

The Point

Thursday, 31 March 2011

Eastern Japan Earthquake Reports

Eastern Japan earthquake / Machinery — Where are the biggest risks to our FY3/12 earnings?

JAPAN | MACHINERY

Nearly three weeks since the earthquake and tsunami hit, one of the only things we can be sure about is that the specter of uncertainty will be with us for a while yet. Supply chain disruptions, electricity shortages and changes to the corporate tax rate are all factors that could move our FY3/11 estimates around over the next quarter or two. Nevertheless, led by overseas growth, we are confident that overall sector earnings next term will show a further improvement over FY3/11.

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Eastern Japan Earthquake/Emergency safety measures for nuclear power plants — METI orders do not require suspension of operations

JAPAN | ELECTRIC UTILITIES

On March 30, Japan's Ministry of Economy, Trade and Industry issued an order for the implementation of emergency safety measures at nuclear power plants in response to the incidents at the Fukushima Daiichi and Daini plants, with six items specified for action by plant operators.

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Company

Tokyu REIT (8957) — Revising our forecasts, downgrading to Hold

JAPAN | REAL ESTATE INVESTMENT TRUSTS | HOLD/LOW RISK

We revise our forecasts for Tokyu REIT's (TRE) earnings in FY7/11 and beyond. We lower our target price to ¥530,000 from ¥580,000 and downgrade to Hold/Low Risk (2L) from Buy/Low Risk (1L). Reflecting lower earnings expectations and weakness in the existing property portfolio (excluding earthquake effects), we lower our target PER to 21.5x from 24.0x (pushing out our base periods one year). Our target price is equivalent to a 12% discount to NAV and an implied cap rate of 5.0%.

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Kuraray (3405) — Nikkei earnings preview

JAPAN | TEXTILES | BUY/MEDIUM RISK

The March 31 Nikkei carries a Kuraray earnings preview, anticipating FY3/11 OP of just over ¥52bn, clearing the company estimate of ¥52bn. The article notes the possibility that the company will post earthquake-related losses but expects NP to come in around ¥28bn, close to the company estimate of ¥28.5bn. There had been concerns about downward revisions due to high input prices and also because the Kashima plant has been idled by the earthquake, so we think the article is likely to reassure investors.

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

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Must Read

Inpx (1605): Ichthys could now become a key part of energy supply in Japan



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Eastern Japan Earthquake Reports

Electronics

[Eastern Japan earthquake/Industrial](#)

[Electronics 2: Risk of prolonged shutdown](#)

Mitsubishi Tanabe Pharma (4508) — Pre-approval telaprevir price in France in line with expectations

JAPAN | DRUGS | BUY/MEDIUM RISK

Our US analyst who covers Vertex has published a memo saying that based on checks while participating in the European Association for the Study of the Liver (EASL) meeting he believes that the pre-approval annual treatment price in France for the hepatitis C drug telaprevir is about \$31,000 (c¥2.48mn), in line with expectations. Although this is not the commercial price, but rather a price for limited usage pre-approval, it is close to our US analyst's estimate of \$32,000. This could have a positive impact on pricing in Japan going forward.

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Sankyo (6417) — Slight downward revisions to full-year guidance

JAPAN | ENTERTAINMENT | HOLD/MEDIUM RISK

Sankyo fine-tuned its FY3/11 guidance estimates slightly downward on March 30, lowering its OP estimate to ¥52bn from ¥56bn. This is still not too far off our ¥55bn forecast and thus does not come as a major surprise.

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Dainippon Sumitomo Pharma (4506) — Licenses Latuda European marketing rights to Takeda; revises up earnings estimates

JAPAN | DRUGS | BUY/MEDIUM RISK

Dainippon Sumitomo Pharma announced three licensing agreements and revised up its earnings estimates. We consider the news generally positive. DSP will generate ¥10bn by licensing European marketing rights for Latuda to Takeda and will spend ¥0.5bn to secure the license to Takeda's ceftazoline, a cephem antibiotic. In addition, it will obtain development and marketing rights to chronic liver disease treatment INT-747 from Intercept Pharmaceuticals for \$15mn. Meanwhile, existing drugs are faring better than the company anticipated, and as a result it has increased its FY3/11 sales estimate by ¥14bn (to ¥379bn from ¥365bn) and its OP estimate by ¥7bn (to ¥29bn from ¥22bn).

