

## Japan Insight: BofA Strategy Monthly

## The world after finally posting new record highs

Investment Strategy

## Rise of stock price supported by earnings recovery

That the Nikkei 225 has finally reclaimed a record-high should not be taken lightly. Like Japanese stocks, US stocks had also been stuck in a long-term slump. That was following the Great Depression, and when stocks finally reached new highs it signaled the onset of technological innovations and the arrival of a highly consumption-driven society. Although there is of course reason to worry about a "speed correction," we do not think it would go to the extent of wiping out the rise. Firstly, this reclaiming of highs is backed by an earnings recovery. Secondly, although the current one-sided market is precarious, it is also in line with fundamentals. Thirdly, it is likely that the number of companies reporting an earnings recovery will increase from the Apr-Jun quarter.

## Apr-Jun: Expecting recovery in real wages, manufacturing

We see two engines for the earnings recovery from Apr-Jun. The first is a rise in real wages after the spring wage negotiations in March and the second is the cyclical recovery in manufacturing. As that cyclical recovery progresses, the range of product sectors experiencing recovery should expand, theoretically. In addition to these macro cycles, the clear increase in the number of companies pursuing reforms is also important. The combination of the Tokyo Stock Exchange's P/B reform agenda and inflation is putting pressure on companies to pursue reforms. Of the two, the TSE's reform agenda should encourage more companies to announce measures to reform P/B and improve capital efficiency together with their FY3/24 results, and we expect this would lead to a significant increase in share buybacks. The final piece of the supply-demand puzzle is an increase in individual investors' participation, and key to that is positive growth in real wages, because increased confidence in sustained inflation would mean increases in individuals' purchasing power.

## Solid earnings at large caps; selection broaden in Apr-Jun

We think quality cyclicals (Exhibit 30) will continue to be favored in the current environment. The market is now centered around two main themes: (1) buying companies with unique technologies or businesses without substitutes, and (2) buying into the transformation of Japan's legacy large corporations. If the number of names reporting an earnings recovery in Apr-Jun increases, however, selection should broaden (stocks poised to report solid FY3/25 earnings are listed in Exhibit 31). We expect the universe of buyable small- and mid-cap stocks to expand in Apr-Jun (small- and mid-cap stocks with strong FY2024 earnings forecasts are listed in Exhibit 34).

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Investment Strategy  
Japan

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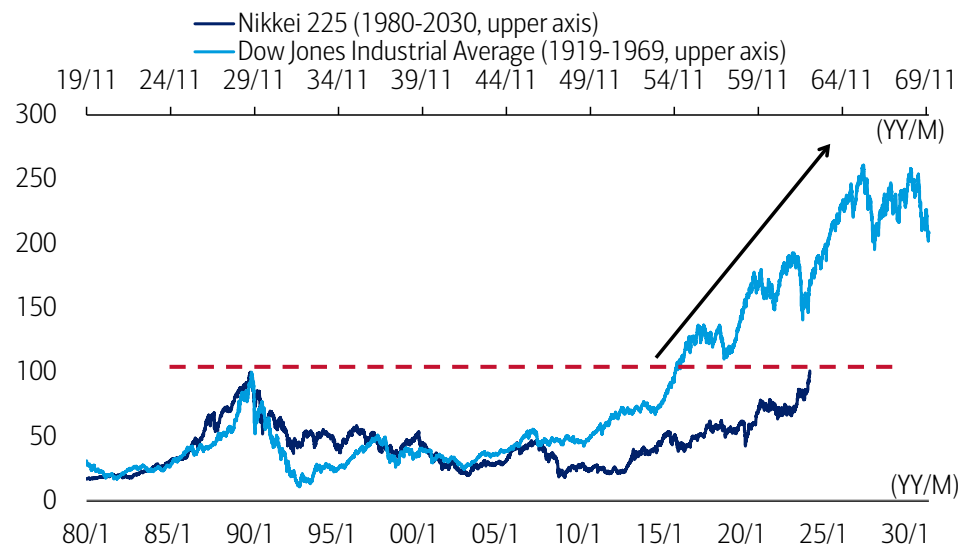
## Japanese stocks rally, record all-time high

The Nikkei 225 has finally surpassed the all-time high set in 1989. There is nothing unusual about reaching a new all-time high in stock markets not in Japan. Furthermore, the constituent stocks of the Nikkei 225 are not the same as they were in 1989. However, for Japan, which has been mired in prolonged stagnation ever since its economic bubble burst, the Nikkei 225 reaching new highs is highly significant.

There is probably no other stock market that has experienced such a long a period of stagnation, besides US stocks from the start of the Great Depression of 1929. The US stock market took 25 years to reclaim its peak (in 1954), although even that was less time than Japanese stocks needed to do so. US stock prices then doubled in just 3 years and 3 months, however (see Exhibit 1). The stock market surpassing its previous peak signaled the economy's emergence from a long period of stagnation and the beginning of an advanced consumption society driven by technological innovations in automobiles and electronic products. We believe that the importance of the Nikkei 225 surpassing its peak should not be underestimated. Ultimately, TOPIX will also need to surpass its previous peak, and it will be at that point that the rebound in Japanese stocks and companies will be fully underway.

### Exhibit 1: Nikkei 225 (1980-2030) with Dow Jones (1919-1969)

Dow Jones continued to rise after breaking the peak posted around the Great Depression



Source: BofA Global Research, Bloomberg

Note: We plotted the peak around 1989 for Nikkei 225 and around 1929 for Dow Jones as 100.

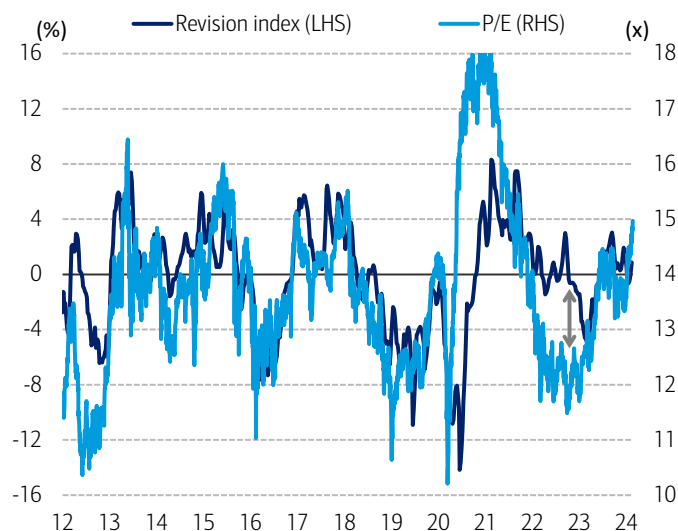
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## Not a bubble yet: Stock price rise supported by earnings recovery

Of course, a "speed correction," i.e. a correction following a rapid increase in share prices, is possible. The TOPIX P/E multiple has risen to 15x and is starting to look overvalued relative to earnings forecast revisions (Exhibit 2). The Nikkei 225 P/E multiple is even higher. Furthermore, while the completed 3Q earnings season was strong, it is uncertain whether revisions will improve enough to justify the P/E increase (Exhibit 3).

**Exhibit 2: TOPIX revision index and 12-month forward P/E**

TOPIX P/E, albeit far from the historical peak level, appears to have surpassed the level that earnings revision implies



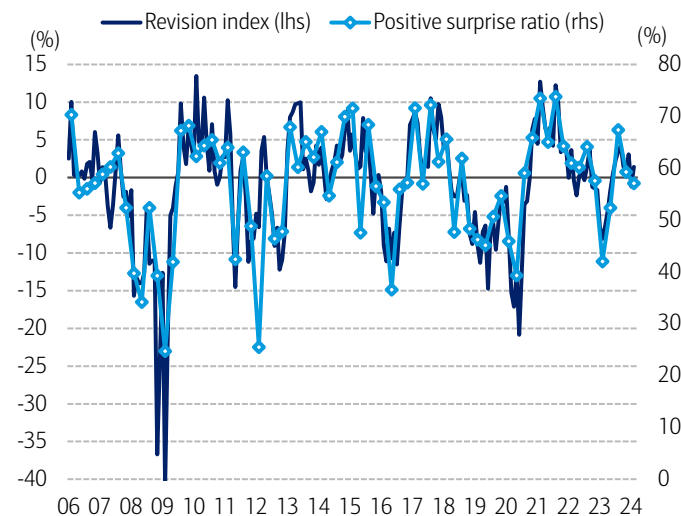
Source: BofA Global Research, Refinitiv

Note: The revision index (4 weeks moving average), P/E is based on I/B/E/S consensus estimate for 12-month forward EPS.

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**Exhibit 3: TOPIX revision index and results surprise ratio**

3Q earnings surprise ratio suggests no sharp upgrades of revision index



Source: BofA Global Research, Refinitiv, Bloomberg

Note: The results positive surprise ratio is the percentage of companies that reported quarterly EPS that beat the Bloomberg consensus estimate. It is a mechanical calculation that does not take into account the degree of divergence. The revision index (I/B/E/S consensus estimate for 12-month forward EPS) is for one quarter ahead.

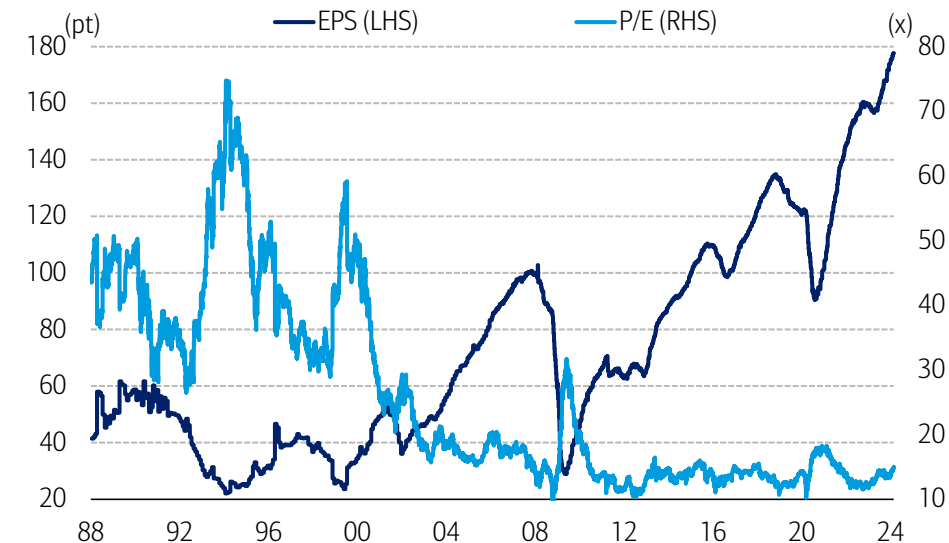
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This is not what could be called a bubble, however. Even if there is a correction, the earnings recovery thus far should prevent it from wiping out the rise in stock prices. Moreover, there is a potential for further upside heading into the Apr-Jun quarter. We see three reasons for this.

Firstly, this reclaiming of highs is backed by an earnings recovery. The index P/E at the end of 1989 was over 70x, which is bubble territory. That P/E multiple is down to less than one-third of that, but stock prices still rose to new highs because EPS increased by more than a factor of three (Exhibit 4). A not very widely known fact is that the EPS growth rate of Japan's stock market has been higher than that of US and European stocks since the 2010s (Exhibit 5). Additionally, the EPS recovery has accelerated since last year, with the rise in stock prices following suit (Exhibit 6). Although P/E multiples are on the high side, they remain below the top of their range since the 2010s, which is 16x.

