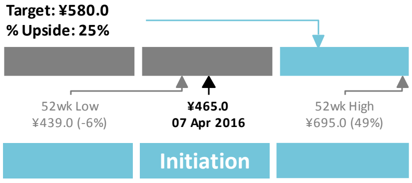
Target Price ¥580.0
Current Price ¥465.0
% Upside 25%

Mitsubishi UFJ Lease & Finance (8593 JP)

Global and Diversified Portfolio Should Cushion NIRP Yield Squeeze

Diversified Financials
Japan
07 Apr 2016

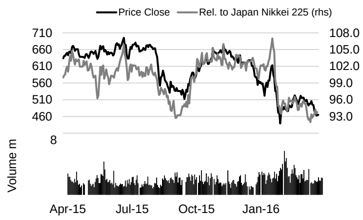
BUY



Basic Share Information

Market cap	¥416.6b / US$3.77b
Daily volume (3mth)	US$11.89m
Shares outstanding	895.8m
Free float	40%
Net debt-to-equity	608.9%
1 yr high	¥695.0
1 yr low	¥439.0
Foreign shareholding	22%
Last HTI contact w/ Co	22 Mar 16

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	-9.9%	-20.0%	-25.6%
Absolute USD	-6.9%	-14.2%	-19.7%
Relative to NKY	-2.8%	-8.4%	-5.6%

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Awaiting Normalization of Sentiment toward Financials

Summary: We initiate coverage of Mitsubishi UFJ Lease & Finance (MULF) with a BUY rating as we think its globalized asset portfolio, diversified financing model, and recovering (albeit slowly) domestic capex environment should slightly improve ROA in the near term to 1.0%, compared to the squeeze on profitability we anticipate for banks, life insurers, and peers with assets heavily concentrated in Japan. We expect MULF's leverage to decline over our forecast period and stabilize thereafter. Due to bull-flattening of the yield curve, we expect pressure on MULF's customer finance yield, which consists of capital-lease and loan assets, but expect this to be offset by lower JPY funding costs and an increased contribution from asset finance, which consists of aircraft and other operating leases. While we acknowledge MULF is not immune to margin pressure, we think its valuation is attractive on an absolute basis and its PBR should outperform its sector peers and banks.

Target Price and Catalyst: Our target price is set at ¥580. Key catalysts include stable near-term yield, a healthy capex environment, accelerated expansion of its overseas portfolio, and increased dividend payout ratio.

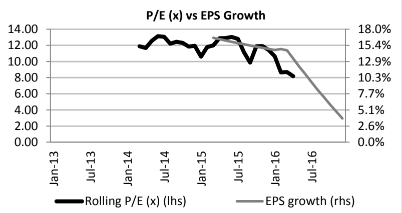
Earnings: For FY3/16, management guides revenue of ¥800bn, GP of ¥154bn, OP of ¥82bn, and NP of ¥50bn, while we estimate ¥812bn, ¥154bn, ¥83bn, and ¥51bn, respectively. Following a series of overseas M&A in recent years, we expect organic asset growth to drive performance over our forecast period, leading to moderating growth in its asset finance segment. For FY3/17, we estimate revenue of ¥822bn, comprised of customer finance revenue of ¥568bn and asset finance revenue of ¥243bn, pre-funding GP of ¥192bn and post-funding GP of ¥155bn, and OP of ¥85bn. Over our projection period, we assume the asset finance yield to be stable at 4.50% and the customer finance yield to slightly decline from 3.50% in FY3/16 to 3.45% in FY3/18.

Valuation: We set our target price of ¥580 by applying a target PBR of 0.80x to our estimated FY3/16 BPS of ¥719. The target PBR of 0.80x is based on our estimated medium-term ROA of 1.0%, leverage of 7.3x, growth rate of 2.5%, and discount rate of 8.5%. We think our target PBR is reasonable, considering its one-year average of 0.86x and the pre-NIRP (negative interest rate policy) level of 0.79x.

	Mar-14A	Mar-15A	Mar-16E	Mar-17E	Mar-18E	Trend
Total turnover (¥m)	717,759	742,451	812,157	821,657	834,750	
Operating profit (¥m)	65,279	70,239	83,364	84,712	87,494	
Pre-tax profit (¥m)	66,894	76,446	86,485	86,625	89,277	
Net income to ord equity (¥m)	37,675	44,070	50,553	50,638	52,256	
Net profit growth	0.0%	17.0%	14.7%	0.2%	3.2%	
P/E (x)	10.97	9.38	8.18	8.16	7.91	
Adj EV/EBITDA (x)	47.76	50.89	45.38	45.51	45.02	
P/B (x)	0.81	0.69	0.65	0.61	0.57	
ROE	7.8%	7.9%	8.2%	7.7%	7.5%	
Dividend yield	1.7%	2.0%	2.4%	3.1%	3.5%	
EPS HTI New (¥)	42.39	49.58	56.86	56.96	58.78	
Consensus EPS (¥)	40.39	46.76	58.48	60.54	65.16	
HTI EPS vs Consensus	5.0%	6.0%	(2.8%)	(5.9%)	(9.8%)	

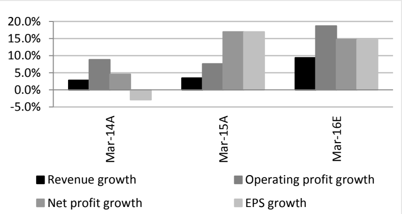
Source: Company data, Bloomberg, HTI estimates
Click here to download the working model

Valuation



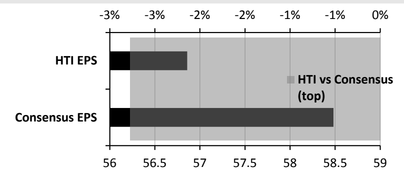
Source: Company data, Bloomberg, HTI estimates

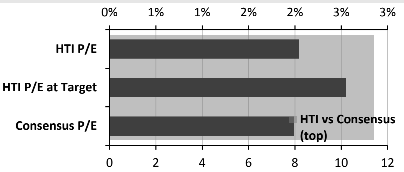
Earnings Trends



Source: Company data, Bloomberg, HTI estimates

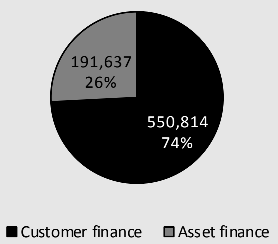
Earnings: HTI vs Consensus





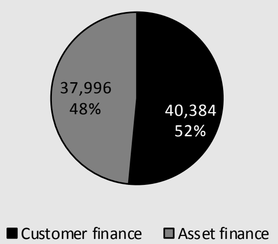
Source: Company data, Bloomberg, HTI estimates

FY3/15 Revenue Breakdown (¥mn)



Source: Company data

FY3/15 OP Breakdown (¥mn)



Source: Company data

Investment Thesis

BUY

- MULF is one of the largest lessors, with a global portfolio and diversified asset mix. With its affiliation with the Mitsubishi UFJ Financial Group and an "A" rating from S&P, we think it has access to a stable and competitive source of funding in JPY and USD.
- In terms of the size and value of fleet, MULF is the second-largest aircraft lessor in Japan, with a portfolio of 145 aircraft, valued at US$5.5bn. It also owns Engine Lease Finance, the largest independent aircraft engine lessor in the world.
- With its increasingly diversified asset mix, we think MULF should see a stable yield compared with falling interest rate margins for banks. MULF's annualized yield rose to 4.8% in Q3 FY3/16, compared with 4.5% in Q2 FY3/16 and 3.8% in Q3 FY3/15.
- We think lessors are less exposed to NIRP than banks and insurers.
- Since the Bank of Japan's announcement of NIRP, MULF shares have declined 19%, compared to 10%, 32%, and 27% for lessor, bank, and life insurance peers. Over this period, Orix's PBR fell from 0.88x to 0.86x (an 2.3% decline) while MULF's fell from 0.79x to 0.65x (a 17.7% decline). MULF's PBR premium over Mitsubishi UFJ Financial fell from 0.24x to 0.19x. We think MULF's multiple contraction has become excessive. We think lessors should outperform banks and lifers, and MULF should outperform its peers.
- After a sustained decline post-Lehman, domestic capex has been steadily recovering. Non-residential capex was ¥68trn in 2015, compared with ¥61trn in 2009. Domestic machinery orders and forward-looking statistics indicate a favorable capex trend.

Company Snapshot

MULF is a diversified general leasing company in Japan, providing capital leases, operating leases, installment sales, corporate loans, mezzanine loans, and other financing services. The company was created from a merger between Diamond Lease and UFJ Central Leasing in 2007. Mitsubishi UFJ Financial Group (MUFG) and Mitsubishi Corporation (8058 JP) are its major shareholders, making MULF the leasing arm of the Mitsubishi Group. MULF has the largest overseas proportion of assets of Japan's listed lessors due to recent acquisitions of overseas assets. MULF engages in aircraft leasing and aircraft spare engine leasing through its wholly owned subsidiaries Jackson Square Aviation and Engine Lease Finance, respectively. MULF classifies its businesses into two segments: customer finance and asset finance. Customer finance primarily provides long-term financing such as capital leases, installment sales, and loans; asset finance mainly provides operating leases (including aircraft and spare engines) and short-term financing (such as factoring).

Key Investment Metrics

Revenue Growth

Low | Medium | High

We expect customer finance revenue and asset finance revenue to grow 2.6% YoY and 21% YoY in FY3/16. While we expect asset finance yield to be stable at 4.50%, we expect the customer finance yield to decline to 3.45% in FY3/17 from 3.50% in FY3/16. For FY3/17, we estimate customer finance revenue and asset finance revenue grow 0.6% to ¥568bn and 4.9% to ¥243bn, respectively.

Profit Margins

Low | Medium | High

Considering the increased revenue contribution from asset finance, which has a higher GPM than customer finance, we expect GPM (pre-funding) and GPM (post-funding) to hit 23.6% and 19.0% in FY3/16. We expect slight scale economy and estimate OPM of 10.3% in FY3/16 versus 9.5% in FY3/15.

Shareholder Returns

Low | Medium | High

We estimate ROAA of 1.02% and 0.99% in FY3/16 and FY3/17, up from 0.97% in FY3/15. Because we expect only slow organic growth and no M&A over our forecast period, we see leverage declining to 7.9x, 7.6x, and 7.4x in FY3/16, FY3/17, and FY3/18, respectively, from 8.1x in FY3/15. Thus, we estimate ROE to decline to 7.7% and 7.5% in FY3/17 and FY3/18.

Balance Sheet Risks

High | Medium | Low

MULF is subject to credit risks for its customers, interest risks for its funding, and market risks for its operating leases. We believe MULF has satisfactory credit review and treasury operations to manage these risks.

Barriers to Entry

Low | Medium | High

Although there is no licensing requirement to operate a leasing business and there are more than 200 leasing companies in Japan, establishing a sizeable operation requires substantial capital investment, strong funding capability, and risk-management expertise.

Export Exposure/Breakdown

Low | Medium | High

MULF has exposure to global assets, such as aircraft, spare engines, and marine cargo containers, but is not involved in exporting.

FX Exposure

Low | Medium | High

With its large global asset portfolio, MULF receives its revenue, and funds its assets, in non-JPY currencies. It raised US$500mn and IDR300bn in 2015. We think its treasury department adequately manages its FX and interest rate exposure.

Corporate Governance

Low | Medium | High

MULF is an affiliate of Mitsubishi UFJ Financial and Mitsubishi Corporation. We find its governance to be adequate and its IR team to be helpful.

Our Model Assumptions

We assume total yield of 4.1% and an asset portfolio of ¥4.8trn for FY3/16

Within cost of revenue, we estimate funding cost of ¥37bn for FY3/16

We estimate the credit cost ratio is 0.15% of the asset balance in FY3/16

Profit & Loss (¥m)	Mar-14A	Mar-15A	Mar-16E	Mar-17E	Mar-18E
Total turnover	717,759	742,451	812,157	821,657	834,750
Cost of sales	(589,085)	(609,170)	(658,085)	(666,743)	(676,300)
Gross profit	**128,674**	**133,281**	**154,073**	**154,914**	**158,450**
Total operating costs	(63,395)	(63,042)	(70,709)	(70,202)	(70,956)
Operating profit	**65,279**	**70,239**	**83,364**	**84,712**	**87,494**
Operating EBITDA	74,547	79,455	92,510	93,309	95,628
Depreciation and amortisation	**(9,268)**	**(9,216)**	**(9,146)**	**(8,597)**	**(8,134)**
Operating EBIT	**65,279**	**70,239**	**83,364**	**84,712**	**87,494**
Other recurring income	3,154	3,740	2,200	2,000	2,000
Interest income	4,437	4,722	4,684	3,844	3,762
Interest expense	(3,050)	(3,320)	(3,783)	(3,931)	(3,980)
Exceptional income - net	(2,926)	1,065	20	-	-
Pre-tax profit	**66,894**	**76,446**	**86,485**	**86,625**	**89,277**
Taxation	(27,208)	(30,173)	(33,729)	(33,784)	(34,818)
Minority interests	(2,011)	(2,203)	(2,203)	(2,203)	(2,203)
Net income to ord equity	**37,675**	**44,070**	**50,553**	**50,638**	**52,256**

Source: Company, HTI estimates

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✓ Key P/L Takeaway

We expect the asset finance portfolio to drive organic asset growth over our forecast period

MULF's asset finance balance grew significantly, to ¥1.9trn in FY3/15 from ¥1.1trn in FY3/12, led by the acquisitions of Jackson Square Aviation, ELF, and other assets. Asset finance tends to have a higher yield than customer finance, so this portfolio asset shift has helped increase the total yield. We expect asset expansion to be purely organic in the next few years. On the cost side, we expect funding costs to trend down and credit costs to normalize.