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Capcom (9697) — Announces FY3/12 release for Resident Evil spin-off

JAPAN | ENTERTAINMENT | BUY/HIGH RISK

Capcom announced on March 30 that Resident Evil: Operation Raccoon City, a spin-off from its marquee game franchise for PS3, Xbox360, and PC, is to be released this winter. The new game is a four-player squad-based third-person shooter developed by an overseas studio and is set in the Resident Evil universe; we understand it is primarily aimed at the overseas market, where the focus is on on-line cooperative and competitive play. As the title is not part of the official Resident Evil canon, shipments of 4mn units will probably be tough to achieve, but we would expect sales of about 1.5mn–2mn units and an important role in supporting FY3/12 earnings.

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Shimamura (8227) — Results First Impressions

JAPAN | APPAREL/FOOTWEAR/TEXTILES | BUY/LOW RISK

Shimamura announced FY2/11 results after the March 30 market close. Consolidated OP of ¥39.8bn (up 7.8% YoY) beat guidance (¥39.2bn) and our forecast (¥39.5bn). The company announced both the FY2/12 guidance numbers planned before the earthquake and post-quake estimates. The pre-quake consolidated OP figure was ¥42bn (up 6.3% YoY) versus our ¥41.4bn forecast. In the wake of the disaster, Shimamura adjusted its estimate to ¥39.6bn (down 0.6% YoY). We had expected a negative impact of about 10%

for auto production

Eastern Japan earthquake/Tech industries: Production disruption and supply chain issues—a sector analysis

Eastern Japan earthquake/Consumer electronics/electronic components: Update 2 – Potential indirect damage gradually becoming clearer

Eastern Japan Earthquake/Consumer electronics and electronic components: Update 1 – Restoring infrastructure is key

Eastern Japan Earthquake / Industrial electronics — Quake could impact nuclear policy worldwide

Eastern Japan Earthquake / Consumer electronics/electronic components: Primary damage from quake limited

Machinery/Precision/SPE

Eastern Japan earthquake / Machinery — Where are the biggest risks to our FY3/12 earnings?

Eastern Japan earthquake: Precision/SPE sector: Update on conditions at Tokyo Electron and Fujifilm

Eastern Japan earthquake: Precision/SPE sector: Canon to halt production at domestic digital camera base for three days

Eastern Japan earthquake: Precision/SPE sector: Magnitude 6.0+ quake in eastern Shizuoka

Eastern Japan earthquake: Precision/SPE equipment sector: Complete picture unclear, but direct damage looks limited

Autos/Auto parts

Eastern Japan earthquake/Auto parts and tire sectors: Honda-affiliated parts makers should stay in the black even in a pessimistic scenario

Eastern Japan earthquake/autos industry: Part II: Production stoppages likely to be prolonged

Eastern Japan earthquake/Autoparts and tires sector: We prefer Bridgestone, Aisin Seiki, Denso

Eastern Japan earthquake/autos industry: Bottlenecks in parts and power supplies

Steel/Utilities/Energy

Eastern Japan Earthquake/Emergency safety
Citigroup Global Markets

from the earthquake and subsequent power outages, so guidance is significantly higher than anticipated. A target of roughly flat growth gives a sense of the company's strength. Shimamura raised its FY2/11 dividend, to ¥128 from ¥123. We reiterate our Buy rating; we plan to review our estimates after the results briefing and talks with the company.

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Macro

A Look at the day ahead — April 1, 2011 (Fri)

JAPAN

BoJ Quarterly Tankan Survey - In the Bank of Japan's March Tankan survey, the business confidence DI for large manufacturing is expected to decline to +3 from +5 in December. The market median projection is +4. March Car Sales - Passenger car unit sales (our own seasonally adjusted figure) increased 2.2% MoM in February after a 9.2% MoM gain in January and a 6.4% increase in December. However, we expect a large drop in March due to the eastern Japan earthquake.

