

Target Price ¥2,800
 Current Price ¥2,434
 % Upside 15%

Anicom Holdings (8715 JP)

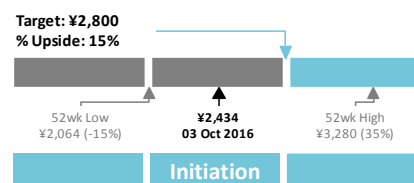
Pet Insurance Petty No More

Diversified Financials

Japan

03 Oct 2016

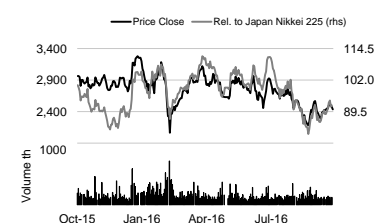
BUY



Basic Share Information

Market cap	¥43.66b / US\$0.43b
Daily volume (3mth)	US\$3.53m
Shares outstanding	17.93m
Free float	50%
Net debt-to-equity	-171.0%
1 yr high	¥3,280
1 yr low	¥2,064
Foreign shareholding	22%
Last HTI contact w/ Co	30 Sep 16

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	1.5%	-16.4%	-15.4%
Absolute USD	2.5%	-15.2%	0.4%
Relative to NKY	4.3%	-21.3%	-8.2%



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A Niche Field Where Insurance Penetration Is Still Low

Summary: We initiate coverage of Anicom with a BUY rating because we expect its dominant position in the Japanese pet insurance (PI) market to result in double-digit OP growth until FY3/21. While PI is a niche market, the penetration rate has risen steadily to 5%, and we expect it to rise above 8% in 2020. We see Anicom as the most competitive player in the market because of its well-established veterinarian base, large policy distribution network, and vast underwriting data. While the number of households and the dog ownership rate have been falling in recent years, we estimate the marginal PI penetration rate reached 8.2% in 2015 and we expect it to reach 10.0% by 2019, which should gradually bring the penetration rate from 5% to 10% by around 2024–25, doubling the size of the 2015 premium pool. Because of the straightforward nature of PI (one-year rolling, health coverage only) and our forecast of an improving combined ratio towards 90%, we think Anicom's story is a simple one, centered primarily on the rising penetration rate and its continued dominant market share.

Target Price and Catalyst: We set our target price at ¥2,800. Key catalysts include rapidly rising policy numbers, Anicom sustaining its 60% market share, the loss ratio outperforming the 60% guidance, and a dividend payout ratio of 15%. A low-probability hard catalyst could be Sony Financial (8729 JP) raising its stake to more than 20%.

Earnings: For FY3/17, management guides net premiums written (NPW) of ¥28.7bn and OP of ¥2.6bn, compared with our estimates of ¥28.5bn and ¥2.6bn. We forecast FY3/17 total income of ¥28.2bn, comprising net premiums earned (NPE) of ¥27.2bn and investment and other income of ¥1.0bn. We expect a loss ratio of 60%, an expense ratio of 32%, and OPM of 9.3%. Our key assumptions for FY3/17 include a marginal PI penetration rate of 8.5%, market share of 59%, persistency of 88%, and average policy premium of ¥45,461.

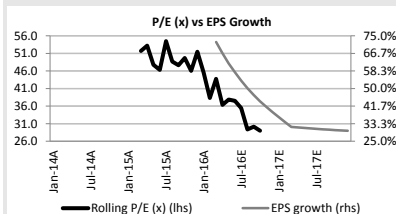
Valuation: Our target price of ¥2,800 is based on discounted cash flow (DCF), where we apply a five-year explicit projection, a four-year growth rate of 7.0%, a terminal growth rate of 1.5%, and cost of capital of 8.0%. Our target price implies a PER of 30x our estimated FY3/17 EPS of ¥93 and a PBR of 4.1x our estimated FY3/17 BPS of ¥679. We expect a NPAT CAGR of 20% over FY3/17–21, implying a PEG of 1.50x. The main risks to our rating and target price attainment include Anicom losing market share, the PI penetration rate failing to increase, the number of pets declining faster than we expect, and ipet Insurance (unlisted) listing its shares to dilute Anicom's rarity value.

	Mar-15A	Mar-16A	Mar-17E	Mar-18E	Mar-19E	Trend
Total turnover (¥m)	21,116	25,202	28,214	31,673	35,385	— — — — —
Operating profit (¥m)	1,154	1,994	2,632	3,186	3,608	— — — — —
Pre-tax profit (¥m)	1,136	1,938	2,456	3,186	3,608	— — — — —
Net income to ord equity (¥m)	733	1,264	1,670	2,167	2,453	— — — — —
Adjusted net profit (¥m)	733	1,264	1,670	2,167	2,453	— — — — —
Net profit growth	87.0%	72.5%	32.1%	29.7%	13.2%	■ — — — —
P/E (x)	59.26	34.44	26.14	20.15	17.79	■ — — — —
Adj EV/EBITDA (x)	18.26	10.71	7.21	5.12	3.60	■ — — — —
P/B (x)	4.68	4.10	3.60	3.13	2.72	■ — — — —
ROE		12.7%	14.7%	16.6%	16.4%	— — ■ — —
Dividend yield	0.0%	0.2%	0.5%	0.7%	0.8%	— — — — ■
EPS HTI New (¥)	41.1	70.7	93.1	120.8	136.8	— — — — ■
Consensus EPS (¥)	51.7	82.8	103.9	126.4	152.0	— — — — ■
HTI EPS vs Consensus	(20.6%)	(14.6%)	(10.4%)	(4.4%)	(10.0%)	■ — — — —

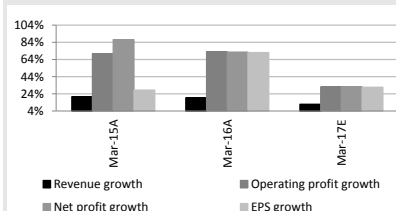
Source: Company data, Bloomberg, HTI estimates

Click [here](#) to download the working model

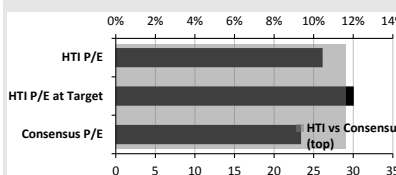
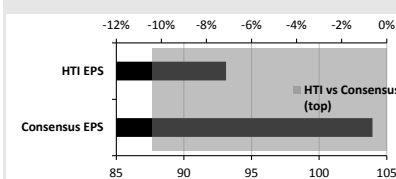
Valuation



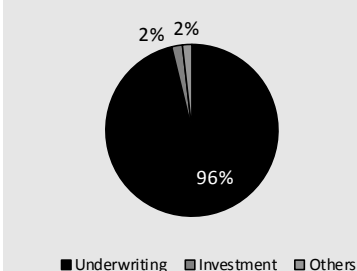
Earnings Trends



Earnings: HTI vs Consensus



FY3/16 Operating Income Breakdown



Investment Thesis

BUY

► Anicom is a pioneer in the pet insurance market in Japan, with a market share of about 60%. We think this leading position is sustainable despite increasing competition because of its established networks of about 6,000 veterinarians and 7,000 policy distributors across Japan. We think Anicom's first-mover advantage in building the vast veterinarian network represents an important differentiating factor and serves as a strong barrier to entry.

► We estimate the marginal penetration of PI rose to 8.2% in 2015 from 5.0% in 2009. As PI becomes more common in Japan, we expect the marginal penetration rate to reach 10% in four years, bringing the PI penetration rate to 8.3% by 2020 and to 10.0% by 2024–25.

► Despite most PI policies being rolled over each year, we think Anicom has established an attractive stock-based business model, considering its policy persistency of 88%.

► Compared to the long-term nature of life insurance that gives rise to myriad provisions and complicates earnings estimation as well as the bumpy nature and saturated market of nonlife insurance, pet insurance is stable, simple, and growing given its large number of low-value losses, short-term coverage, and low penetration rate.

► Anicom's loss ratio has steadily improved from 67.5% in FY3/13 to 60.1% in FY3/16, bringing the combined ratio to 93.7% in FY3/16. As its insured portfolio shifts towards newborn pets and as its business scales, we expect its loss ratio and combined ratio to improve towards 58.5% and 90.0%, respectively.