Our Model Assumptions

We assume accounts receivable to be 2.5% of total revenue

We assume short-term borrowings account for 43% of total borrowings

We assume long-term borrowings account for 57% of total borrowings

Balance Sheet (¥m)	Mar-14A	Mar-15A	Mar-16E	Mar-17E	Mar-18E
Total cash and equivalents	154,324	127,110	140,342	152,202	160,405
Accounts receivable	15,750	20,250	20,304	20,541	20,869
Other current assets	3,015,861	3,042,599	3,126,752	3,144,661	3,173,470
Total current assets	**3,185,935**	**3,189,959**	**3,287,398**	**3,317,405**	**3,354,744**
Tangible fixed assets	967,737	1,497,549	1,634,479	1,713,392	1,792,389
Intangible assets	95,186	102,137	96,009	90,248	84,833
Total investments	248,638	246,025	244,077	239,837	237,927
Total non-current assets	**1,311,561**	**1,845,711**	**1,974,565**	**2,043,478**	**2,115,150**
Total assets	**4,497,496**	**5,035,670**	**5,261,963**	**5,360,883**	**5,469,893**
Short-term debt	1,496,132	1,687,036	1,748,740	1,770,013	1,795,279
Accounts payable	129,319	91,954	103,044	104,553	106,140
Other current liabilities	54,509	71,332	71,348	72,641	74,114
Total current liabilities	**1,679,960**	**1,850,322**	**1,923,132**	**1,947,207**	**1,975,533**
Total long-term debt	1,988,345	2,223,284	2,318,097	2,346,296	2,379,789
Other liabilities	294,942	340,722	356,747	363,211	370,575
Total non-current liabilities	**2,283,287**	**2,564,006**	**2,674,844**	**2,709,507**	**2,750,364**
Total liabilities	**3,963,247**	**4,414,328**	**4,597,975**	**4,656,714**	**4,725,897**
Common stocks	33,196	33,196	33,196	33,196	33,196
Retained earnings reserve	269,506	308,882	351,528	391,709	431,536
Other reserves	210,023	254,469	254,469	254,469	254,469
Shareholders' equity	**512,725**	**596,547**	**639,193**	**679,374**	**719,201**
Minority interests	21,524	24,795	24,795	24,795	24,795
Total equity	**534,249**	**621,342**	**663,988**	**704,169**	**743,996**
Total liabilities & shareholders' equity	**4,497,496**	**5,035,670**	**5,261,963**	**5,360,883**	**5,469,893**

Source: Company, HTI estimates

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✓ **Key B/S Takeaway**

We think dividend policy and capital structure could be revised in order to sustain ROE if, as we expect, balance sheet growth slows in the near term

We expect no M&A over our forecast period, resulting in moderation of balance sheet expansion. We expect leverage to decline, resulting in falling ROE. We assume the dividend payout ratio increases to 20% in FY3/16, to 25% in FY3/17, and to 28% in FY3/18 since organic asset growth (as we forecast) makes no claims on retained earnings. We do not anticipate any change in credit rating.

Our Model Assumptions

We assume amortization to be 6% of intangible assets

We assume a dividend payout ratio of 20% in FY3/16, 25% in FY3/17, and 28% in FY3/18

Cash Flow (¥m)	Mar-14A	Mar-15A	Mar-16E	Mar-17E	Mar-18E
Operating profit	**65,279**	**70,239**	**83,364**	**84,712**	**87,494**
Depreciation and amortisation	9,268	9,216	9,146	8,597	8,134
Changes in working capital	(242,753)	(522,425)	(192,538)	(86,909)	(96,829)
Operating cash flow	**(168,206)**	**(442,970)**	**(100,028)**	**6,400**	**(1,201)**
Interest received	4,437	4,722	4,684	3,844	3,762
Interest paid	(3,050)	(3,320)	(3,783)	(3,931)	(3,980)
Tax paid		(30,173)	(33,729)	(33,784)	(34,818)
Cash flow from operations	**(166,819)**	**(471,741)**	**(132,856)**	**(27,471)**	**(36,236)**
Capex	(2,654)	(2,536)	(2,500)	(2,500)	(2,500)
Other new investments	55,807	2,613	1,948	4,240	1,910
Cash flow from investing activities	**53,153**	**77**	**(552)**	**1,740**	**(590)**
Dividends paid to ordinary shareholders		(7,109)	(8,443)	(10,111)	(12,660)
Proceeds from issue of shares		48,195	-	-	-
Other financing cash flow	169,185	425,843	156,516	49,473	58,759
Cash flow from financing activities	**169,185**	**466,929**	**148,073**	**39,362**	**46,100**
Cash at beginning of period		127,535	112,908	128,126	141,207
Total cash generated	**55,519**	**(4,735)**	**14,665**	**13,631**	**9,274**
Implied cash at end of period	**55,519**	**122,800**	**127,573**	**141,756**	**150,481**
Free cash flow	**(169,473)**	**(474,277)**	**(135,356)**	**(29,971)**	**(38,736)**

Source: Company, HTI estimates

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Key Cash Flow Takeaway

We expect MULF's debt funding to decline in line with slower growth of its asset portfolio

We think MULF has sufficient debt capacity to fund M&A transactions of a reasonable size.

Our Model Assumptions

MULF's PBR is close to its three-year low while consensus ROE is largely unchanged

Per Share Data	Mar-14A	Mar-15A	Mar-16E	Mar-17E	Mar-18E
EPS (¥)	42.39	49.58	56.86	56.96	58.78
FDEPS (¥)	42.39	49.58	56.86	56.96	58.78
Revenue per share (¥)	807.6	835.3	913.5	924.2	938.9
Operating EBITDA per share (¥)	83.9	89.4	104.1	104.9	107.6
BVPS (¥)	576.9	671.1	718.9	764.1	808.9
DPS (¥)	8.00	9.50	11.37	14.24	16.46
Recurrent cash flow per share (¥)	(187.7)	(530.7)	(149.4)	(30.9)	(40.8)
Shares in issue (million)	895.8	895.8	895.8	895.8	895.8
Year end adjusted shares in issue (m)	888.7	888.9	889.1	889.1	889.1
Key Ratios	**Mar-14A**	**Mar-15A**	**Mar-16E**	**Mar-17E**	**Mar-18E**
Valuation Measures					
P/Sales (x)	0.58	0.56	0.51	0.50	0.50
P/E (x)	10.97	9.38	8.18	8.16	7.91
P/CF (x)	na	na	na	na	na
P/B (x)	0.81	0.69	0.65	0.61	0.57
Adj EV/EBITDA (x)	47.76	50.89	45.38	45.51	45.02
Dividend yield	1.7%	2.0%	2.4%	3.1%	3.5%
Growth					
Revenue growth	0.0%	3.4%	9.4%	1.2%	1.6%
Operating profit growth	0.0%	7.6%	18.7%	1.6%	3.3%
Net profit growth	0.0%	17.0%	14.7%	0.2%	3.2%
Margins					
Gross margin	17.9%	18.0%	19.0%	18.9%	19.0%
Operating EBITDA margin	10.4%	10.7%	11.4%	11.4%	11.5%
Operating margin	9.1%	9.5%	10.3%	10.3%	10.5%
Pretax profit margin	9.3%	10.3%	10.6%	10.5%	10.7%
Tax rate	40.7%	39.5%	39.0%	39.0%	39.0%
Net profit margin	5.2%	5.9%	6.2%	6.2%	6.3%
Key Ratios					
ROE	7.8%	7.9%	8.2%	7.7%	7.5%
ROA	0.9%	0.9%	1.0%	1.0%	1.0%
Capex/revenue	0.4%	0.3%	0.3%	0.3%	0.3%
Current ratio (x)	1.90	1.72	1.71	1.70	1.70
Creditor days	79.91	55.10	57.31	57.24	57.28
Debtor days	7.99	9.96	9.15	9.13	9.13
Sales/avg assets	0.17	0.16	0.16	0.15	0.15
Credit analysis					
EBITDA/interest paid (x)	24.44	23.93	24.46	23.74	24.03
OCF/interest paid (x)	(54.7)	(142.1)	(35.1)	(7.0)	(9.1)
Debt/EBITDA (x)	46.74	49.21	43.96	44.11	43.66
Debt/equity	652.2%	629.3%	612.5%	584.6%	561.2%
Net debt to equity	623.3%	608.9%	591.4%	562.9%	539.6%

Source: Company, HTI estimates

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Key Driver Takeaway

We expect MULF's ROA gap with peers to narrow, but we expect the ROE gap to persist

We think lessors are more insulated from NIRP than banks or life insurers, and MULF's global assets should help it to deliver stable ROA over our projection period. MULF's conservative capital structure should result in declines in leverage and ROE, but this should help counter the increased risks of its global asset base, in our view.

Company Outline and Operational Review

MULF's major shareholders include Mitsubishi Corporation (20.0%), MUFG (13.4%), Bank of Tokyo Mitsubishi UFJ (6.1%), and Mitsubishi UFJ Trust Bank (3.2%), as of 31 March 2015

MULF is a diversified financial company in Japan, providing capital leases, operating leases, sale-and-leasebacks, auto leases, aircraft/engine/container leases, real estate financing, installment sales, corporate loans, and factoring services. We think MULF has strategically shifted its business model from being a traditional leasing company to being a general financing provider similar to Orix (8591 JP), in order to diversify its revenue sources away from the competitive equipment leasing market.

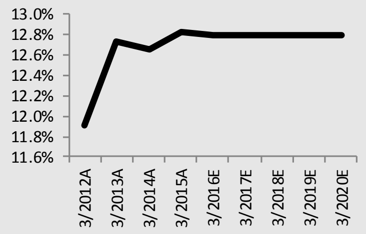
MULF was established by merging Diamond Lease and UFJ Central Leasing in 2007 and is now the leasing arm of the MUFG. MUFG also owns 100% of BOT Lease, which we estimate to be about 10–15% the size of MULF.

Diamond Lease, UFJ Central Leasing, and BOT Lease were affiliated with the former Mitsubishi Bank, UFJ Bank, and Bank of Tokyo prior to their mergers to create the MUFG

We see MULF as one of the largest and most global lessors in Japan. As of December 2015, MULF reported an asset balance of ¥4,553bn, comprised of ¥1,459bn capital leases, ¥1,514bn operating leases, and ¥1,580bn installment and other loans.

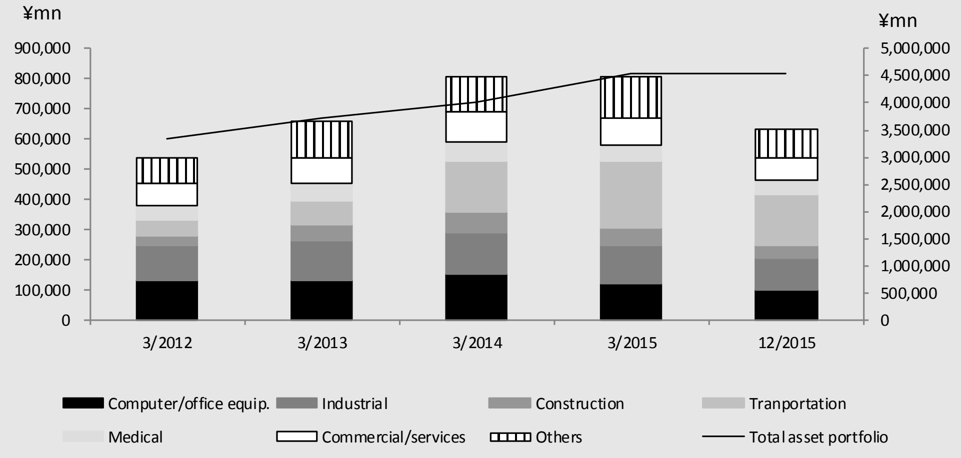
The company categorizes it financing services into two segments: customer finance and asset finance. Customer finance includes capital leases, installment sales, and other long-term corporate loans, whereas asset finance includes operating leases, real estate project finance, property leases, and asset management.