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Japan Economic Daily — February Housing Starts: Continued moderate recovery

JAPAN

New housing starts in February rose by 10.1% YoY after rising 2.7% YoY in January. This result was stronger than the market median projection of a 6.1%YoY gain. Seasonally adjusted housing starts increased by 3.0% MoM, after falling 1.6% MoM in January.

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Global

Global Equity Strategist — Commodity Risk

GLOBAL, ASIA PACIFIC, AUSTRALIA | EQUITY STRATEGY

Oil prices have rallied by more than 40% over the last 12 months. Investors are clearly worried. Previous global earnings downturns have been preceded by big increases in oil. It is not only crude prices rising. Metals prices are up 30% in the last year, food prices have increased more than 40%. Compounding investor worries further is that analysts' earnings revisions have turned negative. Those worried about a serious earnings downturn should watch out for unsustainably high RoEs, tight labour markets and high real interest rates. None of these are apparent now. Further increases in commodity prices should be positive for Emerging Markets, especially the large oil producers like Russia. Other cyclical sectors, in addition to the commodity producers, should also perform well. Consumer-focused companies may struggle.

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Hon Hai Precision (2317.TW) — Smaller FIH OP Loss Should Help Hon Hai's Margin

TAIWAN | TECHNOLOGY - GENERAL | BUY/LOW RISK

4Q10 net loss came down sharply for FIH - FIH released its 2010 full year results last night with a net loss of US\$218M, implying a 2H10 net loss of US\$77M, much lower than the US\$144M net loss in 1H10. Moreover, FIH delivered a small 0.6% operating margin in 2H10, much better than the -2.2%

measures for nuclear power plants — METI orders do not require suspension of operations

Eastern Japan earthquake/Renewable energy: Nikkei report regarding METI's proposed emergency measures

Eastern Japan earthquake/Power supply: Update 3: Reports of early resumption at Kashima power plant positive if accurate

Eastern Japan earthquake/Power supply: Update 2: Can "super Cool Biz", residential cuts, and alternative energy fill the gap?

Eastern Japan earthquake/Supply of oil products: Little concern regarding stability of oil supply

Eastern Japan earthquake/Power supply: Power shortfall in the summer looks inevitable

Eastern Japan earthquake/Steel and non-ferrous sectors — Update: Concerns center on power supply and distribution

Eastern Japan earthquake/energy sector: Looking at the short-term and long-term issues

Eastern Japan Earthquake/Steel, non-ferrous sectors: Damage seems to be relatively light

Eastern Japan Earthquake/Oil sector: Six refineries inoperative (31% of total capacity), rise in heavy oil demand likely

Chemicals/Semiconductors/Fibers

Mitsubishi Gas Chemical (4182) — Eastern Japan Earthquake/BT laminate production to be fully restored by early May

Mitsubishi Gas Chemical (4182): Eastern Japan earthquake/BT laminates and semiconductor cleaning agents

Eastern Japan earthquake/Chemical and semiconductor sectors: Mitsubishi Gas Chemical: Impact of suspended BT materials supply on the semiconductor industry

Eastern Japan earthquake/Chemicals synthetic fibers sector: Operations may have been suspended at petrochemical plants in Kashima, Chiba, and Kawasaki

Eastern Japan earthquake/Chemicals and synthetic fibers sector (2): Kashima and Shirakawa plant closures could be slightly protracted

OPM FIH delivered in 1H10. FIH does not publish quarterly results. However, based on Hon Hai's 3Q10 loss on minority interest of NT\$614M, we estimate that FIH's 3Q10 net loss was around US\$68M.

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Tsingtao Brewery (0168.HK) — FY10 Earnings Below Expectations

CHINA | BEVERAGES | SELL/LOW RISK

Earnings below expectations: Tsingtao Brewery FY10 earnings came in 1% below our expectations and 2% below Bloomberg consensus. The headline number shows 22% net profit growth. If we strip out PP&E impairment and loss on PP&E disposal, FY10 earnings increased 19% yoy. Full year earnings are usually no big surprise as 4Q is a very low season usually breakeven.