**Exhibit 4: EPS and P/E of TOPIX**

Compared to end of 1989, P/E decrease less than one-third, and EPS increase more than tripled



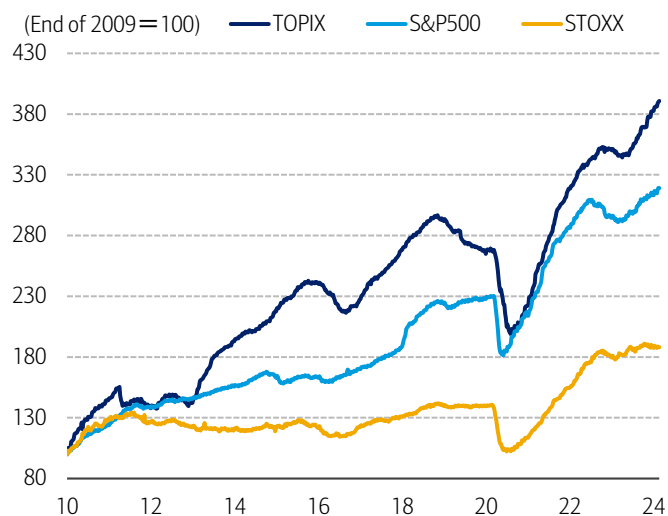
Source: BofA Global Research, Refinitiv

Note: Based on I/B/E/S consensus estimate for 12-month forward.

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**Exhibit 5: 12-month forward estimated EPS of Japan, US and EU**

EPS growth rate of Japan beats that of US or EU after 2010s



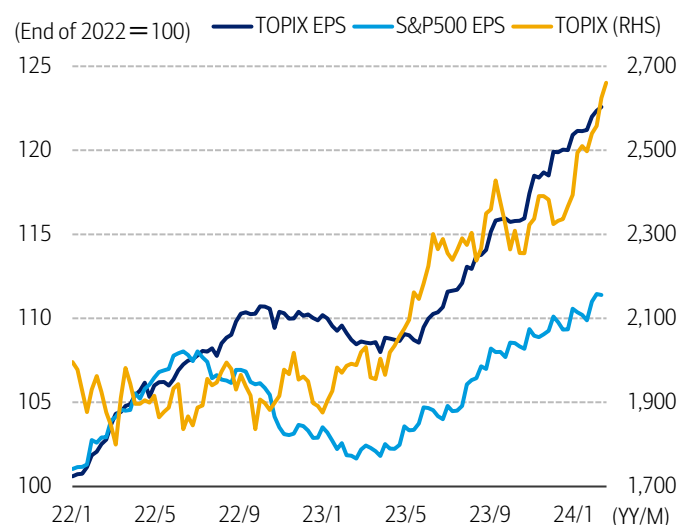
Source: BofA Global Research, Refinitiv

Note: Based on I/B/E/S consensus estimate for 12-month forward.

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**Exhibit 6: TOPIX EPS with TOPIX, and S&P500 EPS**

Stock price rose as with EPS increasing since last year



Source: BofA Global Research, Refinitiv

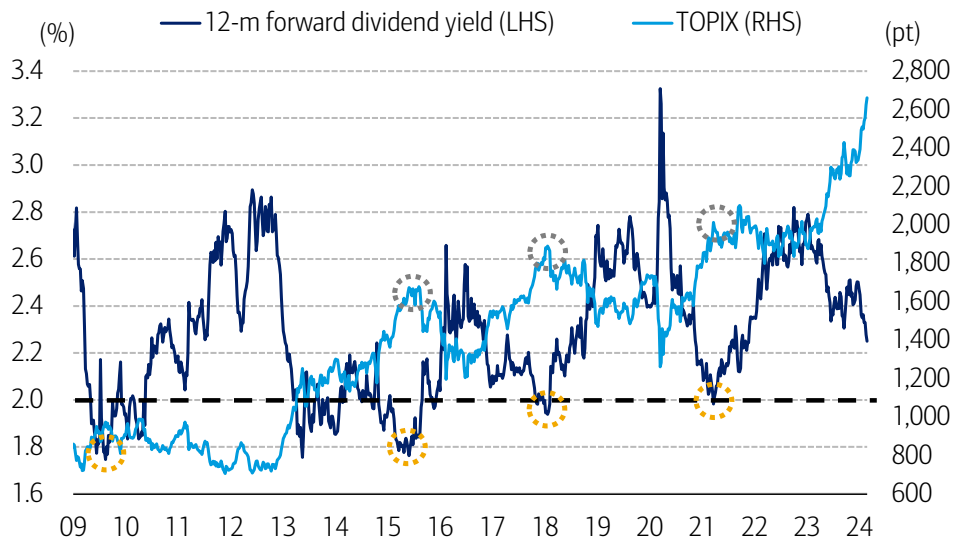
Note: EPS is based on I/B/E/S consensus estimate for 12-month forward.

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Historically, a decline in the TOPIX 12-month forward dividend yield to 1.8-2.0% has marked a peak in share prices, but despite the rapid increase in stock prices, forward dividend yields are far from this caution zone (Exhibit 7). The rise in stock prices also brings the gift of rising shareholder returns.

**Exhibit 7: TOPIX with 12-month forward dividend yield**

Stock prices tend to mark a peak and start to decrease when dividend yield decline to 1.8-2.0%



Source: BofA Global Research, Refinitiv

Note: Dividend yield is based on I/B/E/S consensus estimate for 12-month forward.

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## One-sided market reflects differences in earnings strength

Secondly, although the stock market has become increasingly one-sided, with certain stocks driving the increase in the broader index, and this is a valid concern, it does not go against the fundamentals. The rapid increase in the index weighting of the top 10 stocks by market cap is a consequence of the increase in those stocks' earnings contribution (Exhibit 8, Exhibit 9).

**Exhibit 8: Share of market cap of top 10 stocks to market cap of TOPIX**

The share of market cap of top 10 stocks suddenly increased

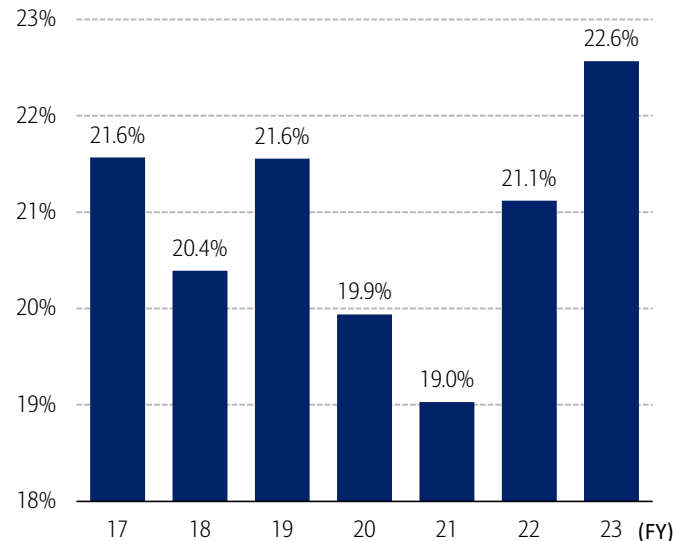


Source: BofA Global Research, QUICK

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**Exhibit 9: Percentage of cumulative RP (1Q-3Q) contribution from top 10 companies in terms of mkt cap**

FY23 saw larger earnings contribution from top 10 mkt-cap companies



Source: BofA Global Research, QUICK

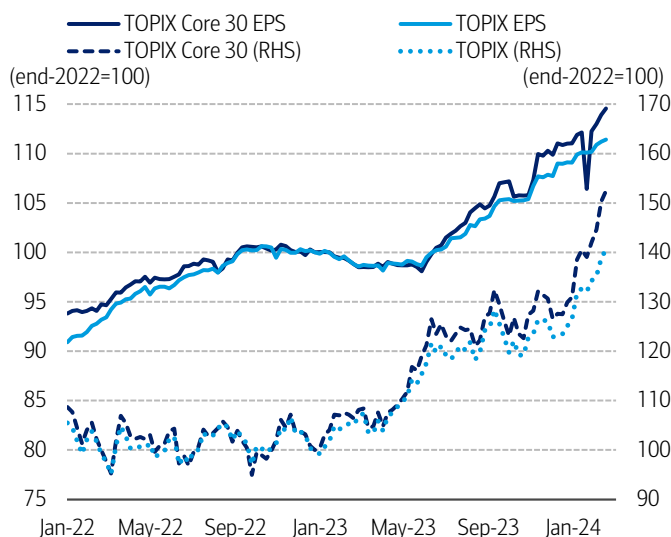
Note: Based on TOPIX companies with fiscal year ending in March. Excluding SoftBank Group among top 10 mkt cap companies.

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The outperformance of the TOPIX Core 30, which had been unlikely in recent years, is backed by their strong EPS (Exhibit 10). Note that Japan's stock market has a heavier weighting in semiconductor and materials companies. This is suggested by the fact that the Nikkei 225 has followed a similar trajectory to NVIDIA in the US stock market (Exhibit 11; see our 8 February Japan Technology Report for more on stocks related to generative AI). While there are concerns over a speed correction, AI is showing signs of driving next-generation industry, as evidenced by the US stocks shown in Exhibit 1.

#### Exhibit 10: EPS and index price of TOPIX and TOPIX Core 30

The outperformance of TOPIX Core 30 since last year was underpinned by the earnings strength



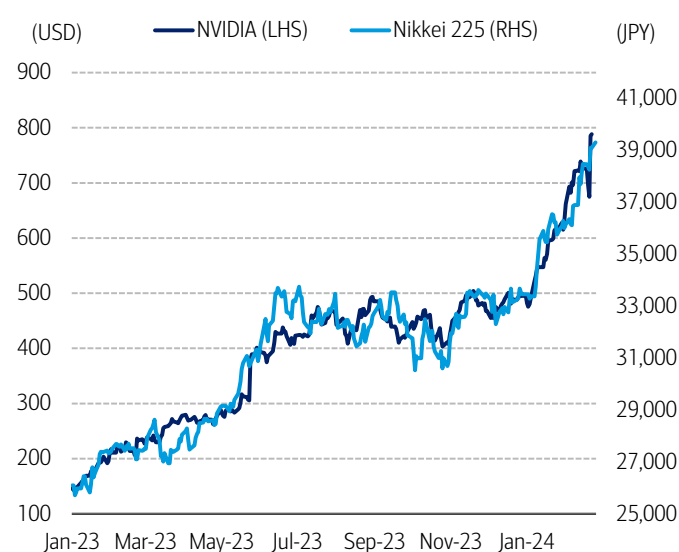
Source: BofA Global Research, Refinitiv

Note: EPS is based on I/B/E/S consensus estimate for 12-month forward estimate.