MULF Asset Balance Market Share



Source: MULF, Japan Leasing Association, HTI estimates

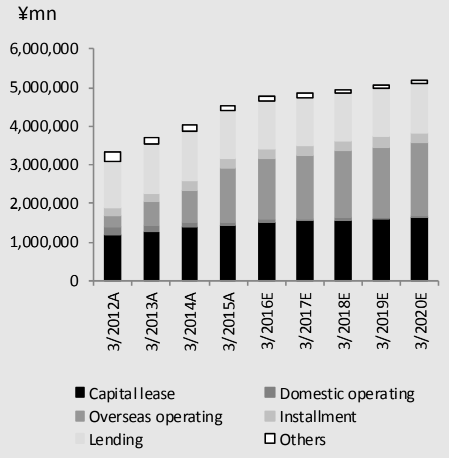
MULF New Lease Assets (Flow) and Total Asset Balance (Stock)



Source: Company data, Bloomberg

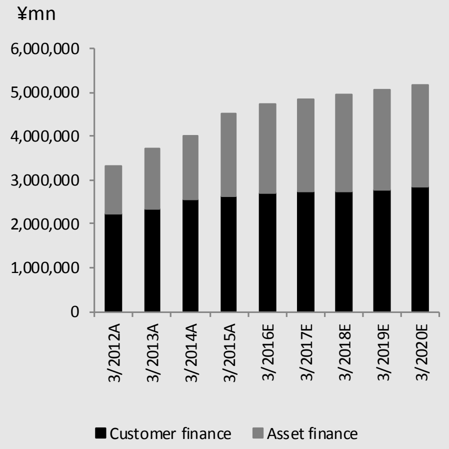
The recent rapid build-up of its asset finance balance is driven by overseas M&A

MULF Asset Balance by Type



Source: Company data, HTI estimates

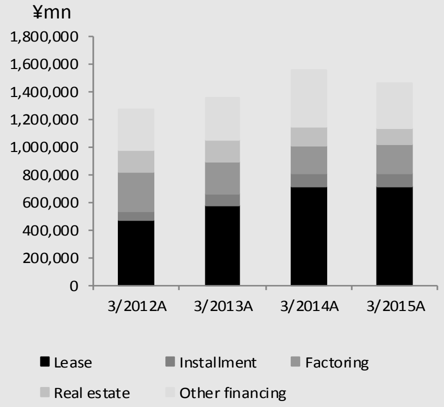
MULF Asset Balance by Business Segment



Source: Company data, HTI estimates

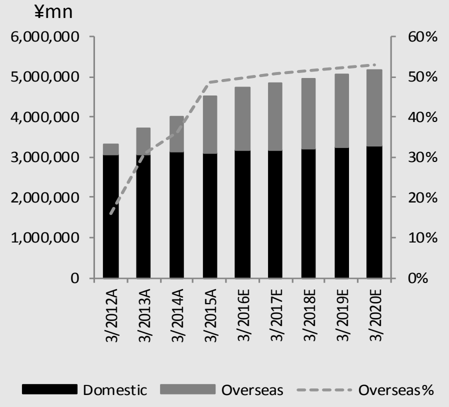
Strong lease asset additions in FY3/14 could be attributable to the consumption tax hike

MULF Annual Addition to Asset Balance



Source: Company data

MULF Overseas Balance and Overseas Leases



Source: Company data, HTI estimates

One downside of an Orix-like model is its complexity and obscurity

Company Characteristics

We think MULF has strategically expanded into alternative financing, global assets, and principal investments in order to grow its asset base and to diversify away from low-margin leasing. As a result, we see MULF becoming increasingly similar to Orix, with lending and loans representing a high proportion of its asset balance (about 27% in FY3/15) relative to its peers. Also, due to its relationships with Mitsubishi Corporation, we think MULF shares a trading company culture and is an opportunistic investor. MULF frequently trades its operating assets, such as aircraft and properties, which results in disposal gains and losses. We estimate such gains amounted to about ¥13bn for Q1–Q3 FY3/16. We hear some analysts view this negatively as it produces non-recurring gains as opposed to typical stock-based revenue; however, we view this positively because we see such trading activities as a part of its portfolio optimization and risk management.

Operating Lease Assets – From Spare Engines to Solar Power Plants

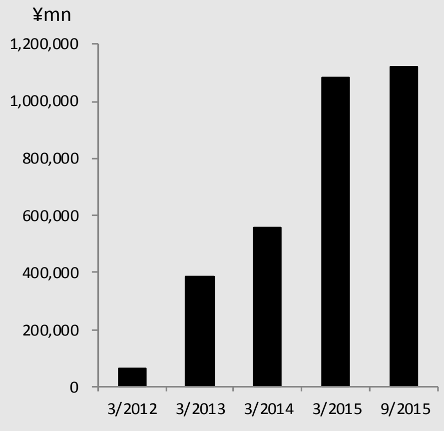
MULF has expanded its global assets substantially through M&A and alliances. It acquired Jackson Square Aviation (JSA) in 2012, Engine Lease Finance (ELF), and Beacon Intermodal in 2015. It also entered into an alliance with Greenbrier Leasing (GBX US) in 2014.

JSA focuses on narrow-body aircrafts, which have a more liquid secondary market and lower transition cost than wide-body models

JSA is a major aircraft lessor globally, with about 145 owned and committed aircraft, mostly narrow-body. As a result of recent portfolio adjustments, JSA owns one of the newest fleets in the industry, at an average age of 2.9 years. JSA leases to about 42 airlines.

We are aware that some data in the *Airfinance Journal* article appear incorrect, such as those for Orix (which owned about 40 aircraft) and CDB Financial Leasing (which owned more than 120 aircraft), but nevertheless reference it due to the lack of available alternative data

MULF Transportation-Related Lease Assets



Source: Company data

Global Aircraft Lessor Ranking

Rank	Lessor	Total fleet
1	GECAS	1,608
2	AerCap	1,279
3	BBAM	413
4	SMBC Aviation Capital	393
5	CIT Aerospace	313
⋮	⋮	⋮
8	BOC Aviation	256
12	ICBC Leasing	173
14	Orix Aviation	148
17	CDB Financial Leasing	120
⋮	⋮	⋮
19	JSA	110
20	MC Aviation Partners	92

Source: *Airfinance Journal* September 2015

BOC Aviation and CDB Financial Leasing aim to grow their aircraft assets significantly, according to their listing documents

The International Air Transport Association, Boeing (BA US), and Airbus (AIR FP) all forecast global passenger traffic to grow at more than 5% CAGR until 2020, implying strong demand for aircraft leases from airlines. We expect aircraft lease yields to remain healthy, but see potential pricing competition from well-funded Chinese lessors, such as BOC Aviation (unlisted), ICBC Leasing (unlisted), and CDB Financial Leasing (unlisted).

Engines typically account for 20–35% of the value of an aircraft

The spare engine leasing market is dominated by GE, Rolls-Royce, Pratt & Whitney, ELF, Willies, and GA Telesis

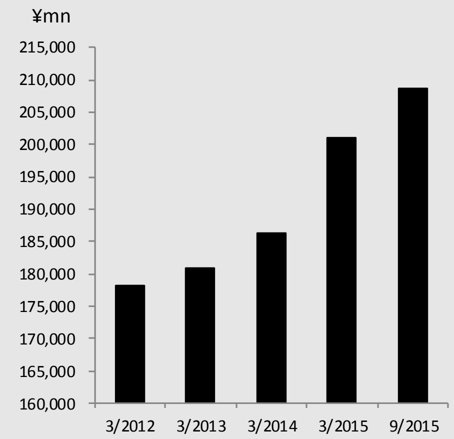
We include CFM (unlisted) and Shannon Engine Support (unlisted) as parts of GE

ELF is a leading spare engine lessor globally, with a sizeable engine portfolio. We find ELF to be a particularly attractive asset to complement MULF's global portfolio as engine leasing requires substantial technical, financial, tax, legal, and risk expertise. Engine lessors can be broadly classified into OEM lessors, independent lessors and MROs, and financial investors such as private equity funds. The majority of narrow-body engines are manufactured by GE (GE US) and wide-body engines are by GE and Rolls-Royce (RR LN), which naturally resulted in GE Engine Leasing (unlisted) and Rolls-Royce Partners Finance (unlisted) being the largest OEM engine lessors. ELF is one of the largest independent engine lessors, along with Willies Lease Finance (WLFC US) and GA Telesis (unlisted). Given the buoyant aircraft order backlogs, we expect strong demand for spare engines and ELF to experience healthy asset growth in the medium term.

MULF is also involved in real estate leasing (where it rents land from landowners and constructs properties for its lessee), infrastructure financing (public-private partnerships), energy conservation planning, auto leasing, and solar power plant financing.

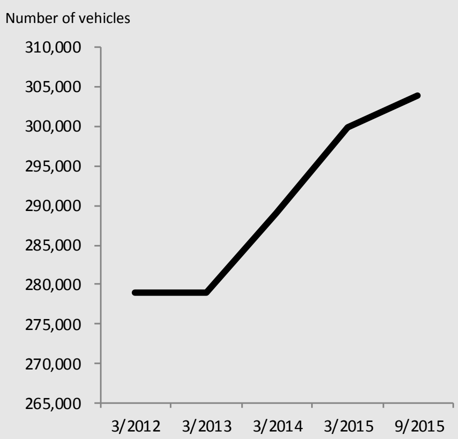
Auto leases are provided by Mitsubishi Auto Leasing, a 50/50 joint venture between MULF and Mitsubishi Corporation

Real Estate Lease Asset Balance



Source: Company data

Number of Auto Lease Vehicles



Source: Company data

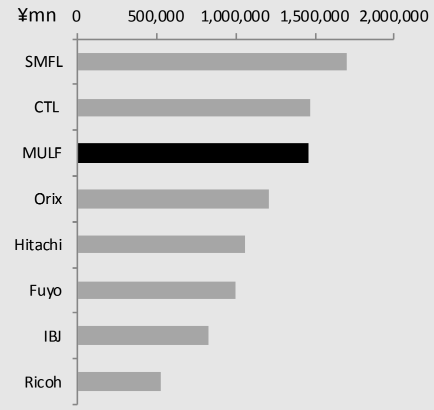
Century Tokyo, Fuyo, and IBJ are all affiliated with Mizuho Financial Group (8411 JP)

Industry Position

Independent lessors, bank-affiliated lessors, and vendor lessors are the major types of lessors. We see MULF as one of the leading bank-affiliated lessors, with an opportunistic culture similar to Orix and Mitsubishi Corporation. Orix is the largest independent lessor. Bank-affiliated lessors include MULF, Sumitomo Mitsui Finance and Leasing (SMFL; unlisted), Century Tokyo Leasing (8439 JP), Fuyo General Lease (8424 JP), and IBJ Leasing (8425 JP); vendor lessors include Hitachi Capital (8586 JP) and Ricoh Leasing (8566 JP).

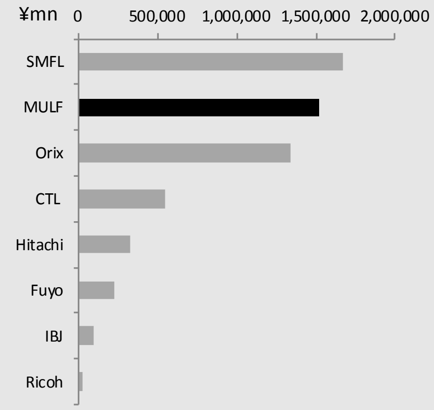
Orix was founded as a leasing company, but has since diversified into a comprehensive financial company with businesses in life insurance, consumer credit, property development, and private equity. SMFL has grown its assets rapidly in recently years as it acquired RBS Aviation, GE Capital's Japan portfolio, and other assets. Century Tokyo has a strong presence in auto leasing in Japan and has expanded its overseas assets, such as partnering with CIT Group (CIT US) in aircraft leasing. Fuyo and IBJ are relatively concentrated in general leasing in Japan.

