

Trading companies

2014 H1 outlook: Expecting yield-driven catch-up

- **Upgrading Marubeni** — Mitsubishi Corp. remains our top pick over the longer term. We also reiterate our Buy ratings for Mitsui & Co. and Sumitomo Corp. In addition, we upgrade Marubeni to Buy as 1) the decline in its share price has made the stock look more undervalued and 2) profit growth looks likely for FY3/15. We reiterate our Neutral rating for Itochu as we believe positives like an overshoot to plan and a high yield for H2 have been priced in. Going forward, we think likely catalysts for the sector will be yields, impairment concerns, profit trends in FY3/15, medium-term plans, and measures to combat falling RoE over the longer term.
- **Our take on share prices** — As we head toward the FY-end we believe the market may look favorably on high yields at trading companies, and expectations for profit growth at Marubeni and Sumitomo in FY3/15 should attract attention as well. However, concerns about impairment could weigh on Sumitomo shares in the short term. The Mitsui president has said that the company intends to pursue both growth and shareholders' return, and we think the market focus will be on the new medium-term plan. Over the longer term we believe the market may look favorably on companies that move aggressively to deal with the difficult problem of falling RoEs.
- **Big undershoot for Marubeni's foods and retail segment** — The market clearly reacted negatively to the large undershoot (more than ¥15bn) for the foods and retail segment in H1. This undershoot breaks down to a delay in posting ¥10bn+ in one-off gains and weaker-than-expected profits at Gavilon (-¥5bn).
- **But profit growth likely in FY3/15** — However, profit growth of ¥20bn or so looks likely for the segment in FY3/15, with about half due to delayed posting of one-off gains and half due to profit improvement at existing businesses. In addition, we note that Marubeni's TOPIX-relative share price performance is the worst among trading companies in FY3/14 (down 12% since April), making it look significantly undervalued.
- **Mitsubishi** — Mitsubishi is our top pick as we think it is likely to make changes the market will like longer term (for more, please see our June 11 report [Trading company sector - Market too cautious, we stay buyers](#)). Although free cash flow is likely to be negative in FY3/14, we note that it was positive in H1. If the firm does not just sell listed shares, as in FY3/14, but moves to sell off businesses in FY3/15 and out, we think expectations for free cash flow generation over the longer term could mount.

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Itochu	8001	2	2	¥1,300	¥1,350	¥187	¥195
Marubeni	8002	2	1	¥830	¥850	¥127	¥122
Mitsui	8031	1	1	¥1,700	¥1,700	¥221	¥211
Sumitomo	8053	1	1	¥1,500	¥1,500	¥201	¥181
Mitsubishi	8058	1	1	¥2,350	¥2,450	¥257	¥258

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

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Figure 1. Trading company ratings: Four Buys and one Neutral, we upgrade Marubeni to Buy, Mitsubishi remains our top pick

	Rating	Target Price (¥)	Valuation		SP(¥) 11/27	ETR	DPS(¥)		DY		PBR(x)		PER(x)	
			Target PBR	Relative PBR			14/3CE	14/3E	14/3E	15/3E	14/3E	15/3E	14/3E	15/3E
Itochu 8001	Neutral (2)	1,300→1,350	c1.00x	75%	1,281	9.0%	42	46	3.6%	3.5%	0.99	0.90	6.6	7.1
Marubeni 8002	Neutral (2)→Buy (1)	830→850	c1.05x	80%	738	18.4%	25	24	3.3%	3.4%	0.95	0.84	6.1	5.9
Mitsui 8031	Buy (1)	1,700	c0.85x	65%	1,396	25.6%	51	53	3.8%	3.7%	0.73	0.68	6.6	6.7
Sumitomo 8053	Buy (1)	1,500	c0.80x	60%	1,261	22.5%	47	45	3.6%	4.3%	0.67	0.62	6.9	5.8
Mitsubishi 8058	Buy (1)	2,350→2,450	c0.85x	65%	1,987	26.6%	60	65	3.3%	3.1%	0.72	0.68	7.7	8.1
Average			0.91x	69%		20.4%			3.5%	3.6%	0.81	0.74	6.8	6.8

Note: ETR: Estimated total return. CE: Company estimates. E: Our estimates.

Source: Company data, Citi Research.

Figure 2. Five trading companies: Ratings and reasons

	Rating		Reasons
	Old	New	
Itochu	Neutral	Neutral	NP looks likely to beat company plan in FY3/14 We like management's focus on the share price and its profit growth strategy (via moves like the Dole business acquisition). We look for a profit decline in FY3/15, and share price gains have reduced valuation appeal
Marubeni	Neutral	Buy	We think earnings will be in line with company plan in FY3/14 but anticipate profit growth in FY3/15 thanks to a full year's contribution from Gavilon Marubeni's relative share price has been the lowest in the sector in FY3/14, making valuations look more appealing Non-resource businesses with relatively low volatility account for about 80% of profits, but PER is the lowest in the sector
Mitsui	Buy	Buy	We think earnings will beat plan in FY3/14 on dividends from Sakhalin II and one-off gains in the non-resources business The dividend yield is high relative to peers, which could result in strong share price performance through to the end of the fiscal year Focus is likely to be on the medium-term plan (scheduled to be announced in 2014), with the president having said the company plans to pursue both growth and shareholders' return.
Sumitomo	Buy	Buy	We anticipate profit growth in FY3/15, and dividend yield/PBR look highly appealing on FY3/15 forecasts Over the medium-term the decline in RoE looks likely to be smaller than at peers
Mitsubishi	Buy	Buy	In FY3/14, the first year of the current medium-term plan, free cash flow looks likely to improve. Earnings look likely to beat plan in FY3/14. We expect RoE improvement over the longer term

Source: Citi Research.

BPS rose sharply in FY3/13 H2 on yen weakness and equity strength. Right now the rapid rise appears to have paused

Figure 3. Five trading companies: Rapid rise in BPS via yen weakness and equity strength appears to have paused

	BPS (¥)				BPS (QoQ)			
	3/13Q3	Q4	3/14Q1	Q2	3/13Q3	Q4	3/14Q1	Q2
Itochu	969.6	1,117.0	1,179.2	1,233.6	10.5%	15.2%	5.6%	4.6%
Marubeni	564.6	662.6	707.0	737.5	8.1%	17.4%	6.7%	4.3%
Mitsui	1,579.7	1,743.3	1,782.6	1,836.1	10.7%	10.4%	2.3%	3.0%
Sumitomo	1,457.2	1,641.6	1,746.3	1,815.6	7.4%	12.7%	6.4%	4.0%
Mitsubishi	2,300.1	2,537.5	2,612.8	2,701.4	8.7%	10.3%	3.0%	3.4%

Source: Company data, Citi Research.

In light of H1 results and revisions to resource price assumptions, we revise our profit forecasts. We revise down for four of the five trading companies we cover (except for Sumitomo). In addition, we forecast profit growth for Marubeni and Sumitomo in FY3/15 (Figure 5)

Figure 4. Five trading companies: Profitability indicators, changes from previous forecasts

	ROE			Previous		ROIC			ROA	
	3/13	3/14E	3/15E	3/14E	3/15E	3/13	3/14E	3/15E	3/13	3/14E
Itochu	17.9%	16.1%	13.2%	0.8ppt	-0.2ppt	5.7%	6.9%	6.1%	4.1%	4.1%
Marubeni	12.7%	16.8%	15.0%	-0.6ppt	0.0ppt	4.9%	4.6%	4.4%	2.3%	3.4%
Mitsui	10.6%	11.5%	10.4%	-0.3ppt	0.2ppt	5.5%	5.7%	5.4%	3.2%	3.7%
Sumitomo	12.4%	10.3%	11.0%	-1.2ppt	0.6ppt	4.6%	3.7%	3.8%	3.1%	2.8%
Mitsubishi	9.4%	9.7%	8.5%	0.2ppt	0.0ppt	3.8%	4.0%	3.7%	2.7%	2.9%
Average	12.6%	12.9%	11.6%	-0.2ppt	0.1ppt	4.9%	5.0%	4.7%	3.1%	3.4%

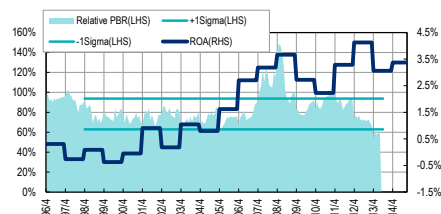
Source: Company data, Citi Research.

Figure 5. Five trading companies: NP and BPS

	NP (1¥bn)					YoY		NP (YoY)			EPS (¥)		BPS (¥)		YoY	
	3/12	3/13	3/14E	3/15E	3/16E	3/14E	3/15RE	3/13	3/14E	3/15E	3/13	3/14E	3/14E	3/15E	3/14RE	3/15E
Itochu	300.5	280.3	308.0	287.0	290.0	4.4%	-3.4%	-6.7%	9.9%	-6.8%	177.3	194.9	1,303	1,439	-1.4%	-1.9%
Marubeni	154.8	130.1	211.0	217.0	221.0	-4.5%	-2.7%	-15.9%	62.1%	2.8%	75.0	121.5	784	885	-2.4%	-2.5%
Mitsui	434.5	307.9	385.0	380.0	355.0	-4.7%	-2.3%	-29.1%	25.0%	-1.3%	168.7	211.0	1,919	2,074	-4.3%	-4.1%
Sumitomo	250.7	232.5	227.0	270.0	265.0	-9.6%	7.1%	-7.3%	-2.3%	18.9%	185.9	181.5	1,882	2,053	1.3%	2.2%
Mitsubishi	452.3	360.0	425.0	405.0	410.0	0.2%	-2.2%	-20.4%	18.0%	-4.7%	218.6	258.0	2,789	2,970	-2.5%	-2.5%
Average	1,593	1,311	1,556	1,559	1,541	-2.4%	-1.0%	-15.9%	22.5%	1.8%						

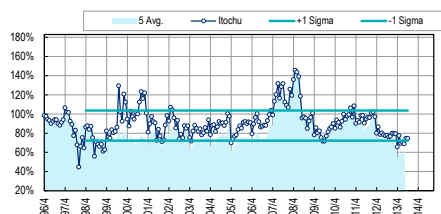
Source: Company data, Citi Research.

Figure 6. Relative PBR and RoA at five trading companies



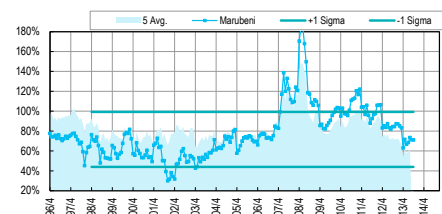
Source: Bloomberg, Citi Research.

Figure 7. Itochu: Relative PBR



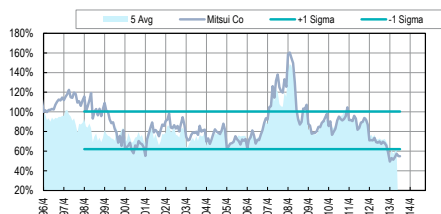
Source: Bloomberg, Citi Research.

Figure 8. Marubeni: Relative PBR



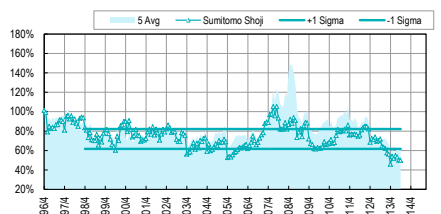
Source: Bloomberg, Citi Research.

Figure 9. Mitsui: Relative PBR



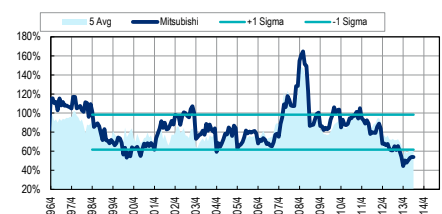
Source: Bloomberg, Citi Research.

Figure 10. Sumitomo: Relative PBR



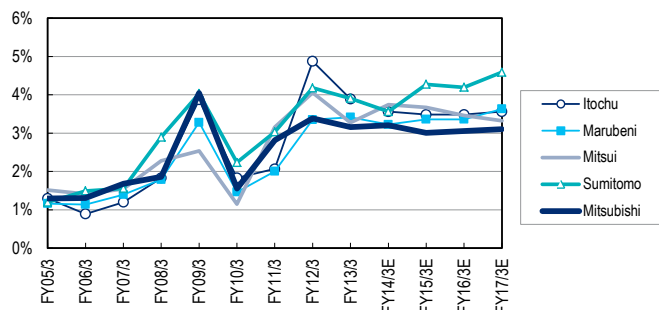
Source: Bloomberg, Citi Research.

Figure 11. Mitsubishi: Relative PBR



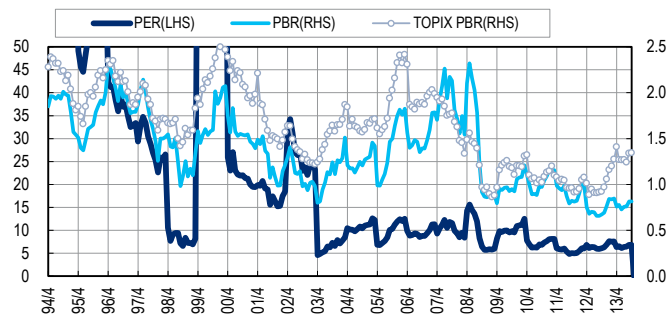
Source: Bloomberg, Citi Research.

Figure 12. Dividend yield: Mitsui and Sumitomo appealing



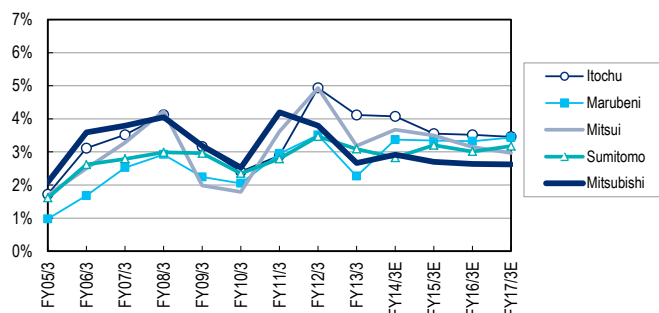
Source: Bloomberg, Citi Research.

Figure 13. Average PER and PBR for five trading companies, TOPIX PBR



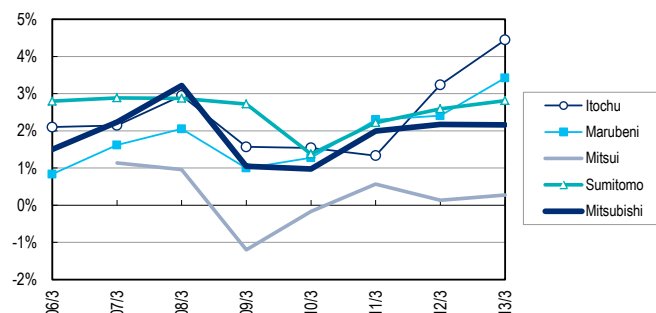
Source: Bloomberg, Citi Research.

Figure 14. RoA: High at Itochu and Mitsui



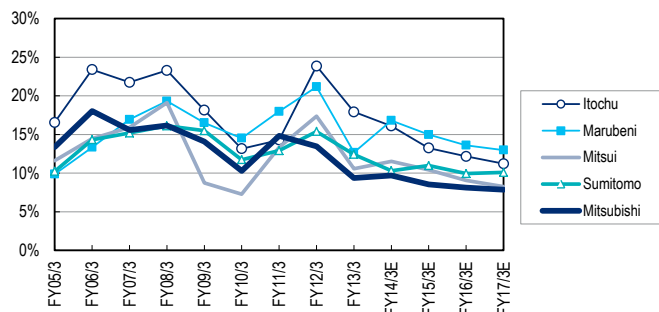
Source: Company Data, Citi Research.

Figure 15. Non-resources RoA: Big improvement for Itochu over the past two years



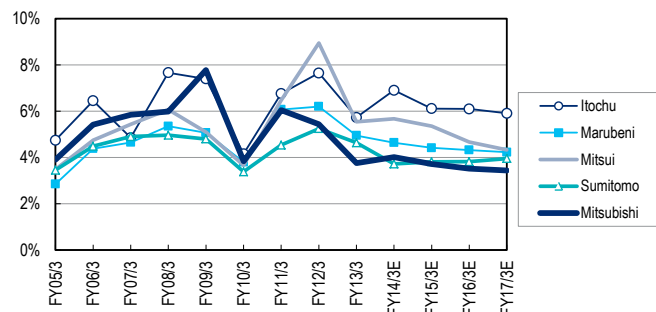
Source: Company Data, Citi Research.

Figure 16. RoE: Likely to fall on BPS growth via yen weakness and posting of profits



Source: Company Data, Citi Research.

Figure 17. RoIC: Likely to decline



Source: Company Data, Citi Research.

