

## Equities

5 September 2011 | 13 pages

# Calsonic Kansei (7248)

## Large competitive advantage relative to peers

- Company Update
- Target Price Change
- Estimate Change

■ **We retain our Buy rating** — We revise our forecasts for Calsonic Kansei and trim our target price to ¥560 from ¥570. We upgraded to Buy on May 25 ([Calsonic Kansei \(7248\) - Upgrading to Buy on five catalysts](#)), and the factors that prompted this are unchanged: 1) the firm is highly exposed to Nissan, where production and sales are strong; 2) we look for a new profit record in FY3/13; 3) we think earnings recovery will mean a re-posting of DTAs going forward; and 4) valuations look low. The auto parts sector is easily impacted by macroeconomic factors, but we think Calsonic Kansei has a large competitive advantage relative to peers.

■ **Nissan sales** — Nissan's global retail sales volume rose 8% YoY in July, significantly outperforming overall global demand (flat YoY). We note this figure includes Japan, where sales fell 17% due to the end of "eco-car" subsidies, so we think July sales were even better than they look. US sales remain firm, having risen 19% in August. We think the negative impact from the end to "eco-car" subsidies will wane from October.

■ **Earnings forecasts** — We fine-tune our forecasts after revising our production and forex assumptions. In FY3/12, we expect global sales volume at Nissan to rise 11.6%, followed by rises of 7.4% in FY3/13 and 9.2% in FY3/14. Our forex assumptions for Q2 and out are ¥77/\$ and ¥110/€. We expect an operating margin of 18% in FY3/12, 30% in FY3/13, and 6% in FY3/14, with FY3/13 as the year when Calsonic Kansei should reap the benefits of MTCR activities overseas and increasing local procurement in China. From FY3/14, however, we look for increased spending to augment capacity.

■ **Value-added operating margin** — The medium-term plan announced in July calls for a value-added operating margin of 7% in FY3/17. We expect 4.2% in FY3/12, 5.1% in FY3/13, and 5.1% in FY3/14 (versus 3.7% in FY3/11). The value-added operating margin is defined as OP divided by gross sales less pass-through products as well as catalysts and other components sourced externally.

<b>Buy/High Risk</b>	<b>1H</b>
Price (05 Sep 11)	¥440
Target price	¥560
from ¥570	
Expected share price return	27.3%
Expected dividend yield	1.7%
<b>Expected total return</b>	<b>29.0%</b>
Market Cap	¥117,907M
	US\$1,535M

### Price Performance (RIC: 7248.T, BB: 7248 JP)



Consol.	Sales		OP			RP		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/10A	619,449	-7.5	-5,698	nm	nm	-6,166	nm	-13,279	nm	-50	nm
3/11A	748,249	20.8	19,480	nm	2.6	18,694	nm	15,600	nm	58	7.6
3/12CE	790,000	5.6	21,000	7.8	2.7	20,000	7.0	21,000	34.6	78	5.6
3/12E	767,200	2.5	19,500	0.1	2.5	19,000	1.6	9,700	-37.8	36	12.2
3/12RE	795,600	6.3	23,000	18.1	2.9	22,000	17.7	22,300	42.9	83	5.3
3/13E	897,600	17.0	31,200	60.0	3.5	30,700	61.6	17,000	75.3	63	6.9
3/13RE	838,300	5.4	30,000	30.4	3.6	29,500	34.1	16,600	-25.6	62	7.1
3/14E	924,500	3.0	32,500	4.2	3.5	32,000	4.2	17,800	4.7	66	6.6
3/14RE	897,000	7.0	31,900	6.3	3.6	31,400	6.4	17,800	7.2	66	6.6

A: Actuals, E: CIRA Ests, CE: Company Ests, RE: CIRA Revised Ests, CRE: Company Revised Ests, NA: Not Available, NM: Not Meaningful