► As retained earnings have turned positive, Anicom started paying dividends in FY3/16 at a ratio of 7%. We forecast the payout ratio to rise in the next few years.

Company Snapshot

Founded in 2000 as a mutual, and becoming a registered insurer in 2007, Anicom is a pioneer and leader in Japan's pet insurance market, with an estimated market share of 60% in FY3/16. Due to its long operating history and strong underwriting experience, Anicom has accumulated a large set of dog and cat health data for premium pricing, which we think is mostly unavailable to its competitors. Through its wholly-owned subsidiary Anicom Pafe, Anicom provides veterinarians with accounting and clinical record software, streamlining their operations and linking them to Anicom's electronic claim settlement system. Anicom policies are primarily distributed through pet shops and other agencies, such as insurance agents and banks. As of FY3/16, Anicom had 585,962 policies outstanding, with dogs and cats accounting for 86% and 13% of the total.

Key Investment Metrics

Revenue Growth

Low Medium High

We expect NPE growth to slightly moderate from 15–20% in the past three years to 12% over our projection period. We expect Anicom to have 627,288 policyholders in FY3/17 at an average premium of ¥45,461, resulting in NPW of ¥28,517mn and NPE of ¥27,198mn.

Profit Margins

Low Medium High

While we forecast NPE growth to moderate, we expect the combined ratio to fall because of the increased proportion of newborns and non-recurring headquarter-relocation costs in FY3/16. We estimate a loss ratio of 60%, an expense ratio of 32%, and OPM of 9.3% in FY3/17.

Shareholder Returns

Low Medium High

Anicom only started paying dividends in FY3/16. We think there is potential to steadily raise the dividend payout ratio towards 15–20%. We expect ROA and ROE to improve to 6% and 15%, respectively, in FY3/17.

Balance Sheet Risks

High Medium Low

With a solvency margin ratio of 283% (unconsolidated) in FY3/16, we think Anicom is well-capitalized against potential losses from its large portfolio of particular risks. The lack of interest-bearing debts and small size of stock options result in minimal financing and dilution risks, in our view.

Barriers to Entry

Low Medium High

We estimate there are 13–14 pet insurance providers in Japan, most of which are registered as ‘small-amount and short-term insurers’, with the exception of Anicom, ipet Insurance (unlisted), AXA (CS FP), and au Insurance (unlisted). While the capital and licensing requirements to underwrite PI are not significant, the sourcing of generally low-risk newborn coverage and establishment of a user-friendly claim settlement system pose material entry barriers, in our view.

International Exposure/Breakdown

High Medium Low

Anicom does not engage in any businesses outside of Japan.

FX Exposure

High Medium Low

Anicom has no FX exposure as its businesses are conducted within Japan and its investments are all denominated in JPY.

Corporate Governance

Low Medium High

There are no controlling shareholders. Major shareholders include Mr. Komori, founder and CEO, and Sony Financial. We find Anicom’s governance to be satisfactory.

Our Model Assumptions

We estimate the number of policies by summing annually renewed policies using 88% persistency, new policies covering newborns, and other new policies

We assume claims paid to be 55.5% of NPE

Technical provision is netted by contribution at 3.2% of NPW and reversal of gross loss ratio above 50% (capped at last year's provision balance)

We estimate policy acquisition cost, which is expensed under Japan GAAP, using 15% and 5% commission rates for new policies and renewed policies, respectively

Anicom's formation costs were capitalized over 2008–12 and amortized over 2012–15, according to the Insurance Law Rule No.113

✓ Key P/L Takeaway

We expect the number of households and dog ownership to decline in Japan, but pet insurance penetration to rise, leading to expanding double-digit NPW growth for Anicom over our projection period

Profit & Loss (¥mn)	3/2015A	3/2016A	3/2017E	3/2018E	3/2019E
Gross premiums written	21,733	25,370	28,517	31,773	35,548
Premiums ceded	0	0	0	0	0
Net premiums written	21,733	25,370	28,517	31,773	35,548
Increase in unearned premiums	1,499	1,121	1,320	1,237	1,435
Net premium earned	20,234	24,249	27,198	30,536	34,114
Net investment income	500	507	525	597	678
Other operating income	382	446	491	540	594
Total income	21,116	25,202	28,214	31,673	35,385
Net claims	12,149	13,547	15,095	16,856	18,728
Investigation expense	741	895	981	1,096	1,217
Claim provision	144	122	226	253	281
Technical provision	116	116	100	104	183
Total underwriting expense	13,150	14,680	16,402	18,308	20,410
Salary	2,251	2,760	3,137	3,495	3,910
Policy acquisition	1,269	1,590	1,784	2,006	2,303
Capitalised business formation cost	484	0	0	0	0
Depreciation	166	367	410	419	427
Others	2,642	3,811	3,850	4,258	4,728
Total operating expense	6,812	8,528	9,180	10,178	11,368
Total expenses	19,962	23,208	25,582	28,487	31,778
Operating profit	1,154	1,994	2,632	3,186	3,608
Non-operating profit and loss	-18	-56	-176	0	0
Income before tax	1,136	1,938	2,456	3,186	3,608
Income taxes	403	674	786	1,020	1,155
Net income	733	1,264	1,670	2,167	2,453

Source: Company, HTI estimates

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We expect the number of households to start decreasing from 2016, which, coupled with steadily falling pet ownership, should result in a shrinking market for pet-related businesses. However, we think pet insurance penetration is likely to rise, resulting in an 'oasis' within the shrinking pet-related market, primarily due to successful commercialization and increasing customer awareness in recent years. We expect Anicom to remain the market leader, with steadily rising policy numbers and average premiums (due to increasing covered-pet ages). On the cost side, we expect the loss ratio and combined ratio to slightly improve to 59% and 91%, respectively. Therefore, we see NPW growth to be the most important earnings driver over our projection period.

Our Model Assumptions

We think the rising cash balance should give room for a dividend payout ratio hike

We expect no significant tangible capex after the headquarters relocation in FY3/16

We expect the investment portfolio to focus on low-risk fixed income assets, resulting in little increase in price fluctuation provisions

Balance Sheet (¥mn)	3/2015A	3/2016A	3/2017E	3/2018E	3/2019E
Cash and cash equivalents	4,217	7,556	10,422	13,089	15,996
Short-term investments	15,108	10,739	11,291	12,096	13,140
Receivables	1,309	2,273	2,107	2,419	2,708
Other current assets	884	2,440	2,507	2,573	2,650
Total current assets	21,518	23,008	26,327	30,178	34,493
Net tangible assets	250	1,527	1,498	1,473	1,452
Net intangible assets	566	653	722	778	822
Total noncurrent Assets	816	2,180	2,220	2,251	2,275
Total assets	22,334	25,188	28,547	32,429	36,768
Payables	1,308	1,184	1,292	1,563	1,713
Unearned premiums	8,396	9,517	10,837	12,074	13,508
Claim provision	1,435	1,558	1,784	2,037	2,318
Technical provision	696	813	913	1,017	1,200
Fluctuation provision	22	32	34	36	39
Other liabilities	1,206	1,386	1,520	1,693	1,895
Total liabilities	13,063	14,490	16,379	18,420	20,673
Common Stock	4,350	4,396	4,396	4,396	4,396
Capital surplus	4,240	4,286	4,286	4,286	4,286
Retained earnings	681	2,080	3,550	5,391	7,477
Others	-1	-63	-63	-63	-63
Shareholders' equity	9,270	10,699	12,169	14,010	16,096
Total Liabilities & shareholders' equity	22,333	25,189	28,548	32,430	36,769

Source: Company, HTI estimates

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Key B/S Takeaway

We think Anicom's balance sheet is strong and simple, with a majority of provisions tied to unearned premiums to be earned over the next fiscal year

Anicom's unconsolidated solvency margin ratio has fluctuated between 280–300% in the past four years, which we think represents a very strong capital buffer against the diversified nature of the particular risks it insures. The unearned premium reserve and claim reserve are generally realized in one or two fiscal years, and are sufficient to absorb 'well-behaved' losses, so technical provision requirements are small. We find Anicom's balance sheet to be the easiest to understand of all listed insurers in Japan.