Figure 18. Sensitivity to forex, commodity prices: Yen weakness a positive for trading companies

(\$mn)	FX			TIBOR %	Oil (\$/bbl)	Iron Ore (\$/MT)	Coal(\$/MT)		Copper (\$100/MT)	Aluminum (\$100/MT)	Zinc (\$100/MT)
	JPY/USD	JPY/AUD	JPY/BRR				Coking	Thermal			
Itochu	2,000			-5,000	330	690	540				
Marubeni	1,400				500				600		
Mitsui	1,900	1,900	400		1,900	2,200			600		
Sumitomo	1,300				50	300	210	140	220		960
Mitsubishi	2,500				1,000				1,100	1,000	

Note: Impact on NP 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 1) 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) a \$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, and 9) a \$100/MT rise in zinc prices for each company.

Source: Company data, Citi Research.

Our commodities team remains neutral to bearish on commodities overall

On November 18 our global commodities team revised its price estimates. It remains neutral to bearish on commodities, and it anticipates a sharp decline for iron ore due to a significant increase in production volume and oversupply in the market. Price forecasts were raised for copper and zinc.

Figure 19. Our forex and commodity price assumptions: We still assume ¥100/\$ for FY3/14 and out

	3/13	3/14RE	3/15RE	3/16RE	3/17RE	3/18RE	3/14E	3/15E
Forex								
USD (¥/\$)	82.9	100.0	100.0	100.0	100.0	100.0	100.0	100.0
USD (CY) (¥/US\$)	79.9	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Real (¥/R)	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Oil and gas								
Brent Oil (CY) (\$/bbl)	105.0	108.8	97.5	92.5	90.0	85.0	105.9	97.5
Dubai Oil (\$/bbl)	104.7	108.5	97.2	92.2	89.7	84.7	105.6	97.2
Henry Hub (CY) (US\$/MMBtu)	4.0	3.7	3.7	4.5	4.9	4.9	3.6	3.7
Metals and other resources								
Hard Coking Coal (\$/MT)	161	157	164	173	183	193	161	173
Hard Coking Coal (CY) (\$/MT)	159	159	160	170	180	190	159	170
Thermal Coal (\$/MT)	82.6	79.4	80.0	84.0	86.3	92.5	82.6	89.0
Thermal Coal (CY) (\$/MT)	83.4	81.7	78.5	84.8	85.0	90.0	83.4	88.0
Iron Ore (\$/MT)	117.8	127.4	116.3	93.8	90.0	90.0	117.8	115.0
Iron Ore (CY) (\$/MT)	126.1	132.0	120.0	100.0	90.0	90.0	126.1	115.0
Copper (c/lb)	312	319	298	321	344	356	312	293
Copper (\$/MT)	6,874	7,035	6,575	7,075	7,575	7,850	6,874	6,450
Copper (CY) (c/lb)	327	333	302	310	340	354	327	295
Copper (CY) (\$/MT)	7,204	7,337	6,650	6,825	7,500	7,800	7,204	6,500
Silver (CY) (\$/oz)	18.0	21.1	23.9	20.3	22.2	22.5	18.0	22.5
Aluminum (CY) (\$/MT)	1,869	1,887	1,833	1,950	2,000	2,100	1,869	1,840
Nickel (CY) (\$/lb)	6.6	6.6	7.7	8.6	10.4	10.9	6.6	7.4
Zinc (CY) (\$/MT)	1,800	1,890	1,905	1,860	2,050	2,250	1,800	1,879
Lead (CY) (\$/MT)	2,000	2,160	2,144	2,175	2,255	2,350	2,000	2,090

Note: Forex assumptions from our Japan trading company team. Commodity price assumptions from our global commodities team.

Source: Citi Research.

Revising our NP forecasts

In light of H1 results and reductions in our resource price assumptions we revise down for Marubeni, Mitsui, and Sumitomo for FY3/14, and we revise up for Itochu. For Mitsubishi we make only minor changes. For FY3/15 we revise up for Sumitomo mainly on one-off factors and revise down for the others. We look for YoY profit growth at Sumitomo and Marubeni.

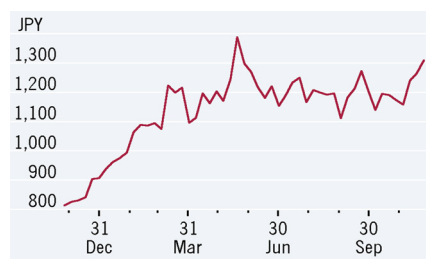
Company Focus

- Target Price Change
- Estimate Change

Neutral	2
Price (27 Nov 13)	¥1,281
Target price	¥1,350
from ¥1,300	
Expected share price return	5.4%
Expected dividend yield	3.6%
Expected total return	9.0%
Market Cap	¥2,024,620M
	US\$19,986M

Price Performance

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



Itochu (8001)

Staying Neutral: Likely FY3/14 overshoot already priced in

■ **Conclusion** — We raise our target price to ¥1,350 from ¥1,300. We continue to adopt a target PBR of c1x but now use the average of our BPS estimates for FY3/14-FY3/15 rather than just our FY3/14 estimate. We maintain our Neutral rating. We believe full-year profit is likely to exceed guidance but think profit will decline in FY3/15 and do not see valuations as compelling.

■ **Share price outlook** — FY3/15 is the second year of Itochu's medium-term plan, but based on comments by the president that management wants to boost shareholders' return we see potential for the dividend payout ratio target to be raised. While we believe this would be received positively, we think profit will decline in FY3/15 and that the actual dividend will thus remain about flat. FY3/14 dividend guidance is ¥42 but we forecast a dividend of ¥46.

■ **Valuation, BPS** — We lower our target relative PBR to c75% as a result of downward revisions to 1) our NP and ROE forecasts for FY3/15 and out and 2) our price assumptions for iron ore (also for FY3/15 and out), to which Itochu is highly exposed. Following the H1 results announcement we shift our valuation base period to the average of FY3/14 and FY3/15. BPS increased to ¥1,234 at end-September, up 4% from end-June, mainly as a result of posting profits.

■ **FY3/14** — We raise our NP forecast to ¥308bn (+9.9% YoY) from ¥295bn. By segment, we revise up for machinery (one-off profits, weaker yen, etc.), metals & minerals (higher iron ore price assumption, one-off profits), and ICT, general products and realty (better-than-expected profits in the pulp business and other businesses, one-off profits). However, we revise down for energy, chemicals, and foods segments based on H1 results.

■ **FY3/15** — We lower our NP forecast to ¥287bn (−6.8% YoY) from ¥297bn. By segment, we revise down for metals & minerals to reflect a lower iron ore price assumption and for energy, chemicals, and foods to reflect downward revisions for FY3/14. We revise up for machinery and ICT, general products and realty. We expect profit to decline YoY due to the drop-out of one-off profits and a decline in resource prices.

Consol.	Sales			OP			Pretax Profit		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM (%)	¥M	YOY (%)	¥M	YOY (%)	¥		
3/12A	11,978,276	5.1	272,620	6.5	2.3	341,174	87.1	300,505	86.5	190	6.7	
3/13A	12,551,557	4.8	244,219	-10.4	1.9	311,112	-8.8	280,297	-6.7	177	7.2	
3/14CE	14,300,000	13.9	280,000	14.7	2.0	300,000	-3.6	290,000	3.5	183	7.0	
3/14E	14,684,000	17.0	294,000	20.4	2.0	308,000	-1.0	295,000	5.2	187	6.9	
3/14RE	15,216,000	21.2	308,000	26.1	2.0	322,000	3.5	308,000	9.9	195	6.6	
3/15E	14,439,000	-1.7	284,000	-3.4	2.0	305,000	-1.0	297,000	0.7	188	6.8	
3/15RE	14,786,000	-2.8	271,000	-12.0	1.8	297,000	-7.8	287,000	-6.8	182	7.1	
3/16E	14,169,000	-1.9	299,000	5.3	2.1	326,000	6.9	316,000	6.4	200	6.4	
3/16RE	14,504,000	-1.9	274,000	1.1	1.9	299,000	0.7	290,000	1.0	183	7.0	

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

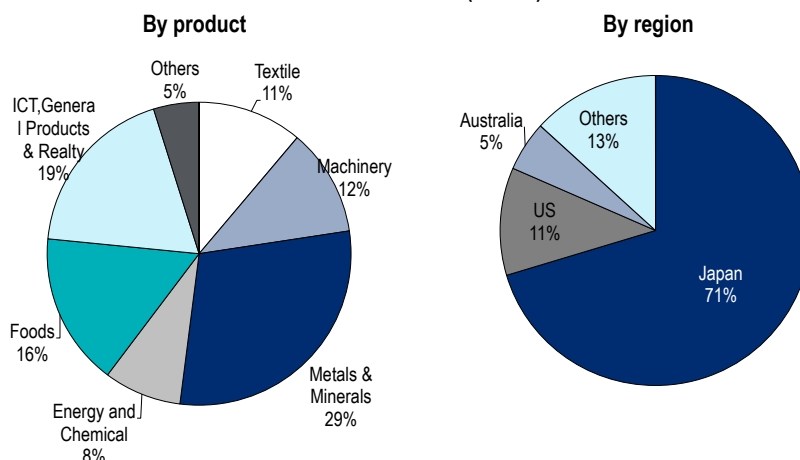
8001.T: Fiscal year end 31-Mar						Price: ¥1,281; TP: ¥1,350; Market Cap: ¥2,024,620m; Recomm: Neutral					
Profit & Loss (¥m)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	11,978,276	12,551,557	15,216,000	14,786,000	14,504,000	PE (x)	6.7	7.2	6.6	7.1	7.0
Cost of sales	-11,021,356	-11,635,678	-14,169,000	-13,780,000	-13,495,000	PB (x)	1.5	1.1	1.0	0.9	0.8
Gross profit	956,920	915,879	1,047,000	1,006,000	1,009,000	EV/EBITDA (x)	7.3	7.6	6.0	6.3	5.7
Gross Margin (%)	8.0	7.3	6.9	6.8	7.0	FCF yield (%)	-9.1	3.1	-14.2	-0.7	-1.3
EBITDA (Adj)	349,791	331,388	402,000	366,000	369,000	Dividend yield (%)	3.4	3.4	3.6	3.5	3.5
EBITDA Margin (Adj) (%)	2.9	2.6	2.6	2.5	2.5	Payout ratio (%)	23	25	24	25	25
Depreciation	-77,171	-87,169	-94,000	-95,000	-95,000	ROE (%)	23.8	17.9	16.1	13.2	12.2
Amortisation	0	0	0	0	0	Cashflow (¥m)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	272,620	244,219	308,000	271,000	274,000	EBITDA	349,791	331,388	402,000	366,000	369,000
EBIT Margin (Adj) (%)	2.3	1.9	2.0	1.8	1.9	Working capital	-94,898	0	-56,000	34,000	19,000
Net interest	5,018	11,419	5,000	4,000	4,000	Other	-42,063	-85,727	-33,000	-14,000	-15,000
Non-op/Except	63,536	55,474	9,000	22,000	21,000	Operating cashflow	212,830	245,661	313,000	386,000	373,000
PreTax Profit	341,174	311,112	322,000	297,000	299,000	Capex	-396,880	-183,106	-600,000	-400,000	-400,000
Tax	-122,029	-94,333	-112,000	-103,000	-104,000	Net acq/disposals	-27,273	-8,697	100,000	100,000	100,000
Extraord./Min.Int./Pref.div.	81,360	63,518	98,000	93,000	95,000	Other	7,838	-8,187	0	0	0
Reported net profit	300,505	280,297	308,000	287,000	290,000	Investing cashflow	-416,315	-199,990	-500,000	-300,000	-300,000
Net Margin (%)	2.5	2.2	2.0	1.9	2.0	Dividends paid	-40,335	0	-70,000	-73,000	-71,000
Core NPAT	300,505	280,297	308,000	287,000	290,000	Financing cashflow	84,704	-11,323	208,000	-86,000	-73,000
Per share data	2012	2013	2014E	2015E	2016E	Net change in cash	-120,267	34,348	21,000	0	0
Reported EPS (¥)	190	177	195	182	183	Free cashflow to s/holders	-184,050	62,555	-287,000	-14,000	-27,000
Core EPS (¥)	190	177	195	182	183	Other Index (Ymn or %)	2012	2013	2014E	2015E	2016E
EPS* (¥)	190	177	195	182	183	tNOPAT	287,293	250,484	340,000	324,000	336,000
DPS (¥)	44	44	46	45	45	tBusinessProfit	400,402	351,364	471,000	450,000	453,000
CFPS (¥)	135	155	198	244	236	tEBITDA	477,573	438,533	565,000	545,000	548,000
FCFPS (¥)	-116	40	-182	-9	-17	tROIC	7.6	5.7	6.9	6.1	6.1
BVPS (¥)	863	1,117	1,303	1,439	1,577	OOIC	5.7	5.6	6.4	7.3	6.8
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	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	5.1	4.8	21.2	-2.8	-1.9						
EBIT (Adj) (%)	6.5	-10.4	26.1	-12.0	1.1						
Core NPAT (%)	86.5	-6.7	9.9	-6.8	1.0						
Core EPS (%)	86.5	-6.7	9.9	-6.8	1.0						
Balance Sheet (¥m)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	521,432	580,491	600,000	600,000	600,000						
Accounts receivables	1,823,730	1,899,106	2,215,000	2,152,000	2,111,000						
Inventory	574,345	657,853	714,000	694,000	680,000						
Net fixed & other tangibles	868,601	1,281,541	1,466,000	1,521,000	1,576,000						
Goodwill & intangibles	284,109	0	0	0	0						
Financial & other assets	2,435,056	2,698,455	3,010,000	3,190,000	3,371,000						
Total assets	6,507,273	7,117,446	8,005,000	8,157,000	8,338,000						
Accounts payable	1,434,241	1,469,155	1,785,000	1,736,000	1,700,000						
Short-term debt	450,968	482,544	622,000	451,000	424,000						
Long-term debt	2,259,717	2,447,868	2,586,000	2,744,000	2,769,000						
Provisions & other liab	666,206	605,260	605,000	605,000	605,000						
Total liabilities	4,811,132	5,004,827	5,598,000	5,536,000	5,498,000						
Shareholders' equity	1,363,797	1,765,435	2,060,000	2,274,000	2,493,000						
Minority interests	332,344	347,184	347,000	347,000	347,000						
Total equity	1,696,141	2,112,619	2,407,000	2,621,000	2,840,000						
Net debt	2,189,253	2,349,921	2,608,000	2,595,000	2,593,000						
Net debt to equity (%)	129.1	111.2	108.4	99.0	91.3						
Note: Consolidated data. * EPS: NP/Est Shares OS.											

Itochu Corp. (8001) Investment Dashboard

Reasons for our Neutral rating

- Profits: We think profit will beat FY3/14 plan
- Strategy: Management is highly focused on the share price
- Valuations: The shares look less undervalued on yield and PBR due to a share price increase

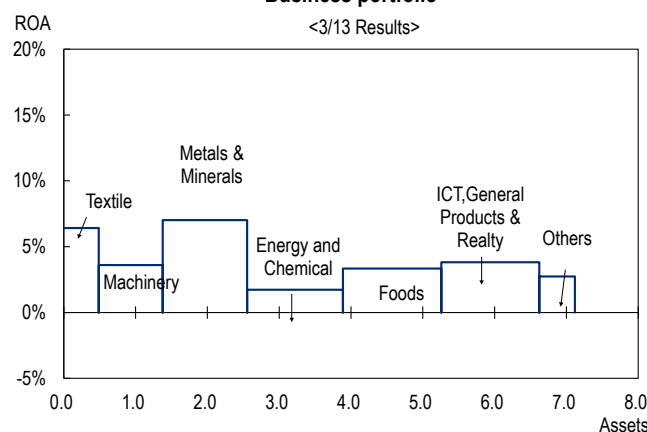
Sales breakdown (FY3/13)



Source: Company data, Citi Research.

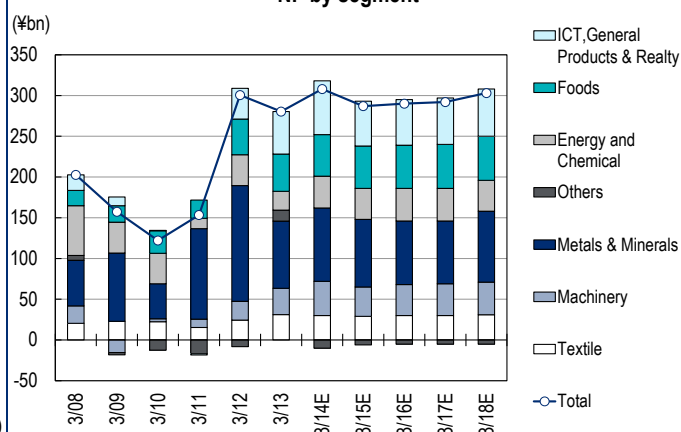
Business portfolio

<3/13 Results>



Source: Company data, Citi Research.