Q3 FY3/16 Capital Lease Balance



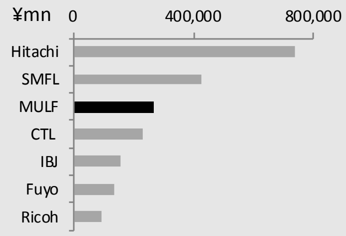
Source: Individual company data

Q3 FY3/16 Operating Lease Balance



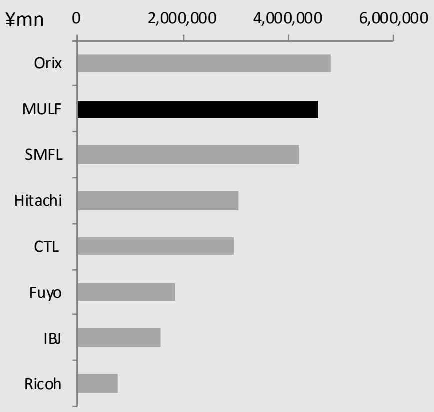
Source: Individual company data

Q3 FY3/16 Installment Sales Balance



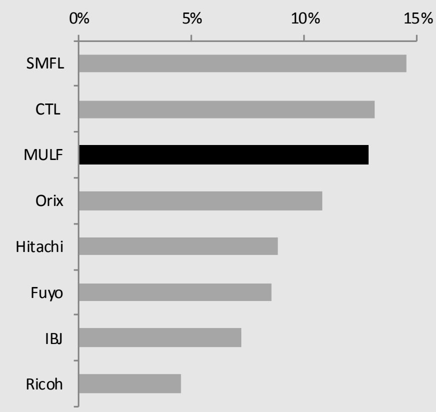
Source: Individual company data

Q3 FY3/16 Asset Balance



Source: Individual company data

FY3/15 Domestic Lease Balance Market Share



Source: Individual company data, Japan Leasing Association

We exclude Orix's principal investment and retail finance (i.e., bank and insurance) segments in our asset balance calculation

A Comment on Acquisition Candidates

MULF acquired ELF and Beacon Intermodal from MUFG in 2015; we think MULF is at an advantage in acquiring MUFG's leasing assets

Considering MULF's debt capacity, strong credit rating, low funding costs, and diversified funding sources, we think most debt-funded M&A should be EPS-accretive as long as the targets have reasonable ROA and MULF does not overpay. We expect MULF to actively seek M&A opportunities to expand its asset portfolio. While we are not able to project any M&A deals, we comment on a few likely candidates within the Mitsubishi Group.

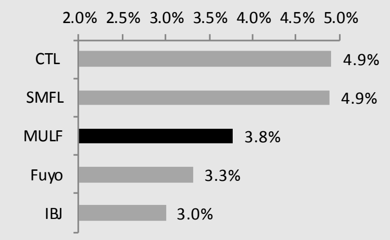
Mizuho Financial Group still has three separate leasing affiliates, whose affiliations trace back to Dai-Ichi Kangyo Bank, Fuji Bank, and the Industrial Bank of Japan

BOT Lease, the leasing arm of the former Bank of Tokyo, is owned by MUFG as a separate company from MULF. We see merging BOT Lease into MULF to be logical, which should consolidate MUFG's leasing businesses into MULF and help expand MULF's overseas portfolio. Mitsubishi Corporation, a key shareholder and business partner of MULF, wholly owns MC Aviation Partners. MC Aviation Partners has a substantial portfolio, owning and managing over 120 aircraft. We think a combination of JSA and MC Aviation Partners would result in a sizeable force in the market of similar scale to SMBC Aviation Capital, the wholly owned aircraft lessor which the Sumitomo Mitsui Financial Group (8316 JP) established by acquiring RBS Aviation Capital.

MULF's Asset Yield: No News Is Good News

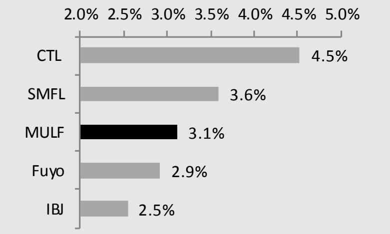
In a low interest rate environment with a flat yield curve, most financial companies should face profitability pressure. Computer and office equipment leases typically account for 40–50% of total leasing in Japan, but only 15–25% for MULF, indicating that MULF is strategically shifting its asset mix away from the mass market to specialized niche markets. We expect MULF's net yield to be largely stable amid an environment of falling spreads, because we see a decline in domestic yield to be partially offset by lower funding costs and global asset yields offsetting the remaining domestic margin pressure.

FY3/15 Yield Comparison



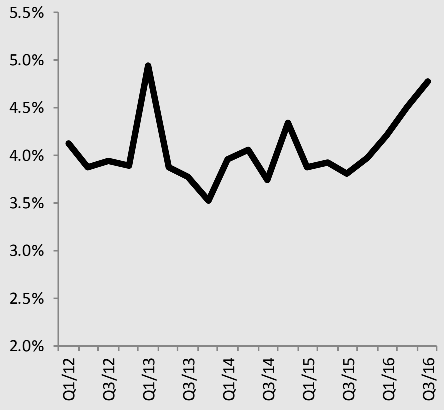
Source: Individual company data

FY3/15 Net Yield Comparison



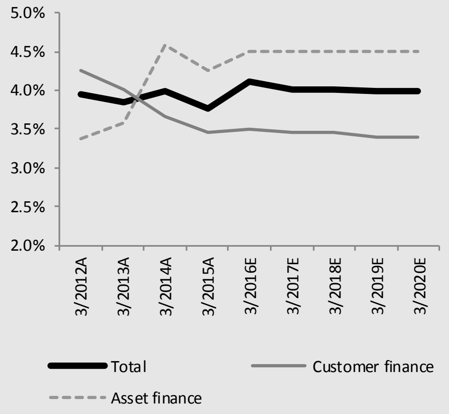
Source: Individual company data

MULF Annualized Quarterly Yield



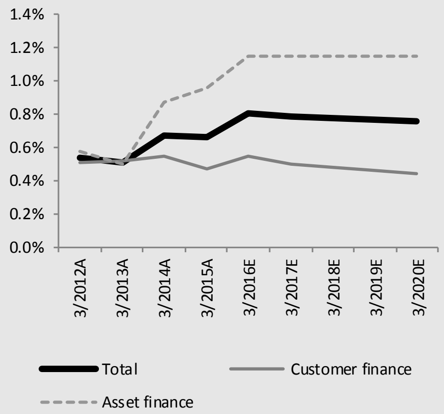
Source: Company data, HTI calculation

MULF Asset Yields



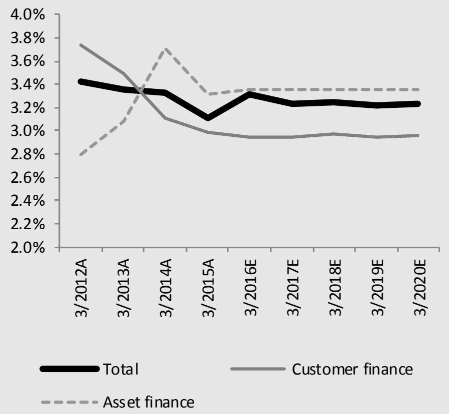
Source: Company data, HTI calculation

MULF Funding Costs



Source: Company data, HTI calculation

MULF Net Yields



Source: Company data, HTI calculation

NIRP impacts on financial stocks:

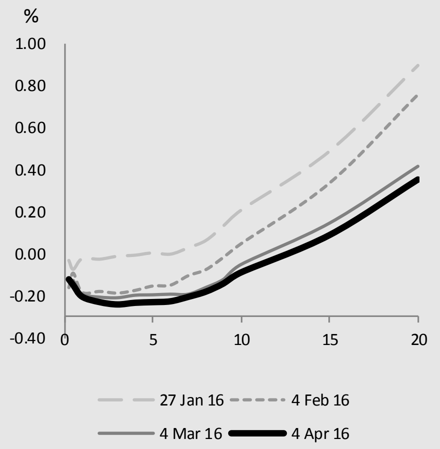
High: *Banks; Life insurers*
Medium: *Non-life insurers*
Low: *Lessors; Retail finance; Brokers*

NIRP and Its Likely Impacts on Lessors—Finding the Losers and Relative Winners

Since the Bank of Japan surprisingly announced its NIRP, financial shares have come under significant pressure. Due to the intermediary roles of financial companies, we see NIRP having a negative impact across sub-sectors, but to significantly different degrees. We think the most visible losers include postal banks, banks (particularly regional banks), and life insurers. In comparison to life insurers, we believe non-life insurers are materially less exposed to NIRP due to their higher overseas contributions, lack of return guarantee in product design, and lower allocation to government bonds. Consumer finance companies should benefit from lower funding costs, but should also face potential competition from banks entering into lower credit-quality borrowers, in our view.

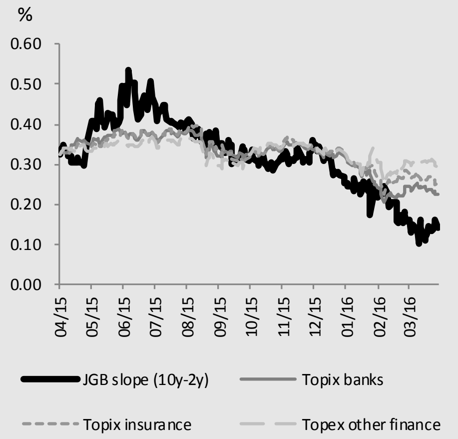
We think the yield curve is likely to continue bull-flattening if Japan fails to generate inflation expectations

JGB Yields since NIRP Announcement (28-Jan-16)



Source: Bloomberg

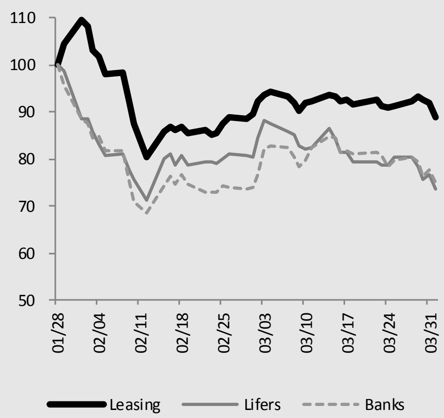
Yield Curve Slope and Financial Share Performance



Source: Bloomberg

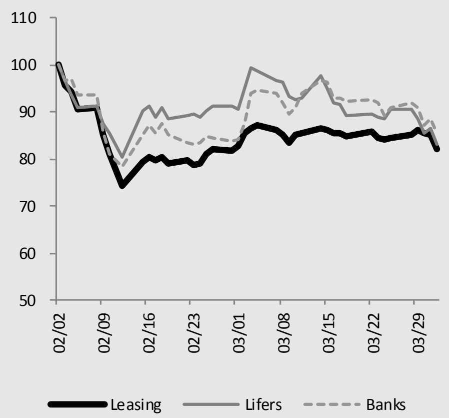
Leasing stocks include MULF, Orix, Century Tokyo, Hitachi Capital, Fuyo, Ricoh Leasing, and IBJ Leasing. Life insurer stocks include Sony Financial, Dai-ichi Life, and T&D. Bank stocks include Mitsubishi UFJ, Sumitomo Mitsui, Mizuho, Resona, and Shinsei

Stock Performance since NIRP Announcement



Source: Bloomberg

Stock Performance since Market Crash (2-Feb-16)



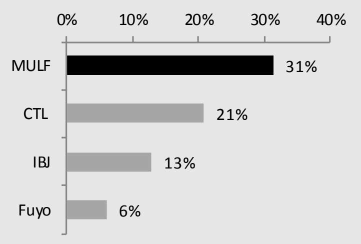
Source: Bloomberg

MULF's competitor SMFL (rated AA- by JCR) raised financing at a negative rate in March 2016

Similar to banks, lessors borrow short (floating rate) and lend long (fixed rate), so a bull-flattening of the yield curve should result in more yield compression than funding-cost benefit

Lessors primarily fund their operations using the debt capital market and bank loans, so should benefit from lower funding costs. Compared to independent lessors and vendor lessors, bank-affiliated lessors tend to use more bank borrowings, resulting in lower liability durations (less than two years), so they should be able to refinance at lower rates in the near term. Although we think lease yields are less sensitive to spread compression than the more transparent interest rate margins of banks, we still expect domestic capital lease yields and lending yields to face downward pressure due to intensifying competition among lessors and from other financing providers. Due to the sharp bull flattening of the yield curve, we think yield compression for lessors (despite being less than banks) should outweigh any potential benefits from lower funding costs, resulting in net yield compression. In the likely scenario of continued bull flattening in the next few years, we think net interest spreads for lessors should outperform that for banks because lease yields are bundled with equipment costs and other value-added services (such as maintenance) and leases are mostly financed at fixed rates compared to floating rates for bank loans. To avoid over-generalization, we emphasize that Japan's lessors have become increasingly diverse, with varying degrees of asset specialization, capital intensity, overseas exposure, currency/interest rate exposure, and liability structures. We think investors should pick lessors with diversified and stable funding sources, strong overseas exposure, expertise in capital-intensive and growth assets (such as aircraft), and trading at attractive valuations. We think MULF fits these criteria.