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#### Exhibit 11: NVIDIA と日経平均

日経平均が米 NVIDIA と近似した株価推移になっていることは示唆的



Source: BofA Global Research, Bloomberg

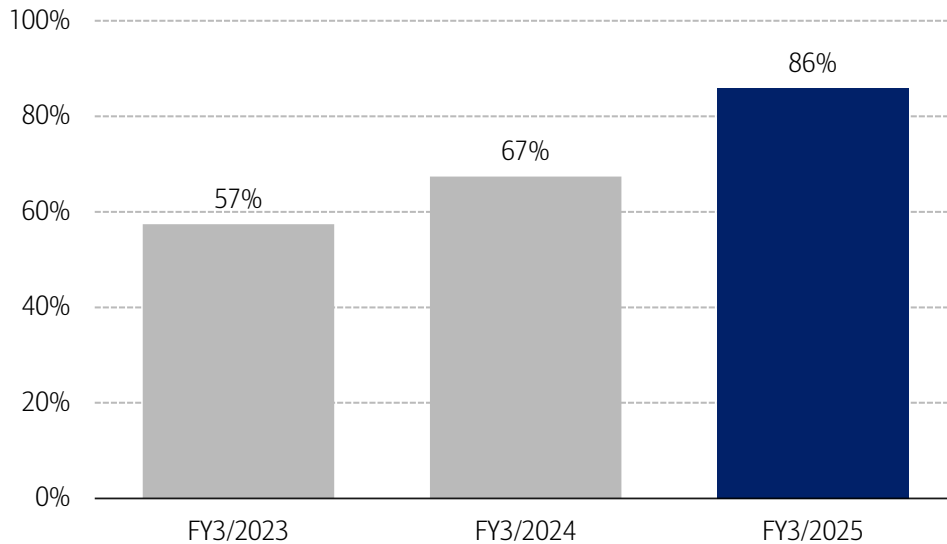
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Thirdly, as we explain below, a broader base of stocks is poised to report an earnings recovery from Apr-Jun, and this should solidify the market trend. The percentage of stocks forecasting net profit growth is at 67% for FY3/24, and that increases to 86% for FY3/25 (Exhibit 12).

Based on the above, although there is a risk of price volatility, we do not think it is a major concern.

**Exhibit 12: Share of companies whose net profit is expected to grow**

Share of net profit growth companies are 67% for FY3/2024, 86% for FY3/2025



**Source:** BofA Global Research, QUICK

Note: Universe consists of TOPIX stocks with fiscal year end in Feb. and Mar. which has QUICK consensus data. Estimated data is based on QUICK consensus.

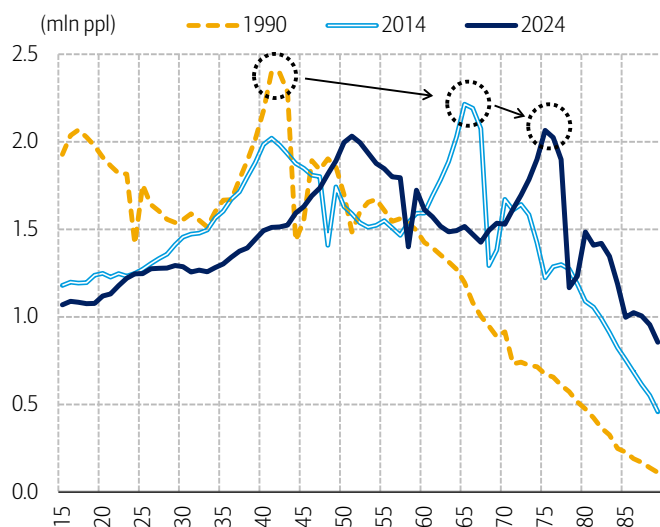
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## The structural labor shortage and wage inflation

Next, we turn to what conditions may look like from Apr-Jun. We still expect ample tailwinds for Japanese stocks. For starters, we think the most important catalyst for Japanese stocks will be the entrenchment of wage inflation brought by the structural labor shortage. The labor shortage gained momentum in 2014, when the last of the baby-boom generation turned 65 (Exhibit 13, Exhibit 14). Although some in that generation stayed in the labor market and continued to work, the youngest of them turned 75 last year, and this will probably accelerate their exit from the labor market. Female labor force participation has been filling the gap created by the baby boom generation leaving the workforce, but Japan has already pulled even with the UK and Germany in that measure, and its growth is slowing. We are finally entering a full-fledged labor shortage era.

**Exhibit 13: Demographics distribution by age**

Economy peaks in 1990 as “baby boomers” be 40s. They become over 65s in 2014

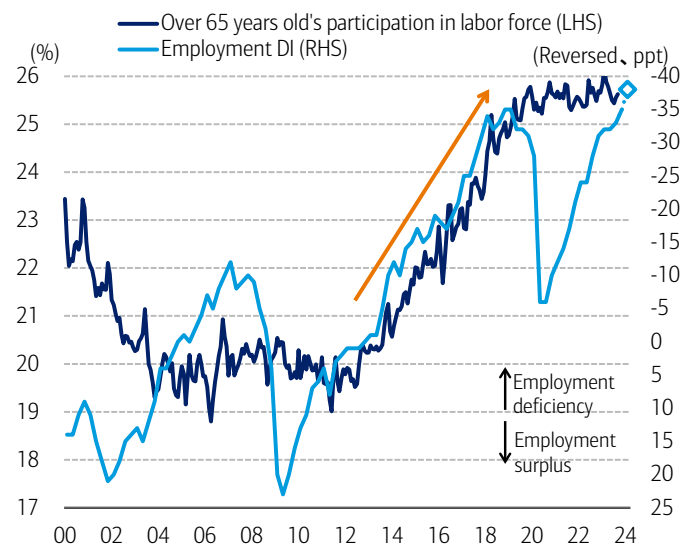


**Source:** BofA Global Research, National Institute of Population and Social Security Research  
 Note: We move three years of demographics statistics of 2021 for 2024.

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**Exhibit 14: Labor participation rate and employment DI**

Labor shortage intensified as the “baby boomers” reached 65



**Source:** BofA Global Research, Ministry of Health, Labor and Welfare, Boj

Note: Seasonal adjustment for labor participation rate. All industries, all companies for employment DI.

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## Both real wages and the manufacturing cycle are recovering

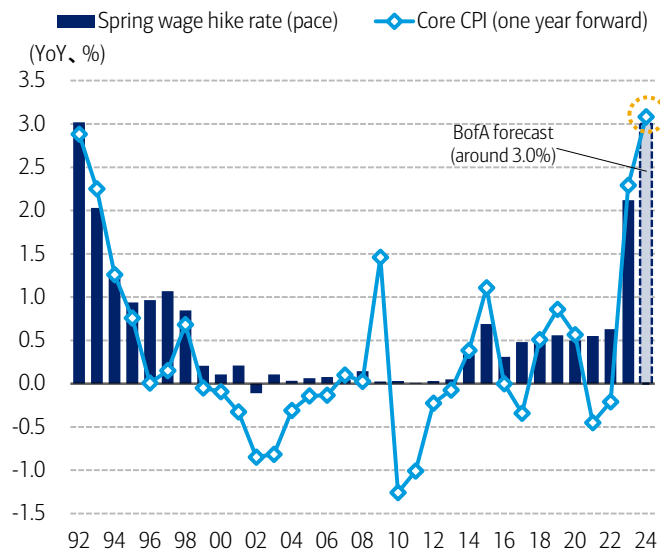
The Shunto wage negotiations in March will likely signal the start of wage inflation. Our economist expects those negotiations to result in roughly a 3% increase in base salaries (Exhibit 15; for details, see our 6 February [Wages update](#)), a level that should turn growth in real wages positive. If the Shunto outcome is close to that, real wages should start rising in Apr-Jun and could possibly turn positive by the latter half of the Jul-Sep quarter (that result will not be fully reflected in the monthly wage data until summer). A rise in real wages would indicate that inflation has become sustained.

When real wages are rising because of wage hikes, there is a strong tendency for the earnings revision index to improve (Exhibit 16). During most periods of rising wages, there is no negative impact on margins because sales grow by more than wage costs do, making it easier for companies to raise their prices (Exhibit 17). In the US, consumption has been surprisingly strong because real wage growth turned positive in mid-2023. The benefits should spread throughout Japan's domestic demand-oriented sectors, especially in services sectors.



**Exhibit 15: Spring wage hike rate and core CPI**

We expect a c. 3% wage growth in 2024 (vs. 2.1% last year)



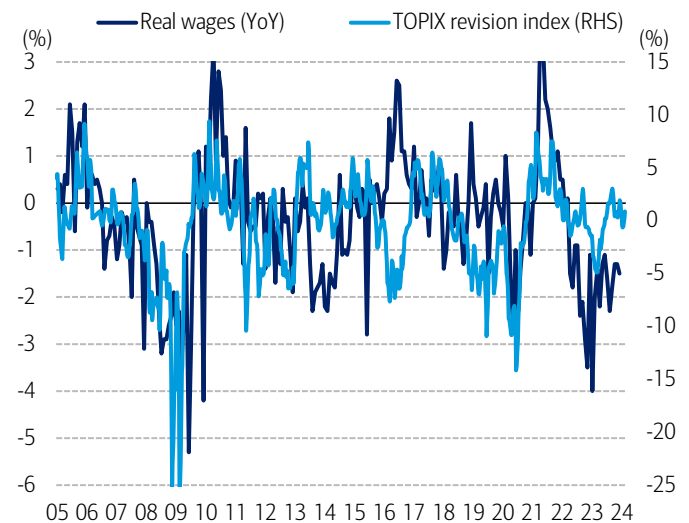
Source: BofA Global Research, Ministry of Health, Labour and Welfare, RENGO

Note: We calculate the calendar average for the core CPI

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**Exhibit 16: Real wages and TOPIX revision index**

TOPIX revision index tends to improve when real wages increase



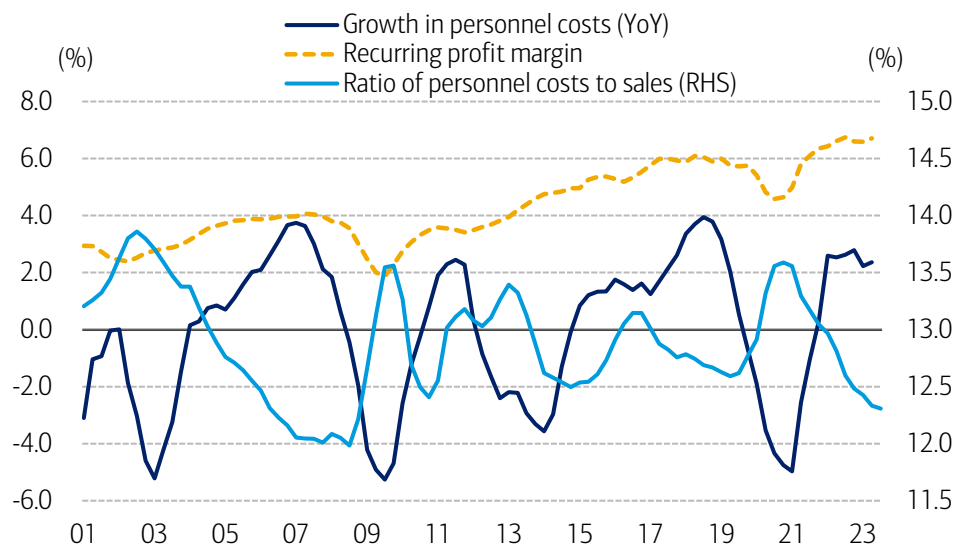
Source: BofA Global Research, Refinitiv, INDB

Note: Real wages exclude the impact of consumption tax hike; based on common business since 2016. Based on I/B/E/S 12-month forward EPS estimate, 4 week MA for revision index

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**Exhibit 17: Growth in personnel costs, the ratio of personnel costs to sales and profit margin**

A rise in personnel costs tends to increase sales, eventually lowering the ratio of personnel costs to sales



Source: BofA Global Research, MoF

Note: All industries, all sizes.

