

Nidec (6594)

Turning into a one-stop motor shop

- **Move away from HDD motors to pay off** — We reiterate our Buy. The company has been swift to take steps to shift the axis of the business portfolio from HDD motors for consumer electronics to automotive motors and motors for appliance, commercial and industrial applications (ACIM motors) and finally visibility on growth is improving. In this report, we focus on analyzing the earnings growth picture via M&A with overseas firms in the industrial motor field in particular.
- **Earnings crossover point in FY3/15** — The shares were sold off in FY3/13, reflecting undershooting earnings in mainstay HDD spindle motors. However, Nidec has recently been keeping quarterly shipments in the 130mn-140mn range and we expect its spindle motor shipment volumes to stay stable. From here on, we see automotive/ACIM motors as the share price driver. We model 13% CAGR sales growth for FY3/14-FY3/16 in industrial motors, on M&A synergies and steady global GDP growth. We see ACIM OP almost doubling to ¥28.4bn in FY3/16 versus FY3/14, with the OPM rising to c10% over the period. Moreover, we expect automotive/ACIM motor OP to overtake HDD motor OP in FY3/15 and become the main growth driver.
- **Nidec to outshine as smartphone parts stocks lose luster** — We forecast YoY earnings growth for the smartphone parts stocks in the sector in FY3/14 and FY3/15 but earnings declines from FY3/16 as the smartphone volume growth rate slows. As a premonitory sign of this, volume growth potential has begun to slow in high-end smartphones. However, Nidec's smartphone weighting is very small. Since the yen started to weaken, Nidec has markedly underperformed TOPIX, in part due to its PC exposure, but we think steady earnings improvement, driven by automotive/ACIM motors, will be factored into the share price.
- **Target price** — We derive fair value PBR of 2.65x from our FY3/15 RoE forecast of 12.0% and a cost-of-capital assumption of 4.5%, which we apply to our BPS forecast of ¥3,431 to derive our ¥9,100 target price. We shift out our base year to FY3/15 from FY3/14, as full-year results are past.

- Estimate Change
- Target Price Change

Buy	1
Price (19 Jul 13)	¥7,120
Target price	¥9,100
	from ¥6,200
Expected share price return	27.8%
Expected dividend yield	1.2%
Expected total return	29.0%
Market Cap	¥957,075M
	US\$9,509M

Price Performance

(RIC: 6594.T, BB: 6594 JP)



Consol.	Sales		OP		Pretax Profit		NP		EPS	PE	
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/12A	682,320	0.9	73,070	-21.3	10.7	70,856	-13.6	40,731	-22.2	277	25.7
3/13A	709,270	3.9	17,627	-75.9	2.5	13,427	-81.1	7,998	-80.4	55	128.3
3/14CE	800,000	12.8	70,000	297.1	8.8	68,000	406.4	50,000	525.2	371	19.2
3/14E	796,300	12.3	61,500	248.9	7.7	61,000	354.3	43,850	448.3	300	23.7
3/14RE	817,000	15.2	70,000	297.1	8.6	68,600	410.9	49,980	524.9	347	20.5
3/15E	831,600	4.4	73,500	19.5	8.8	73,000	19.7	52,450	19.6	359	19.8
3/15RE	839,600	2.8	81,000	15.7	9.6	79,600	16.0	57,200	14.4	397	17.9
3/16E	878,400	4.6	93,000	14.8	10.6	91,600	15.1	66,100	15.6	459	15.5

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. 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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6594.T: Fiscal year end 31-Mar						Price: ¥7,120; TP: ¥9,100; Market Cap: ¥957,075m; Recomm: Buy					
Profit & Loss (¥m)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	682,320	709,270	817,000	839,600	878,400	PE (x)	25.7	nm	20.5	17.9	15.5
Cost of sales	-523,729	-572,605	-607,000	-613,600	-635,400	PB (x)	2.8	2.5	2.3	2.1	1.9
Gross profit	158,591	136,665	210,000	226,000	243,000	EV/EBITDA (x)	9.9	19.6	9.0	7.7	6.6
Gross Margin (%)	23.2	19.3	25.7	26.9	27.7	FCF yield (%)	1.5	4.8	2.5	5.1	6.0
EBITDA (Adj)	104,581	52,562	113,000	128,000	143,000	Dividend yield (%)	1.3	1.2	1.2	1.4	1.5
EBITDA Margin (Adj) (%)	15.3	7.4	13.8	15.2	16.3	Payout ratio (%)	32	153	25	25	24
Depreciation	-31,511	-34,935	-43,000	-47,000	-50,000	ROE (%)	11.2	2.0	11.5	12.0	12.6
Amortisation	0	0	0	0	0	Cashflow (¥m)					
EBIT (Adj)	73,070	17,627	70,000	81,000	93,000	EBITDA	104,581	52,562	113,000	128,000	143,000
EBIT Margin (Adj) (%)	10.7	2.5	8.6	9.6	10.6	Working capital	7,015	-68,568	-18,947	-3,975	-6,824
Net interest	1,335	1,152	1,000	1,000	1,000	Other	-54,884	126,292	-18,600	-21,300	-24,300
Non-op/Except	-3,549	-5,352	-2,400	-2,400	-2,400	Operating cashflow					
PreTax Profit	70,856	13,427	68,600	79,600	91,600	Capex	-41,446	-61,368	-50,000	-50,000	-50,000
Tax	-18,801	-6,568	-17,200	-19,900	-22,900	Net acq/disposals	18,803	-73,522	0	0	0
Extraord./Min.Int./Pref.div.	-11,324	1,139	-1,420	-2,500	-2,600	Other	2,725	1,036	0	0	0
Reported net profit	40,731	7,998	49,980	57,200	66,100	Investing cashflow					
Net Margin (%)	6.0	1.1	6.1	6.8	7.5	Dividends paid	-12,399	-12,125	-11,448	-13,468	-14,815
Core NPAT	40,731	7,998	49,980	57,200	66,100	Financing cashflow					
Per share data	2012	2013	2014E	2015E	2016E	Net change in cash	35,969	63,130	14,005	39,257	47,061
Reported EPS (¥)	277	55	347	397	459	Free cashflow to s/holders					
Core EPS (¥)	277	55	347	397	459		15,266	48,918	25,453	52,725	61,876
EPS* (¥)	264	52	324	370	428						
DPS (¥)	90	85	85	100	110						
CFPS (¥)	386	765	524	713	776						
FCFPS (¥)	104	339	177	366	429						
BVPS (¥)	2,552	2,864	3,130	3,431	3,785						
Wtd avg ord shares (m)	137	135	135	135	135						
Wtd avg diluted shares (m)	147	144	144	144	144						
Growth rates											
Sales revenue (%)	0.9	3.9	15.2	2.8	4.6						
EBIT (Adj) (%)	-21.3	-75.9	297.1	15.7	14.8						
Core NPAT (%)	-22.2	-80.4	524.9	14.4	15.6						
Core EPS (%)	-23.6	-80.0	524.9	14.4	15.6						
Balance Sheet (¥m)											
Cash & cash equiv.	138,100	193,420	207,425	246,682	293,742						
Accounts receivables	182,462	159,085	183,248	188,317	197,020						
Inventory	91,453	99,826	114,988	118,169	123,630						
Net fixed & other tangibles	230,831	277,977	284,977	287,977	287,977						
Goodwill & intangibles	103,850	132,893	132,893	132,893	132,893						
Financial & other assets	53,705	141,651	141,651	141,651	141,651						
Total assets	800,401	1,004,852	1,065,182	1,115,689	1,176,913						
Accounts payable	107,345	134,165	154,543	158,818	166,158						
Short-term debt	87,282	166,426	166,426	166,426	166,426						
Long-term debt	101,236	146,271	146,271	146,271	146,271						
Provisions & other liab	78,927	104,523	104,523	104,523	104,523						
Total liabilities	374,790	551,385	571,763	576,038	583,378						
Shareholders' equity	370,182	415,502	454,034	497,766	549,051						
Minority interests	55,429	37,965	39,385	41,885	44,485						
Total equity	425,611	453,467	493,419	539,651	593,536						
Net debt	50,418	119,277	105,272	66,015	18,955						
Net debt to equity (%)	11.8	26.3	21.3	12.2	3.2						

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

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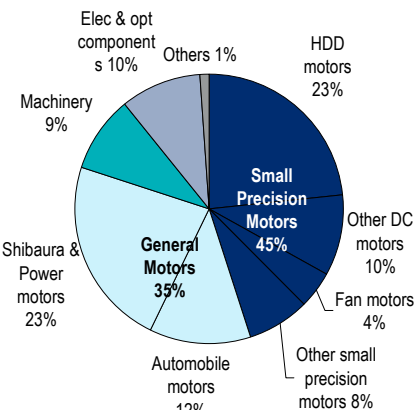
Nidec (6594) Investment Dashboard

Reasons to Buy

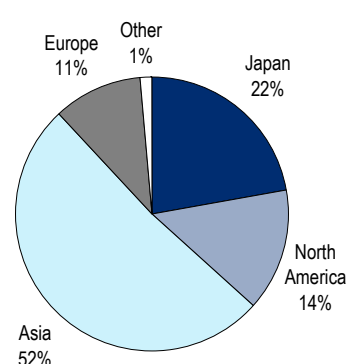
- We are optimistic on longer-run earnings growth on synergies from acquired companies in ACIM motors
- While we expect HDD motor earnings to remain on a downtrend, PC market shipment volumes are stabilizing, albeit at a low level, so we do not anticipate rapid earnings deterioration near term
- The FY3/15E PER has fallen below 20x. Nidec has been swift to switch its portfolio focus to automotive and industrial machinery applications and we feel longer-run earnings growth visibility is improving, so the shares strike us as undervalued

Sales breakdown (FY3/13)