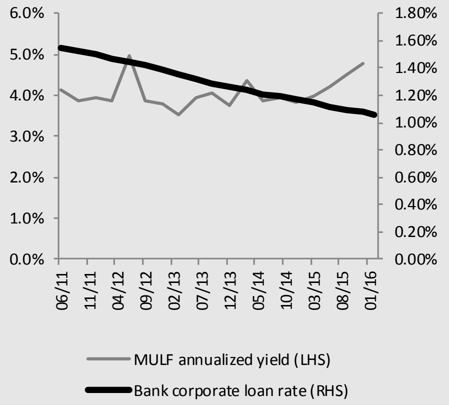
Overseas Asset Proportion of Portfolios



Source: Individual company data

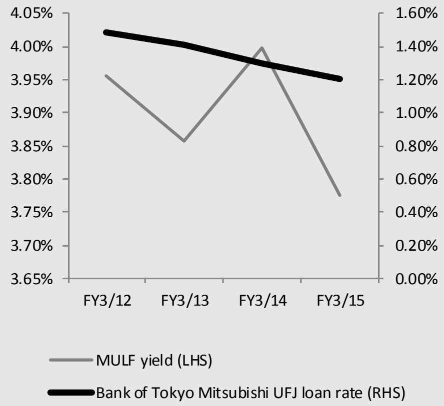
We assume securitization and bond financing are of long duration and others (including long-term loans) are of short duration

Bank Corporate Loan Rate and MULF Yield



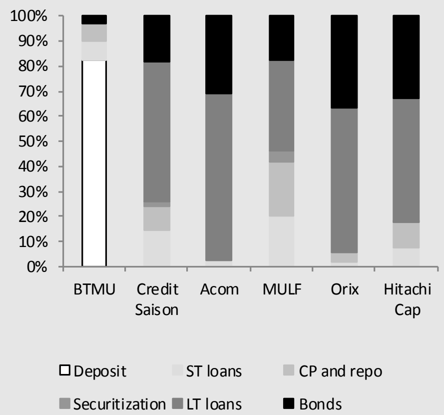
Source: Bank of Japan, company data

BTMU Corporate Loan Rate and MULF Yield



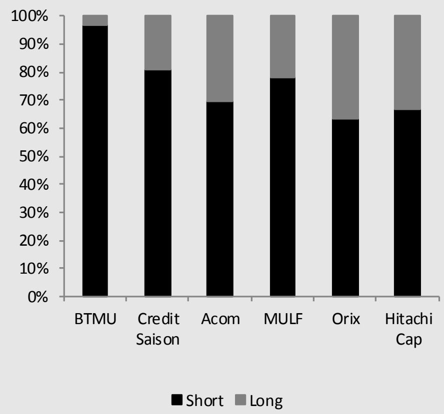
Source: Bank of Tokyo Mitsubishi UFJ, company data

Liability Structure Comparison



Source: Individual company data

Estimated Liability Duration Split

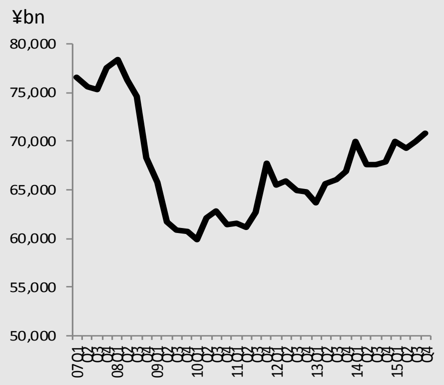


Source: Individual company data

Domestic Capex Environment

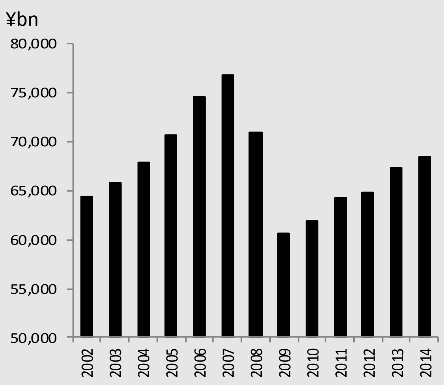
Domestic capex contracted significantly from 2007 to 2010, but has begun a steady recovery since 2012. We believe this trend is likely to continue, providing a favorable backdrop for lease financing.

Seasonally Adjusted Capex



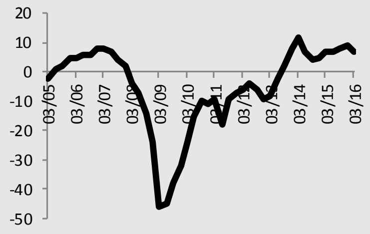
Source: Cabinet Office

Non-Residential Investments



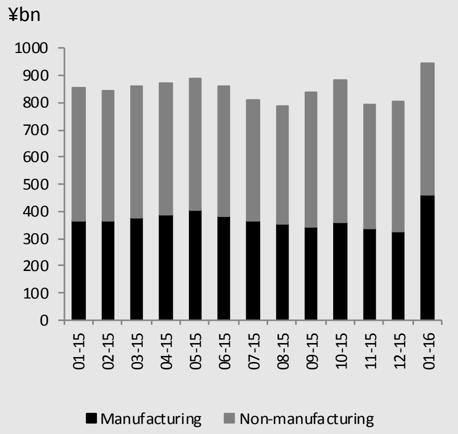
Source: Cabinet Office

Bank of Japan Tankan Survey DI



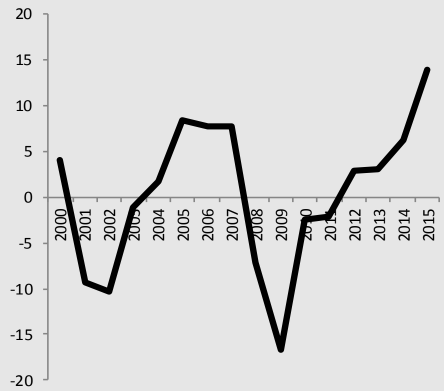
Source: Bank of Japan

Domestic Machinery Orders (Seasonally Adjusted)



Source: Cabinet Office

DBJ Capex Survey Diffusion Index (DI)



Source: Cabinet Office

The accounting revision eliminated off-balance-sheet financing and certain tax benefits

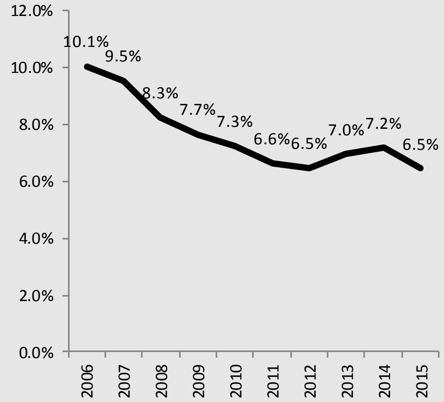
Japan's Leasing Industry

Japan's lease volume peaked at ¥7.9trn in 2007 and has since declined significantly to only ¥4.8trn in 2015. The major reasons for this decline include (1) an unfavorable capex environment, (2) revised accounting and taxation rules in 2008 resulting in a lower lease ratio, (3) an increasing corporate savings rate, resulting in decreased demand for external financing, and (4) prolonged deflation in computer and communication products, which account for a large proportion of leased assets.

We expect the lease ratio to stabilize at 6.5–7.0%

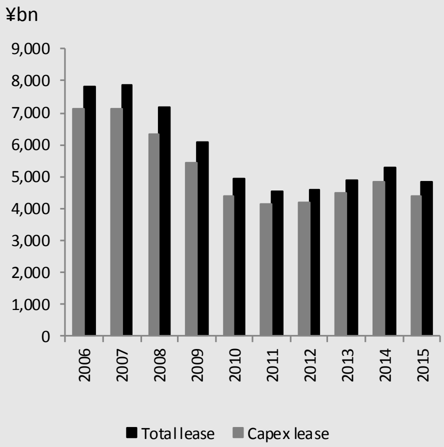
Lease statistics do not include global and overseas assets, such as aircraft, which represent growth pockets for Japanese lessors

Lease Ratio



Source: Japan Leasing Industry Association

Leasing Transactions

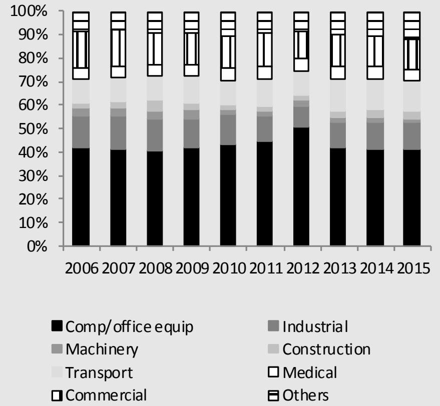


Source: Japan Leasing Industry Association

Computer and office equipment, which primarily consists of computer hardware and software, telecommunication systems, and office equipment, is the largest component of lease financing in Japan. However, demand for lease financing in this segment has been stagnant since 2010 and we only expect it to be flat, due to deflation, productivity gains, and cloud-based technologies. As a result, we expect growth for domestic lease financing to be driven mostly by industrial, machinery, construction, and transportation (i.e., auto) capex demand. We expect lessors to grow by expanding global assets (particularly aircraft) and overseas assets (particularly in Southeast Asia).

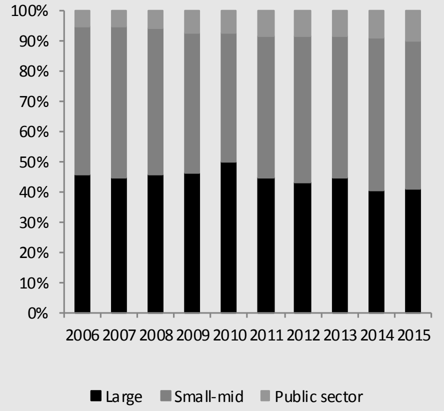
Moreover, since the accounting rule revision in 2008, lease financing by large corporates has diminished, which previously accounted for sizeable lease transactions.

Lease Transaction Breakdown by Asset



Source: Japan Leasing Industry Association

Lease Transaction Breakdown by Lessee



Source: Japan Leasing Industry Association

Valuation

We set our target price at ¥580 using a fair PBR of 0.80x our FY3/16 BPS estimate of ¥719. The target price implies a PER of 10.2x our FY3/16 EPS estimate of ¥56.9. We view these multiples as reasonable, compared to its one-year average PBR and PER of 0.86x and 10.9x and its PBR and PER of 0.79x and 9.8x on 28 January 2016, when the NIRP was announced.

We consider our of 1.0% ROA assumption conservative, considering it was 0.97% for FY3/15

Our estimated fair PBR is derived using a ROA of 1.0%, leverage of 7.3x, growth rate of 2.5%, and discount rate of 8.5%. While we view lessors as being better positioned than banks and lifers in a NIRP environment, we think there are heightened uncertainties, yield pressures, and increased probability of negative news flow, which we try to reflect using a discount rate of 8.5%, compared to the 7.5% we would deem appropriate in the pre-NIRP period.

We see that MULF's business model is becoming increasingly diversified, global, and similar to Orix; we are concerned that this conglomerate model might create Orix-like complexity and valuation discount

Considering MULF's below-peer leverage and rising ROA, we estimate that its current valuation implies a discount rate above 8.5%, the level we assume in our fair PBR estimate. We observe similarly elevated equity costs across financial sub-sectors and think investors are leery of industry profitability under NIRP. We believe risk appetite should gradually normalize, absent an additional rate cut by the Bank of Japan. Near-term company-specific catalysts include MULF increasing its dividend payout ratio above 20%, continued stable yield despite the NIRP, and asset balance growth faster than consensus expectations.