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Dongfeng Motor (0489.HK) — 2010 Results First Look – Net Profit Grew 76% YoY

CHINA | AUTO MANUFACTURERS | BUY/MEDIUM RISK

2010 net profit grew 76% YoY to RMB10,981mn, 6%/1% below Citi/consensus forecasts. Net profit grew 22% YoY in 2H10, driven by 15% YoY revenue growth and gross margin expansion to 20.3% in 2H10 from 19.9% in 2H09. Dividend payout also increased to 14.1% in 2010 from 12.4% in 2009. Divergence from our forecast resulted from lower-than-expected gross margin and operating margin, likely due to higher-than-expected selling and distribution expenses and net other expenses.

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Dongfang Electric Corporation (1072.HK) — FY10 Result Largely in Line

CHINA, HONG KONG | UTILITIES | BUY/LOW RISK

DF's net profit was +55% yoy to Rmb2,601m (IFRS) in 2010. The result was comparable to the company's positive profit warning in A-share market issued in January guiding the net profit to surge at least 60% yoy (PRC GAAP). The profit growth was driven by higher volume of power equipment sales +22% yoy to 34.8GW and better margins for nuclear island, wind & hydropower equipment. The final DPS is Rmb0.13, at a payout ratio of 10% (+1.5ppts yoy).

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TFT LCD Sector — 2011 March China LCD TV Watch: Solid Demand after CNY

ASIA PACIFIC | SEMICONDUCTORS

China as the biggest LCD TV market — Thanks to wage increases and previous aggressive price concessions in China, LCD TV has become more affordable for Chinese consumers. Displaysearch forecast that the China TV market will enjoy 19% Y/Y growth and reach 45 mn units in 2011, surpassing the US and representing 21% of worldwide LCD TV demand.

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Korea Macro Flash — Production Growth Slowed and Retail Sales Declined in Feb

ASIA PACIFIC

Industrial production (IP) growth registered 9.1%yoy and -2.3%mom in Feb, following 13.4%yoy and 4.2%mom in Jan. We attribute the declines to the Lunar New Year holiday effects. Jan-Feb maintained double-digit average IP growth, at 11.4%yoy. Despite an expected slowdown in domestic demand in the near-term, we believe overall economic growth in 2011 will be resilient given upside potential for exports due to the steady recovery of the US and in the

Financials/Insurance

Banking sector and TEPCO: Reports of possible nationalization

Eastern Japan earthquake/banks industry: Minor impact on major banks

Eastern Japan Earthquake/Insurance sector: Impact on claims paid likely to be small, but concerns about impact on asset investment

Retail/Food

Eastern Japan earthquake/retail sector: Department store sales on recovery track

Eastern Japan earthquake/retail sector: Oligopolization continues; opportunities for listed retailers

Eastern Japan earthquake/Beer industry: Shipment volumes down sharply in the wake of the disaster

Eastern Japan Earthquake/Soft drinks: Tests show radioactive iodine in tap water: Our view

Eastern Japan Earthquake/Retail Sector: Three prefectures where damage is worst account for 4.4% of consumption

Eastern Japan earthquake/Food sector: Spike in demand for instant noodles, Kirin plant a worry

Real Estate/Housing

Eastern Japan Earthquake/Real estate, J-REITs, housing sectors: Direct impact on leasing portfolio limited

Pharmaceuticals

Eastern Japan earthquake/ pharmaceutical sector: How to overcome the disaster, power outages?

Eastern Japan earthquake/medical equipment demand: Anticipating reconstruction demand over the medium-term for hospitals and medical equipment

Eastern Japan Earthquake/Drugs-related sector: Concerns about Shionogi Kanegasaki plant, Kyowa Hakko Chemical Chiba plant

Key Japan Reports

Aoyama Trading (8219) — At 0.3x PBR and just above cash, one of the cheapest stocks

aftermath of Japan earthquake.
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Ciena Corp (CIEN) — Verizon Announces 100G Coherent Deployment w/CIEN

UNITED STATES | TELECOMMUNICATIONS EQUIPMENT | BUY/SPECULATIVE

Verizon announced it will deploy the first 100G network in the US, and will utilize Ciena's 100G coherent solution for optical transport. We see this announcement as significant. Deployment by 2Q11 is a bit earlier than we believe many had expected. We believe VZ's US deployment is the exact same architecture as seen in its CIEN-supplied 100G network in Europe, setting up the possibility for more extensive deployments in N. America.