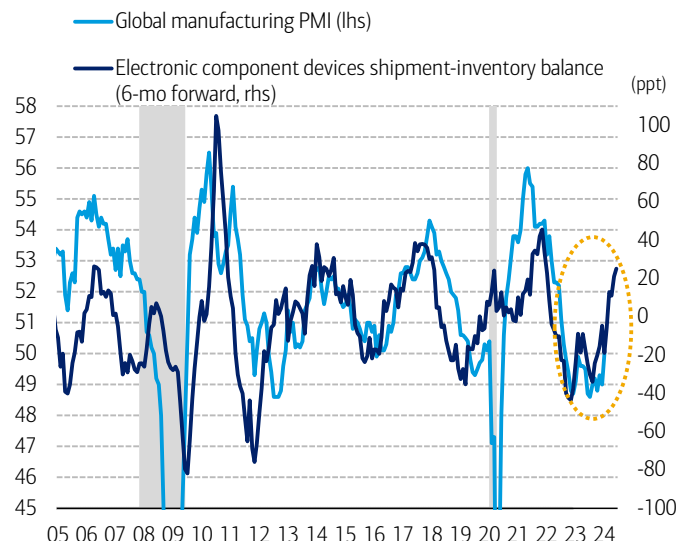
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The global economy is also being helped by tailwinds. The manufacturing cycle having turned toward recovery is highly significant. Manufacturing is now at the bottom of what has been a 3-4yr cycle and its leading indicators point to recovery (Exhibit 18, Exhibit 19). Semiconductors as well as electronic components for smartphones and some other devices, where the cycle occurs earlier, are already in recovery, and if the cyclical recovery continues it should broaden to include industrial machinery, automotive applications, and call center servers. The revision index for overseas demand-oriented sectors is likely to start recovering in Apr-Jun and improve further from Jul-Sep.

Both domestic demand- and overseas demand-oriented sectors will drive the recovery of earnings forecast revisions. Improvement in the revision index signifies an increase in the number of companies with recovering earnings, and this should broaden the base of selection.

#### Exhibit 18: Global manufacturing PMI and the shipment-inventory balance of electronic components

Manufacturing cycle (every 3-4 years) could be in the bottoming phase

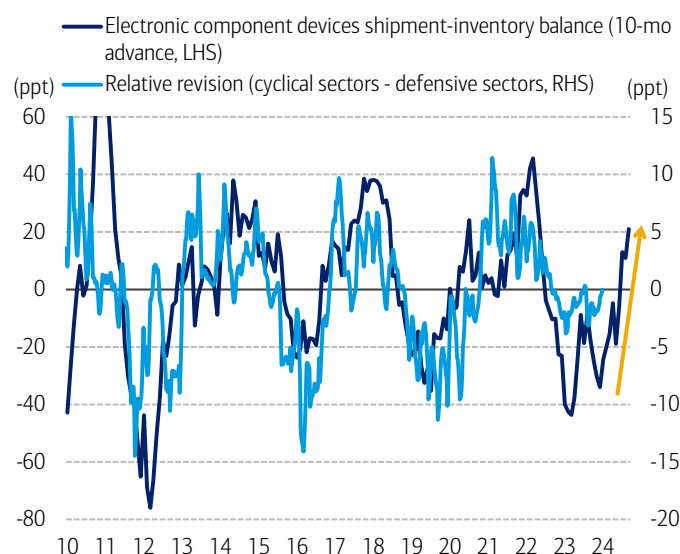


Source: BofA Global Research, Refinitiv, S&P500 Global

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#### Exhibit 19: TOPIX revision index and the shipment-inventory balance of electronic components

Leading indicator implies further improvement of the revision index



Source: BofA Global Research, Refinitiv

Note: Based on I/B/E/S 12-month forward EPS estimate, 4 week MA for revision index

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## TSE's agenda and inflation are pressuring companies to reform

We look next at corporate reform at the micro level. When companies announced their 3Q results, many also announced the sale of strategic shareholdings, shareholder payouts, acquisitions, and MBOs (Exhibit 20). Shareholder payouts included the highest level of share buybacks in the first three quarters of a fiscal year since FY3/10 (Exhibit 21). Visible signs of change at Japanese companies have started to appear.

The increase in corporate reform efforts is no coincidence. The combination of the Tokyo Stock Exchange's PBR reform agenda and inflation should create pressure on companies. In particular, companies unnecessarily holding on to cash and surplus capital becomes intolerable under inflation. BOJ Deputy Governor Shinichi Uchida said in a speech on 8 February that the age of companies being able to hire without increasing wages is coming to an end. Sustainable wage growth will require optimizing price strategies, focusing businesses on the company's strengths, enhancing value added, and increasing the rate at which capital equipment replaces labor (Exhibit 23). Optimal corporate behavior differs depending on whether the economy is in deflation or inflation.

**Exhibit 20: Outstanding corporate action disclosed around 3Q results release**

Selling strategic shareholdings, shareholder payouts, M&amp;A or MBO are occurred

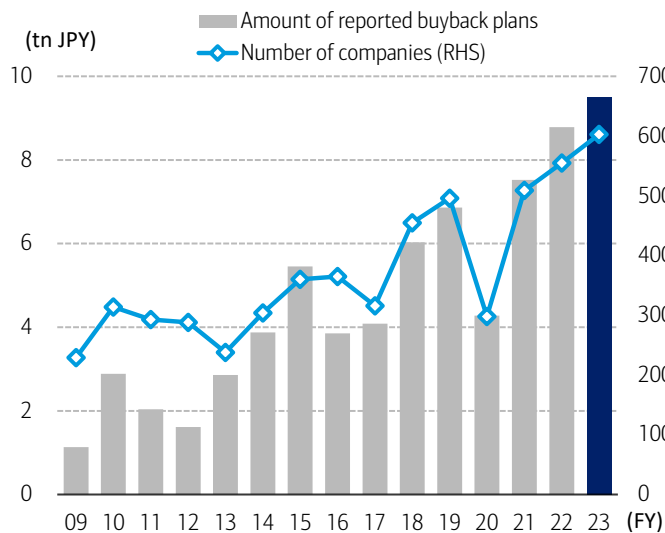
Category	Code	Name	Details
Strategic shareholdings	-	P&C insurers	The Financial Services Agency has asked the big four to accelerate their sale of strategic shareholdings. The four companies combined have strategic shareholdings in a total of 5900 companies with a market cap of ¥6.5 trillion. Their deadline for submitting a business improvement plan is 29 February.
	8630	Sompo Japan Nipponkoa Holdings	Declared a goal of zero strategic shareholdings (¥1.3 trillion, from FY3/27). Market value of strategic shareholdings as a percentage of market cap: 57%
	8725	MS&AD Insurance Group Holdings	Announced plans to significantly raise targeted reduction (still considering whether to strive for zero strategic shareholdings). Market value of strategic shareholdings as a percentage of market cap: 109%
	8766	Tokio Marine Holdings	In an interview with the Nikkei, it said that it is also considering selling all strategic shareholdings. Market value of strategic shareholdings as a percentage of market cap: 41%
Shareholder payouts	9404	Nippon Television Holdings	Has begun paying dividends to overseas investors not on the shareholders' register and also announced a share buyback of up to ¥7 billion and the sale of strategic shareholdings
	8058	Mitsubishi Corp.	The Financial Times called its share buyback of up to ¥500 billion a 'monster buyback'
	8604	Nomura Holdings	Announced a share buyback of up to ¥100 billion. Results for Q3 substantially beat, ROE recovered rapidly
	7751	Canon	Announced a share buyback of up to ¥100 billion. Early in FY3/24 it announced a ¥10 dividend hike to ¥150
M&A MBO	6723	Renesas Electronics	Announced the acquisition of Australia-based Altium at an acquisition price of AUD9.1 billion (roughly ¥900 billion)
	8801	Mitsui Fudosan	Activists are demanding ¥1 trillion of share buybacks and the sale of its shares in Oriental Land
	7816	Snow Peak	Announced an MBO Plans a tender offer in partnership with Bain Capital
	8750	Dai-ichi Life Holdings	After winning the takeover battle with M3, agreed to acquire Benefit One. An unusual case of intervening while a major company was in the process of making an acquisition
	9433	KDDI	Announced a tender offer for Lawson. Will manage jointly with Mitsubishi Corp., which owns a 50% stake

Source: BofA Global Research

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**Exhibit 21: TOPIX cumulative buyback value and plans (FYTD)**

Record-high buyback number and value since 2009



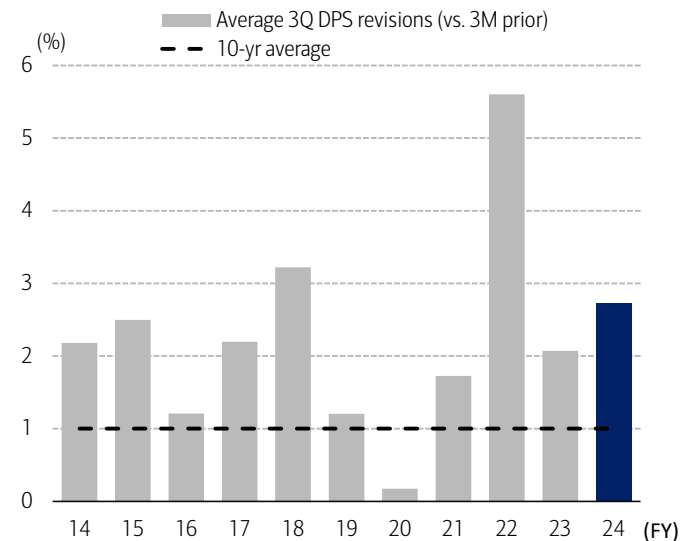
Source: QUICK, BofA Global Research

Note: We aggregate share buybacks from Apr 1 to Feb 14 for each fiscal year.

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**Exhibit 22: % average DPS revisions (vs. 3-month prior) during 3Q earnings**

The average DPS revisions surpassed its 10-yr average

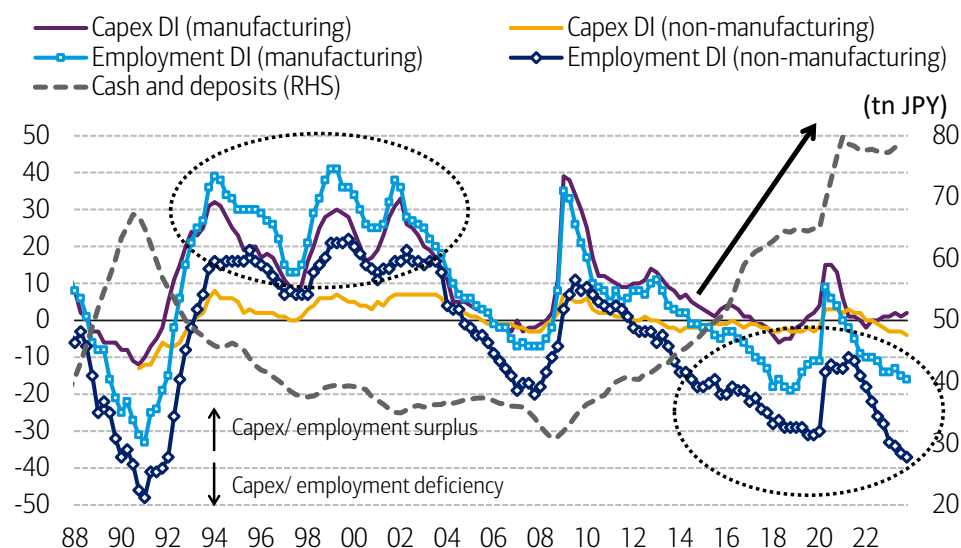


Source: QUICK, BofA Global Research

Note: Based on TOPIX companies with fiscal year ending in March. Based on corporate guidance.  
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**Exhibit 23: BoJ Tankan: capex, employment and cash**

1990年代の「三つの過剰」(雇用、設備、債務)が今や「三つの過少」に。デフレ期に堆積したキャッシュを過剰解消のために活用する局面



Source: BofA Global Research, BoJ, MoF

Note: Based on large corporations.