Our Model Assumptions

At current PER and PBR levels, we think the EPS growth and BPS accretion over the next three to four years are largely priced in, but key to our BUY rating is the level of growth beyond our projection period

Per Share Data	Mar-15A	Mar-16A	Mar-17E	Mar-18E	Mar-19E
EPS (¥)	41.1	70.7	93.1	120.8	136.8
FDEPS (¥)	41.0	70.7	93.1	120.8	136.8
Revenue per share (¥)	1,184	1,409	1,573	1,766	1,973
Operating EBITDA per share (¥)	74.0	132.0	169.6	201.1	225.0
BVPS (¥)	519.6	593.3	675.2	777.9	894.2
DPS (¥)	-	5.00	11.17	18.12	20.52
Recurrent cash flow per share (¥)	225.4	12.4	240.2	243.4	269.6
Shares in issue (million)	17.84	17.93	17.93	17.93	17.93
Year end adjusted shares in issue (m)	17.84	17.93	17.93	17.93	17.93
Key Ratios	Mar-15A	Mar-16A	Mar-17E	Mar-18E	Mar-19E
Valuation Measures					
P/Sales (x)	2.06	1.73	1.55	1.38	1.23
P/E (x)	59.26	34.44	26.14	20.15	17.79
P/CF (x)	10.8	196.0	10.1	10.0	9.0
P/B (x)	4.68	4.10	3.60	3.13	2.72
Adj EV/EBITDA (x)	18.26	10.71	7.21	5.12	3.60
Dividend yield	0.0%	0.2%	0.5%	0.7%	0.8%
Growth					
Revenue growth	20.6%	19.4%	11.9%	12.3%	11.7%
Operating profit growth	70.7%	72.8%	32.0%	21.1%	13.2%
Net profit growth	87.0%	72.5%	32.1%	29.7%	13.2%
Margins					
Gross margin	37.7%	41.8%	41.9%	42.2%	42.3%
Operating EBITDA margin	6.3%	9.4%	10.8%	11.4%	11.4%
Operating margin	5.5%	7.9%	9.3%	10.1%	10.2%
Pretax profit margin	5.4%	7.7%	8.7%	10.1%	10.2%
Tax rate	35.5%	34.8%	32.0%	32.0%	32.0%
Net profit margin	3.5%	5.0%	5.9%	6.8%	6.9%
Key Ratios					
ROE		12.7%	14.7%	16.6%	16.4%
ROA		5.3%	6.2%	7.1%	7.1%
Capex/revenue	1.7%	6.8%	1.6%	1.4%	1.3%
Current ratio (x)	1.62	1.52	1.54	1.58	1.61
Creditor days	21.57	21.32	20.01	20.99	20.31
Debtor days	22.40	32.78	27.06	27.68	27.73
Sales/avg assets		1.06	1.05	1.04	1.02
Credit analysis					
Net debt to equity	(208.5%)	(171.0%)	(178.4%)	(179.8%)	(181.0%)

Source: Company, HTI estimates

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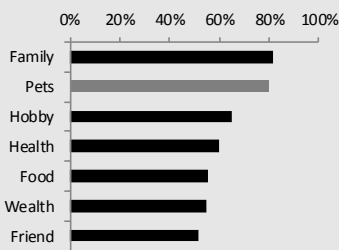

Key Driver Takeaway

We estimate Anicom's PEG to be about 1.5x, not particularly cheap based on its gradual rather than explosive growth nature, so we think investors should take a long-term view of about 10 years

While we do not expect Japan to achieve a PI penetration rate of 20%, similar to that of England, we see a 10% static penetration rate as likely by 2024–25, considering the rising marginal penetration rate (8.2% in 2015) and relatively short average lives of dogs and cats (about 12–14 years). Therefore, we recommend investors focus on the annual marginal rate instead of the static rate in projecting the potential addressable market size for Anicom.

While life insurance penetration is approximately 90% in Japan, and has been on a downtrend, we think PI penetration still has ample room to rise until it reaches 10%

Source of Life Happiness Survey



Source: Japan Pet Food Association

Pets are treated as “properties” under Japanese Insurance Law, so PI policies are treated as nonlife policies

Due to potential moral hazards and lack of economic rationale, PI does not insure against mortality

We see car insurance as the closest comparable to PI due to the nature and quantity of risks insured

PI claims, including third-party liability, are settled shortly, with no long-tail and IBNR risks

Company Outline and Operational Review

While Japan’s life and nonlife insurance penetration rates are some of the highest in the world, pet insurance (PI) penetration rate is only about 5.0% based on our estimate. Using disclosed financial data of PI providers, we calculate the PI premium pool to be ¥42.3bn in FY3/16, which is minuscule compared with the life insurance premium pool of about ¥40trn, but has grown impressively at a CAGR of 20% in FY3/13–16.

There are currently 13–14 PI providers in Japan, but Anicom and ipet together control about 80% of the premium pool, effectively making it a duopolistic market. Due to its large scale, comprehensive veterinarian network, and established policy-acquisition channel, we believe Anicom should remain the industry leader and offer investors the best exposure to this unique growth pocket in Japan’s largely stagnant insurance market.

Company Overview—From Nothing to Something

Although Sony Financial is a major shareholder, Anicom is an independent company, specializing in pet insurance underwriting and its related businesses, such as accounting software development for veterinarians and animal medical research. Anicom was founded in 2000 as a ‘Kyosai’, i.e., an unlicensed mutual company, by Mr. Komori, who previously worked in Tokio Marine (8766 JP). Anicom restructured and became a licensed property insurer in 2008 as the Insurance Law was revised to prohibit unlicensed ‘Kyosai’ from publicly soliciting underwriting.

The PI market grew from almost 0% penetration in 2000 to approximately 4.9% by 2015, since Anicom introduced the product in Japan. Because of its industry pioneer status, Anicom has developed relationships with about 6,000 veterinarians across Japan, about 53% of total, and has accumulated valuable in-house data on animal health, which is scarce compared with human health data. Anicom’s main subsidiaries are Anicom Pafe, which develops software for veterinarians, and Anicom Specialty Medical Institute, which performs fundamental animal medical research.

Product Overview—Simple Risks Leading to a Simple Company

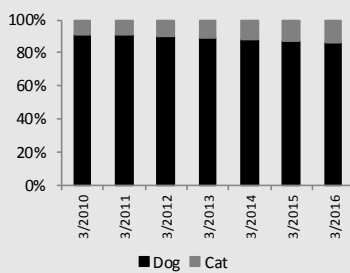
Compared with the national health insurance system, where coverage is mandatory and medical charges regulated, pet owners are responsible for 100% of the widely varied veterinarian costs. Pet insurance is discretionary and premiums paid wholly out-of-pocket (no tax deduction). Therefore, compared to life insurance, PI purchase is led more by commercial and emotional reasons than regulatory and tax incentives. Due to the successful commercialization of PI, the pet ‘family-ization’ trend, and increasing awareness of high veterinarian costs, PI penetration has been steadily on the rise.

PI policies are designed as simple health insurance that partially reimburses medical costs, with neither lump-sum cash payouts nor investment features, as are typical in life insurance. Key plan parameters include reimbursement rates, reimbursement caps, and third-party liability coverage. Reimbursement rates simply refer to the percentage of medical costs covered by the insurer and are generally between 50% and 70%. Reimbursement caps are the maximum number of days or medical cost amount covered within a certain period, such as a year. Third-party liability covers monetary obligations arising from damage caused by the pets. Pets eligible for PI typically include dogs, cats, and rabbits, under a certain age (usually seven to eight years old).

Coverage lasts one year and is renewed annually with the premium re-set (generally at a higher rate). Due to the short-term nature and straightforward design, premiums written are all earned in two years, so unearned premium reserves tend to be small. Also, PI losses are small with little variance and correlation, so loss ratios tend to be well-contained and losses sufficiently covered by premium amortization, resulting in little technical provisions. Therefore, Anicom’s accounting is straightforward, involving little earnings uncertainty, long-term provisions, and actuarial assumptions.