By product

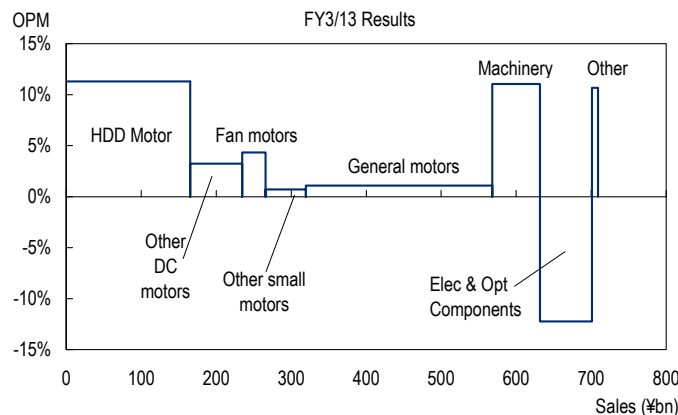


By region



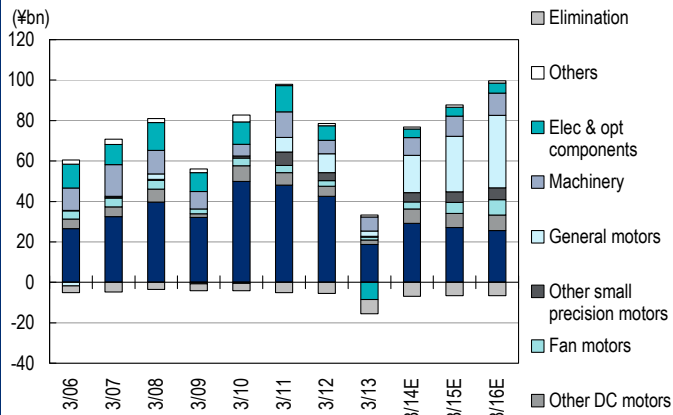
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

OP by segment

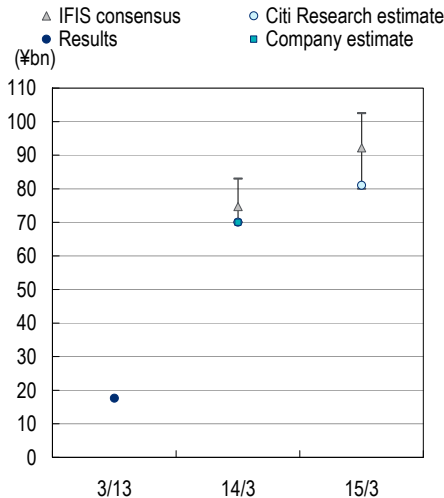


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

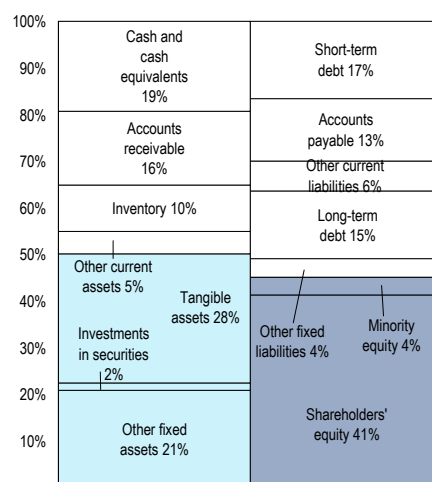
- If automotive motor profitability were to improve more than we expect, companywide OP would rise
- In this case, we would assume automotive motor sales in line with our current forecasts but model an FY3/15 operating margin of 5% and an FY3/16 one of 10%
- This would put our FY3/15 OP forecast at ¥83bn and we would derive a theoretical share price of ¥9,400

OP forecast comparison



Source: Company data, IFIS (July 16), Citi Research.

Balance sheet (end-FY3/13)



Source: Company data.

Share price drivers	Company description
<ul style="list-style-type: none"> The shares could turn higher if in industrial motors, Nidec captures demand in the growing Asia market and its motor shipment volumes rise by more than the market grows The shares could rise further if automotive motor profitability improved and volume growth over the medium term led steadily to earnings 	<p>Nidec has a leading global presence in motors. It consists of four segments, small precision motors, general motors, machinery, and electronic & optical components. In HDD spindle motors, one of the mainstay products, it commands an impressive global market share of around 75%. In the motor industry, Nidec has grown not only organically but also by advancing into new application fields via M&A. Profitability has recently been peaking in HDD spindle motors, which boasts an exceptional operating margin of over 20%, against a backdrop of weak demand. However, Nidec is working to reorganize structurally so as to generate synergies with overseas acquisitions in order to turn automotive/ACIM motors into future earnings drivers. The wellsprings of Nidec's competitiveness are its superior motor technology development abilities, mass-production technological abilities, marketing muscle, and the foundations of this, its acute awareness of the imperative of profit growth. We think these are intimately linked to the management skills of Nidec's founder, Shigenobu Nagamori.</p>

Valuation

Code	Company	Rating		Price	Mkt Cap	FY1E=	EPS		PER (x)		PBR (x)	OPM		EV/EBITDA (x)		RoE	
							FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY2E	FY1E	FY2E	FY1E	FY2E
Electronic components																	
4062.T	Ibiden	1	JPY	1,574.00	2.2	3/14	77.4	105.9	20.3	14.9	0.8	6.6%	9.1%	2.8	2.6	3.8%	5.0%
6592.T	Mabuchi	2	JPY	5,330.00	1.9	12/13	269.7	275.4	19.8	19.4	1.0	8.4%	9.5%	4.7	3.4	4.9%	4.6%
6594.T	Nidec	1	JPY	7,120.00	9.5	3/14	346.8	396.9	20.5	17.9	2.3	8.6%	9.6%	9.0	7.7	11.5%	12.0%
6762.T	TDK	3	JPY	3,745.00	4.7	3/14	122.2	178.5	30.6	21.0	0.9	3.2%	4.1%	4.2	4.1	2.7%	3.9%
6767.T	Mitsumi	2	JPY	735.00	0.6	3/14	20.6	49.2	35.7	14.9	0.6	1.7%	3.4%	2.1	1.9	1.8%	4.1%
6770.T	Alps	2	JPY	778.00	1.4	3/14	43.0	50.2	18.1	15.5	1.2	3.0%	3.2%	5.9	5.7	6.4%	7.1%
6804.T	Hosiden	2	JPY	591.00	0.4	3/14	18.3	32.2	32.3	18.3	0.5	0.8%	1.2%	nm	nm	1.3%	2.3%
6806.T	Hirose	2	JPY	13,650.00	4.7	3/14	505.8	560.8	27.0	24.3	2.1	24.0%	24.9%	6.9	6.4	6.8%	7.2%
6963.T	Rohm	2	JPY	4,130.00	4.4	3/14	135.1	115.4	30.6	35.8	0.8	6.0%	6.4%	3.1	3.1	2.4%	2.0%
6967.T	Shinko	1	JPY	1,116.00	1.5	3/14	73.2	88.5	15.2	12.6	1.1	11.6%	13.1%	4.1	3.2	7.3%	8.4%
6971.T	Kyocera	2	JPY	11,000.00	20.0	3/14	506.4	544.0	21.7	20.2	1.2	9.3%	9.6%	4.7	4.3	5.5%	5.7%
6976.T	Taiyo Yuden	2	JPY	1,373.00	1.6	3/14	99.3	104.4	13.8	13.2	1.3	8.4%	8.5%	4.2	4.4	9.7%	9.3%
6981.T	Murata	2	JPY	7,190.00	15.1	3/14	344.4	370.5	20.9	19.4	1.8	13.2%	12.9%	6.4	6.2	8.2%	8.4%
JBL.N	Jabil Circuit	2	USD	22.25	4.5	8/13	2.2	2.6	9.9	8.4	2.0	3.9%	4.2%	4.6	4.5	20.4%	20.8%
009150.KS	Samsung Elec-Mec	2	KRW	81,800.00	5.5	12/13	6,357.3	6,720.4	12.9	12.2	1.4	7.3%	7.1%	4.3	4.0	11.6%	11.2%
MOLX.O	Molex	2	USD	29.58	4.9	6/13	1.5	1.6	19.6	18.0	2.1	10.7%	11.6%	6.9	6.3	10.0%	11.4%
AVX.N	AVX	2	USD	12.58	2.1	3/14	0.6	0.8	19.4	16.1	1.1	10.0%	11.1%	5.0	4.9	5.7%	7.1%
APH.N	Amphenol Corp	1	USD	76.78	12.3	12/13	3.8	4.1	20.3	18.8	4.5	19.6%	19.6%	12.6	11.8	23.8%	23.0%
VSH.N	Vishay Intertech	2	USD	14.81	2.1	12/13	0.8	1.2	17.7	12.6	1.2	8.8%	10.8%	3.3	2.5	7.6%	9.7%
TEL.N	TE Connectivity	1	USD	47.77	19.8	9/13	3.1	3.7	15.2	12.8	2.5	13.8%	14.9%	8.4	7.3	18.5%	17.6%
051910.KS	LG Chem	1	KRW	269,500.00	15.9	12/13	22,823.7	28,934.9	11.8	9.3	1.5	8.3%	9.9%	6.4	5.2	13.4%	15.1%
3037.TW	Unimicron	2	TWD	29.70	1.5	12/13	2.3	2.7	13.0	11.1	1.0	6.0%	6.2%	4.2	3.8	7.5%	8.4%
3044.TW	Tripod	1	TWD	67.50	1.2	12/13	5.5	6.0	12.3	11.3	1.4	8.4%	9.1%	4.3	3.9	11.5%	11.7%
3189.TW	Kinsus	2	TWD	102.00	1.5	12/13	7.4	7.9	13.7	12.9	1.8	15.1%	15.1%	5.8	5.1	13.8%	13.6%
Telecom equipment																	
NOK1V.HE	Nokia	2H	EUR	3.06	15.1	12/13	0.0	0.1	nm	23.1	1.6	-1.2%	4.8%	10.6	4.0	-8.2%	6.7%
AAPL.O	Apple	2	USD	424.95	398.9	9/13	37.5	39.8	11.3	10.7	3.0	28.0%	27.3%	5.0	4.8	28.0%	26.3%
005930.KS	Samsung Elec	1	KRW	1,273,000.00	167.3	12/13	217,752.9	242,150.1	5.8	5.3	1.3	17.2%	18.2%	2.5	1.9	24.2%	21.6%
066570.KS	LG Elec	2	KRW	70,000.00	10.2	12/13	5,113.2	7,386.0	13.7	9.5	0.9	2.2%	2.3%	4.1	4.3	6.7%	9.2%
2498.TW	HTC	3	TWD	168.50	4.8	12/13	7.0	7.2	24.1	23.4	1.6	2.2%	2.4%	4.4	3.2	7.0%	6.8%
2354.TW	Foxconn Tech	3	TWD	74.10	3.1	12/12	6.8	6.3	10.9	11.7	1.5	6.8%	6.3%	5.2	4.9	14.6%	12.3%
PCs																	
0992.HK	Lenovo Grp	3	USD	7.01	9.4	3/13	0.1	0.1	14.7	13.5	3.8	2.4%	2.5%	2.2	1.8	26.4%	26.5%
2357.TW	ASUSTeK Computer	3	TWD	268.50	6.8	12/13	25.6	22.6	10.5	11.9	1.5	4.3%	4.2%	5.2	5.2	14.8%	12.5%
INTC.O	Intel	2	USD	23.04	114.5	12/13	1.9	1.7	12.4	13.2	2.0	23.1%	22.4%	5.4	5.4	17.6%	15.3%
FPD TVs																	
034220.KS	LG Display	2	KRW	26,600.00	8.5	12/13	1,966.2	2,757.3	13.5	9.6	0.9	5.0%	5.4%	2.0	1.9	6.6%	8.6%
GLW.N	Corning Inc	2	USD	15.11	22.3	12/13	1.3	1.4	11.7	10.8	1.0	19.2%	19.2%	5.7	5.5	9.1%	9.1%
0903.HK	TPV Tech	1	USD	1.67	0.5	12/12	0.0	0.0	5.8	4.7	0.3	0.9%	1.1%	2.1	2.0	4.7%	5.6%
2317.TW	Hon Hai Precision	1	TWD	77.40	30.6	12/12	8.0	9.2	9.7	8.4	1.3	2.7%	3.2%	4.6	3.0	14.1%	14.2%