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

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	3/10	3/11	3/12E	3/13E	3/14E
<b>Valuation Ratios</b>					
PER(X)	-8.9	7.6	5.3	7.1	6.6
EV/EBITDA	8.1	3.7	3.2	2.5	2.2
P/BVPS	1.3	1.2	1.0	0.9	0.8
Dividend yield	0.0	0.9	1.7	2.3	2.3
<b>Per Share Data (¥)</b>					
EPS adjusted	-50	58	83	62	66
Reported EPS - diluted	-50	58	83	62	66
EPS*	-50	58	83	62	66
BPS	340	380	445	497	553
DPS	0	4	8	10	10
<b>Profit &amp; Loss (¥M)</b>					
<b>Net sales</b>	<b>619,449</b>	<b>748,249</b>	<b>795,600</b>	<b>838,300</b>	<b>897,000</b>
Operating expenses	-625,147	-728,769	-772,600	-808,300	-865,100
<b>EBIT</b>	<b>-5,698</b>	<b>19,480</b>	<b>23,000</b>	<b>30,000</b>	<b>31,900</b>
Net interest income/expense	-391	47	0	0	0
Total other non-operating items	-77	-833	-1,000	-500	-500
<b>Recurring profit</b>	<b>-6,166</b>	<b>18,694</b>	<b>22,000</b>	<b>29,500</b>	<b>31,400</b>
Extraord./Min.Int./Pref.div.	-4,594	-5,781	8,100	-3,200	-3,300
Taxation	-2,519	2,687	-7,800	-9,700	-10,300
<b>Reported net income</b>	<b>-13,279</b>	<b>15,600</b>	<b>22,300</b>	<b>16,600</b>	<b>17,800</b>
Analyst adjusted EBITDA	20,101	41,579	43,700	50,000	53,400
<b>Growth Rates (%)</b>					
Net sales	-7.5	20.8	6.3	5.4	7.0
EBITDA adjusted	68.3	106.9	5.1	14.4	6.8
EPS adjusted	nm	nm	43.0	-25.6	7.2
<b>Cash Flow (¥M)</b>					
<b>Cash from operations</b>	<b>21,131</b>	<b>30,540</b>	<b>40,637</b>	<b>34,519</b>	<b>37,747</b>
Depreciation and amortization	25,800	22,100	20,700	20,000	21,500
Net change in working capital	4,270	-6,645	-2,759	-2,946	-2,854
<b>Cash from investing activities</b>	<b>-14,591</b>	<b>-18,859</b>	<b>-18,600</b>	<b>-24,000</b>	<b>-29,000</b>
Capital expenditure	-15,499	-14,841	-18,600	-24,000	-29,000
Net acquisitions/disposals	0	0	0	0	0
<b>Cash from financing activities</b>	<b>-3,427</b>	<b>-9,523</b>	<b>-1,507</b>	<b>-2,345</b>	<b>-2,680</b>
Changes in borrowings	-3,198	-9,197	0	0	0
Dividends paid	0	0	-1,507	-2,345	-2,680
<b>Change in cash</b>	<b>3,323</b>	<b>721</b>	<b>20,530</b>	<b>8,174</b>	<b>6,067</b>
<b>Balance Sheet (¥M)</b>					
<b>Total assets</b>	<b>312,685</b>	<b>314,762</b>	<b>339,519</b>	<b>360,104</b>	<b>385,234</b>
Cash	14,068	14,789	35,319	43,493	49,560
Accounts receivable	110,415	111,465	118,519	124,880	133,624
Net tangible fixed assets	124,855	112,143	107,043	111,043	118,543
<b>Total liabilities</b>	<b>212,870</b>	<b>203,233</b>	<b>209,801</b>	<b>215,266</b>	<b>223,975</b>
Accounts payable	105,324	108,492	115,060	120,525	129,234
Total Debt	55,118	45,828	45,828	45,828	45,828
<b>Shareholders' funds</b>	<b>99,815</b>	<b>111,528</b>	<b>129,718</b>	<b>144,838</b>	<b>161,259</b>
<b>Profitability/Solvency Ratios (%)</b>					
Analyst Adjusted EBITDA Margin	3.2	5.6	5.5	6.0	6.0
Operating ROE	-13.6	16.2	20.2	13.2	12.7
Operating ROIC	-5.1	14.9	10.4	13.6	13.7
Net debt to equity	41.1	27.8	8.1	1.6	-2.3
Debt to total capital	35.6	29.1	26.1	24.0	22.1

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

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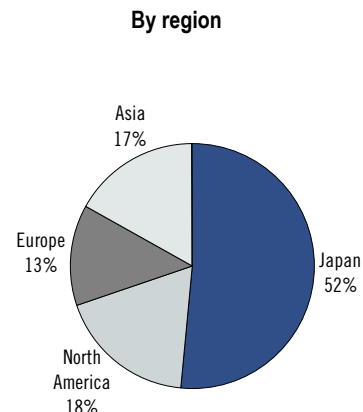
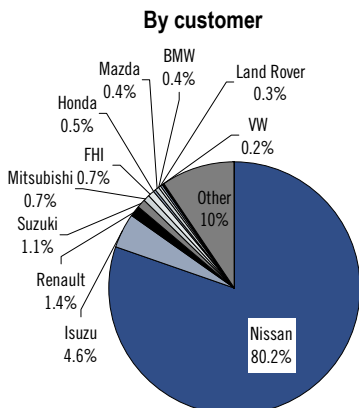