Compared to the large number of plans for medical insurance and life insurance, Anicom's PI policies are few and easy to understand

Anicom Portfolio Split



Source: Company data

Anicom Policies

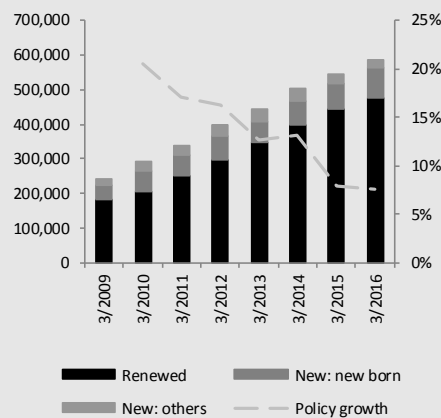
	Family 50% Plan	Family 70% Plan
Reimbursement rate	50%	70%
Caps for general treatment	¥10,000 per day and 20 days per year	¥14,000 per day and 20 days per year
Caps for surgery	¥100,000 per surgery and twice per year	¥140,000 per day and two days per year
Third-party liability	Optional	Optional

Source: Company data

Portfolio Overview—Nothing Exotic

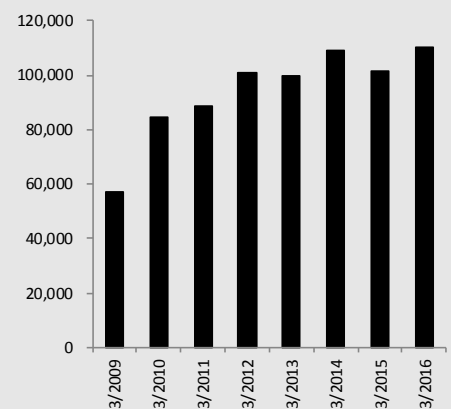
As of FY3/16, Anicom had underwritten 585,962 PI policies, significantly more than the approximately 250,000 underwritten by ipet. Dogs form the vast majority of coverage, typically accounting for 85–90% of Anicom's policies. To control underwriting risks caused by adverse selection, insurers generally prefer newborn pets acquired through distributors such as pet stores. Anicom's number of newborn policies has risen from 39,803 in FY3/09 to 86,955 in FY3/16, and are the key driver for total policy growth. On the other hand, the number of non-newborn policies peaked at 38,000 in FY3/13, from 17,089 in FY3/09, but reached 23,138 in FY3/16, as Anicom raised its underwriting standards to improve portfolio quality.

Anicom Total Policy Trend



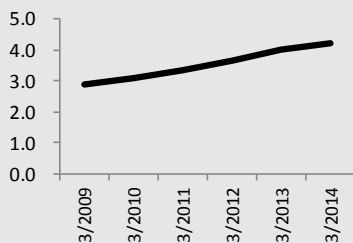
Source: Company data

Anicom New Policy Trend



Source: Company data

Anicom's Average Insured Dog Age



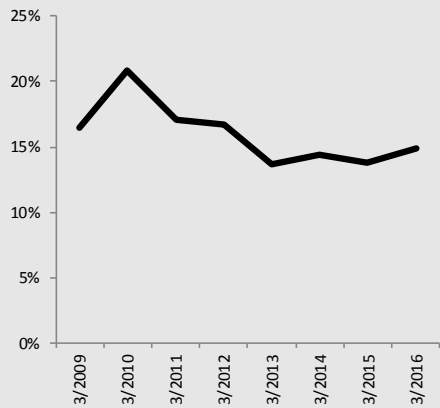
Source: Company data

Anicom's persistency of 85–90% and its growing new policy numbers imply a steadily growing PI portfolio. As long as the PI marginal penetration rate increases and Anicom maintains a stable market share, flows of new policies should outnumber the 10–15% annual outflows of existing policies. As Anicom's portfolio expands, the average dog age should continue to rise towards seven or eight, considering the life expectancy of 14–16 years. As the portfolio age increases, policy persistency should start declining to 80–85%, which should offset the rising marginal penetration rate on portfolio growth. We estimate Anicom's average dog age reaches seven to eight years in 10–12 years' time, which, together with our expected stabilization of PI penetration rate and declining population around that time, imply that Anicom's portfolio growth should moderate around 2027. In our valuation model, we apply double-digit NPAT growth for FY3/17–21, 7% growth for FY3/22–25, and 1.5% growth thereafter to reflect our view of the growth trajectory.

A Family 70% Plan policyholder would pay 30% at the veterinarian and Anicom later settle the outstanding 70%

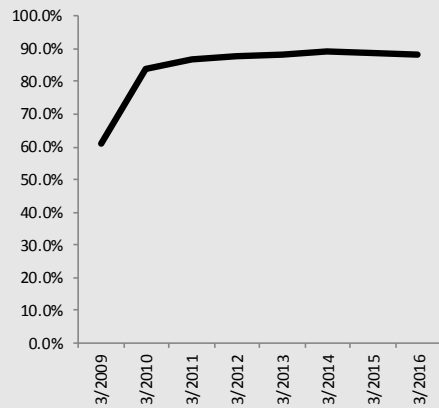
Most veterinarians use some accounting software that electronically captures the billing data and automatically sends the invoice to the insurer

Newborns as a Percentage of Total Policies



Source: Company data

Persistence



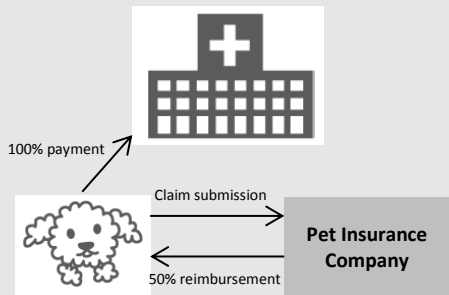
Source: Company data

Anicom’s Comprehensive Veterinarian Network—Competitive Factor No.1

We think the key competitive strength of Anicom lies in its large veterinarian network. Due to the lack of government involvement in the animal health market, veterinarian costs are set based on private market forces and vary from one veterinarian to another. Also, without a centralized payment system similar to national health insurance, PI policyholders would have to pay 100% costs initially and submit a reimbursement claim (50–70%) subsequently. Considering the low average veterinarian cost of ¥10,000–20,000 and documents involved in submitting a claim, we think it fair to say that an average policyholder would find filing a typical claim cumbersome.

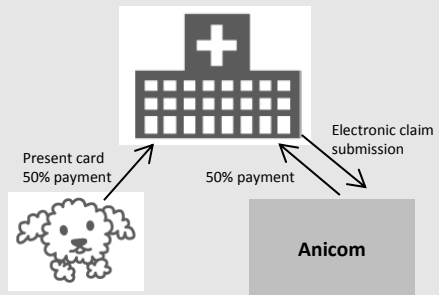
On the other hand, Anicom’s policyholders are free from the claim filing process as they only have to settle their responsible percentage of the cost at the veterinarian, as long as that is within Anicom’s network. By presenting the Anicom health card at a partnering veterinarian, a policyholder does not need to pay the total cost upfront, as Anicom settles the reimbursement proportion directly with the veterinarian at the end. In effect, this results in a settlement system similar to that of national health insurance from the policyholder’s view, simplifying the settlement process and increasing convenience. Approximately 85% of all claims are settled this way.