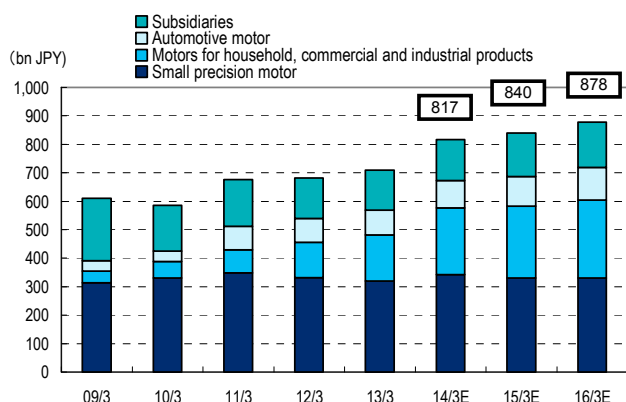
Note: Share prices as of the July 19 close.
Source: Citi Research.

Investment opinion

Shift to automotive and ACIM motors about to bear fruit

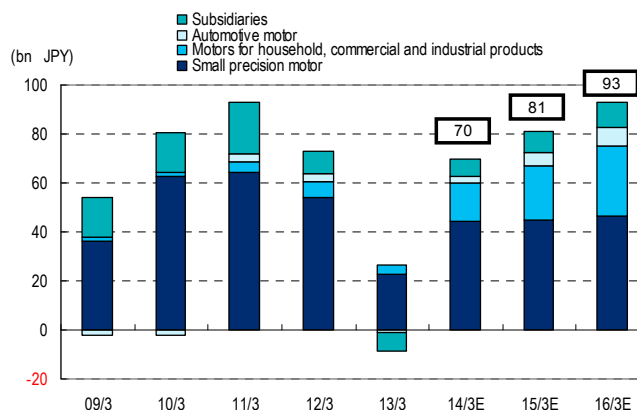
We rate Nidec Buy. It has been swift to take steps to shift its business portfolio away from HDD motors for consumer electronics to automotive motors and motors for appliance, commercial, and industrial applications (ACIM motors). We believe this has positioned the company well for longer-term growth. In this report, we consider the potential for and probability of earnings growth, particularly in the field of industrial motors, where Nidec has strengthened its presence through M&A.

Figure 1. Nidec: Segment sales



Source: Company data, Citi Research forecasts.

Figure 2. Nidec: Segment OP

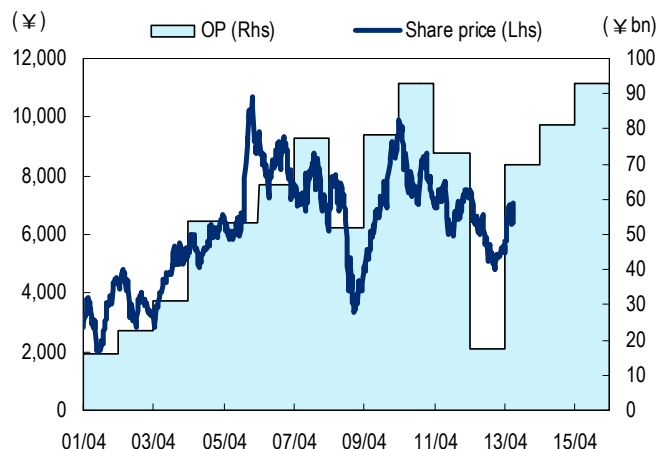


Source: Company data, Citi Research forecasts.

Shares poised to rise as earnings visibility improves

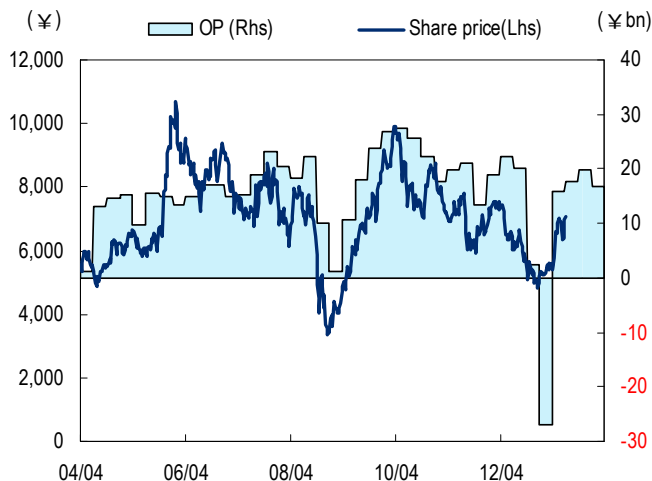
Nidec's share price is strongly correlated to its OP (Figures 3-4), and if visibility for OP growth improves, we would expect it to react accordingly. The share price declined in FY3/12-FY3/13 as profit targets were missed in the mainstay HDD spindle motor business. While we cannot foresee HDD market shipment volume growth in positive YoY territory in the immediate future, quarterly volume has settled in a 130mn–140mn unit range and we expect spindle motor volumes to be stable in FY3/14, too. Also, from FY3/14 we expect to see the fruits of efforts to expand automotive motor sales and the synergy benefits of ACIM motor M&A. While we have been impressed by Nidec's foresight to strengthen its presence in automotive and general-use industrial motor fields, this has yet to translate into notable earnings expansion. However, we think Nidec has finally entered a phase in which it reaps the growth of the seeds it has sown.

Figure 3. Nidec: Full-year OP and share price



Note: OP for FY3/14 and out our forecasts.
Source: Company data, Citi Research forecasts.

Figure 4. Nidec: Quarterly OP and share price



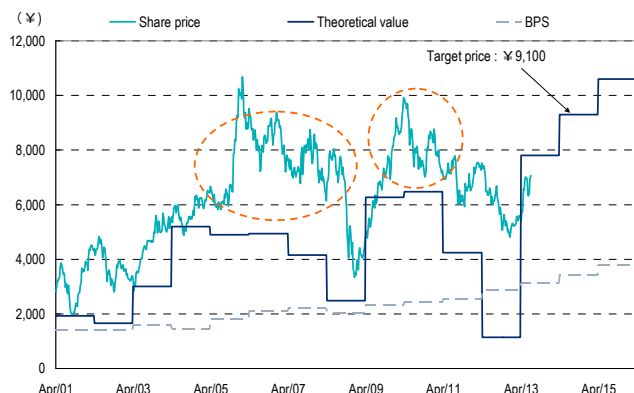
Note: OP for FY3/14 and out our forecasts.
Source: Company data, Citi Research forecasts.

Solid ACIM motor earnings growth to become a share price driver

Nidec has traded significantly above our theoretical share price on two occasions. The first was from 2005 until the Lehman collapse. The acquisition of Sankyo Seiki in 2003 strengthened Nidec's competitiveness in the HDD spindle motor market by giving it access to new fluid drive bearing (FDB) technologies, and HDD spindle motor earnings growth expectations soared. The second was after the Lehman collapse, when Nidec launched its WPR ("double product ratio") profitability reform project. OP began to come in well ahead of consensus each quarter and the shares attracted a premium.

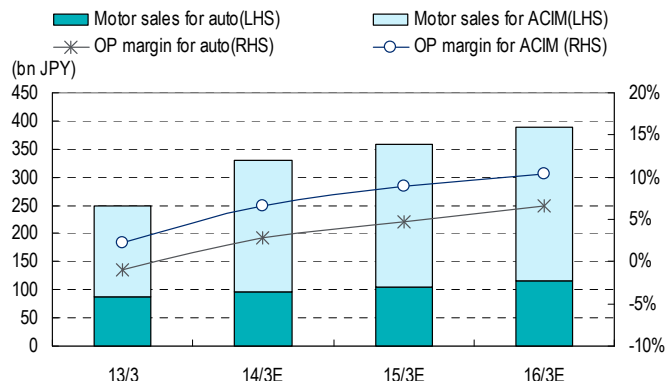
Moving forward, we expect automotive motor and industrial motor earnings growth to become share price drivers. This is because the receipt of an initial order for these products usually creates a launch-pad for future earnings opportunities: automotive motor makers are in a strong position to supply motors for future models, while industrial motor makers are well placed to secure maintenance and other business. We do not believe this high probability of growth is reflected in Nidec's current share price. Our ¥9,100 target price is more than 20% above the current share price (Figure 5). We believe this has more to do with differences of perception between us and the market over the visibility of earnings growth rather than the extent of that growth.