# Investment Dashboard

## Reasons to Buy

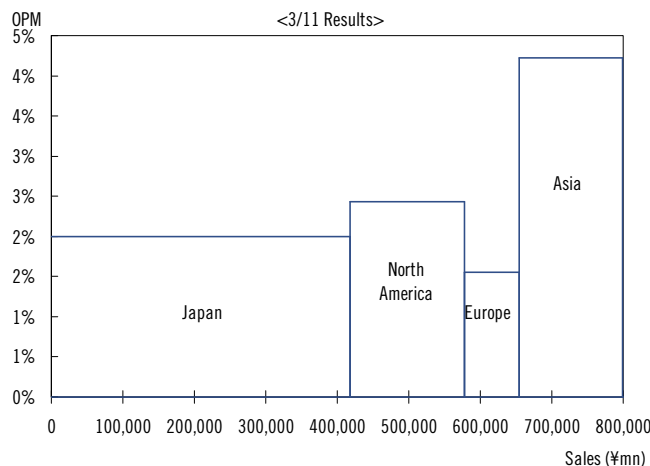
- We expect record profits in FY3/13
- Nissan sales are strong and its market share is rising
- We expect the re-posting of DTAs going forward as earnings recover
- Valuations look low

## Sales breakdown (FY3/10 and FY3/11)

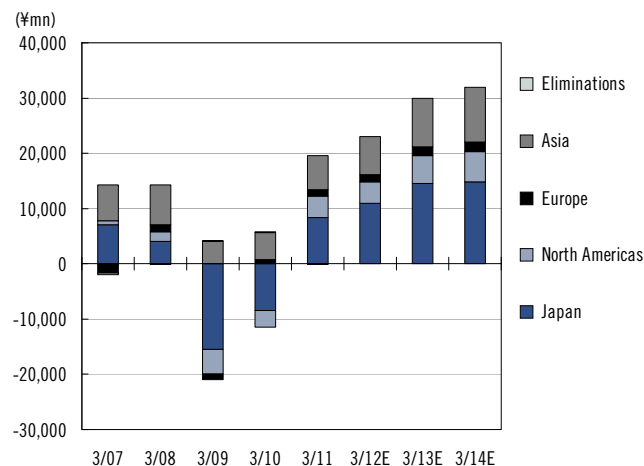


Source: Company data (Customer sales based on FY3/11 results, regional sales on FY3/10 results).

## Business portfolio



## OP by segment



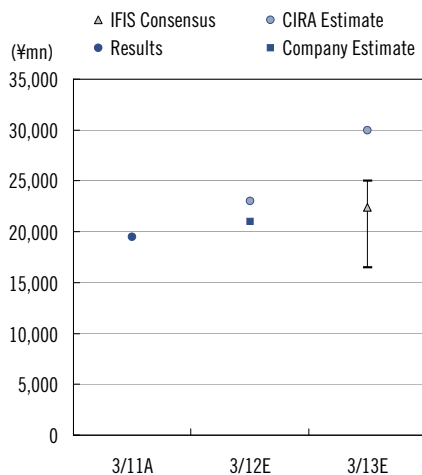
Source: Company data.

Source: Company data, Citi Investment Research and Analysis.

## Alternate scenario: What would make it a Hold

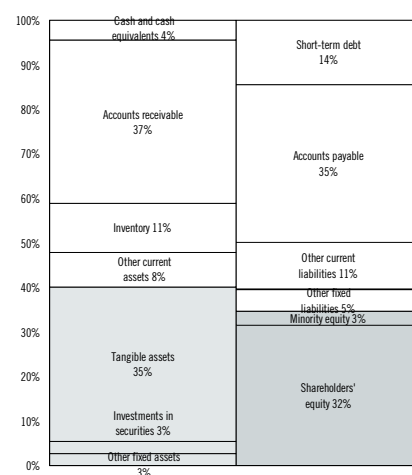
- Receding expectations for a production recovery should a deteriorating global economy push down auto demand
- We think PER would be an inappropriate metric when earnings are falling. Using a PBR of 1x and our end-FY3/12 BPS forecast of ¥445 would derive a theoretical share price of about ¥450

## OP forecast comparison



Source: Company data, IFIS (September 2), Citi Investment Research and Analysis.

## Balance sheet (end-FY3/12 Q1)



Source: Company data.

Share price drivers	Company description
<ul style="list-style-type: none"> <li>■ Margin improvement on volume growth and results of MTCR activities</li> <li>■ Earnings growth in Thailand, China, and other emerging markets</li> <li>■ Production volume growth at Nissan</li> <li>■ New orders and volume growth to firms other than Nissan</li> </ul>	<p>Calsonic Kansei is the largest Nissan-affiliated parts supplier and a consolidated subsidiary of Nissan (which holds a c40% stake). Calsonic supplies modules to Nissan. In components, the company is strong in heat exchanger and air conditioner parts.</p> <p>Profit began deteriorating after a record in FY3/06 due to inadequate component development capabilities and cost controls. Manufacturing total cost reduction (MTCR) activities have been implemented on a companywide basis in response. These activities produced savings in Japan for the first time in FY3/11, and synergy with volume growth supported a large earnings turnaround. Calsonic plans to strengthen overseas earnings from FY3/12.</p> <p>The company announced its CK GX4 T10 medium-term plan in July 2011, targeting a value-added OP margin of 7% (compared to 3.7% in FY3/11).</p>