NP by segment

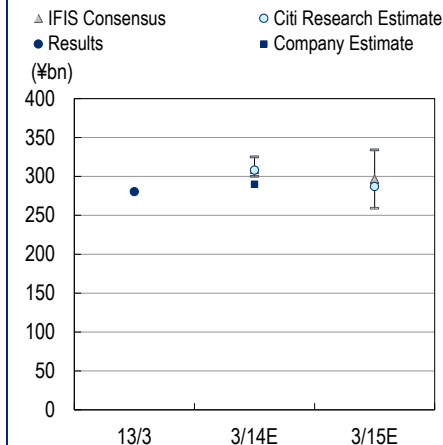


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

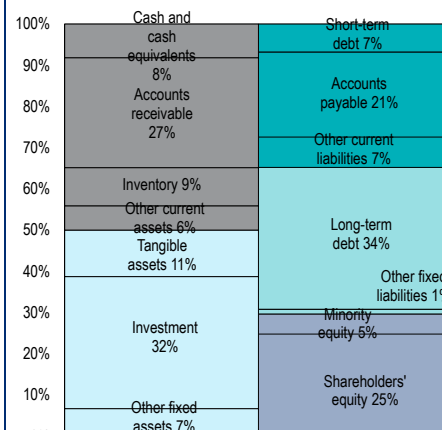
- Resources: Price declines in areas where Itochu has higher exposure than peers (iron ore, coal, etc.)
- Should the Chinese economy slow more than expected and profits from Itochu's Chinese non-resource operations tumble

NP forecast comparison



Source: Company data, IFIS (November 26), Citi Research.

Balance sheet (end-FY3/13)



Source: Company data.

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

NP					3/13			3/14	3/14	3/15	3/16	3/14	3/15	3/16
	Q1	Q2	Q3	Q4	FY	Q1	Q2	FYRE	FYCE	FYRE	FYRE	FYE	FYE	FYE
Textile	8.5	9.5	6.6	6.6	31.2	6.3	10.0	30.0	29.0	29.0	30.0	30.0	30.0	30.0
Machinery	5.9	8.8	7.6	9.7	32.1	13.8	10.4	42.0	37.0	36.0	38.0	33.0	32.0	34.0
Metals & Minerals	24.6	18.4	16.1	23.3	82.5	20.4	21.6	90.0	85.0	83.0	78.0	85.0	92.0	107.0
Energy and Chemical	8.3	6.7	-1.4	9.5	23.1	4.0	7.5	39.0	41.0	38.0	40.0	45.0	46.0	46.0
• Energy	5.1	2.8	-5.2	3.1	5.8	1.1	4.9	26.0	24.0	23.0	24.0	30.0	30.0	30.0
• Chemicals	3.2	3.9	3.9	6.3	17.3	2.9	2.7	13.0	17.0	15.0	16.0	15.0	16.0	16.0
Foods	10.9	14.4	13.0	7.4	45.7	11.4	14.6	51.0	55.0	52.0	53.0	54.0	56.0	57.0
ICT, General Products & Realty	8.4	15.0	12.8	15.9	52.1	18.7	21.1	66.0	53.0	55.0	56.0	58.0	51.0	52.0
• ICT	3.2	4.4	4.3	5.1	17.0	5.9	8.0	23.5	21.0	21.0	21.0	21.1	20.0	20.0
• Real estate, insurance, logistics	3.1	5.3	6.0	6.5	20.9	3.0	7.5	20.4	21.0	18.0	18.0	18.9	20.0	20.0
• Construction, finance	2.1	5.3	2.6	4.3	14.3	9.9	5.6	22.0	11.0	16.0	17.0	18.0	11.0	12.0
Adjustments/eliminations	4.0	-1.2	11.1	-0.3	13.6	2.8	2.6	-10.0	-10.0	-6.0	-5.0	-10.0	-10.0	-10.0
Total	70.7	71.6	65.9	72.2	280.3	77.3	87.8	308.0	290.0	287.0	290.0	295.0	297.0	316.0

Note: CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.

Source: Company data, Citi Research.

Figure 21. Itochu: NP by segment (our classifications for all trading companies; ¥bn)

	3/07	3/08	3/09	3/10	3/11	3/12	3/13	3/14RE	3/15RE	3/16RE	3/14E	3/15E	3/16E
(Profit)													
Resource	80.7	88.8	99.9	63.0	102.4	149.3	75.5	103.2	93.2	89.2	102.2	109.2	124.2
#Coal					32.9	18.8	3.6	1.8	3.1	9.0	4.0	12.7	19.8
#Iron Ore					72.3	110.4	60.3	76.0	67.4	56.9	70.1	68.1	76.0
#Copper					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
#Oil & Gas					-2.8	20.1	5.8	26.0	23.0	24.0	30.0	30.0	30.0
#Other resource					-1.0	0.0	5.8	-0.6	-0.3	-0.7	-1.9	-1.6	-1.6
Non-resource	96.4	128.5	65.5	65.2	58.6	151.2	204.8	204.8	193.8	200.8	192.8	187.8	191.8
#Machinery	21.1	21.4	-15.5	3.7	10.3	23.1	32.1	42.0	36.0	38.0	33.0	32.0	34.0
#Material	12.4	32.4	27.8	19.6	27.0	39.0	38.6	37.6	38.3	39.3	38.4	38.8	38.8
#Living	34.0	68.7	55.9	54.3	30.2	97.4	120.5	135.3	125.5	128.5	131.5	127.0	129.0
#Others	28.8	6.1	-2.8	-12.4	-9.0	-8.3	13.6	-10.0	-6.0	-5.0	-10.0	-10.0	-10.0
Total	177.1	217.3	165.4	128.2	161.0	300.5	280.3	308.0	287.0	290.0	295.0	297.0	316.0
(Breakdown)													
Non-resource	54%	59%	40%	51%	36%	50%	73%	66%	68%	69%	65%	63%	61%
Resource	46%	41%	60%	49%	64%	50%	27%	34%	32%	31%	35%	37%	39%

Note: CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.

Source: Company data, Citi Research (actuals are our estimates in some cases).

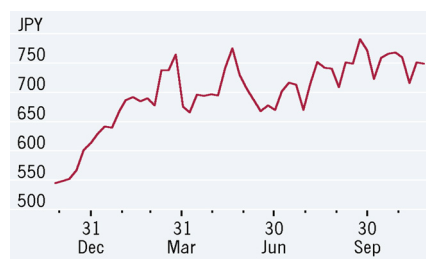
Company Focus

- Estimate Change
- Target Price Change
- Rating Change

Buy	1
<i>from Neutral</i>	
Price (27 Nov 13)	¥738
Target price	¥850
<i>from ¥830</i>	
Expected share price return	15.2%
Expected dividend yield	3.3%
Expected total return	18.4%
Market Cap	¥1,281,159M
	US\$12,647M

Price Performance

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



Marubeni (8002)

Up to Buy: Profit growth for FY3/15 + low PER relative to peers = laggard

■ **Conclusion** — We raise our target price to ¥850 from ¥830. We continue to adopt a target PBR of c1.05x but now use the average of our BPS estimates for FY3/14-FY3/15 rather than our FY3/14 estimate. We upgrade our rating to Buy from Neutral. We rate the shares Buy because 1) the large downward revision to Gavilon's profit forecast announced with H1 results was negative but we believe profit there is likely to grow in FY3/15, 2) Marubeni's relative share price is the lowest in the sector and we believe it looks highly undervalued; and 3) non-resource businesses, where earnings volatility is relatively low, account for 80% of profits, but Marubeni has the lowest PER in the sector.

■ **Share price outlook** — Profit assumptions for Gavilon assume one-off gains, and we have a negative impression of the large downward revision for Gavilon that stem mainly from a delay in posting these gains. However, that is not to say that the earnings power of Gavilon's grain and fertilizer business has diminished. If the 2013 US harvest is good we expect investor attention will shift to Gavilon's profit contribution in FY3/15.

■ **Valuation, BPS** — We lower our target relative PBR to 80% on downward revisions to 1) our FY3/14 ROE forecasts, and 2) our price assumptions for iron ore at the Roy Hill mine in Australia, which is currently under development. Following the H1 results announcement, we shift our base period to the average of FY3/14 and FY3/15. BPS increased to ¥737 at end-September, up 4.3% from end-June, due mainly to the posting of profits. We note that comprehensive income also rose slightly.

■ **FY3/14** — We lower our NP forecast to ¥211bn (+62% YoY) from ¥221bn. By segment, we revise up for transport equipment (yen weakness), and finance, logistics, and IT (acquisition contributions). However, we revise down for foods (stripping out one-off Gavilon profits, weak performance by fertilizers and other businesses) and chemicals (weak trading performance).

■ **FY3/15** — We lower our NP forecast to ¥217bn (+2.8% YoY) from ¥223bn. By segment, we revise up for foods, to reflect one-off profits we forecast for Gavilon, and transport equipment and finance, logistics, and IT, which are currently firm. However, we revise down for energy (volume decline) and minerals (lower coking coal price assumption). Year-on-year, we forecast profit declines for power projects & infrastructure due to the dropout of one-off profits and lower resource prices, but expect this to be offset by profit growth at Gavilon.

Consol.	Sales		OP		OPM(%)	Pretax Profit		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)		¥M	YOY (%)	¥M	YOY (%)	¥	X
3/12A	10,612,205	17.6	152,829	4.8	1.4	149,633	10.2	154,771	13.4	89	8.3
3/13A	10,674,395	0.6	128,423	-16.0	1.2	74,223	-50.4	130,143	-15.9	75	9.8
3/14CE	13,700,000	28.3	175,000	36.3	1.3	280,000	277.2	210,000	61.4	121	6.1
3/14CRE	13,700,000	28.3	170,000	32.4	1.2	270,000	263.8	210,000	61.4	121	6.1
3/14E	13,924,000	30.4	177,000	37.8	1.3	195,000	162.7	221,000	69.8	127	5.8
3/14RE	13,958,000	30.8	139,000	8.2	1.0	175,000	135.8	211,000	62.1	122	6.1
3/15E	14,062,000	1.0	172,000	-2.8	1.2	195,000	0.0	223,000	0.9	128	5.7
3/15RE	14,058,000	0.7	153,000	10.1	1.1	183,000	4.6	217,000	2.8	125	5.9
3/16E	14,056,000	0.0	171,000	-0.6	1.2	202,000	3.6	230,000	3.1	132	5.6
3/16RE	14,051,000	0.0	148,000	-3.3	1.1	184,000	0.5	221,000	1.8	127	5.8

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

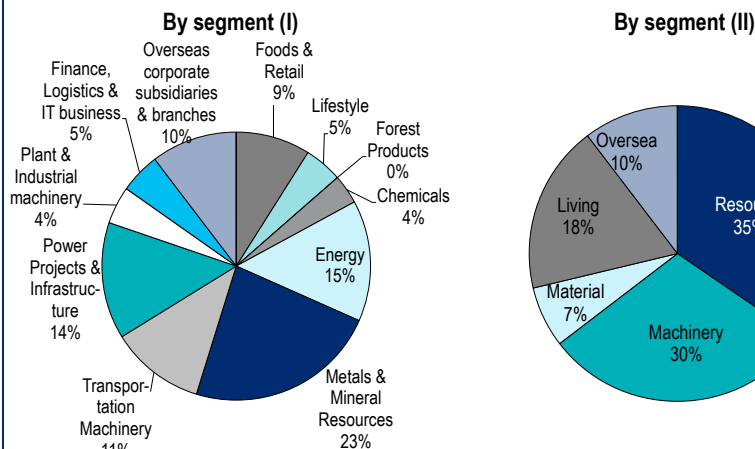
8002.T: Fiscal year end 31-Mar						Price: ¥738; TP: ¥850; Market Cap: ¥1,281,159m; Recomm: Buy					
Profit & Loss (¥m)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	10,612,205	10,674,395	13,958,000	14,058,000	14,051,000	PE (x)	8.3	9.8	6.1	5.9	5.8
Cost of sales	-10,069,904	-10,134,747	-13,346,000	-13,431,000	-13,429,000	PB (x)	1.4	1.1	0.9	0.8	0.7
Gross profit	542,301	539,648	612,000	627,000	622,000	EV/EBITDA (x)	7.4	7.2	6.2	5.5	5.0
Gross Margin (%)	5.1	5.1	4.4	4.5	4.4	FCF yield (%)	2.6	10.5	-30.0	-7.4	-6.7
EBITDA (Adj)	222,465	206,123	220,000	234,000	229,000	Dividend yield (%)	2.7	3.3	3.3	3.4	3.4
EBITDA Margin (Adj) (%)	2.1	1.9	1.6	1.7	1.6	Payout ratio (%)	22	32	20	20	20
Depreciation	-69,636	-77,700	-81,000	-81,000	-81,000	ROE (%)	18.5	12.7	16.8	15.0	13.6
Amortisation	0	0	0	0	0	Cashflow (¥m)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	152,829	128,423	139,000	153,000	148,000	EBITDA	222,465	206,123	220,000	234,000	229,000
EBIT Margin (Adj) (%)	1.4	1.2	1.0	1.1	1.1	Working capital	-166,739	46,664	-39,000	-7,000	1,000
Net interest	6,455	11,971	9,000	10,000	10,000	Other	71,977	-12,712	35,000	28,000	34,000
Non-op/Except	-9,651	-66,171	27,000	20,000	26,000	Operating cashflow	127,703	240,075	216,000	255,000	264,000
PreTax Profit	149,633	74,223	175,000	183,000	184,000	Capex	-94,400	-105,534	-600,000	-350,000	-350,000
Tax	-80,167	-22,746	-55,000	-57,000	-58,000	Net acq/disposals	0	0	100,000	150,000	150,000
Extraord./Min.Int./Pref.div.	85,305	78,666	91,000	91,000	95,000	Other	-162,879	-87,291	0	0	0
Reported net profit	154,771	130,143	211,000	217,000	221,000	Investing cashflow	-257,279	-192,825	-500,000	-200,000	-200,000
Net Margin (%)	1.5	1.2	1.5	1.5	1.6	Dividends paid	-28,654	-38,200	-42,000	-42,000	-43,000
Core NPAT	154,771	130,143	211,000	217,000	221,000	Financing cashflow	214,192	111,585	-217,000	-55,000	-64,000
Per share data	2012	2013	2014E	2015E	2016E	Net change in cash	85,154	158,835	-501,000	0	0
Reported EPS (¥)	89	75	122	125	127	Free cashflow to s/holders	33,303	134,541	-384,000	-95,000	-86,000
Core EPS (¥)	89	75	122	125	127	Other Index (Ymn or %)	2012	2013	2014E	2015E	2016E
EPS* (¥)	89	75	122	125	127	tNOPAT	185,000	170,000	180,000	187,000	190,000
DPS (¥)	20	24	24	25	25	tBusinessProfit	246,000	223,000	232,000	236,000	239,000
CFPS (¥)	74	138	124	147	152	tEBITDA	316,000	301,000	313,000	317,000	320,000
FCFPS (¥)	19	77	-221	-55	-50	tROIC (%)	6.2	4.9	4.6	4.4	4.3
BVPS (¥)	521	663	784	885	987	OOIC (%)	4.3	7.0	5.6	6.0	6.0
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	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	17.6	0.6	30.8	0.7	0.0						
EBIT (Adj) (%)	4.8	-16.0	8.2	10.1	-3.3						
Core NPAT (%)	13.4	-15.9	62.1	2.8	1.8						
Core EPS (%)	13.4	-15.9	62.1	2.8	1.8						
Balance Sheet (¥m)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	718,055	898,638	400,000	400,000	400,000						
Accounts receivables	1,247,149	1,320,305	1,578,000	1,590,000	1,589,000						
Inventory	501,900	580,002	601,000	605,000	605,000						
Net fixed & other tangibles	889,060	967,367	1,157,000	1,176,000	1,195,000						
Goodwill & intangibles	147,648	118,789	119,000	119,000	119,000						
Financial & other assets	1,871,511	2,232,230	2,544,000	2,685,000	2,829,000						
Total assets	5,375,323	6,117,331	6,399,000	6,575,000	6,737,000						
Accounts payable	1,086,246	1,233,642	1,473,000	1,482,000	1,482,000						
Short-term debt	380,729	482,564	795,000	495,000	567,000						
Long-term debt	2,172,739	2,286,119	1,799,000	2,086,000	1,993,000						
Provisions & other liab	771,471	911,009	912,000	912,000	912,000						
Total liabilities	4,411,185	4,913,334	4,979,000	4,975,000	4,954,000						
Shareholders' equity	904,063	1,150,358	1,361,000	1,536,000	1,714,000						
Minority interests	60,075	53,639	59,000	64,000	69,000						
Total equity	964,138	1,203,997	1,420,000	1,600,000	1,783,000						
Net debt	1,835,413	1,870,045	2,194,000	2,181,000	2,160,000						
Net debt to equity (%)	190.4	155.3	154.5	136.3	121.1						
Note: Consolidated data. * EPS: NP/Est Shares OS.											

Marubeni (8002) Investment Dashboard

Reasons to Buy

- **Profits:** Profits are likely to be in line with plan in FY3/14, and we look for profit growth in FY3/15
- **Valuations:** Relatively stable non-resource businesses account for nearly 80% of profits, but PER is the lowest in the sector
- **Strategy:** We look for expanded profits driven by non-resource businesses due to the Gavilon acquisition

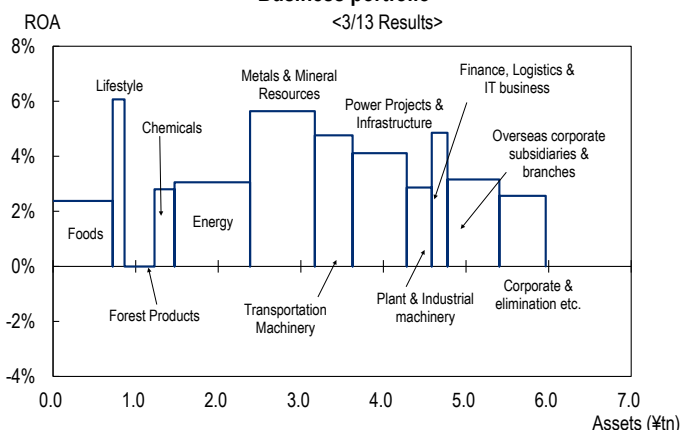
Sales breakdown (FY3/13)



Source: Company data, Citi Research. Note: US GAAP base. By segment (I) excludes corporate/eliminations.

