating/target price changes above reflect Eastern Standard Time

Marubeni (8002)

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

Analyst: Takashi Miyazaki

Covered since January 28 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Mitsui & Co. (8031)

Ratings and Target Price History Fundamental Research

Analyst: Takashi Miyazaki

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	Date	Rating	Target Price	Closing Price
1	24-Feb-10	1M	*1,800	1,360
2	22-Jun-11	1M	*2,100	1,344

* Indicates change

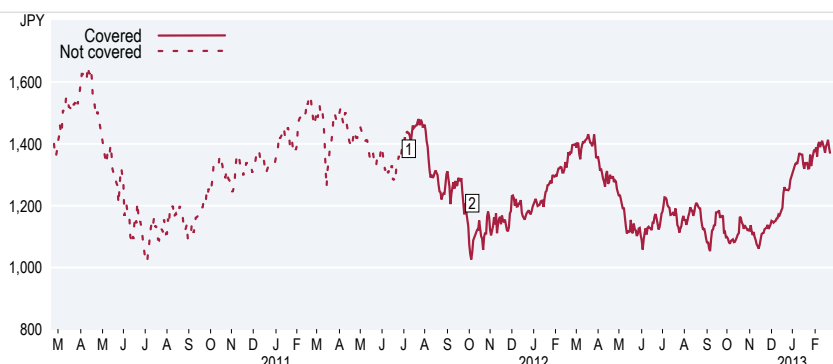
	Date	Rating	Target Price	Closing Price
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	2,100	1,088

	Date	Rating	Target Price	Closing Price
5	9-Dec-11	Coverage terminated		
6	28-Jan-13	*2	*1,500	1,328

Rating/target price changes above reflect Eastern Standard Time

Mitsui & Co. (8031)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Takashi Miyazaki
Covered since January 28 2013



	Date	Rating	Target Price	Closing Price
[1]	8-Jul-11	*ADD MP	-	1,434

* Indicates change

	Date	Rating	Target Price	Closing Price
[2]	6-Oct-11	*REM MP	-	1,049

Rating/target price changes above reflect Eastern Standard Time

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