## Valuation

		Rating		Price	Mkt	FY1E=	EPS		PER (x)		PBR (x)	OPM		EV/EBITDA (x)		RoE	
Code	Company				Cap		FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY2E	FY1E	FY2E	FY1E	FY2E
Japan auto parts					(\$ bn)												
3116.T	Toyota Boshoku	2H	JPY	1,127.00	2.7	3/12	82.6	127.4	13.6	8.8	1.2	3.7%	4.6%	3.2	2.5	8.9%	12.5%
6201.T	Toyota Industri	2H	JPY	2,185.00	8.9	3/12	157.3	200.6	13.9	10.9	0.6	5.3%	6.1%	nm	nm	4.7%	5.8%
6470.T	Taiho Kogyo	1H	JPY	697.00	0.3	3/12	74.5	115.4	9.4	6.0	0.4	3.9%	5.4%	2.5	2.0	4.8%	7.1%
6902.T	Denso Corp	1H	JPY	2,470.00	25.9	3/12	157.6	256.9	15.7	9.6	1.0	6.2%	8.6%	2.7	1.9	6.3%	9.7%
6995.T	Tokai Rika	1H	JPY	1,335.00	1.6	3/12	145.0	193.8	9.2	6.9	0.7	5.8%	6.9%	0.7	0.4	8.1%	10.0%
7259.T	Aisin Seiki	1H	JPY	2,568.00	9.4	3/12	232.4	305.2	11.1	8.4	1.0	6.1%	7.2%	2.0	1.6	9.2%	11.1%
7276.T	Koito	1H	JPY	1,155.00	2.4	3/12	101.4	170.5	11.4	6.8	1.2	9.2%	10.2%	1.7	1.3	10.6%	16.0%
7283.T	Aisan	1H	JPY	747.00	0.5	3/12	66.7	101.8	11.2	7.3	0.7	4.7%	6.1%	1.5	1.1	6.4%	9.1%
6923.T	Stanley	2H	JPY	1,115.00	2.5	3/12	113.2	135.3	9.9	8.2	0.9	12.7%	13.7%	2.0	1.6	9.3%	10.4%
7230.T	Nissin Kogyo	1H	JPY	1,192.00	1.0	3/12	126.3	157.1	9.4	7.6	0.8	8.4%	9.6%	2.0	1.5	9.3%	10.7%
7251.T	Keihin Corp	1H	JPY	1,452.00	1.4	3/12	143.3	200.1	10.1	7.3	0.8	6.6%	7.8%	2.2	1.6	8.3%	10.7%
7248.T	Calsonic Kansei	1H	JPY	455.00	1.6	3/12	83.2	61.9	5.5	7.3	1.0	2.9%	3.6%	3.2	2.6	20.2%	13.2%
6444.T	Sanden Corp	2H	JPY	308.00	0.5	3/12	48.4	57.9	6.4	5.3	0.8	2.6%	3.5%	5.5	4.6	13.6%	14.5%
7240.T	NOK Corp	2H	JPY	1,315.00	2.9	3/12	106.0	138.6	12.4	9.5	0.9	6.4%	7.3%	2.6	2.2	7.3%	8.9%
5101.T	Yokohama Rubber	2H	JPY	428.00	1.9	12/11	39.1	53.1	10.9	8.1	0.8	5.0%	5.1%	4.7	3.9	7.5%	9.8%
5108.T	Bridgestone Corp	1H	JPY	1,705.00	17.4	12/11	150.9	190.9	11.3	8.9	1.1	6.7%	7.4%	4.6	4.0	9.8%	11.2%