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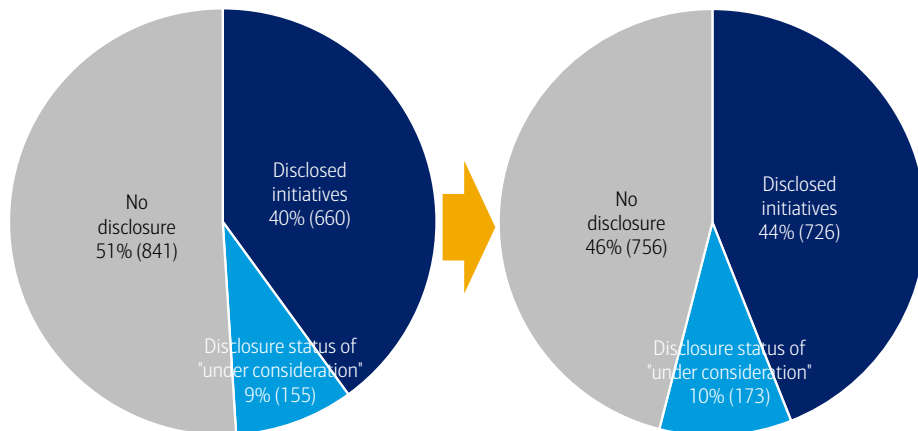
Japan's baby boomers leaving the workforce exacerbated the labor shortage and imparted momentum to wage inflation. Additionally, the baby-boom generation that built the business model based on sacrificing profit margins to generate sales is retiring, making it easier for companies to reinvent how they manage their businesses. The Nikkei 225 topped out in 1989 when members of the baby boom generation were in their 40s and at peak work output, and its reaching a new high now that the baby boomers are retiring is rich in implications (Exhibit 13).

The other driver, the TSE's reform agenda, is likely to increase the number of companies announcing measures for reforming P/B and improving capital efficiency. We expect a broader base of companies to disclose reform measures commensurate with the FY3/25 and medium-term outlooks that are announced with FY3/24 results and medium-term plans in May. This would of course also be significant in preparing for annual shareholder meetings in June, when shareholder activism is likely to gain momentum.

There will probably be a large increase in the amount of share buybacks announced with FY3/24 results to buttress reform measures. In fact, it is the companies announcing reform measures that are more likely to announce share buybacks (Exhibit 25). Consequently, although share buybacks used to increase when the market was falling, since last year there have been numerous buyback announcements every quarter, regardless of whether the market was rising or falling (Exhibit 26). With share buybacks continuing, an increase in net purchases by overseas investors could drive Japanese stocks significantly higher. April is the time of year when overseas investors typically become net buyers (primarily funded by tax refunds), and overall supply-demand conditions are favorable in Apr-Jun.

### Exhibit 24: Status of Disclosure on “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” (left: as of 15 Jan; right: as of 15 Feb)

More companies disclosed their initiatives

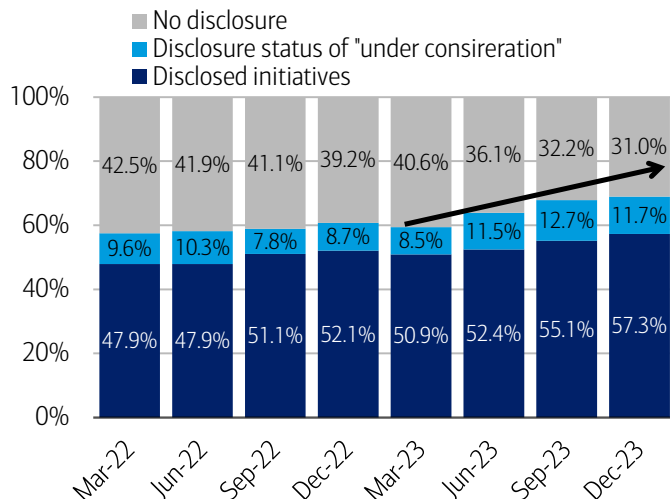


Source: BofA Global Research, JPX

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### Exhibit 25: % of share buybacks by JPX disclosure status

Companies with JPX disclosure tend to increase share repurchases



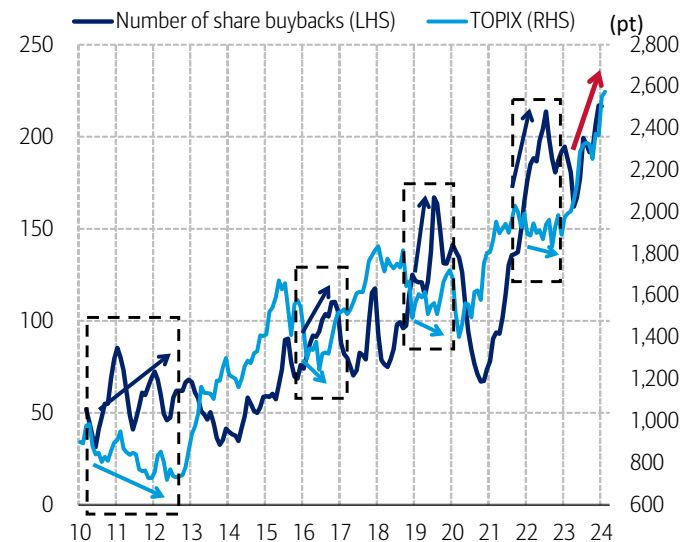
Source: BofA Global Research, JPX, QUICK

Note: Based on Prime Market. We aggregate buyback number based on JPX disclosure status.

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### Exhibit 26: TOPIX and the number of implemented share buybacks

Share buybacks appear to be conducted in a contrarian manner before, but in line with market momentum since 2023



Source: BofA Global Research, QUICK

Note: 3MMA for the number of implemented share buybacks.

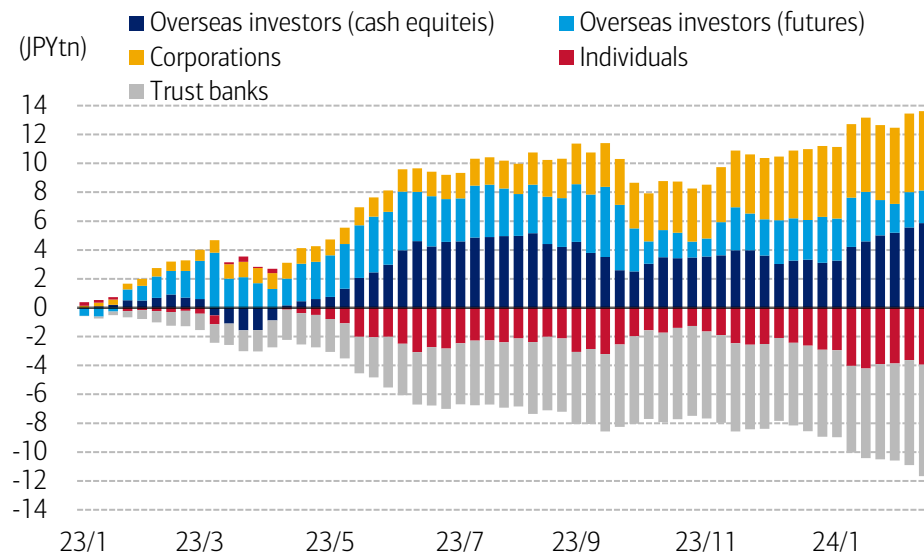
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## Positive growth in real wages may be the key to individual investors' purchases

The last piece of the supply-demand puzzle is probably individual investors. The market's biggest contrarians, individual investors and the trust banks (pension funds), became net sellers of Japanese stocks last year, and overseas investors and share buybacks took up the slack (Exhibit 27). If inflation becomes entrenched, however, it would not be surprising if individual investors gradually turned into trend followers.

**Exhibit 27: Cumulative net purchases by investor type**

Net purchases by overseas investors and buybacks absorb net sales by individual investors and trust banks (pension funds)



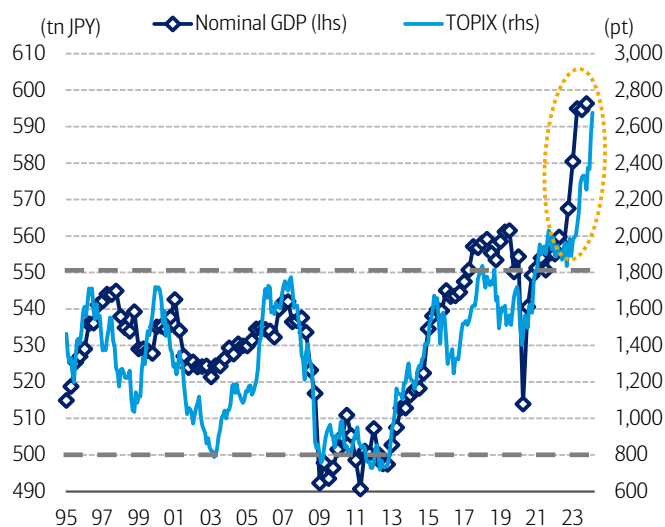
Source: BofA Global Research, QUICK

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The tendency of individual investors to be contrarian is closely related to the Japanese economy having suffered from deflation for such a long time. Japan's stock market was the only major market that did not post new highs because of Japan's unique absence of inflation and flat nominal GDP (Exhibit 28). As long as nominal GDP and share prices are moving sideways, it is rational for individual investors to adopt a contrarian stance (Exhibit 29). That ceases to be the optimal investment behavior when the economy is assumed to be inflationary, however.