Self-Claim Settlement



Source: HTI

Automatic-Claim Settlement



Source: HTI

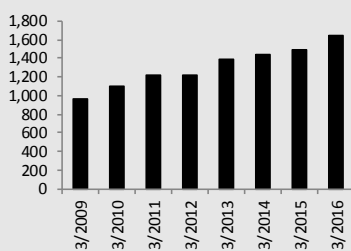
ipet has about 3,670 partnering veterinarians

Similar to Visa and Mastercard in the credit card market, we think Anicom and ipet already dominate the automatic claim settlement market and there is little reason for veterinarians to look to further insurers

General distribution agents include insurance agents, car dealers, and banks

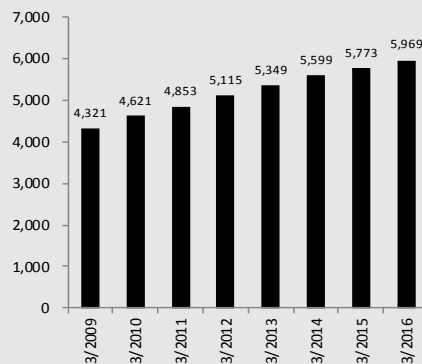
ipet has about the same number of pet shop distributors as Anicom

Anicom Pet Store Distributor Trend



Source: Company data

Veterinarian Network



Source: Company data

Animal Health Card

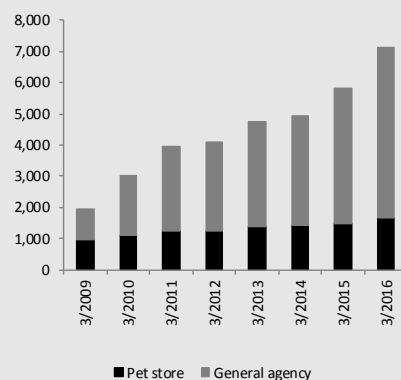
Source: Anicom

While other insurers attempt to establish similar automatic claim settlement systems, only Anicom and ipet have managed to develop a sizeable partnering network. Because Anicom and ipet already cover the large majority of veterinarians, together with the fact that these two insurers command about 80% of policyholders, we see very little incentive for veterinarians to look to additional insurers. While some accounting software can connect to multiple insurers' systems, accepting different insurance policies requires different input parameters and creates various cash settlement cycles, complicating the settlement process at minimum marginal benefit. Moreover, Anicom Pafe develops and provides a widely-used software called Anirece, which includes reservation, patient record, and accounting functions. Anicom's top policyholder base, its veterinarian network, and the popularity of Anirece have together created a virtuous feedback loop that reinforces Anicom's leadership, in our view.

Anicom's Large Policy Distributor Network—Competitive Factor No.2

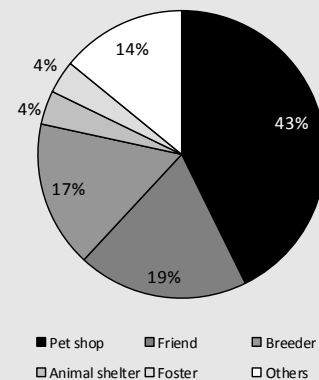
The main distribution channels are pet shops, general agents, and the internet. Because newborn pets are generally of better underwriting risk, the sources where people tend to obtain their pets represent the most attractive distribution channels. As a result, pet stores are the most critical channel as far as new underwriting is sourced. The majority of newborn coverage is through its pet store channel. The company mentioned that policies sourced from its direct channel tend to result in a higher loss ratio, such that a strong pet store distributorship not only offers stable underwriting flows, but also represents a key to underwriting risk management. Anicom pays a commission to pet stores for policy referrals.

Anicom Distributor Trend



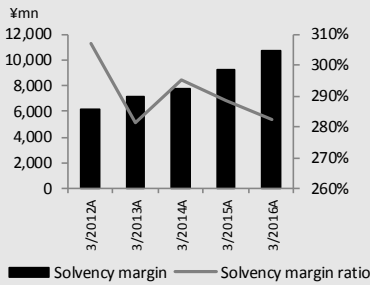
Source: Company data

Where Owners Obtain Their Dogs



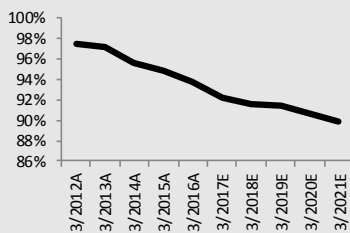
Source: Japan Pet Food Association

Solvency Margin Trend



Source: Company data

Anicom Combined Ratio

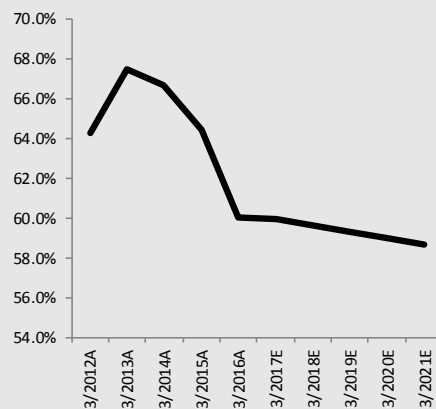


Source: Company data, HTI estimates

Combined Ratio Should Stabilize around 90%

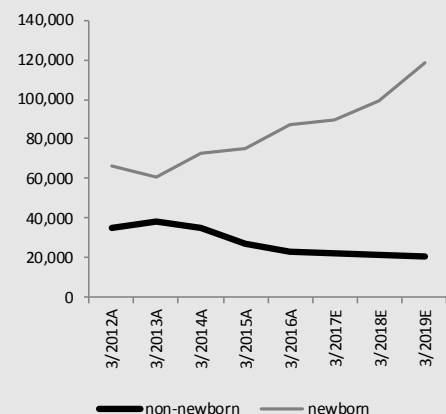
Compared to the loss ratios of 60–70% of major Japanese nonlife insurers, Anicom's loss ratio does not seem to be particularly low. However, while those of nonlife insurers fluctuate without a clear trend, Anicom's loss ratio has been steadily declining in recent years, from 67.5% in FY3/13 to 60.1% in FY3/16. We attribute this favorable trend to the company shifting its focus from the quantity to the quality of new policy flows, which resulted in non-newborn policies declining from 38,000 in FY3/13 to 23,138 in FY3/16, while newborn policies rose at a CAGR of 12% over the period. Anicom targets a medium-term loss ratio of 60%, which we see as conservative considering its improving quality of new policy flows and that ipet has a loss ratio of about 40%. While we expect the loss ratio to improve to 58.6% by FY3/21, we think there remains a high likelihood of surprise on the upside as the number of newborn policies continues to outperform that of non-newborns.

Anicom Loss Ratio



Source: Company data, HTI estimates

Anicom New Policy Split



Source: Company data, HTI estimates

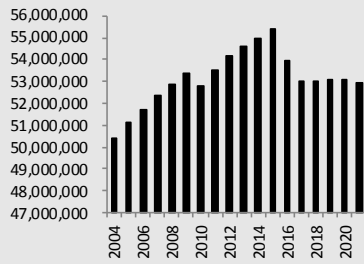
The expense ratio rose to 33.7% in FY3/16, primarily due to headquarter-relocation expenses and increased spending on R&D. While the rental expense should increase permanently, we expect increasing scale to result in the expense ratio gradually dropping towards 31%. Therefore, we expect the combined ratio to gradually improve to 90% by FY3/20–21 from 93.7% in FY3/16.

Pet Insurance Market Outlook—10% Penetration Should Be Achievable

Because the number of households and the pet ownership rate have peaked and are on a decline, we expect the number of pets to trend down, shrinking the potential market size of pet insurance. As a result, penetration rate must increase for the PI premium pool to expand. According to Datamonitor, the PI penetration rate in the UK is 20–25%. We think the level of penetration primarily depends on the degree of commercialization and pet owner awareness of such products. While we remain doubtful that Japan would ever achieve a penetration level similar to that of the UK, we think PI has successfully been commercialized in Japan and awareness of PI has been steadily increasing due to word-of-mouth and marketing initiatives. With almost all major pet store chains (financially) incentivized to distribute PI and pet owners becoming aware of the potentially high medical costs, we believe the marginal penetration rate is likely to rise to 10% by 2020, which should bring the penetration rate gradually up to 10%. Considering that about 60% of newborn pets are obtained from pet stores and breeders, a 10% marginal penetration rate should be achievable if only about 20% of those pet buyers opt to purchase PI.