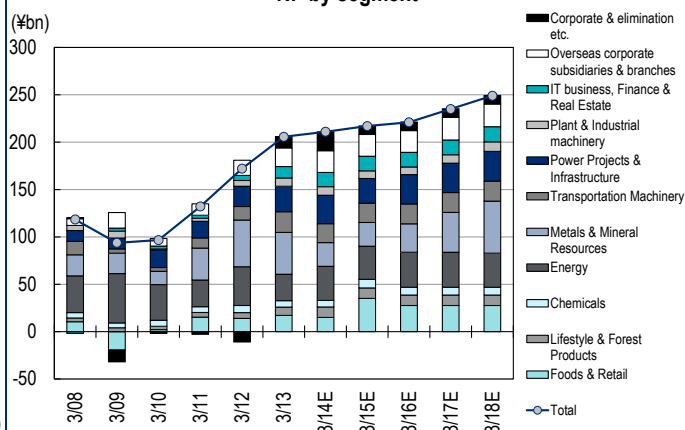
Business portfolio

<3/13 Results>



Source: Company data, Citi Research. Note: US GAAP base.

NP by segment

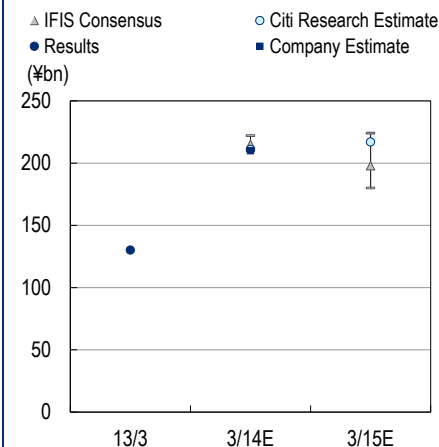


Source: Company data, Citi Research. Note: US GAAP base.

Alternate scenario: A more bearish case

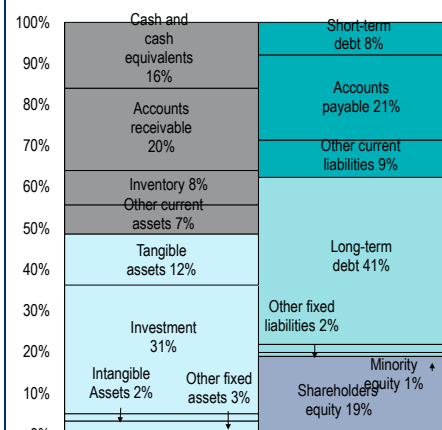
- **Non-resource businesses:** Should the foods and grain businesses take a hit from unseasonable weather
- **Resources:** Should prices for copper, to which Marubeni has a comparatively high exposure, decline
- **Balance sheet:** A rapid increase in net interest payments due to higher interest rates

NP forecast comparison



Source: Company data, IFIS (November 26), Citi Research.

Balance sheet (end-FY3/13)



Note: US GAAP base.
Source: Company data.

Figure 22. Marubeni: NP by segment (¥bn)

NP					3/13				3/14	3/14	3/15	3/16	3/14	3/15	3/16
	Q1	Q2	Q3	Q4E	FY	FY New	Q1	Q2	FYRE	FYCE	FYRE	FYRE	FYE	FYE	FYE
Foods & Retail	3.1	-0.4	1.2	13.2	17.1	17.1	5.5	1.2	15.0	15.0	35.1	27.6	32.0	33.0	34.0
Lifestyle & Forest Products	1.2	1.8	2.0	3.8	8.8	8.7	2.2	3.2	11.0	13.0	11.0	11.0	11.0	11.0	11.0
Forest Products	1.0	-0.8	-0.2	0.1	0.0										
Chemicals	1.9	2.6	1.3	1.1	6.8	6.8	2.3	1.5	7.0	8.0	9.1	8.2	9.0	9.2	9.3
Energy	12.6	9.1	9.3	-3.1	27.9	27.9	9.0	9.7	36.0	39.0	35.0	37.0	45.0	42.0	38.0
Metals & Mineral Resources	16.5	12.8	10.5	4.4	44.3	44.3	6.6	13.9	25.0	27.0	25.0	30.0	26.0	32.0	39.0
Transportation Machinery	4.3	4.8	9.3	3.3	21.8	21.8	5.1	5.6	20.0	18.0	20.5	21.0	18.0	18.5	19.0
Power Projects & Infrastructure	7.5	4.7	8.0	6.7	26.9	26.9	9.6	7.9	27.0	30.0	26.0	31.0	27.0	26.5	29.0
Plant & Industrial machinery	1.4	0.3	2.8	4.1	8.7	8.7	1.9	1.4	9.0	10.0	8.0	8.0	9.0	8.0	8.0
IT business, Finance & Real estate	1.7	3.3	1.8	2.5	9.3	12.0	3.0	1.9	15.0	15.0	15.5	15.5	12.0	12.5	12.5
Overseas corporate subsidiaries & branches	1.7	10.4	1.6	6.1	19.8	19.8	12.2	3.6	23.0	22.0	23.0	23.0	22.0	22.0	22.0
Corporate & elimination etc.	-0.4	4.2	-0.4	11.0	14.4	11.7	6.7	-2.1	20.0	13.0	9.0	9.0	10.0	8.0	8.0
Total	52.4	52.9	47.1	53.2	205.7	205.7	64.1	47.7	211.0	210.0	217.0	221.0	221.0	223.0	230.0

Note: Actuals are US GAAP base. The lifestyle and forestry products segments combined from FY3/13. Prior to that it was divided into the lifestyle and forestry products segments. Prior to FY3/13 the finance, real estate, and IT segment was the finance, logistics, and IT segment. CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.

Source: Company Data, Citi Research

Figure 23. Marubeni: NP by segment (our classifications for all trading companies; ¥bn)

NP	3/07	3/08	3/09	3/10	3/11	3/12	3/13	3/14RE	3/15RE	3/16RE	3/14E	3/15E	3/16E
Resource	56.1	60.4	73.4	52.4	56.0	79.2	61.2	50.0	49.0	56.0	60.0	63.0	66.0
Coal		2.4	16.1	10.3	17.2	22.9	12.4	3.8	6.3	10.7	8.5	14.8	19.0
Iron Ore		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.0	0.0	0.0	-0.4
Copper		14.4	5.6	7.8	11.3	14.9	15.5	12.9	12.6	14.9	5.8	5.3	8.2
Oil & Gas		19.3	45.0	29.1	20.5	30.9	34.1	47.6	46.8	48.4	51.2	47.8	44.0
Other resource		24.3	6.7	5.2	7.0	10.5	-0.8	-14.3	-16.7	-16.0	-5.5	-4.9	-4.8
Non-resource	63.2	86.8	37.8	42.9	80.5	92.9	31.0	31.0	31.0	31.0	31.0	31.0	31.0
Machinery	18.0	31.1	23.1	23.5	31.4	41.8	57.4	59.0	54.5	60.0	54.0	53.0	56.0
Material	11.0	25.4	20.3	8.7	24.0	26.2	25.1	31.3	33.2	32.4	33.3	33.3	33.5
Living	12.2	12.6	-12.0	8.8	23.4	25.3	35.2	41.0	61.6	54.1	55.0	56.5	57.5
Others	22.0	17.8	6.4	2.0	1.7	-0.4	26.8	29.7	18.7	18.5	18.7	17.2	17.0
Total	119.3	147.2	111.2	95.3	136.5	172.1	205.7	211.0	217.0	221.0	221.0	223.0	230.0
Breakdown													
Non-resource	53%	59%	34%	45%	59%	54%	70%	76%	77%	75%	73%	72%	71%
Resource	47%	41%	66%	55%	41%	46%	30%	24%	23%	25%	27%	28%	29%

Note: Actuals are US GAAP base. CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.

Source: Company data, Citi Research (actuals are our estimates in some cases)

Our take on Marubeni shares

Performance in FY3/14, our outlook

Since September Marubeni's TOPIX-relative performance is down 12%, with the same level of underperformance since April. It is clear that the market has reacted negatively to the large undershoot for Gavilon in H1, but we think profit growth is likely in FY3/15. In addition, the FY3/15E PER of around 6x puts Marubeni at the bottom of the sector. If it looks as if Gavilon profits will improve then Marubeni shares could find upside easier to come by.

FY3/15 profit growth looks likely for Gavilon

Our thinking on Gavilon profits

Marubeni expanded the earnings power of its grain business substantially by acquiring Gavilon. However, H1 NP in the foods and retail segment¹ fell ¥15bn or so below plan (at c¥0.5bn, rather than the ¥15bn that had been expected) because 1) the posting of an estimated ¥10bn or so in one-off gains² now looks likely to come in FY3/15 rather than FY3/14, as had been expected; and 2) profits in existing business were low (accounting for ¥5bn of the downward revision). Broadly speaking Gavilon deals in logistics (consolidation, storage) and fertilizer. Through the last grain season drought and other factors resulted in poor harvests, so volume sent to storage (inventory) is low. As such Gavilon profits are expected to be weak in FY3/14. However, the harvest was good in the US in 2013, and going forward it looks as if inventory volume will increase. Therefore, Gavilon profits look set to improve in FY3/15. We look for a ¥20bn YoY profit increase in the foods and retail segment on the posting of ¥10bn+ in one-off gains and a c¥10bn improvement in profits for existing businesses.

¹ To which Gavilon belongs, although we understand some profits are posted to the chemicals segment.

² Not disclosed; associated with changes to Marubeni's related businesses stemming from the Gavilon acquisition.

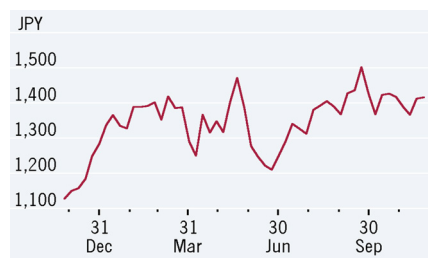
Company Focus

■ Estimate Change

Buy	1
Price (27 Nov 13)	¥1,396
Target price	¥1,700
Expected share price return	21.8%
Expected dividend yield	3.8%
Expected total return	25.6%
Market Cap	¥2,547,927M
	US\$25,152M

Price Performance

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



Mitsui & Co. (8031)

Remaining Buy: Significant uncertainty around resource prices, but shares look quite undervalued

- **Conclusion** — We reiterate our target price of ¥1,700, although the basis for this changes from a PBR of 0.85x FY3/14E BPS to a PBR of 0.85x applied to our average BPS forecast for FY3/14-FY3/15. We also reiterate our Buy rating. We are bearish on the iron ore price over the long term, and Mitsui has a high iron ore exposure. At the same time, the market could look favorably on the shares through the end of FY3/14 as 1) an overshoot to full-year plan looks likely and 2) Mitsui's yield is relatively high.
- **Our take on the share price** — Even in a sector with high yields and low PBRs Mitsui shares look significantly undervalued. We believe the shares could rise over the next few months on expectations for an overshoot to Mitsui's full-year profit and dividend forecasts. In our view, the market could also be interested in the new medium-term plan due out in 2014 as at the H1 results briefing the Mitsui president said the company plans to pursue both growth and shareholders' return.
- **Longer-term issues: iron ore prices, fall in RoE** — Our global commodities team has lowered its longer-term iron ore price assumption due to oversupply and other factors. If Mitsui could stem the decline in RoE by either 1) increasing profits in the metal resources business by cutting costs by more than prices decline or 2) improving profit generating capabilities in areas other than metal resources (increasing the profitability of the gas business in Mozambique and the US as well as non-resource businesses), then market sentiment could improve significantly.
- **Valuation, BPS** — We lower our target relative PBR to c65% as we 1) cut our medium-term profit forecasts and expect RoE to be in single digits from FY3/16 and 2) reduce our long-term iron ore price assumption. With the announcement of H1 results we now use the average of our FY3/14 and FY3/15 BPS estimates in setting our TP. End-September BPS was ¥1,836, up 3.0% over end-June. This was due mainly to the posting of profits, but comprehensive income also increased.
- **FY3/14** — We lower our NP forecast to ¥385bn (+25% YoY) from ¥404bn. We do so because negatives in metal resources (copper mines and scrap business impairment) and energy (dividends from the LNG business, etc.) look set to outweigh positives in steel products (strong trading performance) and the lifestyle business (one-off gains likely in H2).
- **FY3/15** — We trim our NP forecast to ¥380bn (-1.3%) from ¥389bn. We revise up for steel products and metal resources to reflect our FY3/14 revisions and segment changes (the coal business moves from energy to metal resources), but our downward revisions for energy (reflecting our revisions for FY3/14) are larger. We anticipate YoY profit growth in metal resources (as impairment drops out), but the YoY decline we expect for innovation and cross-function (drop out of one-off gains) and energy (due to the shift for coal profits to the metal resources segment and lower oil prices) is larger.

Consol.	Sales		OP		Pretax Profit		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	
3/12A	10,481,166	5.4	348,384	9.9	3.3	413,211	51.5	434,497	41.7	238	5.9
3/13A	10,049,637	-4.1	254,603	-26.9	2.5	314,098	-24.0	307,926	-29.1	169	8.3
3/14CE	na	na	310,000	21.8	na	385,000	22.6	370,000	20.2	203	6.9
3/14E	10,200,000	1.5	331,000	30.0	3.2	409,000	30.2	404,000	31.2	221	6.3
3/14RE	10,120,000	0.7	309,000	21.4	3.1	382,000	21.6	385,000	25.0	211	6.6
3/15E	10,190,000	-0.1	317,000	-4.2	3.1	387,000	-5.4	389,000	-3.7	213	6.5
3/15RE	10,070,000	-0.5	283,000	-8.4	2.8	360,000	-5.8	380,000	-1.3	208	6.7
3/16E	10,190,000	0.0	323,000	1.9	3.2	385,000	-0.5	399,000	2.6	219	6.4
3/16RE	9,990,000	-0.8	247,000	-12.7	2.5	360,000	0.0	355,000	-6.6	195	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