5110.T	Sumitomo Rubber	1H	JPY	969.00	3.3	12/11	83.1	112.8	11.7	8.6	1.2	6.5%	7.3%	5.2	4.3	10.9%	13.2%
US auto parts																	
BWA.N	Borg Warner	2M	USD	68.07	7.5	12/11	4.4	5.8	15.3	11.8	2.8	10.9%	12.0%	7.5	5.9	21.6%	22.6%
GT.N	Goodyear Tire	1H	USD	11.50	2.8	12/11	1.6	2.5	7.3	4.7	1.8	4.3%	5.5%	5.6	4.8	35.5%	35.5%
JCI.N	Johnson Controls	2H	USD	29.86	20.3	9/11	2.4	3.2	12.2	9.3	1.9	5.2%	6.3%	8.1	6.4	15.8%	19.1%
LEA.N	Lear Corp	1M	USD	44.11	4.6	12/11	5.4	5.7	8.1	7.7	0.7	5.8%	5.8%	3.2	2.6	20.9%	18.5%
MTOR.N	Meritor	1H	USD	7.62	0.7	9/11	0.6	1.7	13.8	4.6	nm	4.2%	5.5%	5.8	4.6		
EU auto parts																	
CONG.DE	Continental	1M	EUR	47.71	13.6	12/11	7.7	8.3	6.2	5.7	1.3	10.3%	10.3%	4.0	3.7	18.8%	17.6%
EPED.PA	FAURECIA	2H	EUR	18.90	3.0	12/11	2.9	3.0	6.6	6.3	1.9	3.7%	3.8%	2.9	2.7	36.3%	30.0%
GKN.L	GKN	2M	GBP	1.92	4.8	12/11	0.2	0.2	10.0	8.8	2.0	7.6%	7.8%	6.7	6.2	21.1%	21.2%
MICP.PA	Michelin	1M	EUR	47.81	12.2	12/11	7.2	7.2	6.6	6.6	0.9	9.4%	9.3%	4.5	4.4	14.7%	13.2%
PECI.MI	Pirelli	1M	EUR	5.36	3.7	12/11	0.7	0.7	8.0	7.5	1.2	10.5%	10.5%	4.0	3.8	14.9%	14.4%
VLOF.PA	Valeo	1M	EUR	33.94	3.8	12/11	5.3	5.7	6.3	6.0	1.3	6.0%	5.9%	2.8	2.5	20.3%	18.2%
China auto parts																	
2338.HK	Weichai Power	3M	CNY	39.55	8.5	12/11	3.6	4.2	9.0	7.7	2.3	13.9%	14.4%	5.2	4.2	28.3%	26.1%
1899.HK	Xingda Int'l	1M	CNY	4.49	0.9	12/11	0.5	0.5	7.8	6.7	1.1	19.5%	20.4%	4.6	4.0	14.7%	15.2%
India auto parts																	
BFRG.BO	Bharat Forge	3H	INR	284.75	1.4	3/09	6.6	4.9	43.4	nm	4.2	6.4%	6.1%	14.9	nm	3.7%	7.2%
Korea auto parts																	
000240.KS	Hankook Tire	3M	KRW	37,000.00	5.3	12/11	3,254.2	4,206.7	11.4	8.8	2.3	10.0%	12.2%	7.6	6.2	20.4%	24.3%
012330.KS	Hyundai Mobis	1M	KRW	328,500.00	30.0	12/11	35,294.0	39,435.5	9.3	8.3	2.4	13.4%	13.5%	8.7	6.9	29.1%	25.2%
060980.KS	Mando	1L	KRW	178,500.00	3.1	12/11	13,181.8	16,699.4	13.5	10.7	2.2	7.2%	7.5%	7.3	5.6	18.0%	19.2%