**Exhibit 28: Nominal GDP and TOPIX**

Nominal GDP seems to have broken out the range of last 30 years

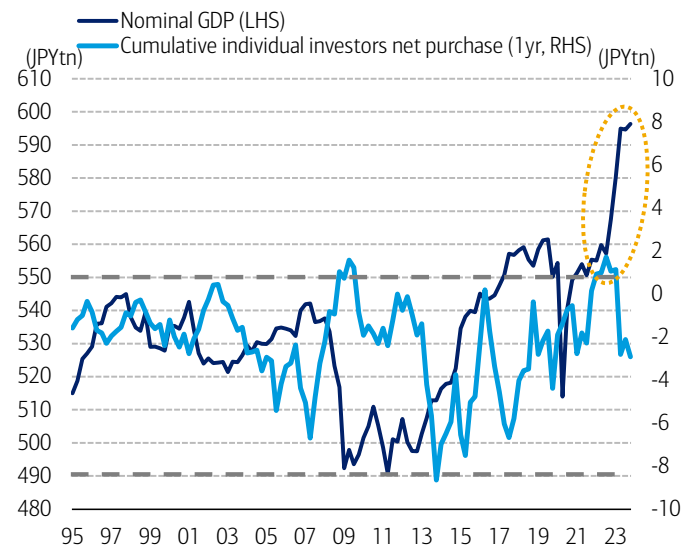


Source: BofA Global Research, Refinitiv

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**Exhibit 29: Nominal GDP and cumulative individual investors net purchases (1yr)**

When nominal GDP range-bounded, individual investors tend to trade in a contrarian way



Source: BofA Global Research, QUICK, Refinitiv

Note: Based on 4Q cumulative purchases of individual investors.

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What will it take to turn the corner? One development that would do it is a turn to positive real wage growth, because as confidence in sustained inflation grows, that would mean an increase in individual investors' purchasing power. Additionally, if there is an increase in shareholder payouts as a way to deploy cash under inflation, it could motivate individual investors to buy Japanese stocks. If a rise in real wages broadens the base of companies with recovering earnings and encourages individual investors to participate in the market, TOPIX could also post a new record high.

Just in case, we consider here the risks to such a scenario. The first significant risk would be if the wage increase agreed to at the 2024 Spring wage negotiations winds up smaller than expected. The second is the direction of the US economy. There is a risk that a sharp slowdown in the US economy provokes aggressive rate cuts by the Fed and sparks yen appreciation, but there is also the opposite risk, in which a strong US economy makes it impossible for the Fed to cut rates, causes a rapid weakening of the yen, and derails the rising real wage scenario. The lower the volatility of exchange rates, the better.

## **Stock selection: current trend continue; earliest change would be in late March**

Lastly, we consider stock selection. Although the current one-sided market driven by some large caps seems to be mature, we do not see much reason for it to change substantially at this juncture. As long as these differences in earnings and shareholder payouts continue, so should this market structure. The market is currently centered around two main themes: (1) buying companies with unique technologies or businesses without substitutes (primarily semiconductor and IP-related), and (2) buying into the transformation of Japan's legacy large corporations.

Exhibit 30 lists the quality cyclicals that overseas investors tend to prefer (high beta/high ROE stocks with low leverage). The companies that reported 3Q results that beat forecasts are highlighted. We cover many of the stocks that meet the above two criteria.



**Exhibit 30: High Beta/ High ROE/ low leverage stocks with resilient earnings expectations next fiscal year (3Q earnings beats highlighted)**

Large caps with ROE (FY2) above 8%, financial leverage below 3, beta above 1, FY2 RP growth above -2% and RP revision ratio above -2%

TSE	Name	Sector	Mkt cap (tn JPY)	RP growth (FY2, %)	RP revision (FY2, vs. 3 months prior %)	ROE (FY2, %)	Beta (6m)	Financial leverage (x)	3Q result vs. QUICK consensus (%)	YTD relative return (% vs TOPIX)
7203	TOYOTA MOTOR CORP	Transportation Equipment	55.2	-0.4	21.1	13.3	1.5	2.6	8.9	21.4
8035	TOKYO ELECTRON LTD	Electric Appliances	15.9	27.9	6.7	24.7	1.5	1.5	15.4	23.5
9983	FAST RETAILING CO LTD	Retail Trade	12.4	8.9	19.2	16.2	1.1	1.8		7.0
4063	SHIN-ETSU CHEMICAL CO LTD	Chemicals	12.0	9.7	0.3	14.5	1.1	1.2	-3.5	-8.7
8058	MITSUBISHI CORP	Wholesale Trade	11.5	-1.2	6.6	10.9	1.4	2.7	-2.9	20.1
6501	HITACHI LTD	Electric Appliances	11.5	8.6	6.4	11.4	1.3	2.5	5.2	9.0
6098	RECRUIT HOLDINGS CO LTD	Services	10.7	0.5	4.8	15.0	1.1	1.7	1.5	-8.1
8001	ITOCHU CORP	Wholesale Trade	10.5	2.9	0.6	15.4	1.4	2.7	-1.8	5.4
7267	HONDA MOTOR CO LTD	Transportation Equipment	9.3	5.7	2.5	8.6	1.5	2.2	0.7	6.0
4568	DAIICHI SANKYO CO LTD	Pharmaceutical	8.8	18.5	-1.6	11.7	1.3	1.7	35.3	14.1
4519	CHUGAI PHARMACEUTICAL CO LTD	Pharmaceutical	8.6	5.9	12.2	18.5	1.1	1.2	0.7	-3.5
6902	DENSO CORP	Transportation Equipment	7.7	28.1	2.0	11.6	1.4	1.7	-38.5	12.7
7741	HOYA CORP	Precision Instruments	6.3	12.3	0.2	23.4	1.1	1.3	-3.4	-5.8
6981	MURATA MANUFACTURING CO LTD	Electric Appliances	6.2	19.5	4.1	10.5	1.2	1.2	-4.2	-10.3
6723	RENESAS ELECTRONICS CORP	Electric Appliances	5.3	17.8	3.0	17.5	1.3	1.6	-3.2	-7.1
6146	DISCO CORP	Machinery	4.7	39.0	24.1	28.2	1.3	1.4	-0.6	16.3
6503	MITSUBISHI ELECTRIC CORP	Electric Appliances	4.7	8.8	-0.4	8.2	1.3	1.7	3.7	-2.9
4543	TERUMO CORP	Precision Instruments	4.1	15.1	4.8	10.5	1.0	1.4	0.7	8.6
8002	MARUBENI CORP	Wholesale Trade	4.0	1.4	2.1	14.0	1.5	2.8	3.3	-2.2
4901	FUJIFILM HOLDINGS CORP	Chemicals	3.8	9.7	0.1	8.2	1.0	1.5	-4.7	0.1
6920	LASERTEC CORP	Electric Appliances	3.6	55.1	2.5	43.7	1.3	2.5	22.5	1.0
5401	NIPPON STEEL CORP	Iron & Steel	3.4	8.5	3.0	9.3	1.1	2.3	7.3	-3.4
6752	PANASONIC HOLDINGS CORP	Electric Appliances	3.4	10.6	-0.3	9.2	1.2	2.2	8.2	-9.9
7269	SUZUKI MOTOR CORP	Transportation Equipment	3.3	8.8	9.3	12.8	1.1	2.2	-1.5	0.1
6762	TDK CORP	Electric Appliances	3.0	28.6	9.3	10.1	1.3	2.2	8.1	7.3
6701	NEC CORP	Electric Appliances	2.6	19.6	2.0	8.5	1.1	2.5	-1.3	7.2
1605	INPEX CORP	Mining	2.5	1.9	4.7	8.7	1.1	1.6	-2.9	-5.5
4307	NOMURA RESEARCH INSTITUTE LT	Information & Communication	2.5	11.2	-0.2	19.9	1.1	2.1	0.5	-7.4
7735	SCREEN HOLDINGS CO LTD	Electric Appliances	1.9	6.8	15.2	19.4	1.2	1.9	1.1	44.0
6988	NITTO DENKO CORP	Chemicals	1.8	9.5	-0.5	11.8	1.1	1.3	2.6	16.0
6869	SYSMEX CORP	Electric Appliances	1.7	14.7	0.3	13.7	1.1	1.4	-3.2	-4.6
4091	NIPPON SANSO HOLDINGS CORP	Chemicals	1.7	-0.4	7.0	11.6	1.2	3.0	5.0	0.7
7202	ISUZU MOTORS LTD	Transportation Equipment	1.6	4.6	-0.3	12.9	1.2	2.3	13.5	3.4
7259	ASIN CORP	Transportation Equipment	1.5	28.1	4.0	8.7	1.4	2.4	-37.0	-3.0
9697	CAPCOM CO LTD	Information & Communication	1.5	12.5	-1.8	23.8	1.1	1.3		19.9
7272	YAMAHA MOTOR CO LTD	Transportation Equipment	1.5	6.8	6.1	14.8	1.5	2.3	-2.5	5.0
1812	KAJIMA CORP	Construction	1.5	8.3	-1.5	10.8	1.1	2.6	4.5	4.8
5411	JFE HOLDINGS INC	Iron & Steel	1.4	6.9	-1.9	8.8	1.1	2.6	0.8	-7.0
9766	KONAMI GROUP CORP	Information & Communication	1.4	9.7	3.2	13.9	1.1	1.5		21.9
6479	MINEBEA MITSUMI INC	Electric Appliances	1.2	40.8	-1.2	11.3	1.3	2.1	-4.9	-5.7
6504	FUJII ELECTRIC CO LTD	Electric Appliances	1.2	9.2	1.5	12.4	1.3	2.3	7.3	33.0
6383	DAIFUKU CO LTD	Machinery	1.2	15.0	0.3	13.2	1.1	1.7	7.9	3.8
4704	TREND MICRO INC	Information & Communication	1.2	25.1	28.7	21.6	1.1	2.1	-11.9	7.1
9009	KEISEI ELECTRIC RAILWAY CO	Land Transportation	1.2	25.0	0.9	10.4	1.1	2.4	11.6	-1.8
7261	MAZDA MOTOR CORP	Transportation Equipment	1.1	-0.6	18.8	11.7	1.4	2.3	-3.2	3.3
7936	ASICS CORP	Other Products	1.0	15.5	20.9	19.7	1.5	2.3	1.7	20.5
6305	HITACHI CONSTRUCTION MACHINE	Machinery	0.9	5.3	1.5	13.4	1.4	2.5	-6.0	1.5
6361	EBARA CORP	Machinery	0.9	14.7	18.5	14.8	1.4	2.2	15.9	3.5
1911	SUMITOMO FORESTRY CO LTD	Construction	0.9	8.7	9.6	13.2	1.1	2.4	8.3	-10.1
5334	NITERRA CO LTD	Glass & Ceramics Products	0.8	2.3	9.1	13.7	1.0	1.6	2.8	16.8
4183	mitsui chemicals inc	Chemicals	0.8	56.2	-1.7	10.8	1.1	2.6	-10.6	-14.5
4527	ROHTO PHARMACEUTICAL CO LTD	Pharmaceutical	0.7	10.1	3.6	14.4	1.1	1.5	0.5	-2.5
6370	KURITA WATER INDUSTRIES LTD	Machinery	0.7	13.5	2.2	9.7	1.1	1.7	3.6	-2.8
6845	AZBIL CORP	Electric Appliances	0.7	0.1	2.8	12.0	1.1	1.5	10.6	-7.6
5101	YOKOHAMA RUBBER CO LTD	Rubber Products	0.6	11.2	5.6	9.9	1.2	1.9	-0.4	1.6
6113	AMADA CO LTD	Machinery	0.6	2.5	7.5	8.2	1.3	1.3	-0.9	-3.4
8136	SANRIO CO LTD	Wholesale Trade	0.6	15.9	8.0	24.0	1.0	1.8	8.8	6.9
5929	SANWA HOLDINGS CORP	Metal Products	0.6	-0.1	10.4	15.5	1.2	1.8	2.1	9.0
6856	HORIBA LTD	Electric Appliances	0.6	13.3	26.0	12.4	1.0	1.6	12.3	8.5
4186	TOKYO OHKA KOGYO CO LTD	Chemicals	0.5	14.0	12.7	11.5	1.3	1.4	2.1	21.0
3116	TOYOTA BOSHOKU CORP	Transportation Equipment	0.5	-0.9	2.8	12.1	1.3	2.5	3.8	0.2

Source: BofA Global Research, QUICK

Note: Universe consists of TOPIX stocks with mkt cap above 450 bn JPY, screened based on the following conditions: ROE (FY2) above 8%, financial leverage below 3, beta above 1 and relatively resilient FY2 earnings above -2, RP revision above -2 over the last 3 months; listed in descending order of mkt cap. We highlight names with RP earnings beats (vs. QUICK consensus). This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

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Meanwhile, if real wages rise and the cyclical recovery in manufacturing gains momentum from Apr-Jun, we expect the base of preferred stocks to broaden. Signs of that happening may emerge as early as late March. Because of the possibility that (1) after NVIDIA holds its GTC AI developers conference in mid-March, near-term positive catalysts for related stocks will wear off, and (2) if pension funds sell to rebalance toward end-March, it will increase the selling pressures on stocks whose market cap increased.