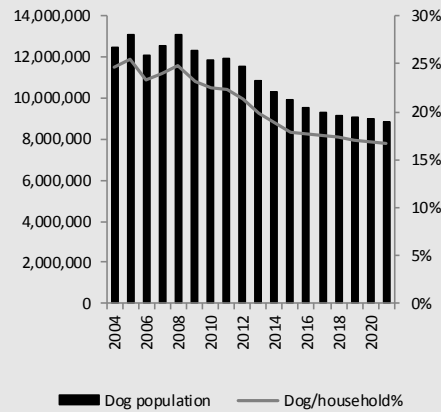
Subsequent purchase of PI tends to be difficult and expensive, so policyholders tend to buy at the source of pet purchase, especially pet stores

Japan Household Trend



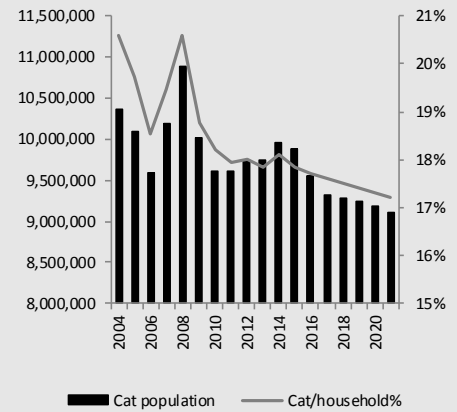
Source: Statistics Japan, Institute of Population Research

Dog Ownership Trend



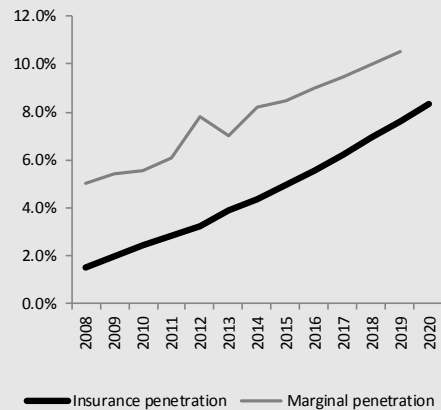
Source: Statistics Japan, Japan Pet Food Association, HTI estimates

Cat Ownership Trend



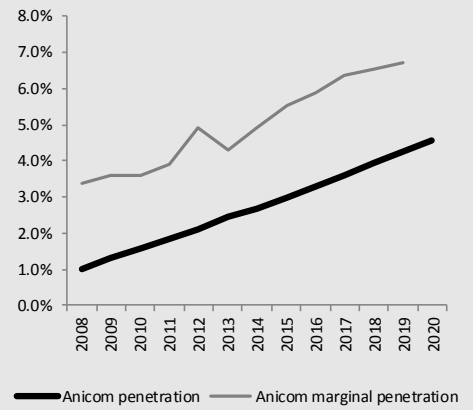
Source: Statistics Japan, Japan Pet Food Association, HTI estimates

Pet Insurance Penetration Trend



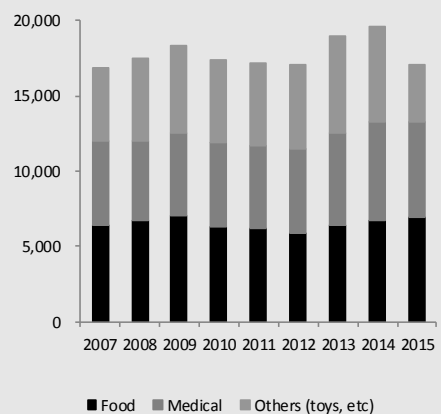
Source: Company data, HTI estimates

Anicom Penetration Trend



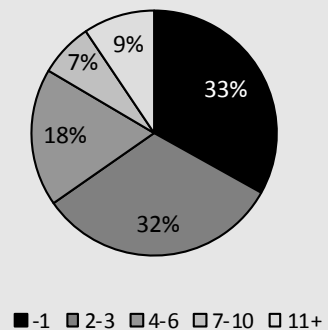
Source: Company data, HTI estimates

Average Pet-Related Expenditure per Household



Source: Statistics Japan

Number of Veterinarian Visits per Year



Source: Japan Pet Food Association

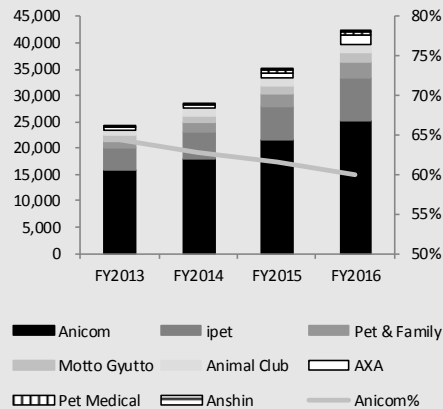
If Anicom's loss ratio could improve towards 50–55%, its OP and growth trend would materially beat our projections

The high loss ratio despite above-average premiums indicates Anicom is more frequently used than its peers, likely due to its convenience, which should eventually lead to higher policyholder satisfaction and persistency

Peer Comparison—High Loss Ratio, Low Expense Ratio

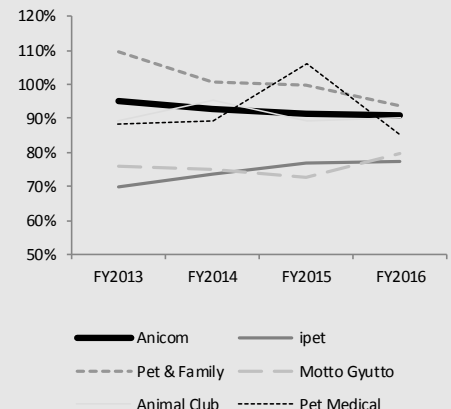
Anicom's above-average premiums combined with its above-average loss ratio imply that its policyholders claim the most reimbursements relative to peers. Despite the high loss ratio, Anicom's combined ratio appears to be about industry average, given its significantly lower expense ratio, attributable to its substantial scale.

Gross Premiums Written Trend



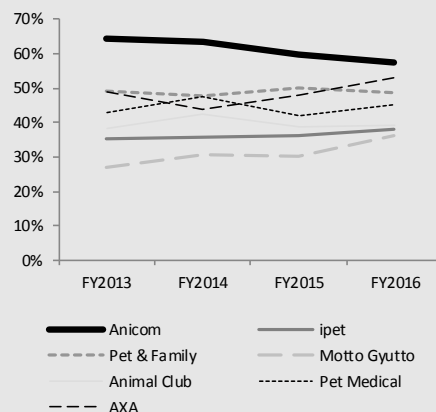
Source: Individual company data

Combined Ratio Comparison



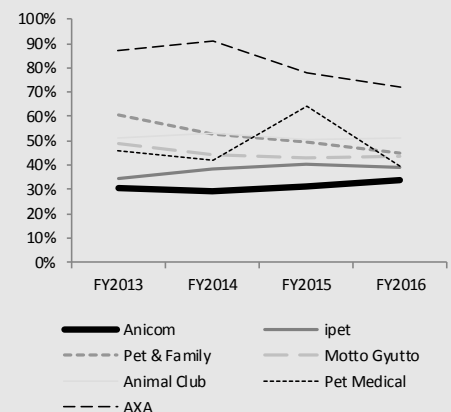
Source: Individual company data

Loss Ratio Comparison



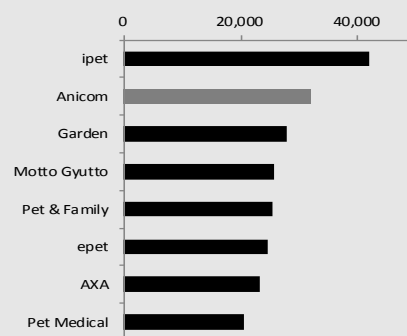
Source: Individual company data

Expense Ratio Comparison



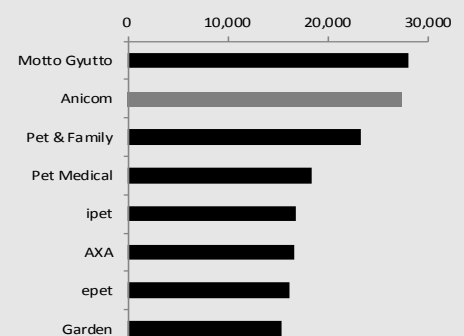
Source: Individual company data

Premium Comparison (Age 0, Labrador, 50% Rate)



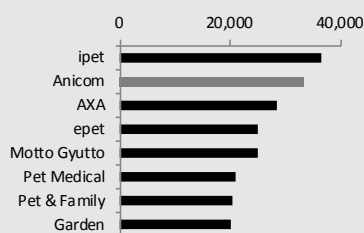
Source: pethoken.jp

Premium Comparison (Age 0, Cat, 50% Rate)