Note: Share prices as of the September 2 close.  
Source: Citi Investment Research and Analysis.

Figure 1. Calsonic Kansei: Consolidated earnings model

(¥mn)	FY3/06A	FY3/07A	FY3/08A	FY3/09A	FY3/10A	FY3/11A	FY3/12E	FY3/13E	FY3/14E
Sales	715,494	700,775	833,496	669,415	619,449	748,249	795,600	838,300	897,000
YoY pct chg	3.0%	-2.1%	18.9%	-19.7%	-7.5%	20.8%	6.3%	5.4%	7.0%
CoGS	644,917	646,931	775,218	644,221	588,449	688,895	730,600	765,300	820,600
Pct of sales	90.1%	92.3%	93.0%	96.2%	95.0%	92.1%	91.8%	91.3%	91.5%
Gross profit	70,577	53,844	58,277	25,194	31,000	59,354	65,000	73,000	76,400
Gross margin	9.9%	7.7%	7.0%	3.8%	5.0%	7.9%	8.2%	8.7%	8.5%
SG&A expenses	45,989	41,578	44,067	41,948	36,698	39,874	42,000	43,000	44,500
Pct of sales	6.4%	5.9%	5.3%	6.3%	5.9%	5.3%	5.3%	5.1%	5.0%
Operating profit	24,587	12,266	14,210	-16,754	-5,699	19,479	23,000	30,000	31,900
Operating margin	3.4%	1.8%	1.7%	-2.5%	-0.9%	2.6%	2.9%	3.6%	3.6%
YoY pct chg	6.2%	-50.1%	15.8%	NM	NM	NM	18.1%	30.4%	6.3%
Net nonoperating income	7	-1,996	-4,003	-9,274	-468	-786	-1,000	-500	-500
Net interest income	-395	-141	-420	-448	-391	47	0	0	0
Recurring profit	24,594	10,270	10,207	-26,029	-6,167	18,693	22,000	29,500	31,400
Recurring margin	3.4%	1.5%	1.2%	-3.9%	-1.0%	2.5%	2.8%	3.5%	3.5%
YoY pct chg	3.4%	-58.2%	-0.6%	NA	NA	NA	17.7%	34.1%	6.4%
Net extraordinary items	-454	-2,679	-134	-3,318	-4,705	-4,861	9,000	-2,000	-2,000
Pretax profit	24,140	7,591	10,073	-29,347	-10,873	13,832	31,000	27,500	29,400
Total Tax	3,874	4,739	7,695	25,993	2,519	-2,687	7,800	9,700	10,300
Effective tax rate	16.0%	62.4%	76.4%	-88.6%	-23.2%	-19.4%	25.2%	35.3%	35.0%
Minority interest	-1,034	-2,696	430	38	111	-920	-900	-1,200	-1,300
Net profit	19,232	156	2,808	-55,302	-13,281	15,598	22,300	16,600	17,800
Net margin	2.7%	0.0%	0.3%	-8.3%	-2.1%	2.1%	2.8%	2.0%	2.0%
YoY pct chg	286.6%	-99.2%	1700.0%	NA	NA	NA	43.0%	-25.6%	7.2%
No. of shares('000s)	266,917	268,061	268,039	268,036	268,023	267,971	267,971	267,971	267,971
DPS (¥)	7.5	7.5	7.5	3.8	0.0	3.8	7.5	10.0	10.0
EPS (¥)	72.1	0.6	10.5	-206.3	-49.6	58.2	83.2	61.9	66.4
CFPS (¥)	150.4	90.1	113.8	-99.2	46.7	140.7	160.5	136.6	146.7
Capex	41,500	39,500	39,100	27,000	16,100	15,100	18,600	24,000	29,000
Depreciation	20,900	24,000	27,700	28,700	25,800	22,100	20,700	20,000	21,500
R&D	28,600	28,700	27,900	27,600	21,200	21,000	23,300	25,000	28,000
Free cash flow	-1,368	-15,344	-8,592	-53,602	-3,581	22,598	24,400	12,600	10,300
EBITDA	45,487	36,266	41,910	11,946	20,101	41,579	43,700	50,000	53,400
RoE	11.2%	0.1%	1.6%	-53.4%	-14.6%	15.3%	18.7%	12.5%	12.0%
RoIC	7.5%	3.6%	4.3%	-5.7%	-2.1%	7.7%	9.3%	11.6%	11.5%
WACC	8.2%	8.4%	8.1%	6.3%	5.9%	6.2%	6.6%	6.7%	6.9%
Exchange rate (¥/\$)	113	117	114	101	93	86	78	77	77
Nissan global production ('000s)	3,434	3,215	3,507	2,918	3,385	4,215	4,703	5,049	5,516
Nissan Japan production ('000s)	1,365	1,192	1,263	1,050	1,025	1,073	1,156	1,147	1,098
<b>Geographic segment</b>									
Sales	715,494	700,775	833,496	669,415	619,449	748,249	795,600	838,300	897,000
Japan	456,937	422,092	489,729	392,467	363,113	417,939	459,600	470,300	475,000
North America	174,093	175,014	197,060	134,549	109,577	160,102	148,000	161,000	181,000
Europe	59,107	74,709	102,391	78,993	75,103	76,066	80,000	83,000	91,000
Asia	68,162	79,154	102,933	107,300	109,285	145,090	158,000	174,000	200,000
Eliminations	-42,806	-50,195	-58,618	-43,895	-37,631	-50,949	-50,000	-50,000	-50,000
Operating profit	24,587	12,266	14,210	-16,755	-5,699	19,479	23,000	30,000	31,900
Japan	12,283	7,049	4,030	-15,484	-8,421	8,362	10,900	14,600	14,800
North Americas	8,058	714	1,726	-4,477	-3,062	3,890	4,000	5,000	5,500
Europe	-1,835	-1,752	1,390	-982	813	1,180	1,200	1,500	1,700
Asia	6,020	6,455	7,108	4,056	4,892	6,133	6,900	8,900	9,900
Eliminations	60	-201	-45	132	79	-87	0	0	0
OP chg factor									
Volume & Mix	1,000	-8,000	5,200	-32,700	-6,200	16,800	7,483	8,348	9,392
Cost down and others	0	-1,500	-2,000	6,700	10,600	7,300	-1,552	130	-3,000
Depreciation	2,200	-3,100	-2,700	-2,500	2,900	3,700	1,400	700	-1,500
R&D	-2,600	-100	800	300	6,400	200	-2,300	-1,700	-3,000
Forex impact	800	400	600	-2,800	-2,600	-2,800	-1,500	-500	0

Source: Company data, Citi Investment Research and Analysis.