Valuation Multiples (as of 7 April 2016)

		Valuation Multiples				Growth		Returns			
	Market	Price / Earnings		Price / Book		2yr CAGR		ROA		ROE	
Company	Cap (mn)	FY16	FY17	FY16	FY17	OP	EPS	FY15	FY16	FY15	FY16
MULF	**416,563**	**8.0x**	**7.7x**	**0.65x**	**0.61x**	**4.8%**	**5.6%**	**0.9%**	**1.2%**	**7.9%**	**8.4%**
Orix	2,025,810	7.5x	7.5x	0.86x	0.79x	7.6%	3.7%	2.3%	2.3%	11.5%	11.8%
Century Tokyo Leasing	418,502	10.3x	9.1x	1.27x	1.15x	10.0%	11.2%	1.1%	1.2%	12.5%	12.9%
Hitachi Capital	279,861	7.9x	7.3x	0.75x	0.70x	10.0%	8.8%	0.9%	1.2%	7.7%	9.8%
Fuyo General Lease	136,749	7.5x	7.1x	0.63x	0.59x	8.6%	6.9%	0.7%	0.9%	7.4%	8.8%
Ricoh Leasing	95,917	8.6x	7.9x	0.66x	0.62x	9.3%	9.5%	1.3%	1.3%	7.7%	7.9%
IBJ Leasing	76,555	6.7x	6.3x	0.61x	0.57x	-0.3%	4.2%	0.7%	0.7%	10.0%	9.3%
Mean		8.1x	7.6x	0.78x	0.72x	7.2%	7.1%	1.14%	1.26%	9.27%	9.84%
Median		7.9x	7.5x	0.66x	0.62x	8.6%	6.9%	0.92%	1.23%	7.95%	9.30%

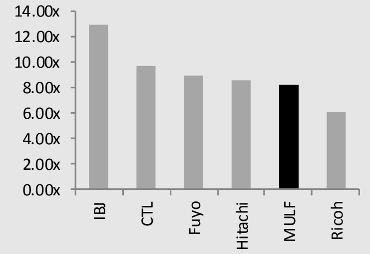
Source: Bloomberg

PBR-ROE Comparison

We believe IBJ Leasing is heavily exposed to the competitive office equipment leasing market, which is a reason for its low ROA among peers

We acknowledge that many financial stocks trade at low valuations and look attractive in comparison to their consensus ROE. We think the main reason is that this is a reflection of investors' views of deteriorated profitability for financial companies due to the NIRP (including potential future rate cuts) in advance of consensus ROE downward revisions. We think this PBR de-rating relative to the historical PBR-ROE relationship can be justifiable for certain banks and lessors with heavy exposure to undifferentiated markets such as office equipment. We believe MULF's ROE should be on the defensive side among lessors due to its high exposure to global markets and specialized areas such as real estate lending, so we expect a PBR re-rating to drive MULF's shares towards our target price when there is more clarity on the NIRP's impact on financial sector profitability and MULF showing stable ROA.

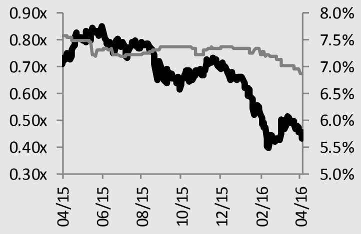
Asset/Equity Ratio Comparison



Source: Individual company data

In comparison to its listed peers, MULF has one of the lowest ROEs. We think reasons include its large balance sheet, less diversification than Orix, and less exposure to auto and specialty assets than Century Tokyo. On the other hand, MULF's returns appear much better if we look at ROA instead of ROE, which implies that MULF has more conservative leverage. MULF has received strong credit ratings (A by the S&P, and A+ by R&I). We think MULF's conservative leverage and debt capacity should translate into lower distress risk in case of sudden macro-outlook deterioration as well as more attractive funding alternatives to expand its global portfolio, which is largely (and inappropriately) ignored by investors, in our view.

MUFG PBR versus Consensus ROE



Source: Bloomberg

MULF's PBR looks more attractive if compared to ROA instead of ROE

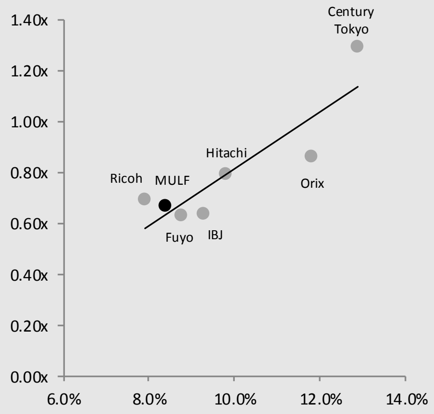
It is worth noting that Orix possesses significant non-lease-related operations, such as life insurance

We believe that lessors should trade at a larger premium to banks and life insurers, and that MULF's underperformance against its peers should correct

MULF PBR versus Consensus ROE

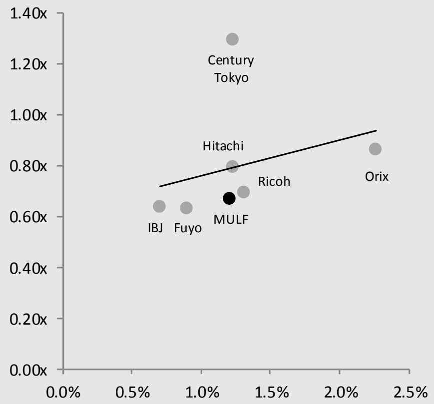
Source: Bloomberg

FY16 PBR – FY16 ROE



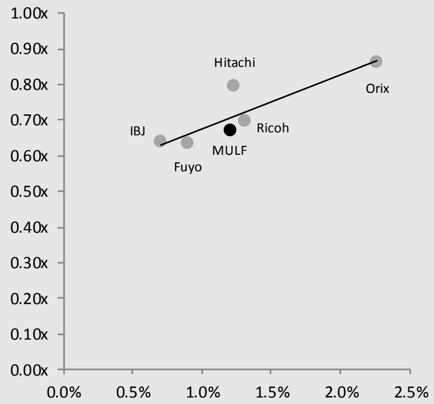
Source: Bloomberg

FY16 PBR – FY16 ROA



Source: Bloomberg

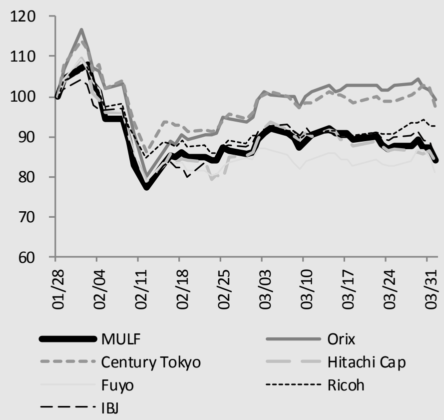
FY16 PBR – FY16 ROA (Excluding Century Tokyo)



Source: Bloomberg

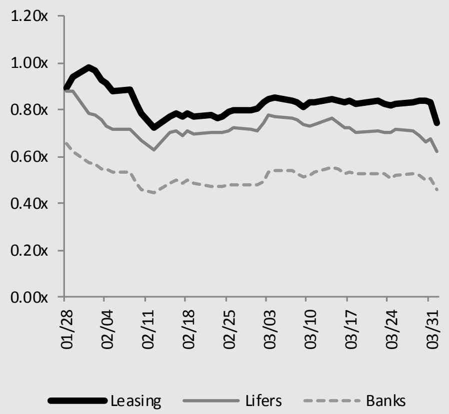
Relative Performance of Leasing Shares

Leasing Share Performance since NIRP



Source: Bloomberg

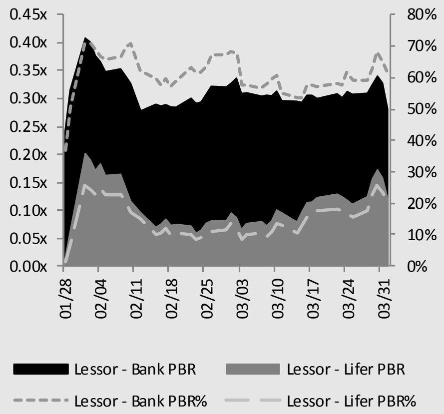
PBR Comparison



Source: Bloomberg

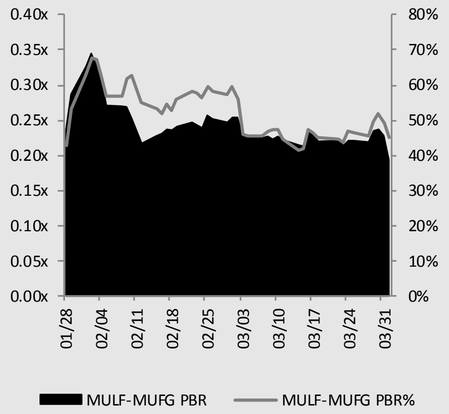
MULF's PBR premium over MUFG has been largely flat post-NIRP, but we think it should expand

PBR Premium to Banks and Life Insurers



Source: Bloomberg

PBR Premium over Mitsubishi UFJ Financial



Source: Bloomberg

Financial Projections

We think the key drivers for financials include asset accumulation, asset mix, asset yield, and funding costs. Our estimates are shown below.

MULF: Revenue, GP, and Driver Projections

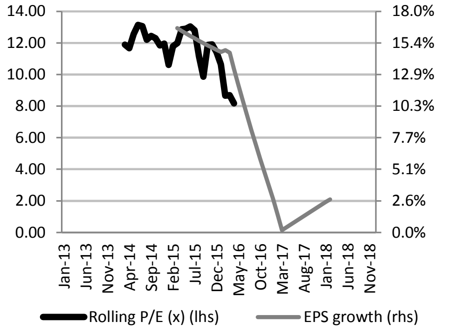
¥mn	FY3/14A	FY3/15A	FY3/16E	FY3/17E	FY3/18E
Customer finance assets	2,543,359	2,621,928	2,707,868	2,729,019	2,758,146
Asset finance assets	1,474,059	1,918,991	2,048,666	2,113,697	2,182,763
Total assets	4,017,300	4,540,700	4,756,534	4,842,716	4,940,909
Customer finance sales	550,795	550,814	565,281	568,402	573,658
Asset finance sales	166,964	191,637	231,876	243,255	251,092
Total sales	717,759	742,451	812,157	821,657	834,750
Customer finance GP	76,265	77,124	78,614	80,194	81,484
Asset finance GP	52,409	56,157	66,458	69,720	71,966
Total GP	128,674	133,281	154,073	154,914	158,450
Customer finance yield	3.66%	3.45%	3.50%	3.45%	3.45%
Asset finance yield	4.58%	4.27%	4.50%	4.50%	4.50%
Total yield	4.00%	3.78%	4.12%	4.01%	4.01%
Customer finance funding	0.55%	0.47%	0.55%	0.50%	0.48%
Asset finance funding	0.87%	0.96%	1.15%	1.15%	1.15%
Total funding rate	0.67%	0.66%	0.81%	0.78%	0.77%
Credit cost (%)	17bps	8bps	15bps	12bps	12bps

Source: Company data, HTI estimates

Risks to Our Rating and the Attainment of Our Target Price

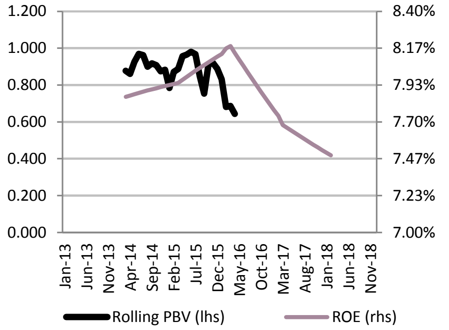
Key risks to our recommendation and target price include continued stock market weakness for the financial sector, increased expectation of a further rate cut by the Bank of Japan, investors trading lessors relative to banks, lessors reporting larger yield compression than we expect, deteriorating capex statistics, and MULF failing to raise its dividend payout ratio to 20%.

P/E (x) vs EPS Growth (%)



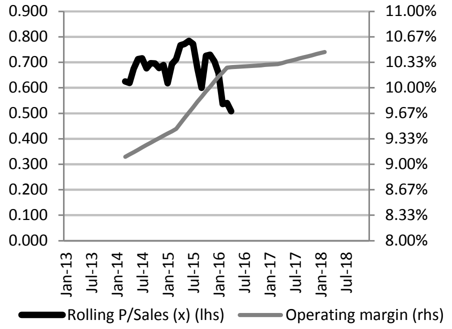
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



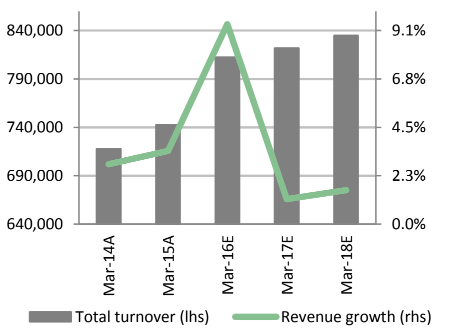
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



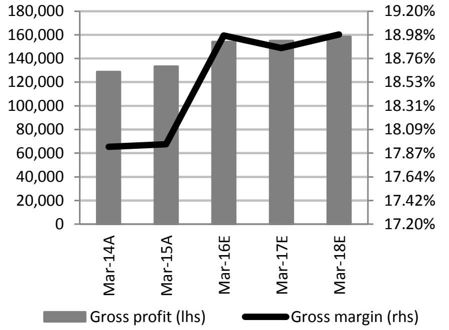
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth - (¥m)



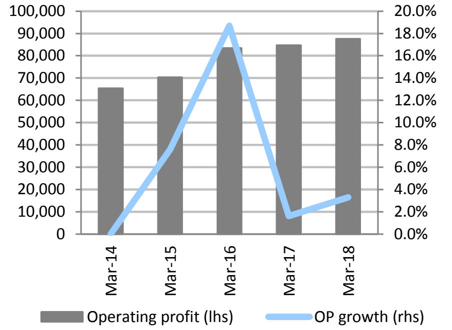
Source: Company data, Bloomberg, HTI estimates