Source: pethoken.jp

Premium Comparison (Age 5, Chihuahua)



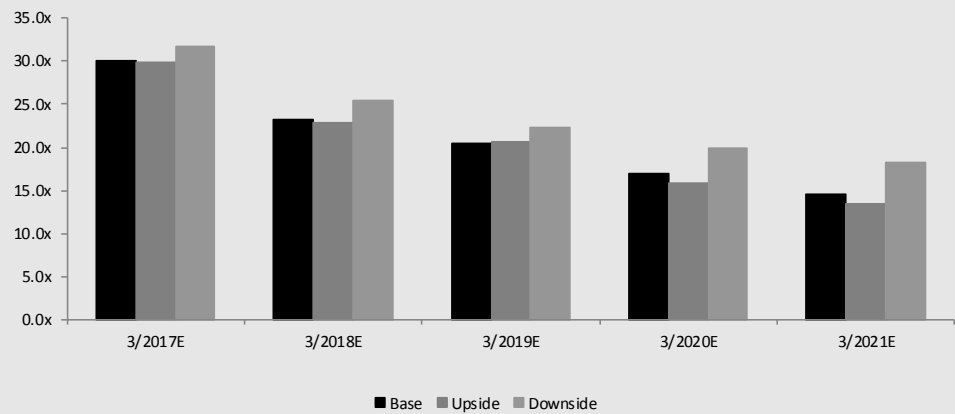
Source: pethoken.jp

Given the high PER and PEG, we see Anicom as a growth stock, requiring either growth to accelerate in the short term or tailwinds to persist in the medium term to justify the valuation

Valuation

Due to the lack of listed peers, both in Japan and overseas, we apply discounted cash flow as our primary valuation methodology. During our five-year projection periods, we estimate NPAT grows at 13–32% YoY, or a CAGR of 20% over the period. After that, we assume a four-year period of 7.0% OP growth to settle at a terminal growth rate of 1.5%. At our target price of ¥2,800, we see a PER of 30x our estimated FY3/17 of ¥93 and a PEG of 1.50x. We do not expect PER to expand much further, so to achieve our target price, we think NPAT growth has to become stronger and sustainable, led by the rising marginal PI penetration rate as we project.

Estimated PER Based on Our Target Price of ¥2,800



Source: HTI estimates

Base Case Discounted Cash Flow Valuation

	3/2017E	3/2018E	3/2019E	3/2020E	3/2021E
Total income	28,214	31,673	35,385	39,033	42,202
Underwriting expenses	16,402	18,308	20,410	22,339	23,967
Operating expenses	9,180	10,178	11,368	12,341	13,147
Operating profit	2,632	3,186	3,608	4,353	5,089
Tax rate	32.0%	32.0%	32.0%	32.0%	32.0%
NOPAT	1,790	2,167	2,453	2,960	3,460
Add: Depreciation	410	419	427	432	437
Less: Capex	450	450	450	450	450
Less: Working capital increase	-210	159	206	246	241
Free cash flows	1,960	1,977	2,224	2,697	3,206
Present value	1,898	1,773	1,847	2,073	2,282
Terminal value					
Stage-2 period	4	Equity value			
Stage-2 growth	7.0%	PV of projection period			
Terminal growth	1.5%	PV of terminal period			
WACC	8.0%	EV adjustment			
Debt/equity	0.0x	Equity value			
		Per share			
		50,317			
		2,806			

Source: HTI estimates

Upside Case Discounted Cash Flow Valuation

	3/2017E	3/2018E	3/2019E	3/2020E	3/2021E
Total income	28,244	31,941	36,288	40,355	43,687
Underwriting expenses	16,407	18,437	21,017	23,013	24,676
Operating expenses	9,185	10,284	11,707	12,711	13,536
Operating profit	2,652	3,220	3,564	4,631	5,475
Tax rate	32.0%	32.0%	32.0%	32.0%	32.0%
NOPAT	1,803	2,190	2,424	3,149	3,723
Add: Depreciation	410	419	427	432	437
Less: Capex	450	450	450	450	450
Less: Working capital increase	-210	156	219	295	252
Free cash flows	1,973	2,003	2,181	2,837	3,458
Present value	1,910	1,796	1,811	2,181	2,461

Terminal value		Equity value	
Stage-2 period	4	PV of projection period	10,160
Stage-2 growth	7.0%	PV of terminal period	42,601
Terminal growth	1.5%	EV adjustment	947
WACC	8.0%	Equity value	53,708
Debt/equity	0.0x	Per share	2,995

Source: HTI estimates

Downside Case Discounted Cash Flow Valuation

	3/2017E	3/2018E	3/2019E	3/2020E	3/2021E
Total income	27,978	31,069	33,595	35,568	37,160
Underwriting expenses	16,410	18,231	19,678	20,804	21,701
Operating expenses	9,069	9,945	10,608	11,072	11,424
Operating profit	2,498	2,893	3,309	3,692	4,034
Tax rate	32.0%	32.0%	32.0%	32.0%	32.0%
NOPAT	1,699	1,967	2,250	2,511	2,743
Add: Depreciation	410	419	427	432	437
Less: Capex	450	450	450	450	450
Less: Working capital increase	-210	137	220	152	219
Free cash flows	1,868	1,800	2,007	2,341	2,511
Present value	1,809	1,614	1,666	1,799	1,788

Terminal value		Equity value	
Stage-2 period	4	PV of projection period	8,677
Stage-2 growth	7.0%	PV of terminal period	30,942
Terminal growth	1.5%	EV adjustment	935
WACC	8.0%	Equity value	40,554
Debt/equity	0.0x	Per share	2,261

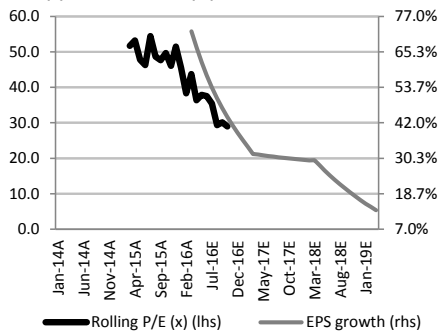
Source: HTI estimates

Risks to Our Rating and Target Price Attainment

Because Anicom's valuation is similar to that of a growth stock, the industry growth trajectory and Anicom's market position remain keys to value creation, in our view. We see the main risks to our rating and target price attainment as follows:

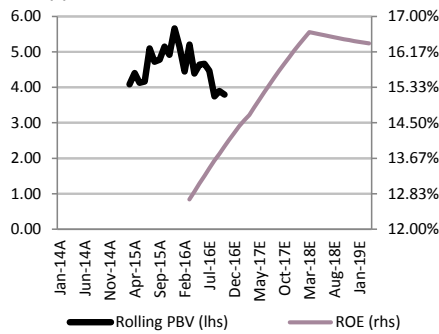
- **Marginal penetration fails to reach 10%:** a failure of marginal penetration rate to stay above the penetration rate means a slowdown of PI penetration.
- **Anicom's market share drops below 55%:** this means Anicom's penetration rate and underwriting premiums would underperform our projections, resulting in lower growth potential.
- **Anicom's loss ratio rebounds from 60%:** if Anicom's portfolio quality deteriorates, resulting in a rising loss ratio, its OPM would shrink and NPAT growth would underperform our projections.
- **Premium decline:** increased competition can lead to a decline of the industry premium rate, implying a higher combined ratio and lower profitability for all PI providers.
- **Rapid industry consolidation:** consolidation of the industry could create a sizeable player to rival Anicom and ipet, changing industry dynamics.
- **ipet listing its shares:** this could provide ipet with more capital and a stronger public reputation to compete with Anicom as well as reducing the value of Anicom's stock as a unique entry point to the sector.