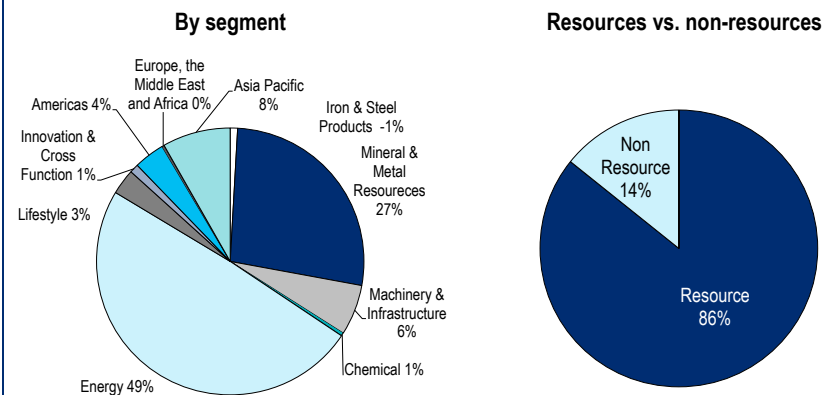
8031.T: Fiscal year end 31-Mar						Price: ¥1,396; TP: ¥1,700; Market Cap: ¥2,547,927m; Recomm: Buy					
Profit & Loss (¥m)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	10,481,166	10,049,637	10,120,000	10,070,000	9,990,000	PE (x)	5.9	8.3	6.6	6.7	7.2
Cost of sales	-9,602,887	-9,259,198	-9,236,000	-9,222,000	-9,184,000	PB (x)	1.0	0.8	0.7	0.7	0.6
Gross profit	878,279	790,439	884,000	848,000	806,000	EV/EBITDA (x)	3.2	3.8	3.0	2.6	2.4
Gross Margin (%)	8.4	7.9	8.7	8.4	8.1	FCF yield (%)	-2.3	-6.6	-9.2	-5.7	-3.8
EBITDA (Adj)	501,859	453,455	508,000	482,000	446,000	Dividend yield (%)	3.9	3.1	3.8	3.7	3.5
EBITDA Margin (Adj) (%)	4.8	4.5	5.0	4.8	4.5	Payout ratio (%)	23	25	25	25	25
Depreciation	-153,475	-198,852	-199,000	-199,000	-199,000	ROE (%)	17.4	10.6	11.5	10.4	9.1
Amortisation	0	0	0	0	0	Cashflow (¥m)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	348,384	254,603	309,000	283,000	247,000	EBITDA	501,859	453,455	508,000	482,000	446,000
EBIT Margin (Adj) (%)	3.3	2.5	3.1	2.8	2.5	Working capital	-127,931	180,153	209,000	9,000	13,000
Net interest	81,021	78,871	83,000	83,000	83,000	Other	7,056	-172,178	48,000	64,000	93,000
Non-op/Except	-16,194	-19,376	-10,000	-6,000	30,000	Operating cashflow	380,984	461,430	765,000	555,000	552,000
PreTax Profit	413,211	314,098	382,000	360,000	360,000	Capex	-439,760	-629,510	-1,000,000	-700,000	-650,000
Tax	-172,622	-158,349	-172,000	-162,000	-162,000	Net acq/disposals	2,718	9,155	200,000	100,000	100,000
Extraord./Min.Int./Pref.div.	193,908	152,177	175,000	182,000	157,000	Other	-1,149	-132,942	0	0	0
Reported net profit	434,497	307,926	385,000	380,000	355,000	Investing cashflow	-438,191	-753,297	-800,000	-600,000	-550,000
Net Margin (%)	4.1	3.1	3.8	3.8	3.6	Dividends paid	-98,571	-91,270	-78,000	-97,000	-95,000
Core NPAT	434,497	307,926	385,000	380,000	355,000	Financing cashflow	57,394	221,635	4,000	45,000	-2,000
Per share data	2012	2013	2014E	2015E	2016E	Net change in cash	-9,947	-5,938	-31,000	0	0
Reported EPS (¥)	238	169	211	208	195	Free cashflow to s/holders	-58,776	-168,080	-235,000	-145,000	-98,000
Core EPS (¥)	238	169	211	208	195	Other Index (Ymn or %)	2012	2013	2014E	2015E	2016E
EPS* (¥)	238	169	211	208	195	tNOPAT	499,688	356,000	412,000	413,000	379,000
DPS (¥)	55	43	53	52	49	tBusinessProfit	691,689	539,222	593,000	588,000	548,000
CFPS (¥)	209	253	419	304	302	tEBITDA	845,164	738,074	791,852	786,852	746,852
FCFPS (¥)	-32	-92	-129	-79	-54	tROIC (%)	8.9	5.5	5.7	5.4	4.7
BVPS (¥)	1,447	1,744	1,919	2,074	2,216	OOIC (%)	6.8	7.2	10.5	7.2	6.8
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	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	5.4	-4.1	0.7	-0.5	-0.8						
EBIT (Adj) (%)	9.9	-26.9	21.4	-8.4	-12.7						
Core NPAT (%)	41.7	-29.1	25.0	-1.3	-6.6						
Core EPS (%)	41.7	-29.1	25.0	-1.3	-6.6						
Balance Sheet (¥m)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	1,436,329	1,430,281	1,400,000	1,400,000	1,400,000						
Accounts receivables	2,055,661	2,038,555	1,976,000	1,966,000	1,950,000						
Inventory	515,758	746,584	502,000	501,000	499,000						
Net fixed & other tangibles	1,283,522	1,615,835	1,823,000	1,924,000	2,000,000						
Goodwill & intangibles	110,307	118,448	118,000	118,000	118,000						
Financial & other assets	3,610,246	4,374,878	4,824,000	5,173,000	5,478,000						
Total assets	9,011,823	10,324,581	10,643,000	11,082,000	11,445,000						
Accounts payable	1,342,343	1,438,287	1,340,000	1,338,000	1,333,000						
Short-term debt	679,789	1,084,340	859,000	763,000	836,000						
Long-term debt	2,898,218	3,184,957	3,492,000	3,730,000	3,750,000						
Provisions & other liab	1,230,663	1,176,893	1,177,000	1,177,000	1,177,000						
Total liabilities	6,151,013	6,884,477	6,868,000	7,008,000	7,096,000						
Shareholders' equity	2,641,318	3,181,819	3,501,000	3,784,000	4,044,000						
Minority interests	219,492	258,285	274,000	290,000	305,000						
Total equity	2,860,810	3,440,104	3,775,000	4,074,000	4,349,000						
Net debt	2,141,678	2,839,016	2,951,000	3,093,000	3,186,000						
Net debt to equity (%)	74.9	82.5	78.2	75.9	73.3						
Note: Consolidated data. * EPS: NP/Est Shares OS.											

Mitsui & Co. (8031) Investment Dashboard

Reasons to Buy

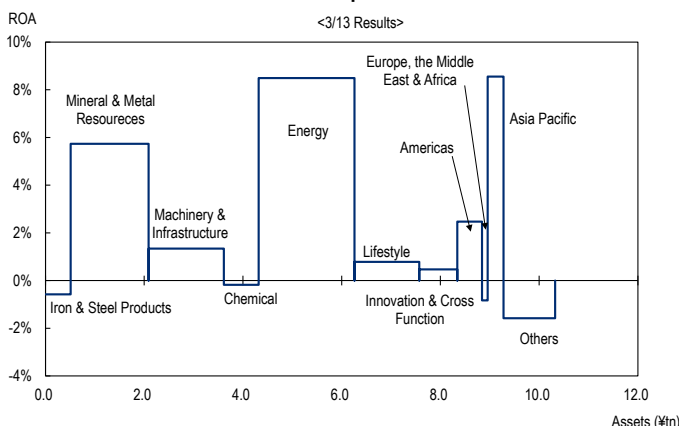
- **Profits:** We anticipate profit growth in FY3/14 ahead of plan)
- **Non-resources:** Margins are relatively low
- **Valuations:** Given a higher dividend yield than peers, share price performance could be strong through FY-end
- **Growth potential:** We expect profit growth long term in iron ore, where Mitsui is highly cost competitive, and the Mozambique natural gas business, where reserve volume is expected to grow

NP breakdown (FY3/13)



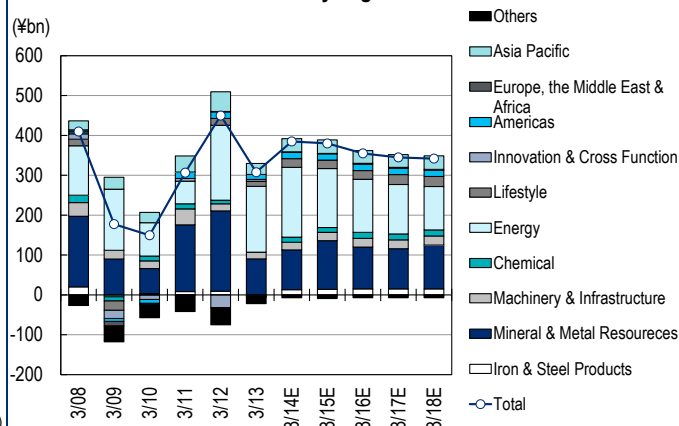
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

NP by segment

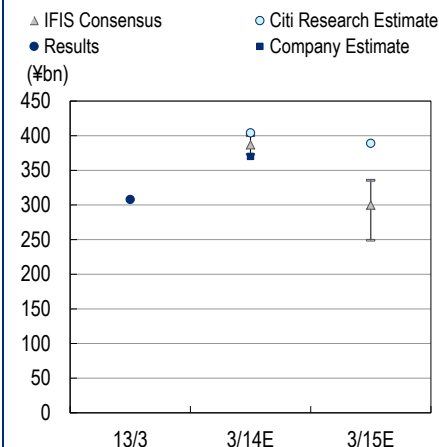


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

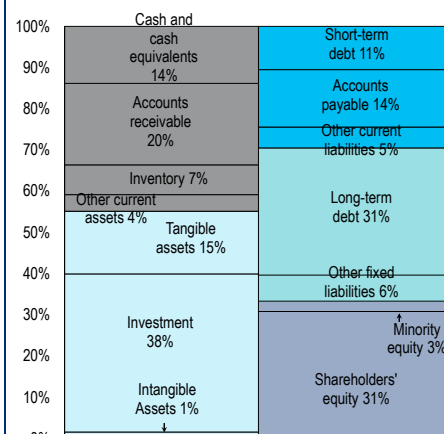
- **Resources:** A sharp decline in the price of iron ore, to which Mitsui is highly exposed
- **Non-resources:** Should chemicals and steel stay weaker than expected

NP forecast comparison



Source: Company data, IFIS (November 26), Citi Research.

Balance sheet (end-FY3/13)



Source: Company data.

Figure 24. Mitsui & Co.: NP by segment (¥bn)

NP					3/13		3/14			3/14	3/15	3/16	3/14	3/15	3/16
	Q1	Q2	Q3	Q4E	FY	FY New	Q1	Q2	FYRE	FYCE	FYRE	FYRE	FYE	FYE	FYE
Iron & Steel Products	-1.9	1.1	-6.3	4.1	-2.9	-2.9	3.1	3.6	13.0	13.0	14.0	15.0	10.0	11.0	12.0
Mineral & Metal Resources	30.3	19.3	27.1	13.7	90.5	90.5	33.1	11.6	100.0	89.0	122.0	105.0	119.0	118.0	129.0
Machinery & Infrastructure	4.3	4.6	4.0	7.5	20.5	16.9	5.2	3.8	19.0	19.0	21.0	22.0	21.0	21.0	22.0
Chemical	1.1	-2.1	-1.9	1.6	-1.3	-1.5	7.7	1.9	13.0	14.0	12.0	15.0	15.0	12.0	14.0
Energy	56.3	22.6	41.2	44.8	164.8	164.8	59.7	34.3	175.0	172.0	148.0	133.0	179.0	161.0	151.0
Lifestyle	2.5	2.4	11.1	-5.6	10.3	13.0	-0.7	8.7	22.0	22.0	21.0	22.0	15.0	20.0	21.0
Innovation & Cross Function	3.4	2.6	2.5	-4.8	3.6	4.7	-0.9	-2.8	0.0	1.0	-2.0	-2.0	-3.0	-3.0	-3.0
Americas	3.7	5.1	4.6	-1.0	12.4	12.4	2.8	2.5	16.0	NA	16.0	16.0	16.0	16.0	16.0
Europe, the Middle East and Africa	0.0	-0.5	-0.3	-0.1	-0.9	-0.9	3.8		1.0	NA	1.0	2.0	1.0	1.0	2.0
Asia Pacific	8.9	7.9	6.0	4.7	27.5	27.5	10.0	8.4	33.0	NA	34.0	32.0	36.0	37.0	40.0
Others	-4.1	0.7	-2.4	-10.8	-16.5	-16.6	2.1	-1.3	-7.0	-10.0	-7.0	-5.0	-5.0	-5.0	-5.0
Total	104.4	63.9	85.6	54.0	307.9	307.9	125.8	71.4	385.0	370.0	380.0	355.0	404.0	389.0	399.0

Note: Based on new classifications from 3/13 FY New column. CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.
Source: Company data, Citi Research.

Figure 25. Mitsui & Co.: NP by segment (our classifications for all trading companies; ¥bn)

NP	3/07	3/08	3/09	3/10	3/11	3/12	3/13	3/14RE	3/15RE	3/16RE	3/14E	3/15E	3/16E
Resource	204.0	323.7	273.3	161.9	263.9	439.1	282.5	308.0	304.0	270.0	334.0	316.0	320.0
#Coal				13.4	23.6	29.6	-12.7	0.0	5.7	13.2	-7.4	1.7	9.2
#Iron Ore				67.6	186.3	233.5	113.5	139.4	131.7	105.0	154.1	143.9	149.9
#Copper				8.6	9.5	7.2	1.2	2.3	20.6	22.4	2.1	8.5	10.9
#Oil & Gas				70.1	31.3	158.5	177.5	175.0	142.3	119.8	186.4	159.3	141.8
#Other resource				2.2	13.2	10.4	3.0	-8.7	3.7	9.6	-1.2	2.6	8.2
Non-resource	105.5	86.4	-95.7	-12.2	42.9	-4.7	25.4	77.0	76.0	85.0	70.0	73.0	79.0
#Machinery	33.6	34.4	21.8	20.4	43.0	22.3	20.5	19.0	21.0	22.0	21.0	21.0	22.0
#Material	39.9	38.5	-15.0	18.9	36.0	28.1	-4.2	26.0	26.0	30.0	25.0	23.0	26.0
#Living	4.3	16.4	-23.6	-19.0	6.2	-13.9	13.9	22.0	19.0	20.0	12.0	17.0	18.0
#Others	19.8	-3.1	-79.0	-32.5	-42.3	-41.1	-4.8	10.0	10.0	13.0	12.0	12.0	13.0
Total	301.5	410.0	177.6	149.7	306.7	434.5	307.9	385.0	380.0	355.0	404.0	389.0	399.0
Breakdown													
Non-resource	38%	25%	-22%	2%	14%	6%	14%	25%	25%	29%	21%	23%	24%
Resource	62%	75%	122%	98%	86%	94%	86%	75%	75%	71%	79%	77%	76%

Note: CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.
Source: Company data, Citi Research (actuals are our estimates in some cases).

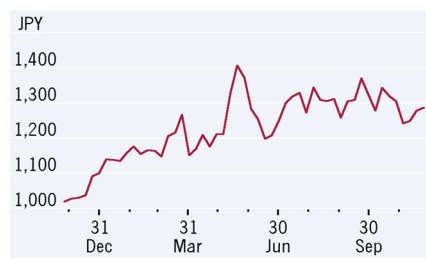
Company Focus

■ Estimate Change

Buy	1
Price (27 Nov 13)	¥1,261
Target price	¥1,500
Expected share price return	19.0%
Expected dividend yield	3.6%
Expected total return	22.5%
Market Cap	¥1,573,130M
	US\$15,529M

Price Performance

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



Sumitomo Corp. (8053)

Reiterating Buy: Despite impairment concerns short term, we look for a 4%+ dividend yield in FY3/15

■ **Conclusion** — We maintain our ¥1,500 target price (from FY3/14E PBR of c0.8x to FY3/14E-FY3/15E average BPS x c0.8) and our Buy rating. Our Buy rests on 1) distinct undervaluation versus the FY3/15E yield and 2) our expectations for the longer-term decline in RoE to be relatively modest. However, we think concerns about impairments in the course of FY3/14 could weigh on the near-term share price.

■ **Our take on the share price** — Sumitomo Corp. strikes us as markedly undervalued, even for the trading company sector, which is on low valuations in terms of dividend yield (especially for FY3/15E) and PBR. However, in the closing stages of FY3/14 we expect concern about impairment on 1) TBC (US tire sales business with depreciable assets of as much as ¥100bn) and 2) the Isaac Plains coal mine (book value of around ¥35bn) and concomitant worries of a full-year plan miss may weigh on the shares. We think the low valuations will probably only be revisited after these share-price negatives have been worked through.

■ **Valuations, BPS** — We cut our relative target PBR to around 60% against the backdrop of impairment concerns about TBC, etc., and cuts in our FY3/14 profit forecasts, etc. We push out our base year following H1 results to the average for FY3/14-FY3/15. End-September BPS was ¥1,816, +4.0% versus end-June, gaining mainly on quarterly NP and comprehensive income.

■ **FY3/14** — We cut our NP forecast to ¥227bn (-2.3% YoY) from ¥251bn. Versus our old forecasts, we expect factors depressing earnings, namely the others segment (period slippage of one-off profits) and the resources and chemicals segment (fall in the price of silver, etc.) to outweigh the factors lifting earnings, including transportation & construction systems (strength in auto sales and financing, etc.). If Sumitomo Corp. does book a hefty impairment charge, it could undershoot our numbers.

■ **FY3/15** — We raise our NP forecast to ¥270bn (+19% YoY) from ¥252bn. Versus our old forecasts, we revise down for resources & chemicals, on the revisions to our FY3/14 numbers and expectations of some impairment, but our hikes for the others segment, on the booking of one-off profits that slipped into this period, and for transportation & construction systems and media & lifestyle, on profit overshoots in FY3/14. YoY, we forecast higher earnings for others (one-off profit), metals (acquisition of Edgen in steel pipes, etc.), resources & chemicals (rebound from impairment, etc.), and media & lifestyle (recovery from TBC, etc.).

