

Equities

29 March 2011 | 6 pages

Mitsubishi Gas Chemical (4182)

Alert: Eastern Japan Earthquake/BT laminate production to be fully restored by early May

- **Conclusion** — We have had an update from MGC on the impact of the earthquake and here we present the key takeaways. Electrotechno, which manufactures BT laminates for semiconductor packages, suffered a collapsed roof at the production facility and partial damage to its automated warehouse, and production has been halted. It expects, however, to resume normal production (which we estimate at 600,000m²/month) from early May. We get a positive impression from the projected early restart of production resulting from all-out companywide efforts at restoration work.
- **Input sourcing looks to be no problem for the time being** — In addition to triazine, which MGC produces in its Niigata plant, the mainstay inputs are bismaleimide, copper foil, and glass cloth, and we believe they will present no sourcing problems for the time being, with the company leveraging inventory and bulk purchases.
- **Overall supply chain reassuring** — Production equivalent to 25% of pre-quake demand will resume in early April and we expect there to be around a month of inventory available, so we believe the negative impact on MGC's shipment volumes will be limited. While investors had been concerned about bottlenecks in the supply chain as a whole, because the company's products have become the de facto standard for high-performance IC packages for smartphones and other mobile phones, we think the latest update will come as a relief to them.

Mitsubishi Gas Chemical (4182.T; ¥564; 1M)

- Company Update
- The Japan Earthquake

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Mitsubishi Gas Chemical

Valuation

We set our target price for Mitsubishi Gas Chemical referencing the following factors. (1) Five-year historical valuations: Mitsubishi Gas Chemical's five-year average historical PER is 12x, and its average PBR is 1.4x. (2) Earnings momentum: We expect the supply/demand balance for methanol to be tight over the near term and take a positive stance on momentum. MGC has been struggling at the OP level, but we are beginning to see signs of improvement in earnings from isophthalic acid, etc., and we believe BT materials and LCD films, where there have been production corrections, are set for earnings recoveries. (3) RoE: We model FY3/12 RoE of 11%, ahead of the average for derivative and fine chemical makers. We set our ¥770 target price on an FY3/12E PER of 11x (weighted average of 10x for methanol equity in earnings and 12x at the OP line), slightly below the five-year historical average and thus somewhat conservative.

Risks

We see the following risks to our target price. Mitsubishi Gas Chemical's earnings are highly exposed to methanol price volatility, and if prices differ significantly from our assumptions, it could result in fluctuations in earnings and the share price.

Fluctuating conditions in the market for high-purity isophthalic acid will likely impact earnings heavily. Changes in the price of inputs such as xylene also have an impact on earnings, while semiconductor and LCD materials are highly exposed to the silicon and crystal cycles. In addition, profit sensitivity to forex is relatively high. If the impact of any of these factors varies from our expectations, the share price may diverge from our target price. We rate the shares Medium Risk (M) based on their three-year historical volatility, which places them in the sixth through ninth deciles in terms of share price risk compared with our coverage universe.

Appendix A-1

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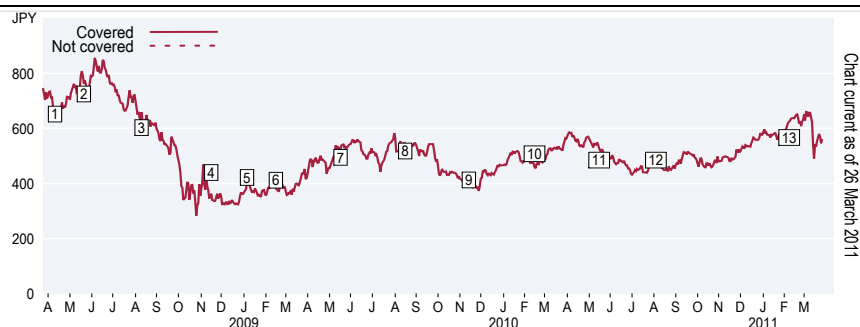
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Mitsubishi Gas Chemical (4182)

Ratings and Target Price History Fundamental Research

Analyst: Atsushi Ikeda
Covered since June 12 2008



	Date	Rating	Target Price	Closing Price
1	10-Apr-08	2H	*760	653
2	21-May-08	2H	*830	763
3	10-Aug-08	2H	*730	626
4	16-Nov-08	2H	*360	349
5	6-Jan-09	2H	*420	403

* Indicates change

	Date	Rating	Target Price	Closing Price
6	16-Feb-09	2H	*390	383
7	18-May-09	2H	*570	521
8	17-Aug-09	2H	*590	542
9	13-Nov-09	2H	*470	407
10	15-Feb-10	2H	*480	460

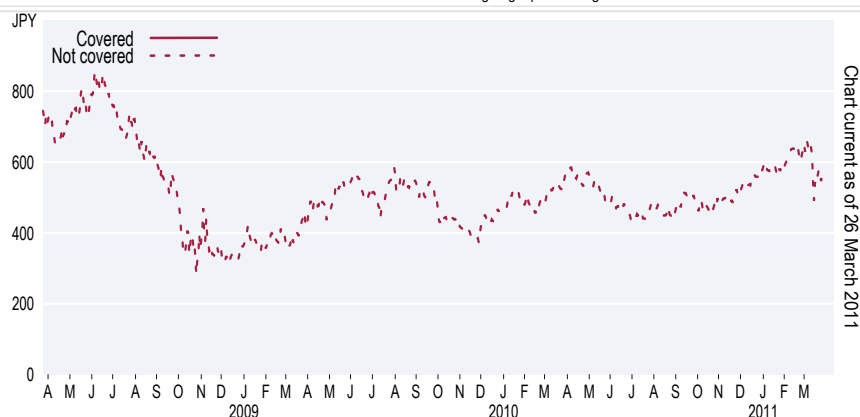
	Date	Rating	Target Price	Closing Price
11	16-May-10	2H	*540	540
12	4-Aug-10	2H	*560	468
13	8-Feb-11	*1M	*770	625

Rating/target price changes above reflect Eastern Standard Time

Mitsubishi Gas Chemical (4182)

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

Analyst: Atsushi Ikeda
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12 Month Rating			Relative Rating		
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45%	44%	40%	0%	44%	0%

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