Exhibit 31 lists those stocks that 3Q operating profit or net profit vs. previous forecast above -2% and are expected to have strong earnings in FY3/25 (recurring profit growth of at least 5%, recurring profit revision of at least -2%, and P/E below 25x, all on FY3/25 earnings). This includes many companies with real estate portfolios.

We expect the valuations of companies with real estate portfolios to increase in Apr-Jun. Inflation can increase the prospects for raising rents and expand business opportunities for companies in the real estate sector and can increase the potential for selling some real estate holdings for companies that own real estate without much synergy with their main business (for details, see our 24 February Japan Equity Strategy).

**Exhibit 31: Stocks with at least -5% 3Q earnings beats previous forecasts, and are expected to have strong earnings in FY3/25**

Above 5% recurring profit growth (FY2), above -5% 3Q operating or net profit vs. QUICK previous forecasts, above -2% recurring profit revision (FY2), and P/E below 25x

Code	Name	Sector	Mkt cap (bn JPY)	3Q result vs QUICK consensus (%)	RP growth (FY2, %)	P/E (FY2)	ROE (FY2, %)	RP revision (FY2, vs. 3 months prior, %)	Relative return (% vs TOPIX, since Jul)
6758	SONY GROUP CORP	Electric Appliances	16,793	2.7	10.8	16.9	12.0	-1.5	-13.2
4063	SHIN-ETSU CHEMICAL CO LTD	Chemicals	11,990	-3.5	9.7	19.5	14.5	0.3	-5.8
6501	HITACHI LTD	Electric Appliances	11,284	5.2	8.6	18.5	11.3	6.4	14.3
6981	MURATA MANUFACTURING CO LTD	Electric Appliances	6,186	-4.2	19.5	23.4	10.5	4.1	-11.4
6503	mitsubishi electric corp	Electric Appliances	4,964	3.7	8.5	17.5	8.2	-0.4	3.8
6201	TOYOTA INDUSTRIES CORP	Transportation Equipment	4,651	10.7	5.7	18.2	5.7	6.9	20.4
4901	FUJIFILM HOLDINGS CORP	Chemicals	3,893	-4.7	10.0	15.6	8.2	0.1	-0.9
9022	CENTRAL JAPAN RAILWAY CO	Land Transportation	3,824	4.0	5.6	10.7	8.6	15.1	-6.3
8801	mitsui fudosan co ltd	Real Estate	3,815	-0.6	6.4	16.2	6.9	0.9	7.0
8591	ORIX CORP	Other Financing Business	3,772	-1.7	19.3	9.8	10.1	0.3	4.0
6752	PANASONIC HOLDINGS CORP	Electric Appliances	3,496	8.2	10.2	9.2	9.2	-0.3	-11.0
5401	NIPPON STEEL CORP	Iron & Steel	3,389	7.3	6.8	6.9	9.5	3.0	-1.4
9020	EAST JAPAN RAILWAY CO	Land Transportation	3,366	8.5	12.1	16.4	7.5	3.0	-1.5
7269	SUZUKI MOTOR CORP	Transportation Equipment	3,297	-1.5	8.9	11.2	12.7	9.3	-2.4
6762	TDK CORP	Electric Appliances	3,047	8.1	28.8	18.9	10.2	9.3	5.0
1925	DAIWA HOUSE INDUSTRY CO LTD	Construction	2,858	3.9	9.4	10.1	11.5	2.0	-9.6
6701	NEC CORP	Electric Appliances	2,695	-1.3	19.8	17.9	8.6	2.0	5.9
8830	SUMITOMO REALTY & DEVELOPMEN	Real Estate	2,231	-2.1	6.6	11.9	9.1	0.8	-1.6
6988	NITTO DENKO CORP	Chemicals	2,016	2.6	9.9	17.6	11.9	-0.5	20.1
5802	SUMITOMO ELECTRIC INDUSTRIES	Nonferrous Metals	1,711	18.0	14.5	12.3	7.1	6.3	9.7
5411	JFE HOLDINGS INC	Iron & Steel	1,514	0.8	10.1	7.0	8.7	-1.9	-2.4
1812	KAJIMA CORP	Construction	1,470	4.5	8.3	12.4	10.8	-1.5	7.4
3407	ASAHI KASEI CORP	Chemicals	1,434	0.7	30.8	12.6	6.6	2.5	-11.6
2897	NISSIN FOODS HOLDINGS CO LTD	Foods	1,398	-0.2	7.9	22.5	12.6	13.6	-23.0
6504	FUJI ELECTRIC CO LTD	Electric Appliances	1,353	7.3	9.0	18.0	12.5	1.5	37.9
6479	MINEBEA MITSUMI INC	Electric Appliances	1,298	-4.9	39.7	16.7	11.1	-1.2	-5.7
7912	DAI NIPPON PRINTING CO LTD	Other Products	1,225	14.2	10.0	16.2	6.8	2.8	-2.2
9201	JAPAN AIRLINES CO LTD	Air Transportation	1,210	6.1	23.1	10.9	12.2	3.9	-13.3
9009	KEISEI ELECTRIC RAILWAY CO	Land Transportation	1,155	11.6	25.0	24.3	10.4	0.9	-0.4
3088	MATSUKIYOCOCOKARA & CO	Retail Trade	1,148	0.1	7.8	20.7	10.3	6.2	-5.0
6586	MAKITA CORP	Machinery	1,131	6.2	29.2	21.4	6.3	0.2	-14.2
3092	ZOZO INC	Retail Trade	1,029	-3.2	7.3	22.7	49.4	-0.6	-5.8
2269	MEIJI HOLDINGS CO LTD	Foods	1,016	1.7	7.1	17.9	7.6	-1.6	-9.7
2875	TOYO SUISAN KAISHA LTD	Foods	887	3.5	7.6	16.6	12.0	20.3	7.6
9001	TOBU RAILWAY CO LTD	Land Transportation	821	13.0	15.7	18.5	8.1	15.1	-12.4
3099	isetan mitsukoshi holdings l	Retail Trade	803	0.3	9.9	18.8	7.3	20.4	25.8
4527	ROHTO PHARMACEUTICAL CO LTD	Pharmaceutical	707	0.5	13.5	19.7	14.8	3.6	-7.1
3231	NOMURA REAL ESTATE HOLDINGS	Real Estate	697	4.5	7.5	9.8	9.9	2.4	-8.6
9024	SEIBU HOLDINGS INC	Land Transportation	690	16.4	21.5	23.6	7.2	6.8	-2.0
3289	TOKYU FUDOSAN HOLDINGS CORP	Real Estate	684	-4.9	8.0	9.7	9.2	4.1	-0.5
6370	KURITA WATER INDUSTRIES LTD	Machinery	683	3.6	13.6	21.7	9.7	2.2	-5.3
2002	NISSHIN SEIFUN GROUP INC	Foods	635	9.0	5.2	18.1	7.9	16.7	0.2
4403	NOF CORP	Chemicals	574	11.3	8.8	16.4	13.2	3.3	-12.0
4536	SANTEN PHARMACEUTICAL CO LTD	Pharmaceutical	573	-2.5	8.2	17.7	10.3	19.7	-2.5
6417	SANKYO CO LTD	Machinery	569	5.0	8.3	10.1	21.8	9.8	-4.4
4613	KANSAI PAINT CO LTD	Chemicals	559	8.6	5.8	15.4	11.3	8.9	-19.0
1944	KINDEN CORP	Construction	544	11.4	11.4	15.7	6.5	7.4	-3.0
9142	KYUSHU RAILWAY COMPANY	Land Transportation	534	5.5	14.9	12.4	9.7	0.5	-2.7
9008	KEIO CORP	Land Transportation	533	9.2	10.5	16.5	8.5	21.0	-17.2
5947	RINNAI CORP	Metal Products	517	7.6	14.6	18.7	7.4	0.9	-3.7
3774	INTERNET INITIATIVE JAPAN	Information & Communication	516	-3.3	17.6	21.4	19.5	-0.5	-13.1
8056	BIPROGY INC	Information & Communication	505	3.9	11.2	19.3	16.4	3.0	-8.7
2871	NICHIREI CORP	Foods	502	3.5	6.0	19.5	10.7	-0.4	-1.7
4088	AIR WATER INC	Chemicals	498	4.9	12.8	10.1	10.1	3.0	1.9
6923	STANLEY ELECTRIC CO LTD	Electric Appliances	486	3.0	34.0	13.3	7.4	9.9	-15.5
2784	ALFRESA HOLDINGS CORP	Wholesale Trade	485	10.1	8.2	19.1	6.3	12.5	-15.7
4676	FUJI MEDIA HOLDINGS INC	Information & Communication	455	5.9	8.1	15.2	3.6	-0.9	10.6
2327	NS SOLUTIONS CORP	Information & Communication	453	-0.4	6.9	18.3	10.9	0.7	-4.2
9045	KEIHAN HOLDINGS CO LTD	Land Transportation	406	6.5	7.9	16.7	8.0	5.7	-18.5
2331	SOHGO SECURITY SERVICES CO	Services	405	-2.7	5.6	14.4	8.3	1.8	-12.0

Source: BofA Global Research, QUICK

Note: Universe consists of TOPIX stocks with mkt cap above ¥400bn, screened based on the following conditions: recurring profit growth (FY2) above 5%, recurring profit revision (FY2) above -2%, 3Q operating profit or net profit vs. previous forecast above -2%, P/E (FY2) below 25x; listed in descending order of mkt cap. Estimated value is based on QUICK consensus. This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

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## Small- and mid-caps: A growing universe of buyable stocks

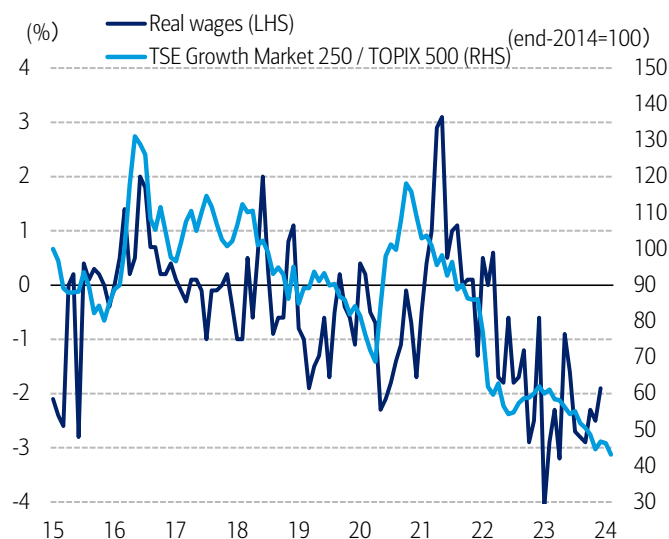
We look next at small- and mid-caps. We have yet to see signs of an across-the-board rise in small- and mid-caps. However, from Apr-Jun (possibly as early as when the cherry blossoms bloom), we expect the universe of buyable small- and mid-caps to expand. Because small- and mid-caps are heavily exposed to domestic demand, their performance tends to follow the direction of real wages (Exhibit 32). We think real wages are likely to increase from Apr-Jun.