Figure 2. Calsonic Kansei: Consolidated balance sheet and cash flow

**Balance sheet**

(¥mn)	FY3/06	FY3/07	FY3/08	FY3/09	FY3/10	FY3/11	FY3/12E	FY3/13E	FY3/14E
Total assets	415,541	406,956	421,771	289,616	312,686	314,763	339,519	360,104	385,234
Current assets	230,022	212,443	231,906	133,324	169,318	184,810	214,667	231,252	248,882
Cash & deposits, marketable securities	37,899	16,117	21,826	10,745	14,068	14,789	35,319	43,493	49,560
Notes & receivables	139,601	133,906	139,720	69,425	110,415	111,465	118,519	124,880	133,624
Inventories	32,318	38,636	41,091	35,774	29,722	35,924	38,197	40,247	43,066
Fixed assets	185,519	194,512	189,865	156,292	143,367	129,952	124,852	128,852	136,352
Tangible fixed assets	137,296	150,968	153,345	136,716	124,855	112,143	107,043	111,043	118,543
Investment & others	44,359	37,550	28,737	10,027	10,773	11,264	11,264	11,264	11,264
Total shareholders' equity & liabilities	415,540	406,956	421,771	289,616	312,686	314,762	339,519	360,104	385,234
Total liabilities	232,341	219,238	235,897	175,507	212,871	203,234	209,801	215,266	223,975
Total current liabilities	184,682	187,407	212,264	153,420	193,039	186,733	193,301	198,766	207,475
Notes & accounts payable	111,712	120,321	137,068	66,448	105,324	108,492	115,060	120,525	129,234
Short-term debt	16,525	18,245	32,437	57,649	55,004	45,750	45,750	45,750	45,750
Total long-term liabilities	47,658	31,830	23,632	22,086	19,831	16,500	16,500	16,500	16,500
Bonds & CBs	2,257	250	247	0	0	0	0	0	0
Long-term debt	2,991	1,000	632	251	114	78	78	78	78
Minority interests	11,780	14,008	12,732	10,504	8,806	9,663	10,563	11,763	13,063
Total shareholders' equity	171,419	173,710	173,142	103,605	91,009	101,865	119,155	133,075	148,196
Interest bearing debt	21,773	19,495	33,316	57,900	55,118	45,828	45,828	45,828	45,828
Average interest rate	3.6%	6.6%	6.8%	2.8%	1.3%	0.5%	0.7%	0.7%	0.7%
Equity ratio (%)	41.3%	42.7%	41.1%	35.8%	29.1%	32.4%	35.1%	37.0%	38.5%
Debt-to-equity ratio (%)	135.5%	126.2%	136.2%	169.4%	233.9%	199.5%	176.1%	161.8%	151.1%
Net Cash	16,126	-3,378	-11,490	-47,155	-41,050	-31,039	-10,509	-2,335	3,732
BPS (¥)	642	648	646	387	340	380	445	497	553

**Cash flow**

(¥mn)	FY3/06	FY3/07	FY3/08	FY3/09	FY3/10	FY3/11	FY12/3E	FY13/3E	FY14/3E
<b>Cash flow from operations</b>									
Net profit	19,232	156	2,808	-55,302	-13,281	15,598	22,300	16,600	17,800
Depreciation	20,900	24,000	27,700	28,700	25,800	22,100	20,700	20,000	21,500
Change in working capital	3,796	6,094	7,018	-2,358	4,270	-6,645	-2,759	-2,946	-2,854
Others	-16,822	-20,259	-20,433	27,580	4,342	-513	396	865	1,301
Subtotal	27,106	9,991	17,093	-1,380	21,131	30,540	40,637	34,519	37,747
<b>Cash flow from investments activities</b>									
Capex	-34,068	-38,483	-40,111	-24,727	-15,499	-14,841	-18,600	-24,000	-29,000
Others	9,478	9,521	18,668	-2,554	908	-4,061	0	0	0
Subtotal	-24,590	-28,962	-21,443	-27,281	-14,591	-18,902	-18,600	-24,000	-29,000
<b>Cash flow from financing activities</b>									
Change in interest-bearing debt	-9,264	-2,415	14,002	25,516	-3,198	-9,197	0	0	0
Dividends	-1,996	-2,005	-2,010	-2,010	0	0	-1,507	-2,345	-2,680
Others	-1,674	-1,462	-779	-1,189	-229	-326	0	0	0
Subtotal	-12,934	-5,882	11,213	22,317	-3,427	-9,523	-1,507	-2,345	-2,680
Adjustments	824	3,331	-1,063	-4,725	210	-1,437	0	0	0
Change in cash	-9,594	-21,522	5,800	-11,069	3,323	678	20,530	8,174	6,067

Source: Company data, Citi Investment Research and Analysis.

## Calsonic Kansei

### Investment strategy

We rate the shares of Calsonic Kansei Buy/High Risk (1H), with a ¥560 target price. We rate the shares buy because 1) the firm is highly exposed to Nissan, where production and sales are strong; 2) we look for a new profit record in FY3/13; 3) we think earnings recovery will mean a re-posting of DTAs going forward; and 4) valuations are low. The auto parts sector is easily impacted by macroeconomic factors, but we think Calsonic Kansei has a large competitive advantage relative to peers.

### Valuation

Our valuation metric for Calsonic Kansei is PER. In determining our target multiple, we take into consideration such factors as profit growth potential, profitability (RoIC, the RoIC-WACC spread), past PER levels, and PERs for the sector and market.

We derive our ¥560 target price by applying a PER of 9x to our FY3/13 EPS estimate of ¥62. Our target PER is the same as the sector average based on FY3/11 tax-adjusted EPS.