Consol.	Sales		OP		Pretax Profit		NP		EPS	PE	
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/12A	8,273,043	-0.9	219,857	19.8	2.7	230,759	24.8	250,669	25.2	200	6.3
3/13A	7,502,724	-9.3	162,481	-26.1	2.2	211,666	-8.3	232,451	-7.3	186	6.8
3/14CE	8,500,000	13.3	na	na	na	333,000	57.3	240,000	3.2	192	6.6
3/14E	8,460,000	12.8	188,000	15.7	2.2	225,000	6.3	251,000	8.0	201	6.3
3/14RE	8,250,000	10.0	167,000	2.8	2.0	204,000	-3.6	227,000	-2.3	181	6.9
3/15E	8,666,000	2.4	171,000	-9.0	2.0	213,000	-5.3	252,000	0.4	201	6.3
3/15RE	8,454,000	2.5	201,000	20.4	2.4	245,000	20.1	270,000	18.9	216	5.8
3/16E	8,854,000	2.2	179,000	4.7	2.0	230,000	8.0	278,000	10.3	222	5.7
3/16RE	8,607,000	1.8	181,000	-10.0	2.1	226,000	-7.8	265,000	-1.9	212	6.0

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

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

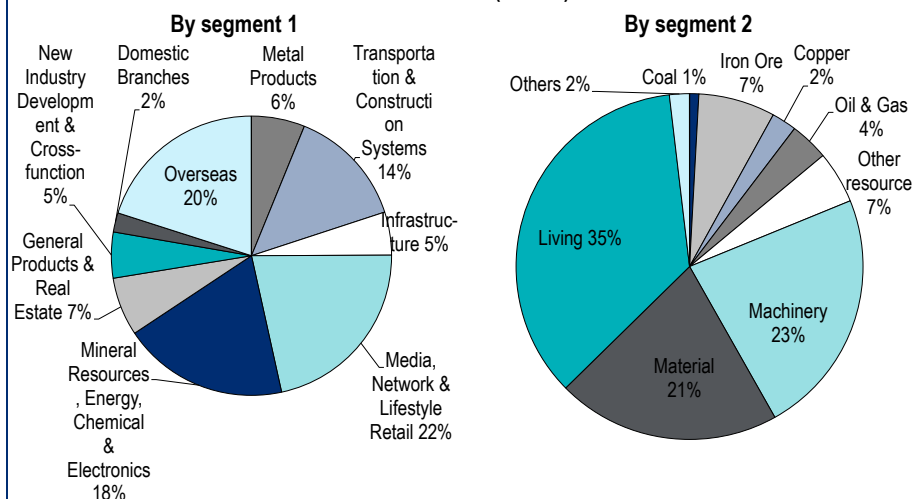
8053.T: Fiscal year end 31-Mar						Price: ¥1,261; TP: ¥1,500; Market Cap: ¥1,573,130m; Recomm: Buy					
Profit & Loss (¥m)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	8,273,043	7,502,724	8,250,000	8,454,000	8,607,000	PE (x)	6.3	6.8	6.9	5.8	6.0
Cost of sales	-7,354,218	-6,675,762	-7,414,000	-7,588,000	-7,723,000	PB (x)	0.9	0.8	0.7	0.6	0.6
Gross profit	918,825	826,962	836,000	866,000	884,000	EV/EBITDA (x)	6.0	7.5	7.1	6.1	6.4
Gross Margin (%)	11.1	11.0	10.1	10.2	10.3	FCF yield (%)	8.9	7.9	-6.0	-5.3	-2.6
EBITDA (Adj)	374,983	256,598	254,000	291,000	271,000	Dividend yield (%)	4.0	3.6	3.6	4.3	4.2
EBITDA Margin (Adj) (%)	4.5	3.4	3.1	3.4	3.1	Payout ratio (%)	25	25	25	25	25
Depreciation	-155,126	-94,117	-87,000	-90,000	-90,000	ROE (%)	15.4	12.4	10.3	11.0	9.9
Amortisation	0	0	0	0	0	Cashflow (¥m)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	219,857	162,481	167,000	201,000	181,000	EBITDA	374,983	256,598	254,000	291,000	271,000
EBIT Margin (Adj) (%)	2.7	2.2	2.0	2.4	2.1	Working capital	-119,985	40,122	-3,000	-29,000	-22,000
Net interest	-3,862	-2,331	-4,000	-3,000	-4,000	Other	-64,581	-16,415	4,000	4,000	10,000
Non-op/Except	14,764	51,516	41,000	47,000	49,000	Operating cashflow	190,417	280,305	255,000	266,000	259,000
PreTax Profit	230,759	211,666	204,000	245,000	226,000	Capex	-49,953	-155,208	-350,000	-350,000	-300,000
Tax	-77,715	-75,326	-80,000	-95,000	-93,000	Net acq/disposals	25,678	-31,308	50,000	100,000	50,000
Extraord./Min.Int./Pref.div.	97,625	96,111	103,000	120,000	132,000	Other	-11,421	313	0	0	0
Reported net profit	250,669	232,451	227,000	270,000	265,000	Investing cashflow	-35,696	-186,203	-300,000	-250,000	-250,000
Net Margin (%)	3.0	3.1	2.8	3.2	3.1	Dividends paid	-55,003	-63,760	-58,000	-56,000	-68,000
Core NPAT	250,669	232,451	227,000	270,000	265,000	Financing cashflow	-33,273	-24,667	34,000	85,000	41,000
Per share data	2012	2013	2014E	2015E	2016E	Net change in cash	117,602	102,598	-11,000	101,000	50,000
Reported EPS (¥)	200	186	181	216	212	Free cashflow to s/holders	140,464	125,097	-95,000	-84,000	-41,000
Core EPS (¥)	200	186	181	216	212	Other Index (Ymn or %)	2012	2013	2014E	2015E	2016E
EPS* (¥)	200	186	181	216	212	tNOPAT	256,622	238,760	211,200	232,600	245,800
DPS (¥)	50	46	45	54	53	tBusinessProfit	353,951	326,363	276,000	299,000	313,000
CFPS (¥)	152	224	204	213	207	tEBITDA	509,077	420,480	363,000	389,000	403,000
FCFPS (¥)	112	100	-76	-67	-33	tROIC	5.2	4.6	3.7	3.8	3.8
BVPS (¥)	1,351	1,642	1,882	2,053	2,210	OIOC	3.9	5.4	4.5	4.4	4.0
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	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	-0.9	-9.3	10.0	2.5	1.8						
EBIT (Adj) (%)	19.8	-26.1	2.8	20.4	-10.0						
Core NPAT (%)	25.2	-7.3	-2.3	18.9	-1.9						
Core EPS (%)	25.2	-7.3	-2.3	18.9	-1.9						
Balance Sheet (¥m)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	847,634	960,717	900,000	900,000	900,000						
Accounts receivables	1,514,360	1,470,942	1,536,000	1,574,000	1,602,000						
Inventory	707,105	770,450	705,000	722,000	735,000						
Net fixed & other tangibles	960,572	1,233,389	1,474,000	1,647,000	1,782,000						
Goodwill & intangibles	331,618	279,809	280,000	280,000	280,000						
Financial & other assets	2,865,480	3,117,450	3,337,000	3,503,000	3,665,000						
Total assets	7,226,769	7,832,757	8,232,000	8,626,000	8,964,000						
Accounts payable	1,102,326	1,080,699	1,077,000	1,103,000	1,122,000						
Short-term debt	632,267	695,665	699,000	728,000	750,000						
Long-term debt	2,981,548	3,165,737	3,254,000	3,366,000	3,453,000						
Provisions & other liab	709,440	714,774	715,000	715,000	715,000						
Total liabilities	5,425,581	5,656,875	5,745,000	5,912,000	6,040,000						
Shareholders' equity	1,689,056	2,052,816	2,353,000	2,567,000	2,764,000						
Minority interests	112,132	123,066	134,000	147,000	160,000						
Total equity	1,801,188	2,175,882	2,487,000	2,714,000	2,924,000						
Net debt	2,766,181	2,900,685	3,053,000	3,194,000	3,303,000						
Net debt to equity (%)	153.6	133.3	122.8	117.7	113.0						
Note: Consolidated data. * EPS: NP/Est Shares OS.											

Sumitomo Corp. (8053) Investment Dashboard

Reasons to Buy

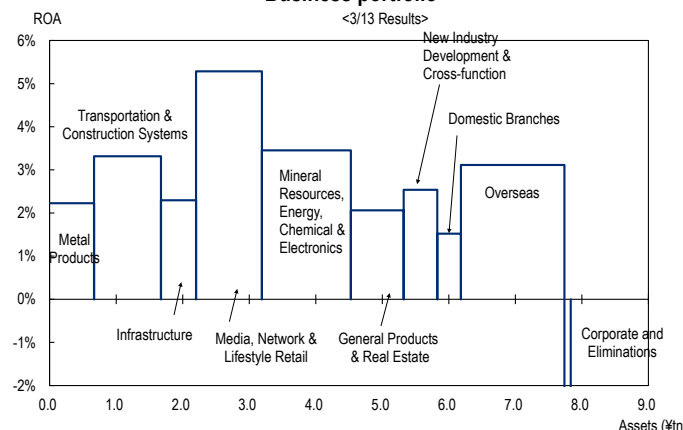
- Profit growth: We forecast YoY profit growth in FY3/15
- Valuations: The FY3/15E dividend yield and PBR look appealing
- Unique features: The company's strong earnings power in an extensive range of businesses is attractive

NP breakdown (FY3/13)



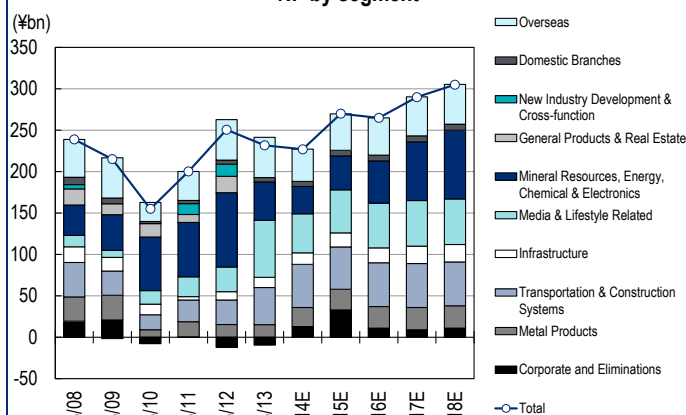
Source: Company data, Citi Research. Note: By segment 1 excludes corporate and eliminations.

Business portfolio



Source: Company data, Citi Research.

NP by segment

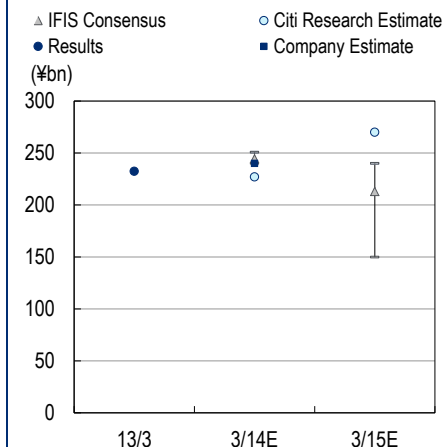


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

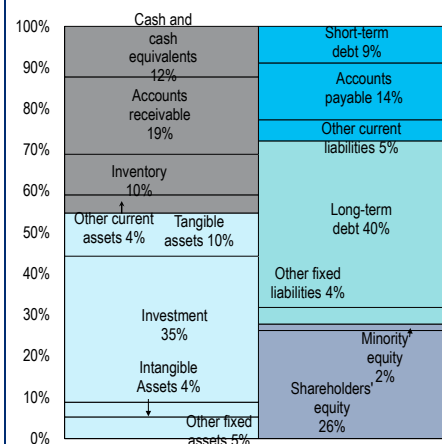
- Resources: A fall in prices for coal, iron ore, and copper, to which Sumitomo Corp. is highly exposed
- Business sentiment: If business sentiment were to improve sharply, the high yield could look less appealing

NP forecast comparison



Source: Company data, IFIS (November 26), Citi Research.

Balance sheet (end-FY3/13)



Source: Company data.

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

NP					3/13		3/13				3/14	3/14	3/15	3/16	3/14	3/15	3/16
	Q1	Q2	Q3	Q4	FY	FY	New	Q1	Q2	FYRE	FYCE	FYRE	FYRE	FYRE	FYRE	FYRE	FYRE
Metal Products	4.0	3.1	4.0	3.8	14.9	15.2		6.2	5.4	23.0	23.0	25.0	26.0	22.0	24.0	24.0	
Transportation & Construction Systems	9.5	7.3	10.6	6.0	33.4	44.8		15.1	14.3	52.0	45.0	51.0	53.0	47.0	46.0	48.0	
Environment & Infrastructure	1.5	3.2	4.6	2.7	12.1	12.4		3.0	3.1	14.0	15.0	17.0	18.0	13.0	18.0	19.0	
Media, Network & Lifestyle Related Goods & Service	5.0	37.5	9.2	0.5	52.3	68.9		9.7	7.4	47.0	50.0	52.0	54.0	46.0	49.0	51.0	
Mineral Resources, Energy, Chemical & Electronics	12.9	9.3	9.8	14.2	46.2	46.9		11.6	11.4	33.0	34.0	41.0	51.0	43.0	50.0	70.0	
General Products & Real Estate	4.1	2.7	2.9	6.7	16.4				2.1	13.7	18.0	17.2	17.7				
New Industry Development & Cross-function	3.1	3.5	3.9	2.3	12.8				0.0	14.0	0.0	14.0	14.0				
Domestic Regional Business Units and Offices	0.9	1.5	1.3	1.6	5.4	5.4		1.7	1.7	6.2	6.0	6.7	7.0	6.1	6.6	6.6	
Overseas Subsidiaries and Branches	15.9	10.7	10.8	11.0	48.5	48.5		11.0	10.5	39.0	42.0	44.0	45.0	45.0	47.0	48.0	
Others	-8.3	1.7	2.1	-4.9	-9.4	-9.6		2.4	2.3	13.0	25.0	33.0	11.0	29.0	11.0	11.0	
Total	48.7	80.7	59.2	43.9	232.5	232.5		67.5	55.9	227.0	240.0	270.0	265.0	251.0	252.0	278.0	

Note: Prior to FY3/13, the environment & infrastructure business unit was known as the infrastructure segment, and the media, network & lifestyle-related goods & services unit was called the media & lifestyle unit. From FY3/13 New, new industry development & cross-function earnings are included mainly with transportation and construction systems, and general products & real estate are included under media, network & lifestyle-related goods & services. CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.

Source: Company data, Citi Research.

Figure 27. Sumitomo Corp.: NP by segment (our classifications for all trading companies; ¥bn)

(NP)	3/07	3/08	3/09	3/10	3/11	3/12	3/13	3/14RE	3/15RE	3/16RE	3/14E	3/15E	3/16E
Resource	37.9	34.3	46.0	69.2	61.8	88.5	43.7	27.0	36.2	46.3	39.3	46.4	66.4
Coal				10.7	25.9	19.9	2.0	-7.5	0.9	2.9	1.9	6.3	8.3
Iron Ore				8.6	7.8	19.8	16.6	17.7	21.8	21.7	16.9	20.7	27.6
Copper			5.9	18.9	22.5	23.5	5.4	7.1	7.3	11.0	8.0	7.4	11.3
Oil & Gas			1.1	9.2	3.7	5.4	8.4	7.3	6.1	6.5	8.1	8.1	10.4
Other resources				21.8	1.9	19.9	11.3	2.4	0.1	4.2	4.4	3.9	8.8
Non Resource	173.1	204.6	169.1	85.9	138.5	162.1	130.9	130.9	130.9	130.9	130.9	130.9	130.9
Machinery	48.6	66.2	51.9	33.8	34.7	45.7	53.5	72.5	75.3	78.5	67.5	71.8	75.0
Material	56.6	63.4	57.7	19.6	45.4	48.5	48.4	53.1	58.1	60.0	55.1	58.3	59.1
Living	39.1	40.7	23.0	32.8	46.4	64.1	82.5	50.6	54.6	56.5	47.6	50.8	52.6
Others	28.8	34.4	36.6	-0.3	11.9	3.8	4.3	23.8	45.8	23.7	41.6	24.7	25.0
Total	211.0	238.9	215.1	155.1	200.2	250.7	232.5	227.0	270.0	265.0	251.0	252.0	278.0
Breakdown													
Non-resource	82%	86%	79%	55%	69%	65%	81%	88%	87%	83%	84%	82%	76%
Resource	18%	14%	21%	45%	31%	35%	19%	12%	13%	17%	16%	18%	24%

Note: CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.

Source: Company data, Citi Research (actuals are our estimates in some cases).