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Owens Corning (OC) — Positive Read Through from PPG

UNITED STATES | BUILDING PRODUCTS | BUY/HIGH RISK

This morning PPG pre-released 1Q11 results. PPG indicated that it expects 1Q EPS will be in the range of \$1.30 to \$1.35. According to Bloomberg, the consensus estimate for 1Q11 is \$1.15.

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Gannett Co. (GCI) — Downgrading to Hold on Lack of Near-Term Catalysts

UNITED STATES | PUBLISHING | HOLD/HIGH RISK

We continue to believe Gannett has an attractive asset base; however, in the near-term, there could be risks to estimates, and we don't see any non-operational catalysts benefitting the stock. As such, we're lowering our target price to \$17 from \$17.75 and our rating to Hold from Buy.

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in the market

Inpex (1605): Ichthys could now become a key part of energy supply in Japan

J. Front Retailing (3086): At 0.5x PBR, Western Japan-based retailer looks very oversold

Nippon Electric Glass (5214): Company lowers guidance to reflect utility problems and earthquake effects

Tokyo Electric Power (9501): Announces that the H2 dividend is now undetermined

Key Global Reports

Global Fund Flows — Equity Sell-Off

Global Equity Strategy: Japan Earthquake - First Thoughts

Tech Corner

Global Memory Beat: Passing Bottom, Record-High Industry Revenue in 2H11E

Semi Beat : Semiconductors 1Q11 Preview: 2Q11 Est. at Risk But 2H Optimism Growing: AMD, ALTR, QCOM

Semi Beat : Japan — Supply Worst Case Averted

Hard Disk Drives: Why Supply Shortage Could Be a Good Thing

Korea Memory Beat — Strong Contract Pricing in Both DRAM and NAND

Corning Incorporated (GLW): Panel Prices Mixed – Japan Earthquake Impact May Cause Short Term Upward Pressure, but Big Picture on GLW Unchanged

Macro & Strategy

Japan

Japan Weekly - Post-earthquake economic outlook

Eastern Japan Earthquake/Japan equity strategy: In a volatile environment, we highlight sectors where demand growth looks most likely

Japan Macro Flash: Rough estimation of

corporate profits after eastern Japan earthquake

Japan Macro Flash: Eastern Japan earthquake: Irreversible supply-side destruction?

Eastern Japan earthquake/Japan equity strategy: Comparisons with the Kobe earthquake a week on

Eastern Japan Earthquake: Strategy - Construction and real estate to outperform near-term

The Week Ahead – (28 March - 01 April)

Asia-Pacific

Fun with Flows (March): EM Outflows Deepen on Growth Concerns

Taiwan Flavors — Quake Impact

Kimchi Discovery #60 — Impact of Japanese Earthquake

North America

US Portfolio Strategist

Monday Morning Musings: The Backstop Buyers

Europe

Euro Weekly: It's National Interests, Stupid

European Portfolio Strategist - UK/Pan-Europe — De-Megatisation

Global

Global Economic Outlook and Strategy - March 2011

Equity Strategy - MENA Repercussions

Quant

Eastern Japan earthquake/Market correction: Strategies for investors: A quant perspective

A Compendium of Our Work (March 2011)

World Radar Screen — March Update

Top 40 Series: Japan

CIRA Japan coverage: forex sensitivities (opens in Excel)

CIRA Japan coverage: our forecasts vs consensus (opens in Excel)

Cornerstones

Citigroup Global Markets

[Japan Analyst Directory 2010](#)

[Japan Research Analyst List](#)

[Japan Research Universe \(opens in Excel\)](#)

Appendix A-1

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45%	44%	40%	0%	44%	0%

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