Gross Proft and Margin - (¥m)



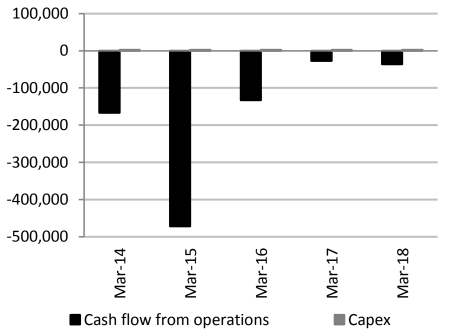
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth - (¥m)



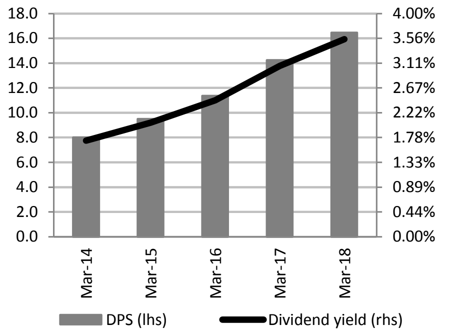
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex - (¥m)



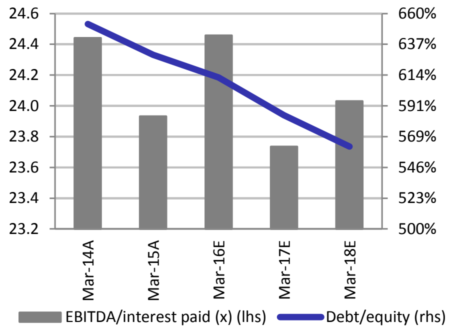
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield - (¥)



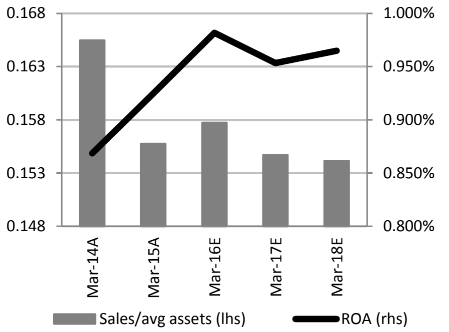
Source: Company data, Bloomberg, HTI estimates

Debt to Equity (%) and Interest Cover (x)



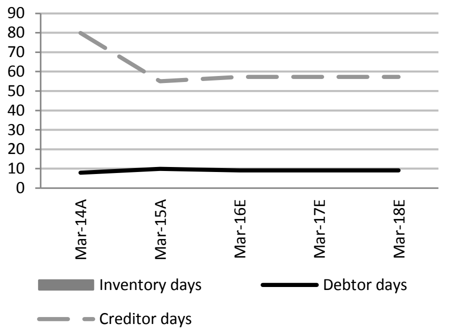
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



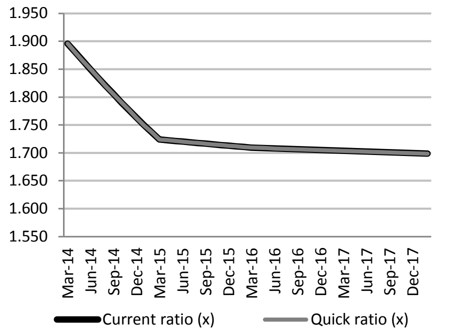
Source: Company data, Bloomberg, HTI estimates

Cash Operating Cycle



Source: Company data, Bloomberg, HTI estimates

Current Ratio (x) vs Quick Ratio (x)



Source: Company data, Bloomberg, HTI estimates

Revenue Growth

We expect customer finance revenue and asset finance revenue to grow 2.6% YoY and 21% YoY in FY3/16. While we expect asset finance yield to be stable at 4.50%, we expect the customer finance yield to decline to 3.45% in FY3/17 from 3.50% in FY3/16. For FY3/17, we estimate customer finance revenue and asset finance revenue grow 0.6% to ¥568bn and 4.9% to ¥243bn, respectively.

Profit Margins

Considering the increased revenue contribution from asset finance, which has a higher GPM than customer finance, we expect GPM (pre-funding) and GPM (post-funding) to hit 23.6% and 19.0% in FY3/16. We expect slight scale economy and estimate OPM of 10.3% in FY3/16 versus 9.5% in FY3/15.

Shareholder Returns

We estimate ROAA of 1.02% and 0.99% in FY3/16 and FY3/17, up from 0.97% in FY3/15. Because we expect only slow organic growth and no M&A over our forecast period, we see leverage declining to 7.9x, 7.6x, and 7.4x in FY3/16, FY3/17, and FY3/18, respectively, from 8.1x in FY3/15. Thus, we estimate ROE to decline to 7.7% and 7.5% in FY3/17 and FY3/18.

Balance Sheet Risks

MULF is subject to credit risks for its customers, interest risks for its funding, and market risks for its operating leases. We believe MULF has satisfactory credit review and treasury operations to manage these risks.

Key Takeaway

We view MULF as a defensive leasing stock under NIRP and think its PBR de-rating has become excessive

Investment Thesis – Target Price – Share Price Catalysts

We think the negative impacts of NIRP vary across financial companies and that MULF should face less margin compression than its peers. Yield curve flattening could impact its domestic general lease margins, but we think specialized lease margins should face minimal pressure and continued accumulation of global assets should help to stabilize the overall yield. In our base scenario, we think MULF's ROA should not face compression, so view the PBR de-rating post-NIRP as overdone and as presenting an attractive entry point. We expect multiple expansion to drive the share price towards our target price of ¥580. Key catalysts include a normalization of risk appetite toward the financial sector, increased differentiation between financial sub-sectors, MULF showing healthy asset accumulation with stable yield, and an increased dividend payout ratio.

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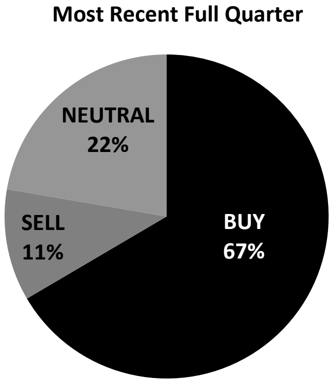
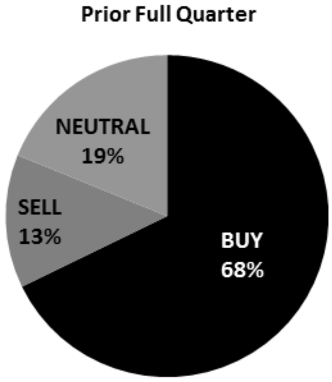
NEUTRAL: A stock under coverage with insufficient upside or downside to justify a BUY or SELL rating. For purposes only of FINRA/NYSE ratings distribution rules, our Neutral rating falls into a hold rating category.

Rating Distribution





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*Percentage of investment banking clients in each rating category.

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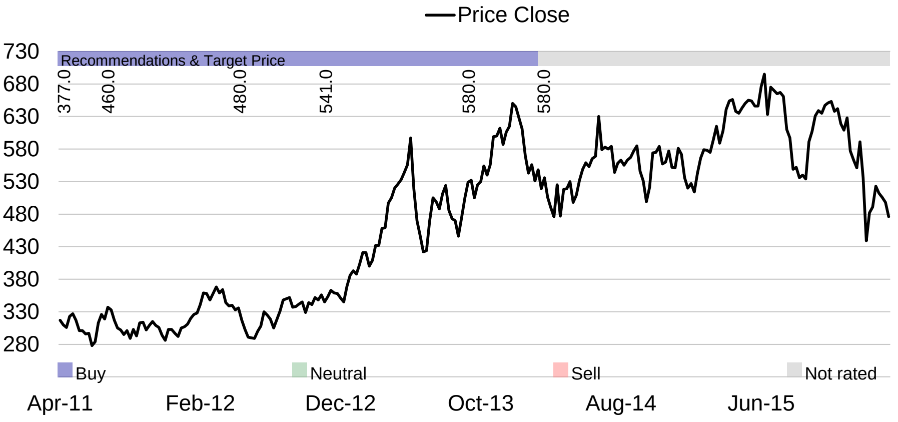
Recommendation Chart



Date	Recommendation	Target (JPY)	Price (JPY)
2014-02-21	Not rated	-	548.0
2013-09-10	Buy	580.0	502.0
2012-11-01	Buy	541.0	349.0
2012-04-27	Buy	480.0	333.0
2011-07-14	Buy	460.0	317.0
2010-07-13	Buy	377.0	-
2009-07-10	Buy	312.0	-

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity

Haitong International Coverage as of 1 Apr 2016

Pan Asia Resources

Core Coverage Universe

Sam Thawley (Team Leader)
Angang Steel (347 HK)
China Petroleum & Chemical (386 HK)
China Shenhua Energy (1088 HK)
CNOOC (883 HK)
Daido Steel (5471 JP)
Daikin Industries (6367 JP)
Fuji Seal International (7864 JP)
Fujitsu General (6755 JP)
Hanwa (8078 JP)
Hitachi Construction Machinery (6305 JP)
IHI (7013 JP)
Kawasaki Heavy Industries (7012 JP)
Kawasaki Kisen (9107 JP)
Komatsu (6301 JP)
Kubota (6326 JP)
KYB (7242 JP)
Kyoei Steel (5440 JP)
Makita (6586 JP)
Mitsubishi Heavy Industries (7011 JP)
Mitsui O.S.K. Lines (9104 JP)
Nippon Steel & Sumikin Bussan (9810 JP)
PetroChina (857 HK)
Riso Kagaku (6413 JP)
Sanyo Special Steel (5481 JP)
SMC (6273 JP)
THK (6481 JP)
Tokyo Steel Mfg. (5423 JP)

Fook Tat Cho
Anton Oilfield Services (3337 HK)
China Datang (1798 HK)
China Longyuan Power (916 HK)
China Singyes (750 HK)
China Suntien (956 HK)
CIMC Enric (3899 HK)
CLP Holdings (2 HK)
GCL-Poly (3800 HK)
Hilong (1623 HK)
Honghua Group (196 HK)
Hong Kong and China Gas (3 HK)
Huadian Fuxin Energy (816 HK)
Huaneng Renewables (958 HK)
Xinjiang Goldwind (2208 HK)

Non-Coverage Universe

CGN New Energy Holdings (1811 HK)
Dowa Holdings (5714 JP)
GCL New Energy Holdings (451 HK)
Iino Kaiun Kaisha (9119 JP)
Maruichi Steel Tube (5463 JP)
Mie Holdings (1555 HK)
Nippon Coke & Engineering (3315 JP)
NS United Kaiun Kaisha (9110 JP)
Osaka Steel (5449 JP)
Sino Oil and Gas Holdings (702 HK)

Pan Asia TMT

Core Coverage Universe

Neil Juggins (Team Leader)
Alibaba Group Holdings (BABA US)
China Mobile (941 HK)
China Telecom (728 HK)
China Unicom Hong Kong (762 HK)
Chunghwa Telecom (2412 TT)
Ctrip.com International (CTRP US)
Far EasTone Telecommunications (4904 TT)
KDDI (9433 JP)
NetEase (NTES US)
Nippon Telegraph & Telephone (9432 JP)
NTT DoCoMo (9437 JP)
Softbank (9984 JP)
Taiwan Mobile (3045 TT)
Tencent Holdings (700 HK)
Yahoo Japan (4689 JP)

Steve Myers
Canon (7751 JP)
Fujitsu (6702 JP)
Hon Hai Precision Industry (2317 TT)
Keyence (6861 JP)
Konica Minolta Holdings (4902 JP)
LG Electronics (066570 KS)
Mediatek (2454 TT)
Nikon (7731 JP)
Samsung Electronics (005930 KS)
Taiwan Semiconductor Mfg. Co. (2330 TT)
Toshiba (6502 JP)

Jones Ku
AAC Technologies (2018 HK)
BYD Electronic (285 HK)
China Communications (552 HK)
Coolpad Group (2369 HK)
Kingsoft (3888 HK)
Sunny Optical (2382 HK)
TCL Communication (2618 HK)
Tongda Group (698 HK)
ZTE (763 HK)

Jean-Louis Lafayeedney
Advanced Semiconductor Engineering (2311 TT)
ASM Pacific Technology (522 HK)
Asustek Computer (2357 TT)
Casetek Holdings (5264 TT)
Largan Precision (3008 TT)
Lenovo (992 HK)
Nidec (6594 JP)
Siliconware Precision Industries (2325 TT)
Skyworth Digital Holdings (751 HK)