Additionally, many of the companies currently contemplating reform measures to improve P/B and capital efficiency have small market caps and ample scope for share buybacks (Exhibit 33). In the current market, with capital efficiency improving overall, there is a strong tendency to favor stocks with recovering earnings and a high certainty of shareholder payouts. Likewise, stocks with weak balance sheets are facing increased headwinds because of the lower expected value of their shareholder payouts. We also expect an increase in the number of small- and mid-caps announcing reform measures with their FY3/25 earnings, and those companies are likely to attract investment if they raise shareholder payouts.

Exhibit 34 lists the small- and mid-caps that are expected to have strong FY3/25 earnings but still have a P/E below 30x.

### Exhibit 32: TSE Growth Market 250 Index/TOPIX and real wages

Small- and mid-caps relative performance tends to follow the direction of real wages

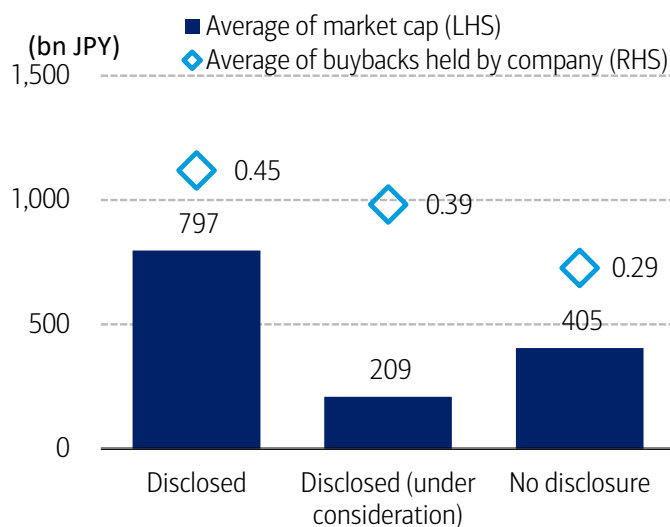


Source: BofA Global Research, Bloomberg

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### Exhibit 33: Average of market cap and buybacks held by company by response to TSE's reform request

Many "Under considering" companies have small caps and ample scope for buybacks



Source: BofA Global Research, QUICK

Note: Based on constituents of TSE Prime Index

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**Exhibit 34: Small- and mid-caps that are expected great FY3/25 earnings (disclosed companies and disclosed under consideration companies are highlighted blue and green respectively)**

Small- and mid- caps with ROE (FY2) above 8%, recurring profit growth (FY2) above 5%, recurring profit revision (FY2) above 5% and P/E (FY2) below 30x

TSE	Name	Sector	Mkt cap (JPYbn)	ROE (FY2, %)	RP growth (FY2, %)	RP revision (FY1, vs 3m prior, %)	P/E (FY2, x)	YTD Return (vs TOPIX, %)
8848	LEOPALACE21 CORP	Real Estate	140.6	53.5	42.1	27.2	6.4	-26.0
5253	COVER CORP	Information & Communication	172.7	45.9	31.5	12.1	26.4	-35.1
2124	JAC RECRUITMENT CO LTD	Services	107.6	37.1	27.8	20.7	14.1	-11.9
3498	KASUMIGASEKI CAPITAL CO LTD	Real Estate	81.0	35.6	139.6	362.0	9.7	23.0
2222	KOTOBUKI SPIRITS CO LTD	Foods	327.5	34.8	19.3	17.1	24.0	-34.6
7388	FP PARTNER INC	Insurance	122.4	33.8	21.0	28.0	23.5	6.9
4071	PLUS ALPHA CONSULTING CO LTD	Information & Communication	112.4	30.7	29.0	25.3	23.3	-38.7
6196	STRIKE CO LTD	Services	87.4	30.6	18.7	15.6	15.9	-18.9
3854	ILL INC	Information & Communication	78.6	29.5	14.9	33.6	23.0	-11.6
6254	NOMURA MICRO SCIENCE CO LTD	Machinery	145.8	29.2	16.2	48.7	16.4	-20.7
7148	FINANCIAL PARTNERS GROUP	Securities & Commodity Futures	153.7	28.4	10.2	16.7	9.6	-16.1
7944	ROLAND CORP	Other Products	123.8	27.7	12.0	8.0	12.4	-14.3
1407	WEST HOLDINGS CORP	Construction	137.7	26.6	28.3	18.8	14.8	-29.4
6871	MICRONICS JAPAN CO LTD	Electric Appliances	138.7	26.1	43.9	118.5	18.9	71.6
7071	AMVIS HOLDINGS INC	Services	283.6	25.4	31.3	30.0	26.5	-42.9
4194	VISIONAL INC	Information & Communication	340.2	25.1	22.1	22.5	26.9	-23.3
2726	PAL GROUP HOLDINGS CO LTD	Retail Trade	206.1	21.2	11.2	11.8	15.3	-34.3
6323	RORZE CORP	Machinery	252.3	20.3	7.2	9.0	15.4	11.7
2685	ADASTRIA CO LTD	Retail Trade	158.4	18.4	6.9	17.8	12.8	-24.4
3046	JINS HOLDINGS INC	Retail Trade	110.9	16.8	11.9	14.3	22.6	-41.6
9418	USEN-NEXT HOLDINGS CO LTD	Information & Communication	240.8	16.7	10.6	15.8	18.0	-12.0
9603	H I S CO LTD	Services	146.7	16.4	37.5	13.2	18.0	-33.2
4216	ASAHI YUKIZAI CORP	Chemicals	75.5	16.2	8.9	17.0	6.4	-18.2
6315	TOWA CORP	Machinery	163.3	15.5	53.3	23.0	21.9	-3.5
6368	ORGANO CORP	Machinery	257.3	15.3	8.6	35.0	18.6	-0.6
4373	SIMPLEX HOLDINGS INC	Information & Communication	154.7	15.1	22.8	5.7	19.4	-30.3
6432	TAKEUCHI MFG CO LTD	Machinery	221.5	15.0	9.7	19.9	9.3	-4.7
9336	DAIEI KANKYO CO LTD	Services	247.7	14.8	6.5	11.7	19.8	-16.5
7867	TOMY COMPANY LTD	Other Products	211.9	14.6	18.9	8.3	15.6	-14.2
6364	HOKUETSU INDUSTRIES CO LTD	Machinery	79.0	13.9	8.0	42.3	14.2	-30.0
7241	FUTABA INDUSTRIAL CO LTD	Transportation Equipment	75.1	13.7	20.0	76.2	6.0	7.7
8114	DESCENTE LTD	Textiles & Apparel	281.5	13.6	19.0	7.9	17.8	-38.8
1969	TAKASAGO THERMAL ENGINEERING	Construction	224.4	13.3	11.4	35.8	15.9	8.0
5727	TOHO TITANIUM CO LTD	Nonferrous Metals	131.8	13.0	85.3	5.2	19.3	-33.3
8923	TOSEI CORP	Real Estate	97.2	12.9	7.6	12.5	9.0	-24.1
5805	SWCC CORP	Nonferrous Metals	89.9	12.7	11.6	6.3	11.1	-7.0
7868	KOSAIDO HOLDINGS CO LTD	Other Products	110.1	12.3	38.0	17.9	16.6	-38.4
6269	MODEC INC	Machinery	157.9	12.3	30.5	144.0	8.6	8.2
2337	ICHIGO INC	Real Estate	174.4	11.9	15.6	15.2	16.0	-6.5
8194	LIFE CORP	Retail Trade	164.9	11.9	5.3	8.3	11.4	-12.4
3738	T-GAIA CORP	Information & Communication	108.8	11.7	13.0	15.0	12.9	-14.5
9746	TKC CORP	Information & Communication	194.6	11.6	7.0	7.0	15.5	-27.2
4046	OSAKA SODA CO LTD	Chemicals	240.9	11.4	47.1	5.1	23.7	-6.0
2702	MCDONALD'S HOLDINGS CO JAPAN	Retail Trade	819.0	11.3	10.4	30.9	29.3	-12.8
7004	HITACHI ZOSEN CORP	Machinery	163.4	11.1	23.2	17.1	9.8	-5.5
2782	SERIA CO LTD	Retail Trade	187.9	10.5	15.5	5.5	19.6	-10.0
9936	OHSO FOOD SERVICE CORP	Retail Trade	188.2	10.4	9.5	16.3	25.2	-29.3
5310	TOYO TANSO CO LTD	Glass & Ceramics Products	103.3	10.0	15.3	14.4	17.3	19.5
2292	S FOODS INC	Foods	107.6	9.8	15.0	9.5	8.9	-28.6
3156	RESTAR HOLDINGS CORP	Wholesale Trade	85.0	9.6	13.2	35.0	9.8	-18.2
4099	SHIKOKU KASEI HOLDINGS CORP	Chemicals	92.3	9.5	14.6	18.7	10.6	-25.8
7581	SAIZERIYA CO LTD	Retail Trade	263.5	9.3	19.3	55.2	24.1	-26.5
3110	NITTO BOSEKI CO LTD	Glass & Ceramics Products	179.4	9.1	28.9	15.0	23.4	-1.0
4565	SOSEI GROUP CORP	Pharmaceutical	134.2	8.5	13.6	55.6	16.2	-24.2
9830	TRUSCO NAKAYAMA CORP	Wholesale Trade	163.0	8.4	9.6	6.8	10.7	-29.7
6508	MEIDENSHA CORP	Electric Appliances	110.6	8.4	20.0	7.8	12.4	-13.9
2602	NISSHIN OIL LIO GROUP LTD/THE	Foods	149.4	8.3	7.7	22.8	11.8	-4.1
8179	ROYAL HOLDINGS CO LTD	Retail Trade	126.5	8.3	12.9	21.7	27.3	-30.3
5741	UACJ CORP	Nonferrous Metals	185.6	8.3	63.3	9.7	10.1	-16.1

Source: BofA Global Research, QUICK

Note: Universe consists of TOPIX Small, TSE Standard Index, or TSE Growth Index with above ¥75bn, ROE (FY2) above 8%, recurring profit growth (FY2) above 5%, recurring profit revision (vs. 3-month before, FY2) above 5%, and P/E (FY2) below 30x; listed in descending order of ROE (FY2). Companies that disclosed with measures to TSE's request and showed a willingness but not disclosed measure yet are highlighted blue and green respectively. Estimated value is based on QUICK consensus. This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

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