Figure 5. Nidec: Share price, theoretical share price, BPS



Note: We derive theoretical share prices by applying fair-value PBR to BPS. We derive fair-value PBR by dividing RoE by the cost of equity (equity-risk premium \times beta + risk-free rate). BPS for FY3/14 and out our forecasts.
Source: Bloomberg, Company data, Citi Research forecasts.

Figure 6. Nidec: Automotive motor and ACIM motor earnings forecasts



Note: Operating margins include intangible fixed asset amortization.
Source: Company data, Citi Research forecasts.

Industrial motor acquisitions have laid the foundation to capture regulatory-related demand

The expansion of forex translation gains on a weaker yen is a short-term catalyst for industrial motor earnings, but we believe regulations governing motor efficiency could raise longer-term earnings expectations. As we discuss later, the acquisition of overseas companies has not only expanded Nidec's geographical coverage but also provided it with the infrastructure needed to meet the demand for highly efficient motors. We believe Nidec is well positioned to capture demand generated by the introduction of motor efficiency regulations.

Figure 7. Nidec: Motor business acquisitions

	Consumer electronics motors	Commercial motors	Industrial motors			
			Small and mid-sized motors	Large motors, generators	Drives	Automation systems
Americas	NMC	NMC + Kinetek	NMC	NMC + ASI	Avtron + ASI	Avtron + ASI
EMEA	NMC + Sole	Kinetek	NMC	ASI	ASI	ASI
Asia	NMC	NTMC + Kinetek	NMC+ NTMC	ASI	ASI	ASI

Note: EMEA is Europe, the Middle East, and Africa.
Source: Company data, Citi Research.

Figure 8. Nidec: ACIM motor entities

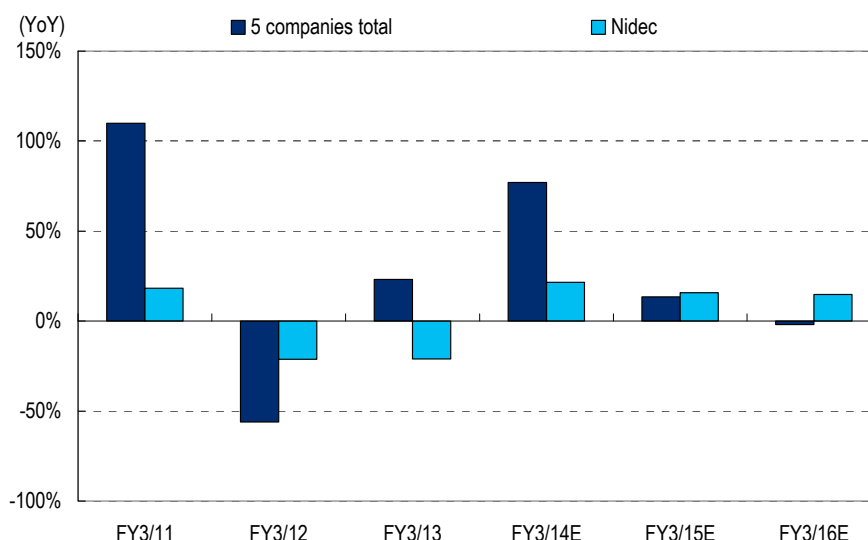
	FY3/13 estimated sales	Acquisition date	Detail
NTMC	¥41bn	Oct 1998	Acquired motor business unit of Shibaura Mechatronics. Current company name is Nidec Techno Motor Corporation
Sole	¥14bn	Jan 2010	Acquired home appliance motor business unit of Appliances Components Companies of Italy. Current company name is Nidec Sole Motor Corporation
NMC	¥70bn	Oct 2010	Acquired Emerson's motor & controls business unit. Current company name is Nidec Motor Corporation
ASI	¥20bn	Jun 2012	Acquired Ansaldo Sistemi Industriali of Italy. Current company name is Nidec ASI
Avtron	¥2bn	Sep 2012	Acquired Avtron Industrial Automation of the US
Kinetek	¥15bn	Nov 2012	Acquired Kinetek Group of the US

Note: ASI, Avtron, and Kinetek sales are from completion of acquisition to March 2013.
Source: Company data, Citi Research.

Nidec to come into the spotlight if smartphone-related names are avoided

Figure 9 compares the combined OP growth (YoY) of five companies in our electronic components sector coverage with high smartphone component sales weightings (Ibiden, TDK, Hirose Electric, Taiyo Yuden, and Murata) with that of Nidec. We forecast aggregate OP for the five smartphone component makers will increase in FY3/14 and FY3/15, but decline in FY3/16 as smartphone shipment volume growth slows. Apple revised down iPhone5 production plans at the end of 2012 and we understand Samsung lowered Galaxy S4 production plans in June. We view these developments a sign that smartphone growth is slowing.

Figure 9. Comparison of OP growth (YoY) for five smartphone component makers and Nidec



Note: The smartphone component makers' OP is the total for Ibiden, TDK, Hirose Electric, Taiyo Yuden, and Murata. Restructuring costs of ¥40bn have been added back to Nidec's FY3/13 OP.
Source: Company data, Citi Research forecasts.

Smartphones account for a very small percentage of Nidec's earnings and we believe the company should be largely immune to the effects of a smartphone growth slowdown. Figure 10 shows the share price performance of electronic components makers in our coverage. Since the yen began to weaken, Nidec has underperformed TOPIX, while leading smartphone component names Murata and Taiyo Yuden have outperformed by a wide margin. However, we cannot see smartphone component names making further gains as smartphone market growth slows. In contrast, we see considerable upside potential for Nidec because not only is it a conspicuous laggard but we expect steady earnings improvement, driven by industrial motors.

Figure 10. Electronic components sector coverage: Share price performance

Share Price Performance									Relative Share Price Performance (vs TOPIX)								
	YTD	12M	6M	Since Yen depreciation	3M	1M	2W	1W		YTD	12M	6M	Since Yen depreciation	3M	1M	2W	1W
	2012/12/31	2012/7/16	2013/1/17	2012/11/14	2013/4/17	2013/6/16	2013/7/2	2013/7/9		2012/12/31	2012/7/16	2013/1/17	2012/11/14	2013/4/17	2013/6/16	2013/7/2	2013/7/9
.TOPX TOPIX PRICE INDEX	41%	62%	36%	68%	7%	15%	3%	1%		0%	0%	0%	0%	0%	0%	0%	0%
.N225 NIKKEI 225 INDEX	40%	67%	38%	68%	9%	15%	4%	1%		0%	5%	2%	1%	3%	0%	0%	0%
4062.JP Iriden	21%	24%	33%	69%	10%	17%	4%	2%		-20%	-38%	-3%	1%	3%	2%	0%	1%
6592.JP Mabuchi	47%	71%	40%	67%	2%	11%	-1%	-1%		7%	9%	4%	-1%	-4%	-3%	-5%	-2%
6594.JP Nidec	45%	21%	42%	42%	27%	15%	4%	3%		5%	-42%	6%	-25%	20%	0%	1%	2%
6762.JP TDK	22%	25%	17%	35%	18%	6%	8%	3%		-19%	-38%	-19%	-33%	11%	-8%	4%	2%
6767.JP Mitsumi	51%	55%	53%	102%	44%	12%	7%	6%		10%	-7%	17%	34%	37%	-3%	4%	4%
6770.JP Alps	60%	66%	77%	88%	12%	25%	9%	5%		19%	4%	41%	20%	5%	11%	6%	4%
6804.JP Hosiden	8%	19%	7%	28%	6%	7%	0%	1%		-33%	-43%	-29%	-40%	-1%	-8%	-4%	0%
6806.JP Hirose	35%	76%	33%	66%	3%	11%	4%	0%		-6%	14%	-3%	-2%	-4%	-4%	1%	-1%
6963.JP Rohm	50%	44%	50%	87%	21%	9%	3%	0%		10%	-18%	14%	19%	15%	-5%	0%	-1%
6967.JP Shinko	74%	108%	71%	156%	40%	12%	-1%	-1%		34%	45%	35%	88%	33%	-2%	-5%	-2%
6971.JP Kyocera	44%	73%	40%	55%	21%	21%	8%	4%		3%	10%	4%	-12%	15%	6%	5%	3%
6976.JP Taiyo Yuden	104%	113%	97%	158%	8%	7%	-2%	-3%		63%	51%	61%	90%	1%	-8%	-5%	-4%
6981.JP Murata	51%	87%	44%	90%	-7%	6%	-4%	-4%		10%	25%	8%	23%	-14%	-8%	-7%	-5%

Note: Blue highlights indicate positive performance.

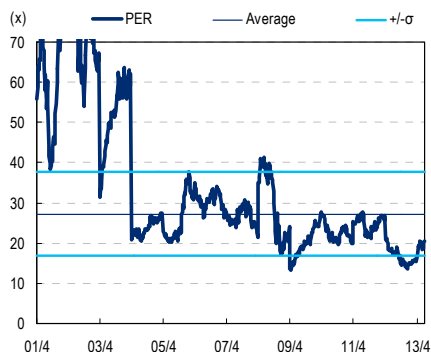
Source: Bloomberg, Citi Research.

Valuations

Nidec holds considerable investment appeal

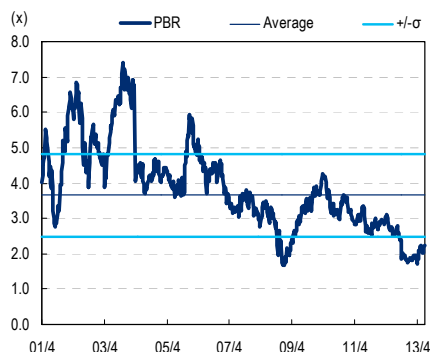
Nidec's current valuations are clearly low in historical terms (Figures 11-13). In the figures below, we have added back FY3/13 restructuring costs of c¥40bn to OP and EBITDA so as to remove abnormal values.