### Risks

We see three main risks to our target price: 1) changes in production numbers at Nissan, which accounts for about 80% of Calsonic Kansei's sales; 2) a weakened earnings recovery on increased pricing pressure on Calsonic Kansei products due to deteriorating earnings at customers; and 3) forex volatility (a ¥1 fluctuation in the ¥/\$ rate corresponds to an OP impact of approximately ¥0.15bn); 4) additional costs stemming from busy operations. If these factors manifest themselves differently than we have anticipated, the share price may vary from our target price.

We rate the shares High Risk (H) based on their three-year historical volatility, which places them in the second through fifth deciles in terms of share price risk compared with our coverage universe.

## Appendix A-1

### Analyst Certification

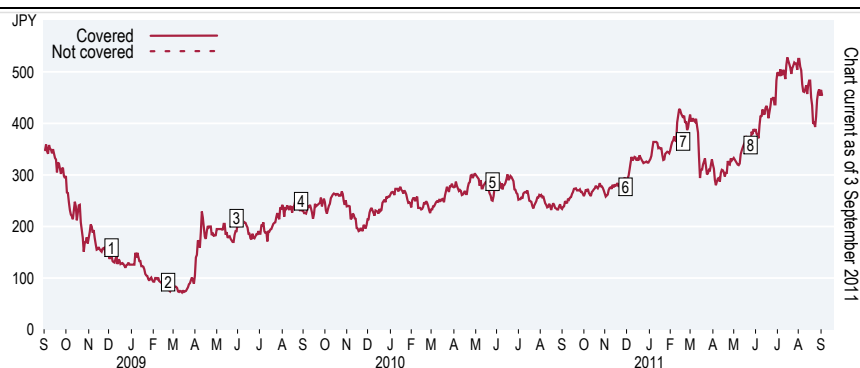
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## IMPORTANT DISCLOSURES

### Calsonic Kansei (7248)

#### Ratings and Target Price History Fundamental Research

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	4-Dec-08	*2H	*140	144
2	23-Feb-09	2H	*80	80
3	29-May-09	2H	*190	191

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	28-Aug-09	2H	*230	237
5	26-May-10	2H	*250	250
6	30-Nov-10	2H	*290	290

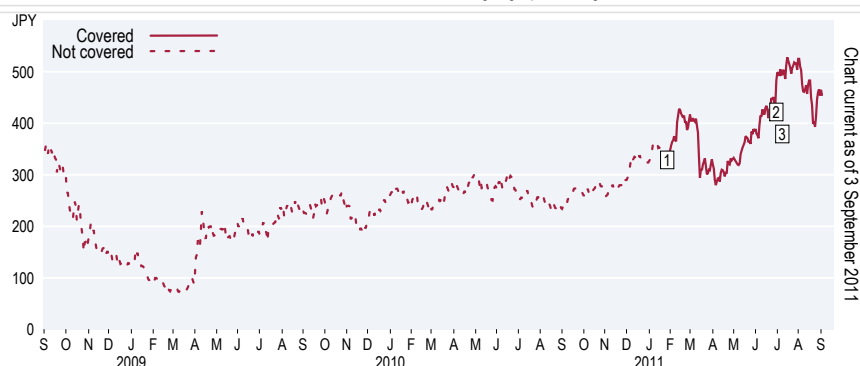
	Date	Rating	Target Price	Closing Price
7	18-Feb-11	2H	*460	411
8	25-May-11	*1H	*570	360

Rating/target price changes above reflect Eastern Standard Time

### Calsonic Kansei (7248)

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

Analyst: Arifumi Yoshida



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD LP	-	345

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	30-Jun-11	*ADD MP	-	483

	Date	Rating	Target Price	Closing Price
3	8-Jul-11	*REM MP	-	495

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Hyundai Mobis. As at 02 Sep 11, CGMK holds 3,363,010 Citi ELW 1260, 2,399,080 Citi ELW 1324, 3,349,710 Citi ELW 1393, 3,294,450 Citi ELW 1422, 3,245,880 Citi ELW 1493, 3,399,980 Citi ELW 1643, 3,379,900 Citi ELW 1716, 3,368,880 Citi ELW 1819, 3,399,900 Citi ELW 1867, 3,600,000 Citi ELW 1868 Call warrants & 1,000 shares of Hyundai Mobis.

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Industries, Toyota Industries, Taiho Kogyo, Denso, Stanley Electric, Tokai Rika, Nissin Kogyo, Aisin Seiki, Aisan Industry, Bharat Forge, Borg Warner Inc, Continental AG, Faurecia, GKN Plc, Goodyear Tire & Rubber Co, Johnson Controls Inc, Lear Corporation, Michelin, Meritor Inc, Pirelli, Valeo SA.

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#### Citi Investment Research & Analysis Ratings Distribution

<b>Data current as of 30 Jun 2011</b>	<b>12 Month Rating</b>			<b>Relative Rating</b>		
	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
Citi Investment Research & Analysis Global Fundamental Coverage	54%	36%	11%	10%	81%	10%
% of companies in each rating category that are investment banking clients	45%	41%	42%	50%	42%	44%

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To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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## OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 05 September 2011 03:00 PM on the issuer's primary market.

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