

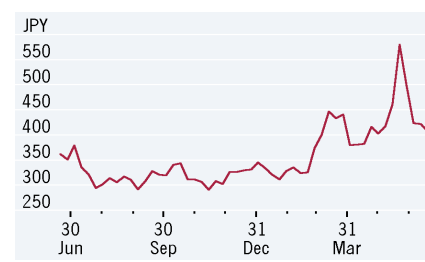
## GS Yuasa (6674)

### Alert: Agrees to develop next-generation batteries with Bosch, Mitsubishi Corp.

- Agreement to develop next-generation batteries** — On the morning of June 20 GS Yuasa announced an agreement to partner with Bosch and Mitsubishi Corp. in the development of next-generation lithium-ion batteries. The three plan to set up a joint venture in Germany in 2014, with Bosch holding a 50% stake versus 25% each for GS Yuasa and Mitsubishi Corp. We understand the aim of this joint venture is to share technology in the joint development of next-generation lithium-ion batteries and to provide parent sales support in the future. We think this move will expand the customer base for GS Yuasa, which is likely to help expand its business moving forward. Since the announcement was made GS Yuasa shares have been trading around ¥440, up 8% over the previous close.
- Background of tie-up** — GS Yuasa produces lithium-ion batteries for Mitsubishi Motors via Lithium Energy Japan, a joint venture with Mitsubishi Motors and Mitsubishi Corp., and also produces lithium-ion batteries for Honda at Blue Energy, a joint venture with Honda (Figure 1). However, a key issue for GS Yuasa is securing major customers other than MMC and Honda. Earlier Bosch set up a lithium-ion battery joint venture with Samsung SDI called SB LiMotive, but the partnership was dissolved in September 2012. Finding a new partner had been an issue for Bosch. We think the partnership announced today came about because the interests of the parties are aligned.
- Implications for GS Yuasa** — The joint venture is scheduled to be established in 2014, and we understand development of next-generation lithium-ion batteries will take several years. Also, we think it will take some time for the joint venture to secure customers, so for now we do not think this joint venture will have much impact on GS Yuasa earnings. However, if the joint venture can leverage Bosch's strong sales network to secure European automakers (focused on eco-friendly vehicles like HEVs and PHEVs) as customers, GS Yuasa could see its business expand in the future.

<b>Neutral</b>	<b>2</b>
Price (19 Jun 13)	¥407
Target price	¥430
Expected share price return	5.7%
Expected dividend yield	2.0%
<b>Expected total return</b>	<b>7.6%</b>
Market Cap	¥168,018M
	US\$1,742M

#### Price Performance (RIC: 6674.T, BB: 6674 JP)

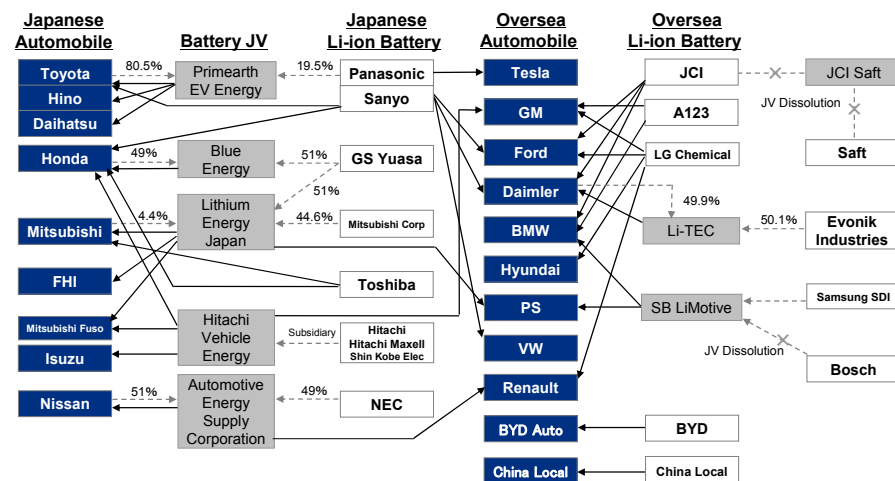


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Figure 1. Alliances and partnerships in automotive lithium-ion batteries



Source: Company data, Citi Research.

## GS Yuasa

### Valuation

Our ¥430 target price is derived from our FY3/15 EPS estimate of ¥36 and a target PER of 12x. Our target PER is in line with the average for the auto parts sector names covered by our auto parts analyst based on his forecasts.

### Risks

Risks to our target price include the following: 1) EV demand trends and customer acquisition trends, 2) trends in the auto and industrial equipment markets, 3) fluctuations in lead prices; and 4) incidents of lithium-ion batteries catching fire. As far as (1) is concerned, major customers Honda and Mitsubishi Motors have launched PHEVs. We think these vehicles could spread as a substitute for EVs and will need to monitor launch developments for both firms. All of these factors could cause the shares to diverge from our target price if the business environment differs from our assumptions.

## Appendix A-1

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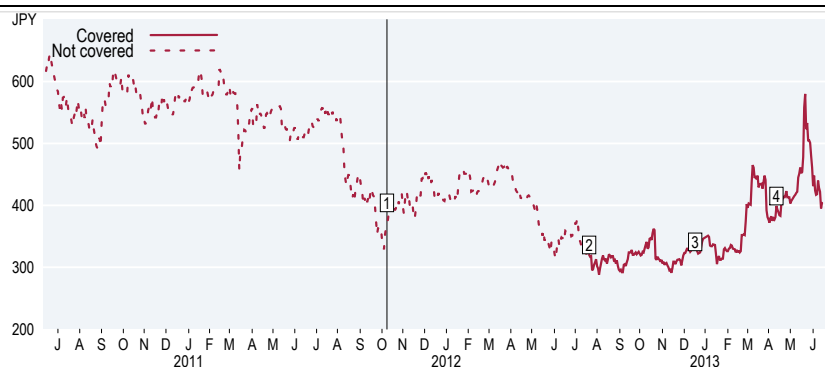
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#### GS Yuasa (6674)

#### Ratings and Target Price History Fundamental Research

Analyst: Tsubasa Sasaki

Covered since July 20 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	20-Jul-12	*2	-	320

\* Indicates change

	Date	Rating	Target Price	Closing Price
3	18-Dec-12	2	*330	329
4	11-Apr-13	2	*430	399

Rating/target price changes above reflect Eastern Standard Time

## GS Yuasa (6674)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Tsubasa Sasaki

Covered since July 20 2012



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#### Data current as of 31 Mar 2013

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
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48%	39%	12%	7%	87%	7%
53%	49%	43%	65%	49%	51%

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