Yushi Kawamoto
Cookpad (2193 JP
Monotaro (3064 JP)

Non-Coverage Universe

China Fiber Optic Network System (3777 HK)
ChipMOS Technologies (8150 TT)
DTS (9682 JP)
Eva Precision Industrial Holdings (838 HK)
Ferrotec (6890 JP)
GMO Internet (9449 JP)
Hikari Tsushin (9435 JP)
Internet Initiative Japan (3774 JP)
Itochu Techno-Solutions (4739 JP)
Megachips (6875 JP)
Micro-Star International (2377 TT)
Shindengen Electric Mfg. (6844 JP)
Taiwan Chelic (4555 TT)
Trigiant Group (1300 HK)
Truly International Holdings (732 HK)
Unity Opto Technology (2499 TT)
Yangtze Optical Fibre & Cable (6869 HK)

Pan Asia Autos, Machinery & Industrial

Core Coverage Universe

Ole Hui (Team Leader)
China Communications Construction (1800 HK)
China Railway Construction (1186 HK)
China Railway Group (390 HK)
China Railway Signal & Communication (3969 HK)
China State Construction Engineering (601688 CH)
CRRC (1766 HK)
Dongfeng Motor (489 HK)
Guangzhou Automobile (2238 HK)
Shenzhen International (152 HK)
Zhuzhou CRRC Times Electric (3898 HK)

Tony Moyer
Amada (6113 JP)
Azbil (6845 JP)
Chiyoda (6366 JP)
Daifuku (6383 JP)
Fanuc (6954 JP)
JGC (1963 JP)
Nabtesco (6268 JP)
Tsugami (6101 JP)
Yaskawa Electric (6506 JP)
Yokogawa Electric (6841 JP)

Steve Usher
Brilliance China (1114 HK)
BYD (1211 HK)
Geely Automobile (175 HK)
Great Wall Motor (2333 HK)
Honda Motor (7267 JP)
Hyundai Mobis (012330 KS)
Hyundai Motor (005380 KS)
Kia Motors (000270 KS)
Nissan Motor (7201 JP)
Toyota Motor (7203 JP)
Yamaha Motor (7272 JP)

Gary Cheung
Advantech (2395 TT)
Airtac International Group (1590 TT)
Delta Electronics (2308 TT)
First Tractor (38 HK)
Giant Manufacturing (9921 TT)
Hiwin Technologies (2049 TT)
Merida (9914 TT)
Techtronic Industries (669 HK)
Teco Electric and Machinery (1504 TT)
Weichai Power (2338 HK)

Kosuke Matsuda
Aisin Seiki (7259 JP)
Bridgestrone (5108 JP)
Denso (6902 JP) — Kosuke Matsuda
Fuji Heavy Industries (7270 HK)
Isuzu Motors (7202 JP)
Mazda (7261 JP)
Mitsubishi Motors (7211 JP)
Nexteer (1316 HK)
Suzuki Motor (7269 JP)

Lily Li
Minth (425 HK)

Non-Coverage Universe

BeijingWest Industries International (2339 HK)
Calsonic Kansei (7248 JP)
China Harmony New Energy Auto (3836 HK)
China Yongda Automobiles Services (2558 HK)
DMG Mori (6141 JP)
Eagle Industry (6486 JP)
Frontier Services Group (500 HK)
Kato Works (6390 JP)
Keihin (7251 JP)
Makino Milling Maching (6135 JP)
Mitsui Engineering & Shipbuilding (7003 JP)
Nachi-Fujikoshi (6474 JP)
Nishio Rent All (9699 JP)
Press Kogyo (7246 JP)
Shanghai Prime Machinery (2345 HK)
Takeuchi Mfg. (6432 JP)
TPR (6463 JP)
TS Tech (7313 JP)
West China Cement (2233 HK)
Xingda International Holdings (1899 HK)

Japan Real Estate

Core Coverage Universe

Mark Brown (Team Leader)
Daito Trust Construction (1878 JP)
Daiwa House Industry (1925 JP)
Lixil Group (5938 JP)
Mitsubishi Estate (8802 JP)
Mitsui Fudosan (8801 JP)
Noritz (5943 JP)
Obayashi (1802 JP)
Sekisui House (1928 JP)
Sumitomo Realty & Development (8830 JP)
Taisei (1801 JP)
Tokyo Tatemono (8804 JP)

Non-Coverage Universe

Daibiru (8806 JP)
Daikyo (8840 JP)
Haseko (1808 JP)
Hulic (3003 JP)
Kenedix (4321 JP)
Leopapace21 (8848 JP)
Sanwa Holdings (5929 JP)
Sumitomo Real Estate Sales (8870 JP)

China Real Estate

Core Coverage Universe

Andy So (Team Leader)
Agile Property (3383 HK)
China Overseas Land & Investment (688 HK)
China Resources Land (1109 HK)
China Vanke (2202 HK)
CIFI Holdings Group (884 HK)
Country Garden Holdings (2007 HK)
Dalian Wanda Commercial Properties (3699 HK)
Greentown China Holdings (3900 HK)
Guangzhou R&F Properties (2777 HK)
KWG Property Holding (1813 HK)
Nanjing Gaoke (600064 CH)
Shimao Property Holdings (813 HK)
Longfor Properties (960 HK)

Peter Yang
Greenland Hong Kong Holdings (337 HK)
Shenzhen Investment (604 HK)

Non-Coverage Universe

Times Property Holdings (1233 HK)
Yuzhou Properties (1628 HK)

Haitong International Coverage as of 1 Apr 2016

China Consumer	
Core Coverage Universe	**Non-Coverage Universe**
Nicolas Wang (Team Leader)	China Huiyuan Juice Group (1886 HK)
China Medical System (867 HK)	China LotSynergy Holdings (1371 HK)
China Mengniu Dairy (2319 HK)	China Shineway Pharmaceutical Group (2877 HK)
China Resources Enterprise (291 HK)	Dynam Japan Holdings (6889 HK)
China Traditional Chinese Medicine (570 HK)	Shanghai Fudan-Zhangjiang Bio-Pharm (1349 HK)
CSPC Pharmaceutical Group (1093 HK)	Tenwow International (1219 HK)
Hengan International (1044 HK)	
Kweichouw Moutai (600519 CH)	
Luye Pharma Group (2186 HK)	
Shanghai Pharmaceuticals (2607 HK)	
Sinopharm Group (1099 HK)	
Tingyi Cayman Islands Holding (322 HK)	
Tsingtao Brewery (168 HK)	
Uni-President China (220 HK)	
Want Want China Holdings (151 HK)	
Zhejiang Huahai Pharmaceutical (600521 CH)	
Jessica Hong	
L'Occitane International (973 HK)	
Prada SpA (1913 HK)	
Samsonite International (1910 HK)	
Donald Cheng	
Galaxy Entertainment (27 HK)	
MGM China (2282 HK)	
Sands China (1928 HK)	
SJM Holdings (880 HK)	
Wynn Macau (1128 HK)	

Japan Consumer	
Core Coverage Universe	**Non-Coverage Universe**
James Moon (Team Leader)	Aeon Mall (8905 JP)
Aoyama Trading (8219 JP)	Avex Group Holdings (7860 JP)
Asics (7936 JP)	DCM Holdings (3050 JP)
FamilyMart (8028 JP)	H2O Retailing (8242 JP)
Fast Retailing (9983 JP)	Honeys (2792 JP)
Japan Tobacco (2914 JP)	Parco (8251 JP)
Laox (8202 JP)	
Oriental Land (4661 JP)	
Rakuten (4755 JP)	
Seven & I Holdings (3382 JP)	
Start Today (3092 JP)	
Unicharm (8113 JP)	

Latest Additions to Coverage

Aisin Seiki (7259 JP)—Kosuke Matsuda
China State Construction Engineering (601688 CH)—Ole Hui
China Vanke (2202 HK)—Andy So
Cookpad (2193 JP)—Yushi Kawamoto
Dexter (206560 KS)—Justin Kim
Fuyo General Lease (8424 JP)—Tony Tanaka
Monotaro (3064 JP)—Yushi Kawamoto
Travelsky Technology (696 HK)—Yuanyuan Ji
Virscend Education (1565 HK)—Yuanyuan Ji
Yonwoo (115960 KS)—Jaesong Woo

Latest Drops from Coverage

Century Sage Scientific Holdings (1450 HK)

Latest Transfers of Coverage

Glory 6457 JP from Sam Thawley to Tony Tanaka

Asia ex Small Cap	
Core Coverage Universe	**Non-Coverage Universe**
Yuanyuan Ji (Team Leader)	Bonjour Holdings (653 HK)
Best Pacific International (2111 HK)	C.banner International Holdings (1028 HK)
China Aircraft Leasing Group (1848 HK)	China Maple Leaf Educational Sys. (1317 HK)
Pacific Textiles Holdings (1382 HK)	Cuchen (225650 KS)
Pax Global Technology (327 HK)	Goldpac Group (3315 HK)
Sa Sa International Holdings (178 HK)	Hotel Shilla (008770 KS)
Shanghai Fudan Microelectronics (1385 HK)	Maoye International Holdings (848 HK)
Shenzhou International Group (2313 HK)	Modetour Network (080160 KS)
SITC International Holdings (1308 HK)	Orange Sky Golden Harvest (1132 HK)
TAL Education Group (XRS US)	Orbitech (046120 KS)
Travelsky Technology (696 HK)	
Virscend Education (1565 HK)	
Wasion Group Holdings (3393 HK)	Pou Sheng International Holdings (3813 HK)
Walden Shing	PS TEC (002230 KS)
APT Satellite (1045 HK)	Samchuly Bicycle (024950 KS)
Fu Shou Yuan International (1448 HK)	Sinosoft Technology Group (1297 HK)
Man Wah Holdings (1999 HK)	Texhong Textile Group (2678 HK)
Vitasoy International Holdings (345 HK)	TK Grouup Holdings (2283 HK)
Xinyi Glass Holdings (868 HK)	Tsui Wah Holdings (1314 HK)
Justin Kim	Value Added Technologies (043150 KS)
Aerospace Technology of Korea (067390 KS)	VST Holdings (856 HK)
Cuckoo Electronics (192400 KS)	Xia Nan Guo Restaurants Holdings (3666 HK)
Dexter (206560 KS)	
Duzonbizon (012510 KS) — Justin Kim	
Fila Korea (081660 KS)	
Kepco Plant Service (051600 KS)	
Vieworks (100120 KS)	
Jaesong Woo	
Hansae (105630 KS)	
Hy-Lok (013030 KS)	
Inbody 041830 KS)	
Korea Kolmar (161890 KS)	
Osstem Implant (048260 KS)	
Yonwoo (115960 KS)	
Youngone (111770 KS)	
Jessica Ye	
Anta Sports Products (2020 HK)	
Li Ning (2331 HK)	

Japan Small Cap	
Core Coverage Universe	**Non-Coverage Universe**
Hiroyuki Terada (Team Leader)	Autobacs Seven (9832 JP)
Accordia Golf (2131 JP)	China Financial International Invest. (721 HK)
Accretive (8423 JP)	Fancl (4921 JP)
Dentsu (4324 JP)	HIS (9603 JP
Gulliver International (7599 JP)	Istyle (3660 JP)
Kameda Seika (2220 JP)	Luzheng Futures (1461 HK)
Mandom (4917 JP)	Meitec (9744 JP)
Pigeon (7956 JP)	Nichii Gakkan (9792 JP)
Pola Orbis (4927 JP)	Tohokushinsha Film (2329 JP)
Recruit Holdings (6098 JP)	VT Holdings (7593 JP)
Sanrio (8136 JP)	
Shiseido (4911 JP)	
Sohgo Security Services (2331 JP)	
Technopro Holdings (6028 JP)	
Yamato Holdings (9064 JP)	
Yumeshin Holdings (2362 JP)	
Yusuke Suzuki	
Ain Pharmaciez (9627 JP)	
Doutor Nichires Holdings (3087 JP)	
FP (7947 JP)	
Nihon Nohyaku (4997 JP)	
Nihon Parkerizing (4095 JP)	
Optex (6914 JP)	
Sky Perfect JSAT Holdings (9412 JP)	
Sun Frontier Fudousan (8934 JP)	
Takara Leben (8897 JP)	
Tosei (8923 JP)	
Wowow (4839 JP)	
Tony Tanaka	
China Galaxy Securities (6881 HK)	
Digital Garage (4819 JP)	
Fuyo General Lease (8424 JP)	
GCA Savvian (2174 JP)	
GF Securities (1776 HK)	
Glory (6457 JP)	
GMO Payment Gateway (3769 JP)	
Hong Kong Exchanges and Clearing (388 HK)	
Huatai Securities (6886 HK)	
Nihon M&A Center (2127 JP)	
Zenkoku Hosho (7164 JP)	