Figure 11. Nidec: PER



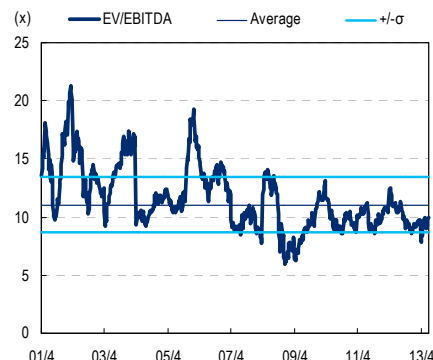
Source: Company data, Bloomberg, Citi Research.

Figure 12. Nidec: PBR



Source: Company data, Bloomberg, Citi Research.

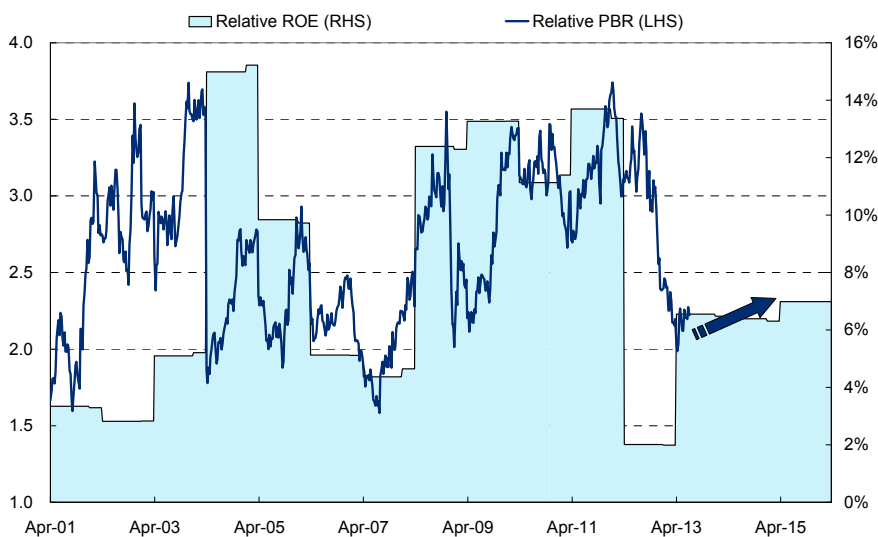
Figure 13. Nidec: EV/EBITDA



Source: Company data, Bloomberg, Citi Research.

Sector-relative valuations suggest that sector-relative RoE is the market's main valuation focus for Nidec (Figure 14). In general, companies whose earnings have been supported by smartphone and tablet PC volume expansion will face a rising hurdle to earnings growth from FY3/15 as volume growth for these products slows. In contrast, we believe Nidec is poised to benefit from improving automotive and industrial motor earnings momentum. From the perspective of earnings growth rates, we forecast Nidec will overtake other sector companies and that its RoE relative to the sector will increase, lifting its sector-relative PBR.

Figure 14. Nidec: Sector-relative PBR and sector-relative RoE



Note: Relative PBR is Nidec's PBR divided by sector-average PBR; relative RoE is Nidec's RoE minus sector-average RoE. FY3/14 and out are our forecasts.

Source: Bloomberg, company data, Citi Research forecasts.

Growth potential of industrial motors

Increased probability of profit growth in Asian markets thanks to overseas acquisitions

As shown in Figure 15, the acquisitions of ASI, Kinetek, and Avtron mean that Nidec's industrial motor business now covers most major regions globally. Given the need for a service network and the cost of transporting motors, it is more efficient in industrial motors to acquire regional networks via acquisitions rather than for a company to establish its own production sites and engage in marketing activities itself. Nidec's strategy reflects this. Nidec's acquisitions have not only added to its coverage in terms of region, but also given it new value-added technologies such as those for drives and automation systems, and should therefore serve to boost earnings growth in the future.

We think that Asian markets will be the main source of profit growth in industrial motors for Nidec. There can be little no doubt that Asia will continue to grow as a manufacturing base. Assuming that established growth trends in the US and Europe continue at NMC, Kinetek, and ASI, we expect synergies with acquisitions in Asia to drive accelerated earnings growth. ASI, as well as NTMC, have their own sales channels in Asia, and we think that marketing network synergies will be one major benefit of the acquisitions.

Figure 15. Nidec: Complementary relationship between geographies in motors

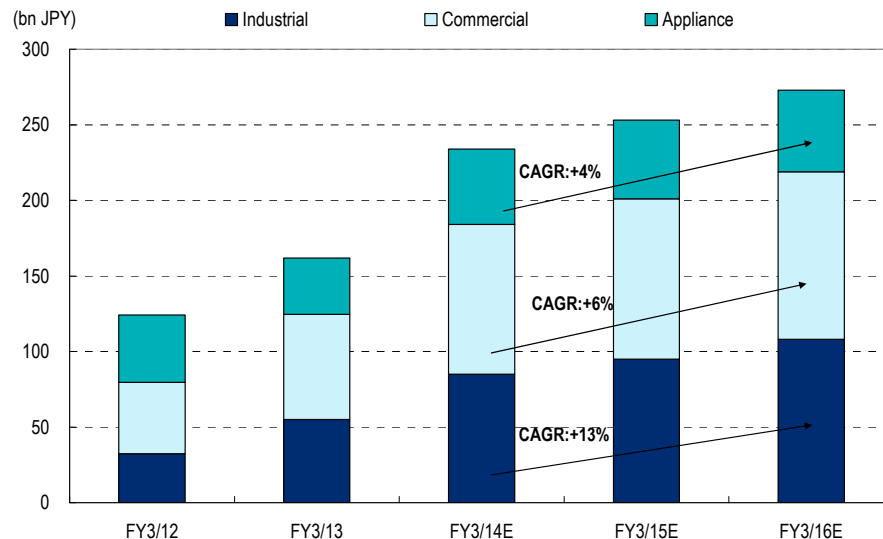
	Consumer electronics motors	Commercial motors	Industrial motors			
			Small and mid-sized motors	Large motors, generators	Drives	Automation systems
Americas	NMC	NMC + Kinetek	NMC	NMC + ASI	Avtron + ASI	Avtron + ASI
EMEA	NMC + Sole	Kinetek	NMC	ASI	ASI	ASI
Asia	NMC	NTMC + Kinetek	NMC+ NTMC	ASI	ASI	ASI

Note: EMEA: Europe, the Middle East, and Africa. NMC: Nidec Motor Corporation. NTMC: Nidec Techno Motor Corporation.

Source: Company data, Citi Research.

Our projections for Nidec's sales of ACIM motors are as follows. Between FY3/14, when recent acquisitions should start to make a full contribution to sales, and FY3/16, we project average annual growth in total ACIM motor sales of 8.0%. We forecast the strongest growth in industrial motors. Our main reason is that we believe this segment is best positioned to tap demand created by new standards governing motor efficiency, as well as demand in growing Asian markets.

Figure 16. Nidec: Sales outlook for appliance, commercial, industrial motors (ACIM motors)

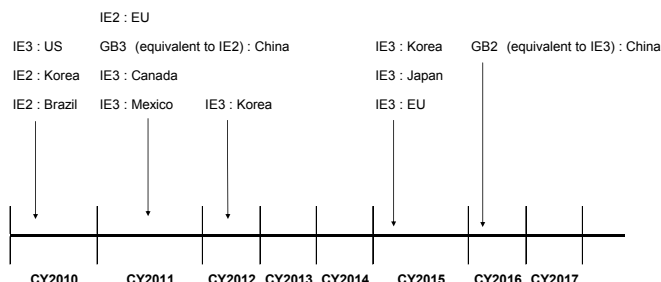


Source: Company data, Citi Research forecasts.

Shift to more efficient motors offers opportunities, but efforts needed to reduce motor prices

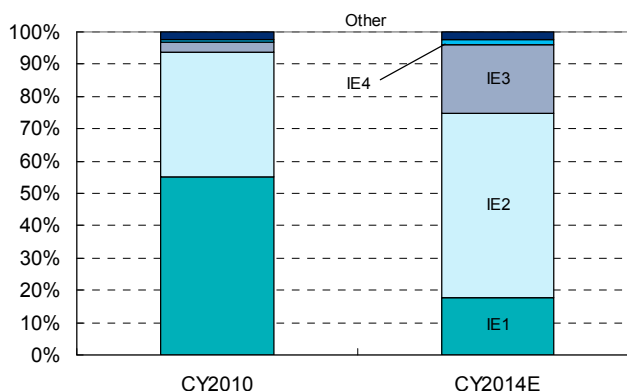
Figure 17 shows the roadmap for the introduction of motor efficiency standards in major regions. In 2015, South Korea, Japan, and the EU will introduce IE3 standards, while China will introduce GB2 standards, which are equivalent to IE3, in 2016. Most industrial motors are used in pumps and the like by the manufacturers of end-products, and products using motors that are not certified are subject to restrictions when exported to regions that have efficiency standards. So the introduction of efficiency standards provides motor manufacturers with good sales opportunities for high efficiency motors. For their customers, however, the size of the required investment is the matter of most concern regarding compliance with standards. This means that the most important factor for motor manufacturers in capturing demand for high efficiency motors is their ability to boost price competitiveness by reducing costs.

Figure 17. Roadmap for motor efficiency standards in major regions



Source: IMS Research, Citi Research.

Figure 18. Breakdown of volume shipments by efficiency category in low-voltage AC motor market



Source: IMS Research, Citi Research.

Industrial motor market: We expect induction motors to remain the mainstream

Motor manufacturers have proposed a range of energy efficiency technologies in response to the introduction of efficiency standards, with an increasing number backing a switch from induction motors to more efficient interior permanent magnet (IPM) motors. Nidec's mainstream products fall into the induction motor category, and it has little presence in IPM motors. However, we think that induction motors will remain the mainstream, even under new efficiency standards.

Figure 19. Comparison of induction and IPM motors

	Induction motor	IPM motors
Fundamentals	A current is passed through a rotor and it rotates at a lag to the speed of the rotating magnetic field	The rotor rotates at the same speed as the rotating magnetic field
Volume	Larger than IPM motors	Small
Efficiency	○	◎
Velocity	◎	◎
Max torque	◎	○
Torque source	Induction	Magnet

Source: Various data, Citi Research.