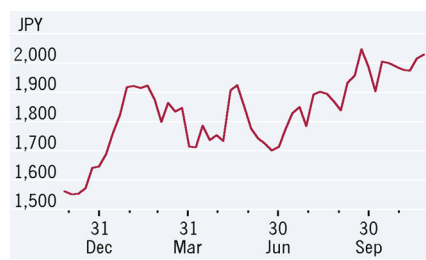
Company Focus

- Target Price Change
- Estimate Change

Buy	1
Price (27 Nov 13)	¥1,987
Target price	¥2,450
from ¥2,350	
Expected share price return	23.3%
Expected dividend yield	3.3%
Expected total return	26.6%
Market Cap	¥3,274,368M
	US\$32,323M

Price Performance

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



Mitsubishi Corp. (8058)

Top pick: Forecasting full-year overshoot, hope to see gains on sales of businesses moving forward

- **Conclusion** — We raise our target price to ¥2,450 (from FY3/14E PBR of c0.85x to FY3/14E-FY3/15E average BPS x c0.85) from ¥2,350 and maintain our Buy rating. Our Buy case rests on 1) our expectation for FCF improvement in the initial fiscal year of the medium-term plan, 2) our hopes for RoE improvement over the long run, and 3) improved visibility on a full-year overshoot given H1 progress.
- **Our take on the share price** — H1 FCF turned positive, on sales of marketable securities and of finance receivables in auto sales and finance. Given that operating cash flow was pushed down by the one-off factor of accounts payable, we think investors should welcome the improvement in cash flow, even if full-year FCF ends up negative. For FY3/15, we forecast a decline in earnings but the shares could find upside easier going if Mitsubishi Corp.'s cash flow generative capacity improves on not just the sales of equities to date but also the sale of businesses.
- **Mitsubishi Motors (MMC)** — We understand that in the MMC capital rebuilding plan, Mitsubishi Corp.'s future exposure to MMC has been broadly specified. Some of the preferred will be converted into common stock and that there will be almost no gains on sale is a negative. However, given that an end to the MMC turnaround is in sight and that we can hope to see a dividend paid on the common, we think the market will respond favorably.
- **Valuation, BPS** — We lower our relative target PBR to c65%, on cuts in our FY3/15 profit forecasts and our expectation for a YoY decline in RoE. We push out our base year following H1 results to the average for two forecast years. End-September BPS was ¥2,701, +3.4% versus end-June, mainly on the booking of profit; however, comprehensive income also rose.
- **FY3/14** — We fine-tune our NP forecast to ¥425bn (+18% YoY, company plan of ¥400bn) from ¥424bn. We revise up for chemicals (strength in trading and at subsidiaries) while we revise down for metals (forex translation losses, etc.) and living essentials (reflecting H1 progress, etc.). YoY we model a surge in earnings on higher dividends from Sakhalin II (energy segment), improvement at the Australian coking coal business MDP (metals), higher earnings in the Thai automotive business, on yen weakness, and firm chemical operations at both the parent and the subsidiaries (chemicals).
- **FY3/15** — We trim our NP forecast to ¥405bn (-4.7% YoY) from ¥414bn. Versus our previous forecasts, we revise down for machinery (recent slowdown in the Thai auto business), metals (cuts in our coal price assumption, cuts in our FY3/14 copper forecasts), and living essentials (cuts in our FY3/14 forecasts). YoY, we expect profit growth in metals (in coking coal, a slight price increase, slightly reduced production costs, a slight increase in production volume, and a rebound from forex conversion losses), etc., but foresee this being outweighed the earnings declines in energy (lower dividends from Sakhalin II, lower crude price) and machinery (lower earnings at the Thai auto business).

Consol.	Sales		OP		Pretax Profit		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/12A	20,126,321	4.6	271,122	-14.2	1.3	454,708	-14.2	452,344	-2.6	274	7.2
3/13A	20,207,183	0.4	133,875	-50.6	0.7	337,206	-25.8	360,028	-20.4	218	9.1
3/14CE	20,900,000	3.4	195,000	45.7	0.9	385,000	14.2	400,000	11.1	243	8.2
3/14E	21,201,000	4.9	160,000	19.5	0.8	415,000	23.1	424,000	17.8	257	7.7
3/14RE	21,362,000	5.7	147,000	9.8	0.7	415,000	23.1	425,000	18.0	258	7.7
3/15E	21,146,000	-0.3	171,000	6.9	0.8	400,000	-3.6	414,000	-2.4	251	7.9
3/15RE	21,116,000	-1.2	143,000	-2.7	0.7	397,000	-4.3	405,000	-4.7	246	8.1
3/16E	21,140,000	0.0	185,000	8.2	0.9	420,000	5.0	433,000	4.6	263	7.6
3/16RE	21,110,000	0.0	157,000	9.8	0.7	410,000	3.3	410,000	1.2	249	8.0

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

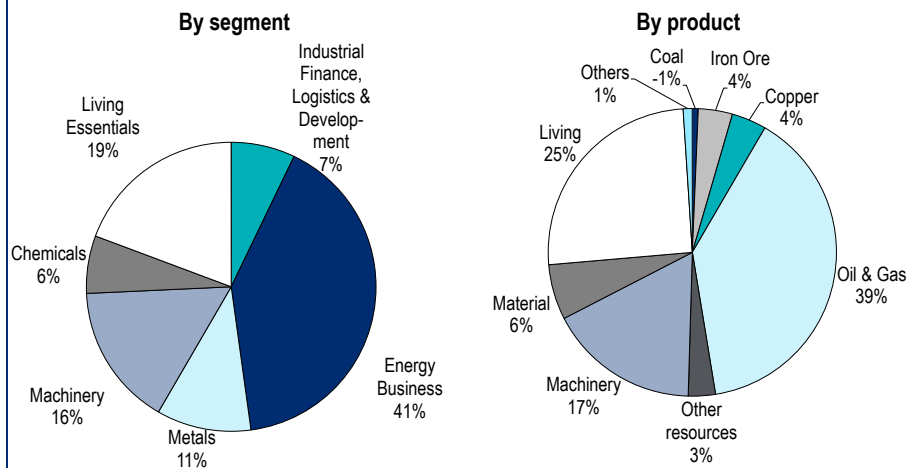
8058.T: Fiscal year end 31-Mar						Price: ¥1,987; TP: ¥2,450; Market Cap: ¥3,274,368m; Recomm: Buy					
Profit & Loss (¥m)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	20,126,321	20,207,183	21,362,000	21,116,000	21,110,000	PE (x)	7.2	9.1	7.7	8.1	8.0
Cost of sales	-18,998,461	-19,177,526	-20,153,000	-19,911,000	-19,886,000	PB (x)	0.9	0.8	0.7	0.7	0.6
Gross profit	1,127,860	1,029,657	1,209,000	1,205,000	1,224,000	EV/EBITDA (x)	7.8	11.2	10.7	10.1	9.3
Gross Margin (%)	5.6	5.1	5.7	5.7	5.8	FCF yield (%)	-5.5	-11.7	-2.1	-5.8	-6.4
EBITDA (Adj)	416,550	291,280	297,000	293,000	307,000	Dividend yield (%)	3.3	2.8	3.3	3.1	3.1
EBITDA Margin (Adj) (%)	2.1	1.4	1.4	1.4	1.5	Payout ratio (%)	24	25	25	25	25
Depreciation	-145,428	-157,405	-150,000	-150,000	-150,000	ROE (%)	13.4	9.4	9.7	8.5	8.1
Amortisation	0	0	0	0	0	Cashflow (¥m)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	271,122	133,875	147,000	143,000	157,000	EBITDA	416,550	291,280	297,000	293,000	307,000
EBIT Margin (Adj) (%)	1.3	0.7	0.7	0.7	0.7	Working capital	-124,976	-30,568	140,000	28,000	0
Net interest	108,034	138,603	121,000	123,000	122,000	Other	257,615	142,601	294,000	288,000	282,000
Non-op/Except	75,552	64,728	147,000	131,000	131,000	Operating cashflow	549,189	403,313	731,000	609,000	589,000
PreTax Profit	454,708	337,206	415,000	397,000	410,000	Capex	-728,149	-787,527	-800,000	-800,000	-800,000
Tax	-168,330	-113,486	-160,000	-153,000	-158,000	Net acq/disposals	-399,577	89,056	100,000	50,000	50,000
Extraord./Min.Int./Pref.div.	165,966	136,308	170,000	161,000	158,000	Other	26,813	-54,006	0	0	0
Reported net profit	452,344	360,028	425,000	405,000	410,000	Investing cashflow	-1,100,913	-752,477	-700,000	-750,000	-750,000
Net Margin (%)	2.2	1.8	2.0	1.9	1.9	Dividends paid	-116,802	-95,503	-91,000	-107,000	-100,000
Core NPAT	452,344	360,028	425,000	405,000	410,000	Financing cashflow	599,059	401,687	-229,000	141,000	161,000
Per share data	2012	2013	2014E	2015E	2016E	Net change in cash	42,704	92,804	-198,000	0	0
Reported EPS (¥)	274	218	258	246	249	Free cashflow to s/holders	-178,960	-384,214	-69,000	-191,000	-211,000
Core EPS (¥)	274	218	258	246	249	Other Index (Ymn or %)	2012	2013	2014E	2015E	2016E
EPS* (¥)	274	218	258	245	249	tNOPAT	439,431	353,000	418,000	407,000	406,000
DPS (¥)	65	55	65	61	62	tBusinessProfit	584,622	448,000	553,000	543,000	543,000
CFPS (¥)	333	245	443	369	357	tEBITDA	730,050	605,405	703,000	693,000	693,000
FCFPS (¥)	-109	-233	-42	-116	-128	tROIC (%)	5.4	3.8	4.0	3.7	3.5
BVPS (¥)	2,131	2,538	2,789	2,970	3,158	OOIC (%)	6.8	4.3	7.0	5.6	5.1
Wtd avg ord shares (m)	1,645	1,645	1,645	1,645	1,645						
Wtd avg diluted shares (m)	1,649	1,649	1,649	1,649	1,649						
Growth rates	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	4.6	0.4	5.7	-1.2	0.0						
EBIT (Adj) (%)	-14.2	-50.6	9.8	-2.7	9.8						
Core NPAT (%)	-2.6	-20.4	18.0	-4.7	1.2						
Core EPS (%)	-2.7	-20.4	18.0	-4.7	1.2						
Balance Sheet (¥m)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	1,388,302	1,496,289	1,300,000	1,300,000	1,300,000						
Accounts receivables	3,383,176	3,590,814	3,585,000	3,543,000	3,542,000						
Inventory	965,057	1,202,295	1,056,000	1,043,000	1,042,000						
Net fixed & other tangibles	2,149,157	2,866,974	3,107,000	3,332,000	3,557,000						
Goodwill & intangibles	167,584	0	0	0	0						
Financial & other assets	4,535,237	5,254,293	5,660,000	6,039,000	6,415,000						
Total assets	12,588,513	14,410,665	14,708,000	15,257,000	15,856,000						
Accounts payable	2,108,171	2,230,074	2,218,000	2,191,000	2,189,000						
Short-term debt	1,321,652	1,390,959	1,143,000	1,168,000	1,448,000						
Long-term debt	3,760,101	4,498,683	4,609,000	4,832,000	4,813,000						
Provisions & other liab	1,571,619	1,734,899	1,736,000	1,736,000	1,736,000						
Total liabilities	8,761,543	9,854,615	9,706,000	9,927,000	10,186,000						
Shareholders' equity	3,507,818	4,179,698	4,594,000	4,892,000	5,202,000						
Minority interests	318,959	376,352	408,000	438,000	468,000						
Total equity	3,826,777	4,556,050	5,002,000	5,330,000	5,670,000						
Net debt	3,693,451	4,393,353	4,452,000	4,700,000	4,961,000						
Net debt to equity (%)	96.5	96.4	89.0	88.2	87.5						
Note: Consolidated data. * EPS: NP/Est Shares OS.											

Mitsubishi Corp. (8058) Investment Dashboard

Reasons to Buy

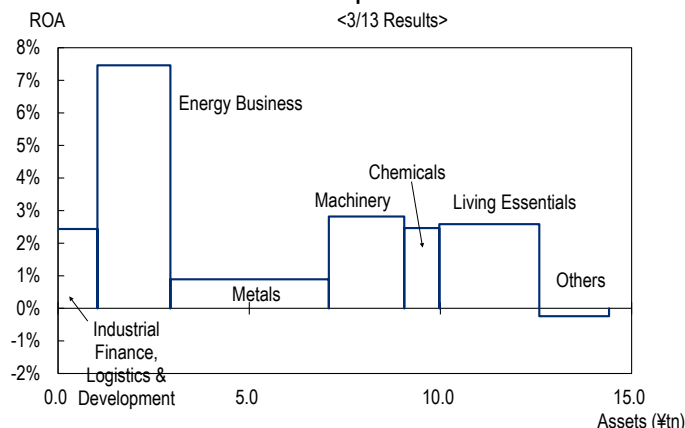
- Looks to have many reasons to take steps that would please the market
- We already see free cash flow improvement in FY3/14, the first year of the current medium-term plan
- An FY3/14 overshoot (profit growth) looks likely

NP breakdown (FY3/13)



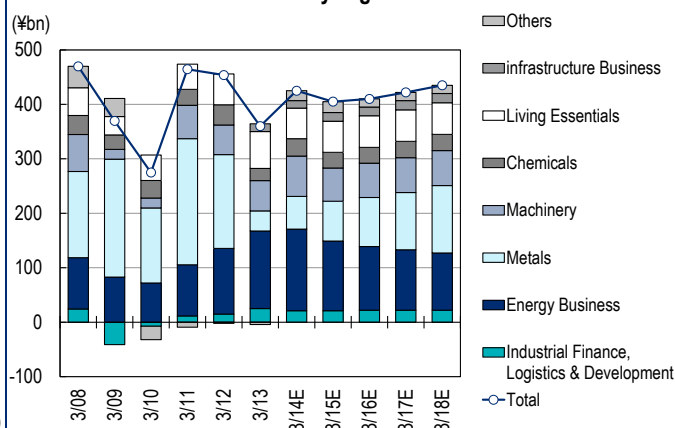
Source: Company data, Citi Research. Note: Breakdown excludes corporate and eliminations.

Business portfolio <3/13 Results>



Source: Company data, Citi Research.

NP by segment

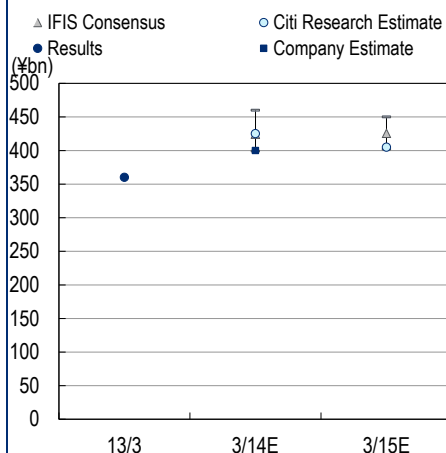


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

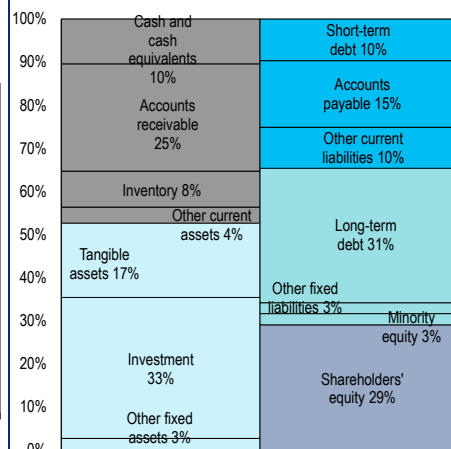
- Non-resources:** Significant deterioration in the operating environment for Southeast Asia auto business
- Resources:** Bad weather or further industrial relations problems in Australian coal business, to which exposure is high

NP forecast comparison



Source: Company data, IFIS (November 26), Citi Research.

Balance sheet (end-FY3/2013)



Source: Company data.

Figure 28. Mitsubishi Corp.: NP by segment (¥bn)

NP					3/13		3/13		3/14		3/14	3/15	3/16	3/14	3/15	3/16
	Q1	Q2	Q3	Q4	FY	FY New	Q1	Q2	FYRE	FYCE	FYRE	FYRE	FYRE	FYE	FYE	FYE
Industrial Finance, Logistics & Development	2.9	6.4	7.8	7.9	25.0	25.0	2.9	8.3	21.0	20.0	21.0	22.0	22.0	21.0	22.0	
Energy Business	54.3	38.9	26.6	22.5	142.4	142.4	42.5	55.0	150.0	132.0	128.0	117.0	152.0	123.0	115.0	
Metals	8.3	5.0	8.1	15.5	36.9	36.9	16.9	5.9	60.0	60.0	73.0	90.0	65.0	83.0	107.0	
Machinery	17.1	17.4	13.7	13.7	61.9	55.6	24.5	26.1	74.0	71.0	61.0	63.0	69.0	68.0	68.0	
Chemicals	7.2	6.5	4.9	4.1	22.6	22.6	8.0	11.6	32.0	30.0	29.0	29.0	26.0	30.0	30.0	
Living Essentials	9.3	14.0	24.8	19.4	67.5	67.5	12.8	11.9	56.0	63.0	57.0	58.0	66.0	65.0	66.0	
Infrastructure related business						14.4	3.7	4.2	14.0	14.0	16.0	16.0	14.0	14.0	15.0	
Others	1.3	1.9	7.3	-6.7	3.7	-4.4	4.4	9.7	18.0	10.0	20.0	15.0	10.0	10.0	10.0	
Total	100.4	90.0	93.2	76.4	360.0	360.0	115.7	132.6	425.0	400.0	405.0	410.0	424.0	414.0	433.0	

Note: CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.
Source: Company data, Citi Research.