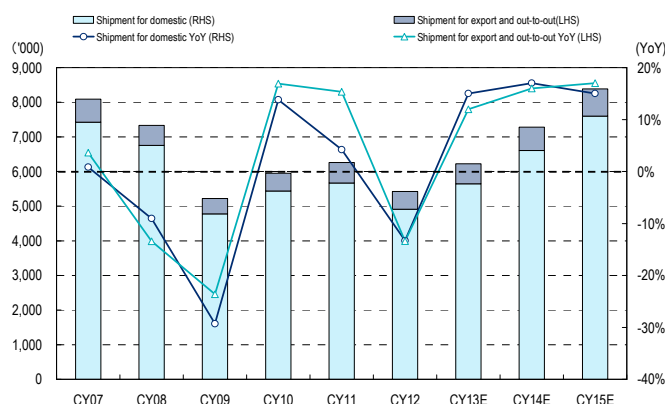
Figure 19 outlines the differences between induction and IPM motors, the biggest of which is differences in rotation loss (input power less motor output). In short, IPM motors are more efficient than induction motors because losses are smaller. Some Japanese motor manufacturers apparently aim to expand sales by coupling IPM motors with general purpose inverters. However, the weakness of IPM motors is that, because they use permanent magnets, they are 8x–10x more expensive than induction motors. In addition, it will be possible to meet new standards by making induction motors more efficient, and we think that many users will choose to stick with induction motors because of this.

Figures 20 and 21 show Japanese motor manufacturers' sales volumes for induction and IPM motors. "Domestic" denotes domestic production/domestic

shipments; “export + out-to-out” denotes Japanese motor manufacturers’ domestic production for export and overseas production/overseas shipments.

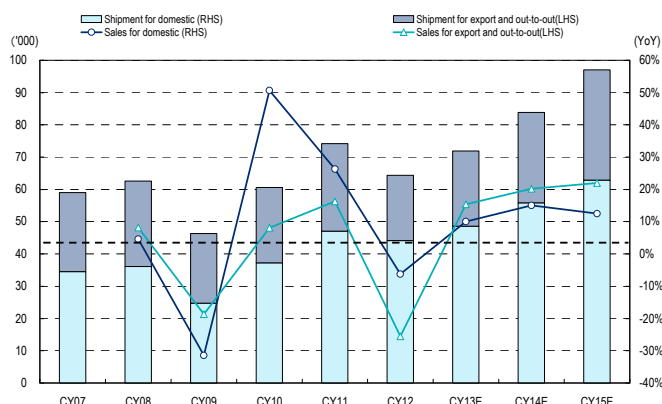
In the overall market, volume shipments of induction motors are much larger. Shipments of both types of motor were affected in 2009 by the global financial crisis, and in 2012 by the faltering Chinese economy. But from 2013, we forecast growth of some 10% YoY in domestic market shipments, and some 15% in combined exports and shipments of motors produced overseas by Japanese motor manufacturers, even allowing for weakness in macro-economic growth.

Figure 20. Induction motor shipment volume by Japanese makers



Source: Fuji-Keizai, Citi Research forecasts.

Figure 21. IPM motor shipment volume by Japanese makers



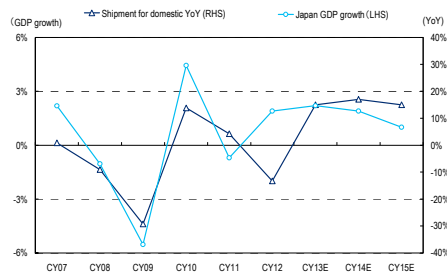
Source: Fuji-Keizai, Citi Research forecasts.

Induction motors: Volume growth likely both in domestic shipments, exports

Figures 22 and 23 show the correlation between induction motor volume growth and real GDP growth. We compare domestic shipment volumes with Japanese GDP growth, as they are affected most by domestic economic activity. And while motors that are exported or manufactured overseas are destined mainly for Asian markets, they are used in products that are exported from Asian facilities to global markets, so we compare volumes with global GDP growth. The recovery in domestic shipment volumes from 2011 through 2012 lagged that in GDP growth by around one year. Export and overseas production volumes fell markedly in 2012, due to the slowdown in Chinese economic growth and economic weakness in Europe, but as we expect some degree of global GDP growth in 2013, despite weakness in key economies, we also expect a commensurate upturn in investment demand.

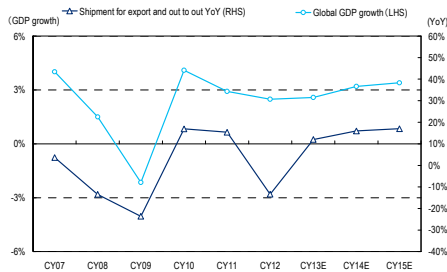
Figure 24 shows induction motor industry shipments. We expect the weighting of motors for general manufacturing facilities, such as pumps and fans, machine tools and processing machinery, and compressors to remain elevated, with exports expanding their weighting with growth continuing at annual rates of 20% or more.

Figure 22. Induction motors: Domestic shipment volume growth vs. Japan real GDP growth



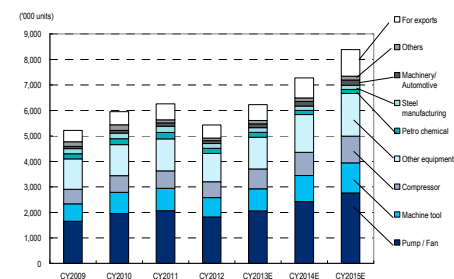
Source: Fuji-Keizai, Citi Research forecasts.

Figure 23. Induction motors: Exports, overseas production volume growth vs. global real GDP growth



Source: Fuji-Keizai, Citi Research forecasts.

Figure 24. Induction motors: Shipment volume by industry

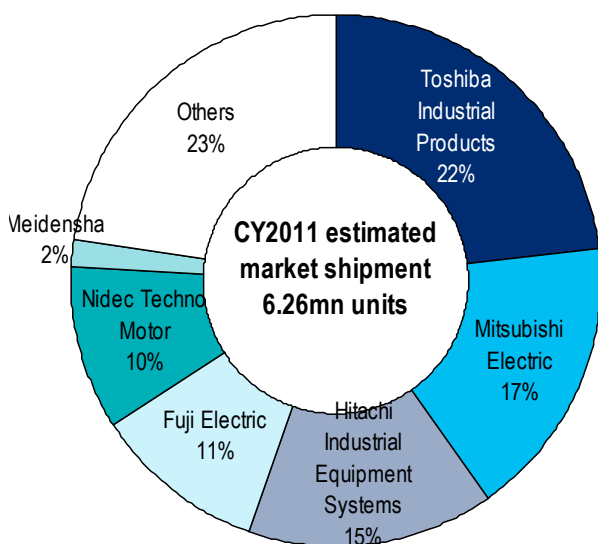


Source: Fuji-Keizai, Citi Research forecasts.

Market share: We expect growth in market share value thanks to acquisitions

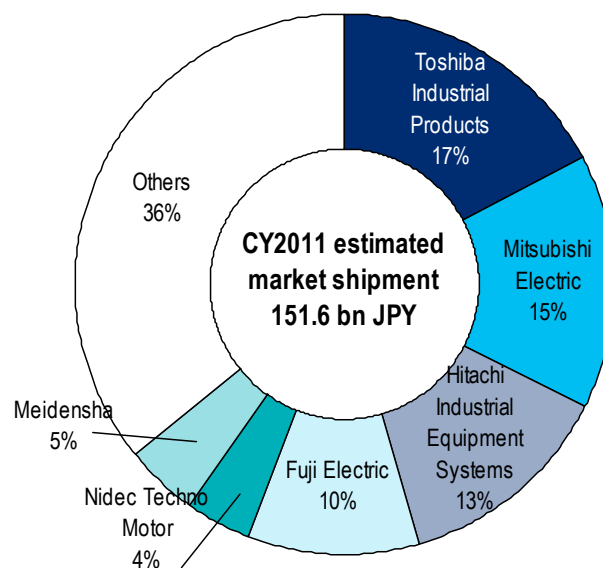
Figures 25 and 26 show Nidec's market share among Japanese induction motor manufacturers in terms of both volume and value. Nidec lags the top four Japanese companies—Toshiba, Mitsubishi, Hitachi and Fuji Electric—in terms of sales volume, and the gap is even larger in terms of the value of sales. One reason is that the other four manufacture a lot of large induction motors, while Nidec specializes in small and mid-size motors, so ASPs are lower than at competitors. However, the acquisition of ASI will add large motors to the product line-up, so we expect ASPs to rise and Nidec to close the gap on rivals in terms of market share value.

Figure 25. Japanese manufacturers' share of induction motor market volume



Source: Fuji-Keizai, Citi Research estimates.

Figure 26. Japanese manufacturers' share of induction motor market value



Source: Fuji-Keizai, Citi Research estimates.

Improvement in motor cost competitiveness needed for expansion in market share

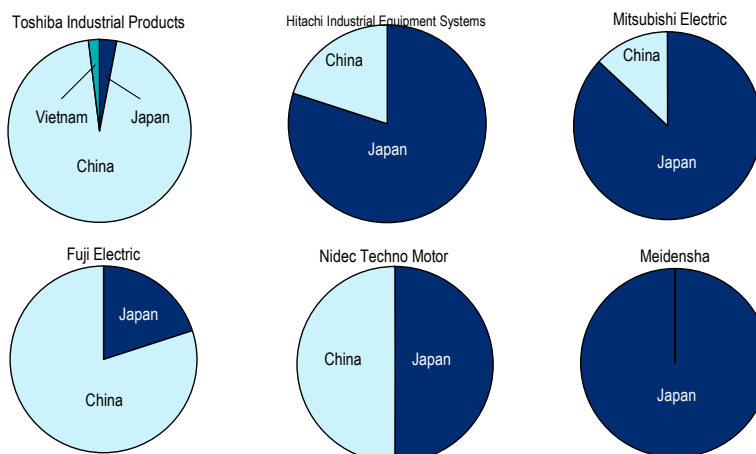
We think Nidec needs to increase value-added and reduce costs to expand its market share in induction motors. The drive technologies and automation technologies acquired with ASI should contribute significantly to increase in value-added, as shown in Figure 15.