Figure 29. Mitsubishi Corp.: NP by segment (our classifications for all trading companies; ¥bn)

(NP)	3/07	3/08	3/09	3/10	3/11	3/12	3/13	3/14RE	3/15RE	3/16RE	3/14E	3/15E	3/16E
Resource	260.5	252.4	299.5	209.9	325.5	291.3	179.3	210.0	201.0	207.0	217.0	206.0	222.0
Coal	108.1	61.7	191.7	112.8	135.8	119.3	-2.4	21.1	35.0	54.6	24.0	40.9	56.3
Iron Ore	14.1	13.8	27.1	9.9	60.5	30.2	14.0	16.7	14.2	5.8	15.5	14.8	16.8
Copper	44.5	42.8	26.0	15.1	31.8	15.2	14.2	18.5	20.7	24.5	22.2	24.3	29.3
Oil & Gas	74.1	94.2	82.8	71.9	94.0	120.6	142.4	150.0	128.0	117.0	152.0	123.0	115.0
Other resources	16.1	13.9	10.4	0.1	3.4	5.9	11.1	3.7	3.1	5.1	3.3	3.0	4.6
Non Resource	155.0	218.4	70.1	65.0	139.1	161.1	180.7	215.0	204.0	203.0	207.0	208.0	211.0
Machinery	58.0	68.1	17.8	18.0	61.4	49.8	61.9	75.0	61.0	63.0	85.0	83.0	83.0
Material	20.0	34.7	26.8	32.4	29.1	37.1	22.6	32.0	29.0	29.0	26.0	30.0	30.0
Living	48.3	51.0	33.6	46.8	57.8	70.8	92.5	77.0	78.0	80.0	88.0	86.0	88.0
Others	-3.1	40.4	33.2	-24.6	-9.2	3.4	3.7	31.0	36.0	31.0	8.0	9.0	10.0
Total	415.5	470.9	369.6	274.8	464.5	452.3	360.0	425.0	405.0	410.0	424.0	414.0	433.0
Breakdown													
Non-resource	37%	46%	19%	24%	30%	36%	50%	51%	50%	50%	49%	50%	49%
Resource	63%	54%	81%	76%	70%	64%	50%	49%	50%	50%	51%	50%	51%

Note: CE: Company estimates, E: Our previous estimates, RE: Our revised estimates.
Source: Company data, Citi Research (some actuals are our estimates).

Itochu

Investment strategy

We rate the shares of Itochu Neutral (2) with a ¥1,350 target price.

As with other trading companies, Itochu does business in a wide range of domains and regions. Although its net debt/equity ratio is somewhat high, its business

portfolio is well balanced, with resources accounting for 30%-40% 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 Neutral 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) we anticipate an earnings decline in FY3/15, and 4) we feel undervaluation has diminished on the rally in the shares. If the likelihood of earnings growth rises in FY3/15 when the company plans to adopt IFRS standards, 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 strongly correlated with the market (we stress relative PBR), 2) there is a strong correlation between RoE, RoIC, RoA, and relative PBR, 3) historical relative PBRs have been mainly range-bound.

In calculating our ¥1,350 target price, we set the relative PBR at 75%, at the bottom of the historical range, in light of our expectations for 1) RoE being below the historical average but superior for the sector, 2) and our forecast for an earnings decline in FY3/15, and a decline in RoE over the medium term due to falling iron ore prices. Based on the TOPIX PBR we set our target PBR at c1.0x, and apply this to the average of our FY3/14 and FY3/15 BPS forecast.

Our target price of ¥1,350 corresponds to a dividend yield of 3.3% 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) +¥330mn or so for every \$1/bbl increase in the Brent crude price, 4) +¥690mn or so for every \$1/MT rise in the iron ore price, and 5) +¥540mn 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 ¥850 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 c30% 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 take a positive view of the following: 1) we consider visibility for an earnings increase in FY3/15 to be high via factors like the acquisition of the grain major Gavilon; 2) we like the ambitious medium-term plan which aims to boost RoA, and 3) FY3/14E RoE is high at c17%. The relative share price has been the lowest in the sector in FY3/14, and considering the factors above, we rate the shares Buy. If it looks more likely that the firm can grow assets and improve its balance sheet, and also boost its dividend payout, then the market could look even more favorably on the shares.

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 strongly correlated with the market (we stress relative PBR), 2) there is a strong correlation between RoE, RoIC, RoA, and relative PBR, 3) historical relative PBRs have been mainly range-bound.

In calculating our ¥850 target price, we set the relative PBR at 80%, within the historical range, to reflect high visibility for earnings growth in FY3/15 and our expectation of a decline in RoE. Based on the TOPIX PBR we set our target PBR at about 1.05x, and apply this to our average BPS forecast for FY3/14-FY3/15. Our target price corresponds to a dividend yield of 2.9% on our FY3/15 forecasts. This seems appropriate as it is in line with the sector average.

Risks

We see downside risks to our target price as 1) lower-than-expected profits via acquisitions like Gavilon; 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 Gavilon 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) -¥1.4bn or so for every ¥1/\$ appreciation, 2) +¥500mn 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 ¥1,700.

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 be among the highest of its peers. As we also expect RoE to remain in double digits through FY3/15 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. We do so because 1) sector stocks are strongly correlated with the market (we stress relative PBR), 2) there is a strong correlation between RoE, RoIC, RoA, and relative PBR, 3) historical relative PBRs have been mainly range-bound.

In calculating our target price, we set the relative PBR at 65%, at the low end of the historical range, as while we forecast profit growth in FY3/14, we anticipate low RoE over the medium term, we are bearish toward longer-term iron ore prices, and resource prices and forex are volatile due to macro factors. Also referencing TOPIX PBR, we calculate a target PBR of c0.85x, which we apply to our average BPS forecast for FY3/14-FY3/15.

Our target price of ¥1,700 corresponds to a dividend yield of 3.0% on our FY3/15 forecasts. This seems appropriate as it is in line with the sector average.

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) -¥1.9bn or so for every ¥1/\$ appreciation, 2) -¥1.9bn or so for every ¥1/AUD appreciation, 3) -¥400mn or so for every ¥1/BRL appreciation, 4) +¥1.9bn or so for every \$1/bbl rise in the crude price, 5) +¥2.2bn or so for every \$1/MT rise in the iron ore price, and 6) +¥600mn or so for every \$100/MT rise in the copper 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 ¥1,500.

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. Our expectation for a profit decline in FY3/14 and concerns over mark-downs are negatives, but we rate the shares Buy to reflect 1) the wide range of profit drivers; 2) low share price volatility; and 3) the dividend yield, which makes the shares look strongly undervalued in relative terms. If it looks like Sumitomo Corp. 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 it relative to peers.

Valuation

We use PBR as our valuation metric for Sumitomo Corp. We do so because 1) sector stocks are relatively tightly correlated with the market (we stress relative PBR), 2) there is a strong correlation between RoE, RoIC, RoA, and relative PBR, and 3) historical relative PBRs have been mainly range-bound.

In calculating our ¥1,500 target price, we set the relative PBR at 60%, at the low end of the historical range, to reflect our forecast that earnings at Sumitomo will decline in FY3/14 as well as concerns about impairment. Based on TOPIX PBR we set our target PBR at c0.8x and apply this to our average BPS forecast for FY3/14-FY3/15.

Our target price corresponds to a dividend yield of 3.6% on our FY3/15 forecasts, somewhat above the sector average.

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) +¥50mn or so for every \$1/bbl rise in the Brent crude price; 3) +¥300mn or so for every \$1/MT rise in the price of iron ore; 4) +¥210mn or so for every \$1/MT rise in the price of coking coal; 5) +¥140mn for every \$1/MT rise in the price of thermal coal; 6) +¥30mn or so for every \$1/MT rise in the manganese ore price; 7) +¥220mn or so for every \$100/MT rise in the copper price; 8) +¥480mn for every \$1/oz rise in the silver price; 9) +¥960mn or so for every \$100/MT rise in the zinc price, and 10) +¥320mn 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 ¥2,450.

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) there was improvement in FCF in the first year of the medium-term plan; and 3) we are optimistic about a rise in RoE over the longer run on the sale of cross-shareholdings and future share buybacks. If it looks as if the firm will 1) raise shareholders' return by upping the dividend payout and 2) work to boost profitability (RoE, RoIC), then we could see a rerating.

Valuation

We use PBR as our valuation metric for Mitsubishi Corp. We do so because 1) sector stocks are relatively tightly correlated with the market, 2) there is a strong correlation between RoE, RoIC, RoA, and relative PBR, and 3) historical relative PBRs have been mainly range-bound.

In calculating our ¥2,450 target price, we set the relative PBR at 65%, below the low end of the relative historical range, as while we expect sharp earnings growth in FY3/14 but a small decline in FY3/15, we anticipate a recovery in the mainstay coal business, and the balance sheet is healthy, with a net debt/equity ratio below 1x, RoE is low and in single digits. We reference TOPIX PBR in calculating a target PBR of c0.85x, which we apply to our average BPS forecast for FY3/14-FY3/15..

Our target price corresponds to a dividend yield of 2.5% on our FY3/15 forecasts. This is below the sector average, but we find it appropriate given the healthy balance sheet.

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) -¥2.5bn or so for every ¥1/\$ appreciation; 2) +¥1bn or so for every \$1/bbl rise in the crude price; 3) +¥1.1bn 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.

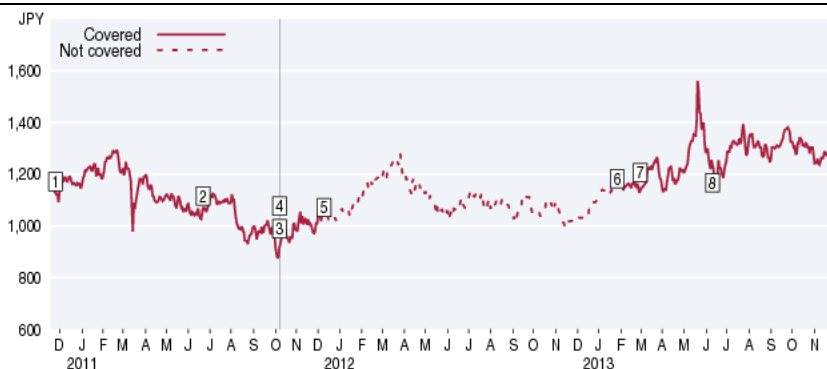
IMPORTANT DISCLOSURES

Sumitomo Corp. (8053)

Ratings and Target Price History Fundamental Research

Analyst: Takashi Miyazaki

Covered since January 28 2013



	Date	Rating	Target Price	Closing Price
1	25-Nov-10	2H	*1,300	1,135
2	22-Jun-11	*1M	*1,500	1,072
3	7-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
4	7-Oct-11	*1	1,500	917
5	9-Dec-11	Coverage terminated		
6	28-Jan-13	*2	*1,200	1,159

	Date	Rating	Target Price	Closing Price
7	28-Feb-13	*1	*1,300	1,134
8	11-Jun-13	1	*1,500	1,237

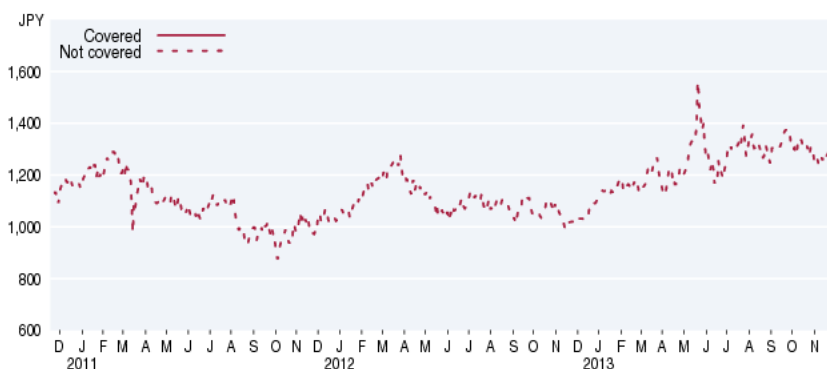
Rating/target price changes above reflect Eastern Standard Time

Sumitomo Corp. (8053)

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

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	22-Jun-11	1M	*2,400	1,977
2	7-Oct-11	Stock rating system changed		
3	7-Oct-11	*1	2,400	1,481

* Indicates change

	Date	Rating	Target Price	Closing Price
4	9-Dec-11	Coverage terminated		
5	28-Jan-13	1	*2,200	1,918
6	28-Feb-13	1	*2,250	1,839

	Date	Rating	Target Price	Closing Price
7	11-Jun-13	1	*2,350	1,747

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
2	8-Jul-11	*REM MP	-	2,099

* Indicates change

	Date	Rating	Target Price	Closing Price
3	12-Mar-13	*ADD MP	-	1,887
4	13-Jun-13	*REM MP	-	1,699

Rating/target price changes above reflect Eastern Standard Time

Marubeni (8002)

Ratings and Target Price History

Fundamental Research

Analyst: Takashi Miyazaki
Covered since January 28 2013



	Date	Rating	Target Price	Closing Price
1	25-Nov-10	2H	*630	538
2	22-Jun-11	*1M	*650	530
3	7-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
4	7-Oct-11	*1	650	400
5	9-Dec-11	Coverage terminated		
6	28-Jan-13	1	*800	687

	Date	Rating	Target Price	Closing Price
7	28-Feb-13	1	*790	677
8	11-Jun-13	1	*830	680
9	12-Sep-13	*2	830	753

Rating/target price changes above reflect Eastern Standard Time

Marubeni (8002)

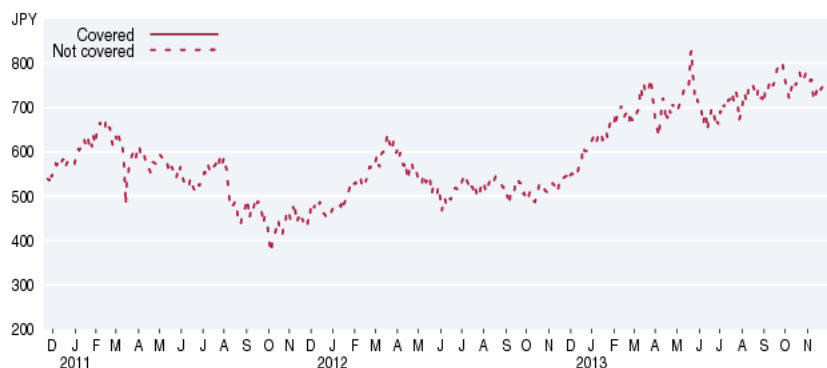
Ratings and Target Price History

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

Covered since January 28 2013



Date	Rating	Target Price	Closing Price
1 22-Jun-11	1M	*2,100	1,344
2 7-Oct-11	Stock rating system changed		
3 7-Oct-11	*1	2,100	1,088

* Indicates change

Date	Rating	Target Price	Closing Price
4 9-Dec-11	Coverage terminated		
5 28-Jan-13	*2	*1,500	1,328
6 28-Feb-13	*1	*1,650	1,374

Date	Rating	Target Price	Closing Price
7 11-Jun-13	1	*1,700	1,236

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

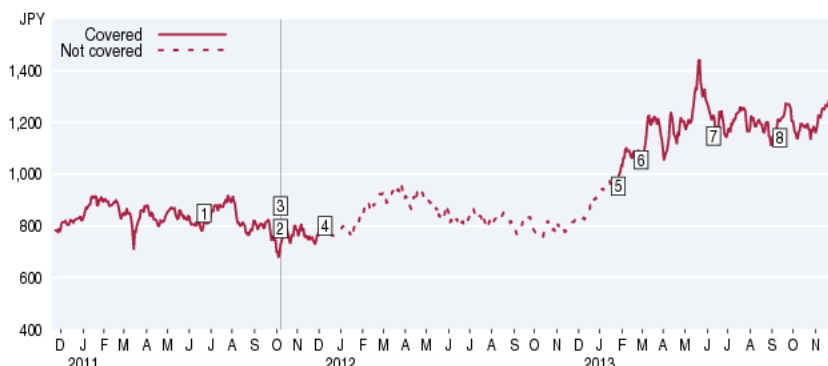
Rating/target price changes above reflect Eastern Standard Time

Itochu (8001)

Ratings and Target Price History Fundamental Research

Analyst: Takashi Miyazaki

Covered since January 28 2013



	Date	Rating	Target Price	Closing Price
1	22-Jun-11	1M	*1,150	816
2	7-Oct-11	Stock rating system changed		
3	7-Oct-11	*1	1,150	726

* Indicates change

	Date	Rating	Target Price	Closing Price
4	9-Dec-11	Coverage terminated		
5	28-Jan-13	1	*1,200	995
6	28-Feb-13	1	*1,250	1,070

	Date	Rating	Target Price	Closing Price
7	11-Jun-13	*2	*1,350	1,229
8	12-Sep-13	2	*1,300	1,203

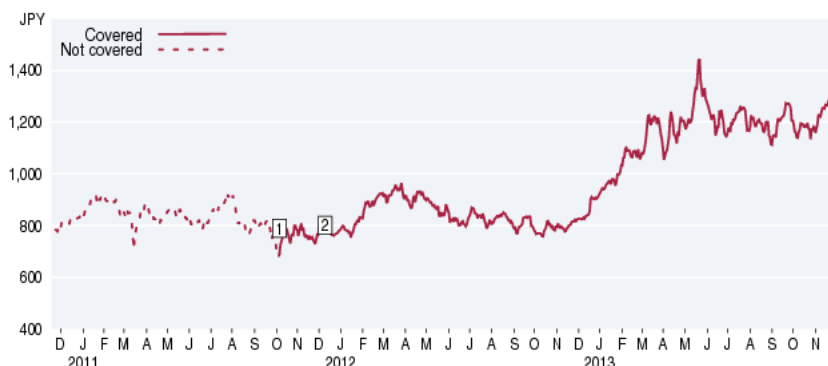
Rating/target price changes above reflect Eastern Standard Time

Itochu (8001)

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	6-Oct-11	*ADD MP	-	691

* Indicates change

	Date	Rating	Target Price	Closing Price
2	9-Dec-11	*REM MP	-	785

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 30 Sep 2013

	12 Month Rating			Relative Rating		
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Citigroup Global Markets Japan Inc.

Takashi Miyazaki

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