Most industrial motors are incorporated in final products not manufactured by Nidec. However, those final products are no more than one piece of equipment used in the manufacturing facilities of the final customers, and the final users are most interested in the efficiency of their entire production lines, not just individual pieces of equipment. So maintenance services that support long-term operation of production lines are critical to production efficiency. This means that improvement in the efficiency of motors used in production equipment is not in itself sufficient to ensure customer satisfaction. From this perspective, the acquisitions of ASI and Avtron are particularly significant given their know-how in maintenance services and industrial automation systems. Conversely, it could be said that Toshiba, Mitsubishi, Hitachi and Fuji Electric have gained inductor motor market shares in excess of 10% by sharing cumulative know-how on production line construction with their customers and also by handling maintenance services. Nidec has managed to acquire technologies that will make it more competitive thanks to corporate acquisitions, but it still lags leading Japanese motor manufacturers by a considerable margin.

We therefore think that Nidec needs to boost its competitiveness by reducing the cost of motor manufacture, in order to expand its presence in the Asian motor market. Figure 27 shows the breakdown by region of the volume production of major Japanese motor manufacturers. Japanese production accounts for a large part of the overall figure. Barriers to entry are lower for motors than for other production technologies used for electronic components for consumer electronics, so the preference for production at Japanese facilities appears to be less significant. Indeed, the fact that most major Japanese motor manufacturers have a large number of domestic production sites appears to be due to an emphasis on marketing networks and access to customers.

In contrast, production volumes at the Chinese facilities of Nidec Techno Motor (in Zhejiang and Pinghu) is roughly equal to that of its Japanese sites (in Fukuoka and Iizuka), so the company has already taken advantage of relatively lower labor costs in China. In this respect, Nidec in no way lags its Japanese competitors. We think the company will be able to leverage the Asian sales networks of ASI and Kinetek to boost volumes and thereby reduce costs under its current production system.

Figure 27. Induction motor volume production by region



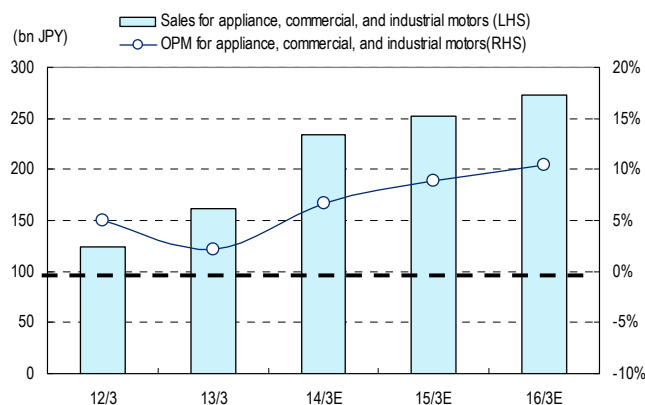
Source: Fuji-Keizai, Citi Research estimates.

Earnings forecasts: Average annual growth of 13% in industrial motor sales

We project average annual growth in industrial motor sales volume in line with our previously mentioned forecast of 16% growth for the overall induction motor market, and assuming annual decline in ASPs of 3%, we forecast average annual growth in Nidec's sales of 13% between FY3/14 and FY3/16.

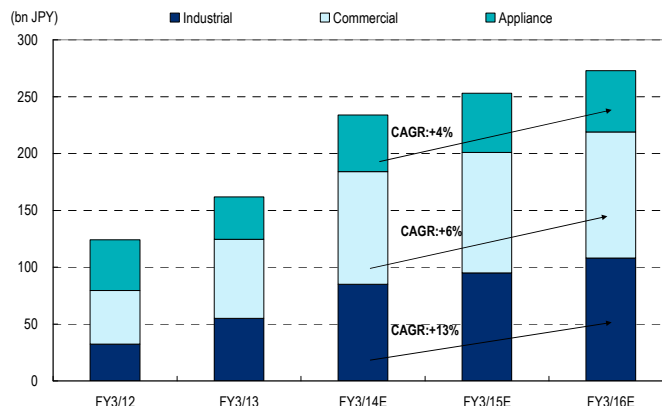
Our projections for OP from motors for appliance, commercial and industrial applications (ACIM motors) overall are ¥15.6bn in FY3/14, ¥22.4bn in FY3/15, and ¥28.4bn in FY3/16. Our forecasts for ACIM motors assume the amortization of intangible fixed assets resulting from acquisitions of ¥6bn in FY3/14 and ¥5bn in each of FY3/15 and FY3/16. Our forecasts for average annual sales growth between FY3/14 and FY3/16 are 4% for appliance motors, 6% for commercial motors, and 13% for industrial motors.

Figure 28. Earnings forecasts for appliance, commercial, industrial motors



Note: Actual operating margin figures are Citi Research estimates.
Source: Company data, Citi Research forecasts.

Figure 29. Sales breakdown for appliance, commercial, industrial motors



Source: Company data, Citi Research forecasts.

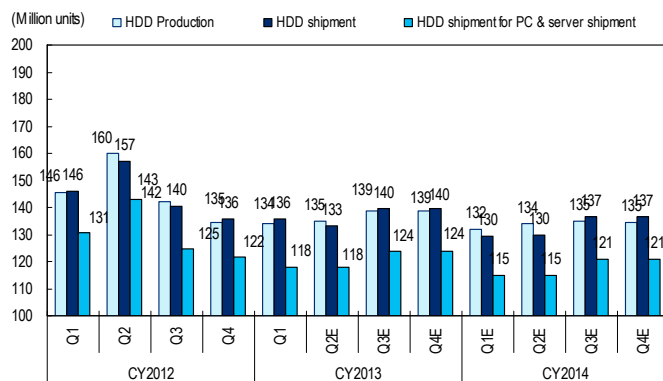
Earnings forecasts

We revise our OP forecasts from ¥61.5bn to ¥70.0bn for FY3/14 (guidance is ¥70bn), and from ¥73.5bn to ¥81.0bn for FY3/15. Our new forecast for FY3/16 is ¥93.0bn. The main reasons for our revisions are 1) change in our forex assumptions from ¥90/\$ to ¥95/\$ and ¥120/€ to ¥125/€ (guidance assumes ¥95/\$ and ¥125/€), and 2) change in our forecasts for growth in sales of appliance, commercial, and industrial motors from 30% YoY to 45% for FY3/14, and from 5% to 7.9% for FY3/15 (we forecast growth of 8.1% for FY3/16). We model a decline in the OP weighting of HDD motors, for so long the key earnings driver, from 42% in FY3/14 to 33% in FY3/15 and 28% in FY3/16. At the same time, we model an increase in the OP weighting of automotive motors and appliance, commercial, and industrial motors (ACIM motors) from 26% in FY3/14 to 34% in FY3/15 and 39% in FY3/16, so we expect this segment to overtake HDD motors in FY3/15. As a result, HDD motor earnings volatility is in our view likely to have less impact on the share price in the medium term.

HDD motor sales, profit to fall but we still model 15% OPM

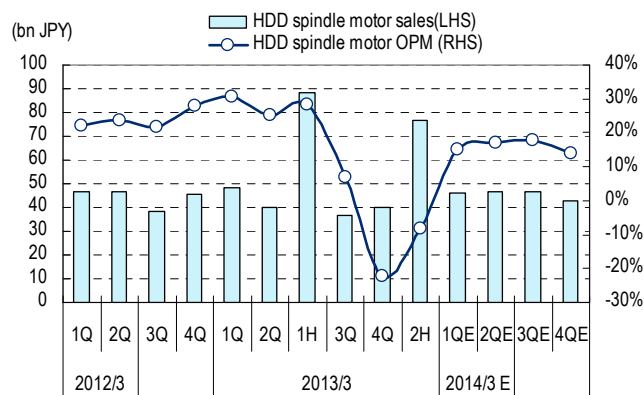
We expect quarterly shipments in the overall HDD market to remain stable this fiscal year. For April-June, we estimate HDD market shipments at 133mn, down 15% YoY. We see this as a healthy level of shipments for the market, given a decline of some 10% YoY in shipment volumes in the PC market in April-June. We expect weakness in demand for PC HDDs in July-September and October-December, and forecast growth of around just 5% QoQ, while modeling overall HDD market shipment volume of 130mn–140mn. Unless there is rapid change in forex rates, we would expect Nidec's quarterly HDD motor sales to be roughly flat at ¥46bn–¥47bn, in line with the overall market, and the OPM to remain at 15%.

Figure 30. HDD market volumes



Source: TSR, Citi Research forecasts.

Figure 31. Nidec HDD motor sales, OPM



Source: Company data, Citi Research forecasts.

ACIM motors a key driver of profit growth

We forecast only modest growth in OP from automotive motors, from ¥2.8bn in FY3/14 to ¥5.0bn in FY3/15 and ¥7.5bn in FY3/16. One reason is that we expect it to take considerable time for the automotive segment to realize its full earnings potential, and FY3/14 will be a year in which the company focuses on improving the profitability of automotive motors as it builds volume production infrastructure. Earnings growth from FY3/15 onwards will depend upon how much profitability improves in FY3/14, but we expect sales to continue to grow, particularly those of motors for electric power steering systems, and this should ensure ongoing profit

growth also. Our forecasts do not factor in any new M&A deals in the automotive segment.

We project steady growth in OP from motors for appliance, commercial and industrial applications (ACIM motors) overall, from ¥15.6bn in FY3/14 to ¥22.4bn in FY3/15 and ¥28.4bn in FY3/16. Our forecasts for average annual sales growth between FY3/14 and FY3/16 are 4% for consumer electronics motors, 6% for commercial motors, and 13% for industrial motors. So we expect the most rapid sales growth in industrial motors.

Figure 32. Nidec: Consolidated earnings model

(¥mn)	3/08	3/09	3/10	3/11	3/12	3/13	3/14E	3/15E	3/16E		3/14CE
Sales	728,756	610,803	586,029	675,988	682,320	709,270	831,500	846,300	882,300		800,000
CoGS	571,337	480,475	435,035	500,034	523,729	572,605	621,500	622,300	644,300		
Gross margin	157,419	130,328	150,994	175,954	158,591	136,665	210,000	224,000	238,000		
SG&A	79,877	78,313	72,481	83,085	85,521	119,038	140,000	145,000	150,000		
Operating profit	77,542	52,015	78,513	92,869	73,070	17,627	70,000	79,000	88,000		70,000
Non-operating profit/loss	-13,287	-4,745	-3,330	-10,903	-2,214	-4,200	-1,400	-1,400	-1,400		
Profit before tax	64,255	47,270	75,183	81,966	70,856	13,427	68,600	77,600	86,600		68,000
Taxes	15,930	12,475	17,530	18,309	18,801	6,568	17,100	21,000	23,400		
Minority interest	6,485	2,882	4,190	5,159	3,556	-1,126	1,420	2,600	2,800		
Net income	41,156	28,353	51,961	52,333	40,731	7,998	50,080	54,000	60,400		50,000
EBITDA	114,670	84,882	108,893	127,062	105,626	55,882	113,000	124,000	138,000		113,000
(% of sales)	16%	14%	19%	19%	15%	8%	14%	15%	16%		14%
Depreciation	37,128	32,867	30,380	34,193	32,556	38,255	43,000	45,000	50,000		43,000
(% of sales)	5%	5%	5%	5%	5%	5%	5%	5%	6%		5%
R&D	29,583	26,825	24,456	27,737	30,050	34,278	38,000	39,000	40,000		38,000
(% of sales)	4%	4%	4%	4%	4%	5%	5%	5%	5%		5%
Capex	34,799	36,922	29,359	55,010	41,446	61,368	50,000	50,000	50,000		50,000
(% of sales)	5%	6%	5%	8%	6%	9%	6%	6%	6%		6%

CE: Company estimates. E: Our estimates.

Source: Company data, Citi Research.

Figure 33. Nidec: Segment sales and OP

(¥mn)	3/13				3/14E				3/11	3/12	3/13	3/14	3/15	3/16	3/14
	Q1	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E	FY	FY	FY	FYE	FYE	FYE	FYCE
Sales	179,021	174,519	169,670	186,060	201,200	202,750	209,600	203,450	675,988	682,320	709,270	817,000	839,600	878,400	800,000
Small precision motors	89,131	79,321	74,513	76,759	85,100	87,600	88,700	80,500	348,386	331,437	319,724	341,900	329,700	330,600	NA
Automotive, appliance, commercial and industrial motors	53,973	58,660	61,605	74,226	82,100	79,400	82,800	86,500	163,411	208,529	248,464	330,800	357,600	387,800	NA
Machinery	15,704	15,562	15,233	17,027	16,100	16,600	17,700	18,500	77,329	64,904	63,526	68,900	73,000	76,800	NA
Electronic and optical components	18,470	18,957	16,057	15,704	15,700	16,950	18,200	15,750	78,368	69,377	69,188	66,600	70,300	74,000	NA
Others	1,743	2,019	2,262	2,344	2,200	2,200	2,200	2,200	8,494	8,073	8,368	8,800	9,000	9,200	NA
Sales YoY	1%	-3%	8%	11%	19%	9%	3%	-3%	15%	1%	4%	15%	3%	5%	13%
Small precision motors	9%	-11%	-5%	-7%	14%	14%	1%	-9%	6%	-5%	-4%	7%	-4%	0%	NA
Automotive, appliance, commercial and industrial motors	-2%	13%	24%	42%	33%	7%	4%	4%	73%	28%	19%	33%	8%	8%	NA
Machinery	-18%	-11%	13%	15%	6%	-3%	7%	5%	61%	-16%	-2%	8%	6%	5%	NA
Electronic and optical components	-2%	-6%	16%	-4%	-2%	8%	7%	-13%	17%	-11%	0%	-4%	6%	5%	NA
Others	-9%	-10%	14%	20%	-3%	-6%	0%	0%	-82%	-5%	4%	5%	2%	2%	NA
Operating profit	22,183	20,002	2,517	-27,075	15,800	17,700	19,800	16,700	92,869	73,070	17,627	70,000	81,000	93,000	70,000
Small precision motors	17,825	14,221	2,575	-11,943	10,110	12,230	12,670	9,420	64,432	54,216	22,678	44,430	44,800	46,700	NA
Automotive, appliance, commercial and industrial motors	2,728	2,199	741	-2,990	4,250	3,600	4,950	5,550	7,219	9,375	2,678	18,350	27,400	35,900	NA
Machinery	1,902	2,187	2,015	910	2,100	2,300	2,400	2,000	12,605	6,644	7,014	8,800	10,000	11,000	NA
Electronic and optical components	1,174	1,907	-2,092	-9,454	920	1,020	1,220	1,130	13,060	7,252	-8,465	4,290	4,500	5,000	NA
Others	213	232	229	219	200	300	300	200	682	1,011	893	1,000	1,000	1,100	NA
Adjustment & Elimination	-1,659	-1,205	-2,166	-2,141	-1,780	-1,750	-1,740	-1,600	-5,129	-5,428	-7,171	-6,870	-6,700	-6,700	NA
OPM	12%	11%	1%	-15%	8%	9%	9%	8%	14%	11%	2%	9%	10%	11%	9%
Small precision motors	20%	18%	3%	-16%	12%	14%	14%	12%	18%	16%	7%	13%	14%	14%	NA
Automotive, appliance, commercial and industrial motors	5%	5%	3%	-6%	5%	5%	6%	6%	4%	4%	1%	6%	8%	9%	NA
Machinery	12%	14%	13%	5%	13%	14%	14%	11%	16%	10%	11%	13%	14%	14%	NA
Electronic and optical components	6%	10%	-13%	-60%	6%	6%	7%	7%	17%	10%	-12%	6%	6%	7%	NA
Others	12%	11%	10%	9%	9%	14%	14%	9%	8%	13%	11%	11%	11%	12%	NA

CE: Company estimates. E: Our estimates. NA: Not available.
Source: Company data, Citi Research.

Nidec

Investment strategy

We rate Nidec Buy (1), with a target price of ¥9,100. We expect to see synergies over the medium term from the acquisitions carried out early on in the consumer electronics/commercial/industrial motors fields. We attribute the falloff in the share price to a sustained downtrend in HDD motor earnings. However, as the PC market shipment trend remains low but steady, we think a sharp decline in near-term earnings is unlikely. The shares are currently trading slightly below 20x the company's FY3/14 EPS estimate. While smartphone-related growth has generally been priced into electronic component sector stocks, we consider Nidec undervalued, given that medium-term profit growth visibility is increasing, as the company is rapidly advancing the shift in its earnings portfolio to automotive and industrial motors.

Valuation

Our ¥9,100 target price is based on a fair value PBR of 2.65x, which is derived from our FY3/15 RoE forecast of 12.0% and a cost of shareholders' equity of 4.5%. We apply our fair value PBR to our FY3/15 BPS estimate of ¥3,431.

Risks

Risks to our target price include 1) further decline in HDD demand on weakness in PC demand, 2) a major contraction in auto shipments, 3) weak industrial equipment capex, and 4) forex volatility.

Appendix A-1

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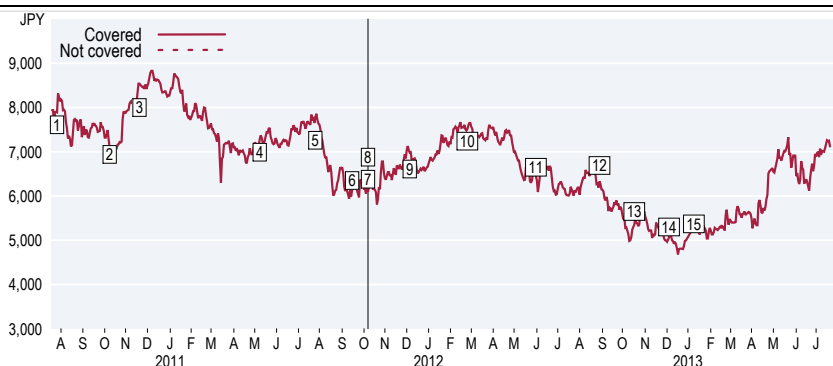
IMPORTANT DISCLOSURES

Nidec (6594)

Ratings and Target Price History Fundamental Research

Analyst: Yuta Fukasawa

Covered since April 18 2012



	Date	Rating	Target Price	Closing Price
1	27-Jul-10	1H	*10,900	7,890
2	8-Oct-10	1H	*9,300	7,090
3	19-Nov-10	1H	*9,800	8,540
4	9-May-11	1H	*9,100	7,280
5	26-Jul-11	1H	*9,400	7,770

* Indicates change

	Date	Rating	Target Price	Closing Price
6	15-Sep-11	1H	*7,600	6,130
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	7,600	6,100
9	6-Dec-11	1	*8,200	6,980
10	24-Feb-12	1	*9,800	7,510

	Date	Rating	Target Price	Closing Price
11	31-May-12	1	*8,100	6,450
12	29-Aug-12	1	*7,800	6,330
13	17-Oct-12	1	*7,200	5,350
14	5-Dec-12	1	*6,700	5,070
15	9-Jan-13	1	*6,200	5,360

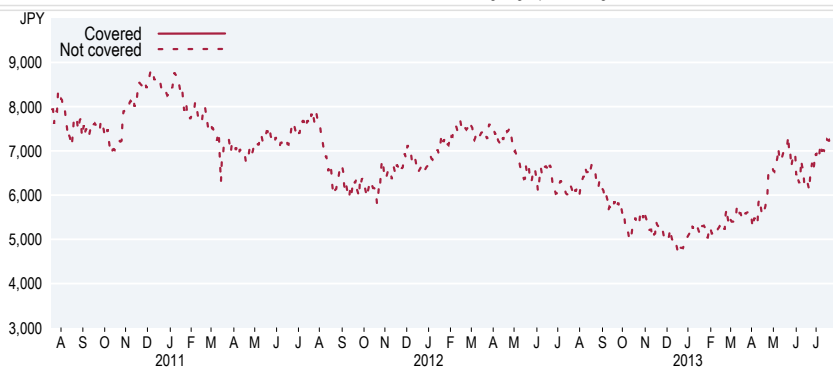
Rating/target price changes above reflect Eastern Standard Time

Nidec (6594)

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

Analyst: Yuta Fukasawa

Covered since April 18 2012



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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