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



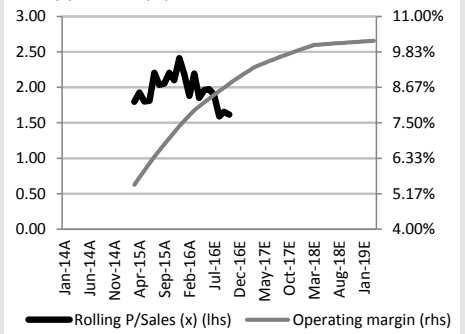
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



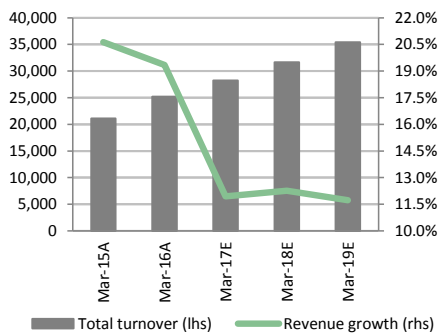
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



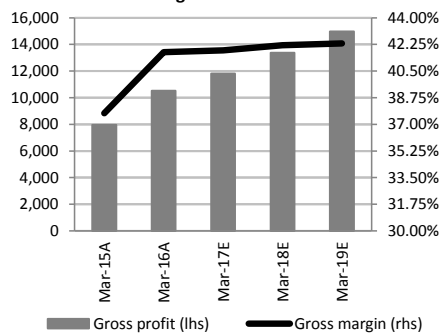
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



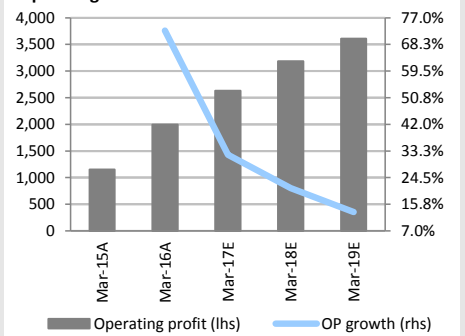
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



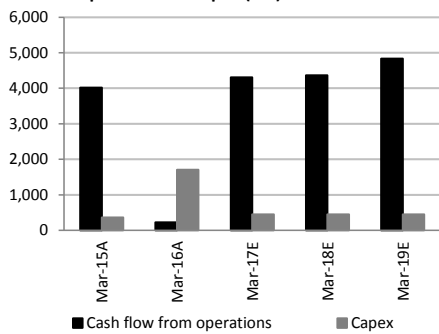
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



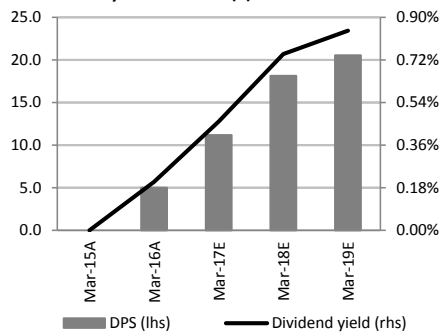
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (¥m)



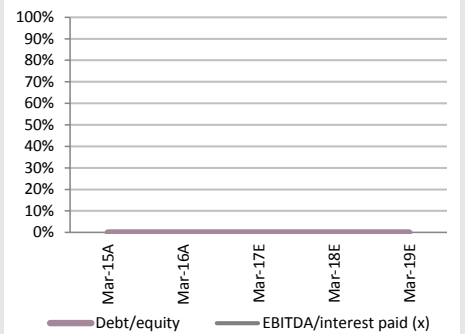
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (¥)



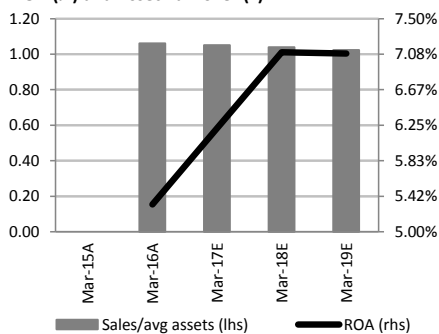
Source: Company data, Bloomberg, HTI estimates

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



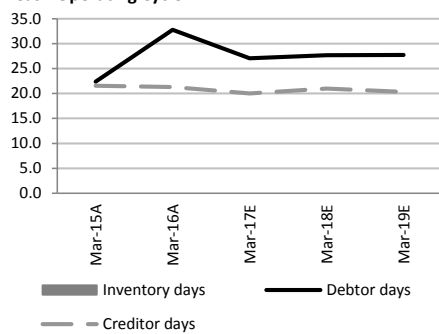
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



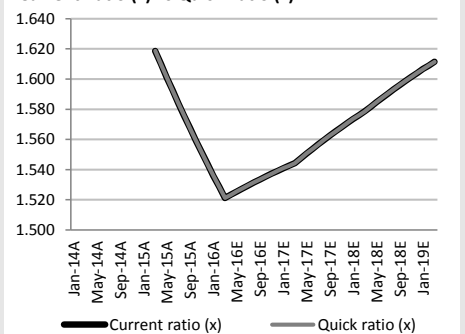
Source: Company data, Bloomberg, HTI estimates

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 NPE growth to slightly moderate from 15–20% in the past three years to 12% over our projection period. We expect Anicom to have 627,288 policyholders in FY3/17 at an average premium of ¥45,461, resulting in NPW of ¥28,517mn and NPE of ¥27,198mn.

Profit Margins

While we forecast NPE growth to moderate, we expect the combined ratio to fall because of the increased proportion of newborns and non-recurring headquarter-relocation costs in FY3/16. We estimate a loss ratio of 60%, an expense ratio of 32%, and OPM of 9.3% in FY3/17.

Shareholder Returns

Anicom only started paying dividends in FY3/16. We think there is potential to steadily raise the dividend payout ratio towards 15–20%. We expect ROA and ROE to improve to 6% and 15%, respectively, in FY3/17.

Balance Sheet Risks

With a solvency margin ratio of 283% (unconsolidated) in FY3/16, we think Anicom is well-capitalized against potential losses from its large portfolio of particular risks. The lack of interest-bearing debts and small size of stock options result in minimal financing and dilution risks, in our view.

Key Takeaway

We think the FY3/17–21 industry strength has been largely reflected in Anicom's shares, so our BUY rating relies on OP growth remaining in high single digits beyond FY3/21

Investment Thesis – Target Price – Share Price Catalysts

Our BUY rating is premised on Anicom's maintaining a 55–60% market share and the PI premium pool growing modestly in the long term, even after the penetration rate has reached 10%. We feel comfortable about the marginal penetration reaching 10% in the short term, which should bring the static penetration rate to 10% in the medium term, doubling the size of the PI market. However, we think the growth over FY3/17–21 has been priced in and our estimated PEG of 1.50x is not cheap, so Anicom's investors have to believe in the long-term Japan PI story and view the valuation relative to other Japanese growth stocks. We think the main share-price catalysts include PI penetration gaining momentum in the near term, Anicom raising its dividend payout ratio to above 15%, and Sony Financial increasing its stake in Anicom amid a stagnant life insurance market.

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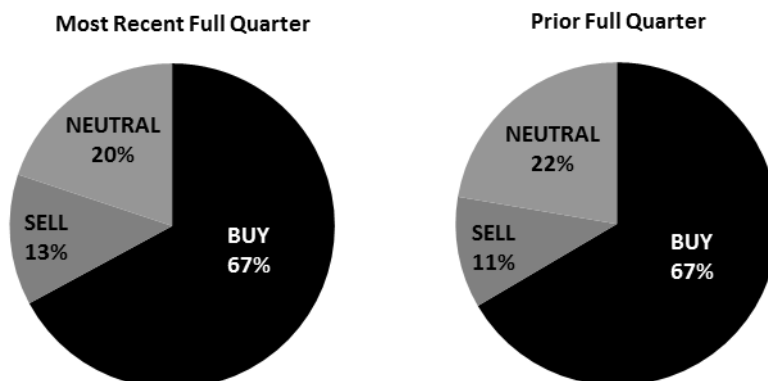
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BUY> 15% absolute upside performance expected within the next 12 months

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Rating Distribution



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- Hold: Target price within 0% to +15% of the current price
- Sell: Target price below the current price

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Recommendation Chart



Date	Recommendation	Target (¥)	Price (¥)
2016-10-03			

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 Sep 2016

Pan Asia Resources	
Core Coverage Universe	Non-Coverage Universe
Sam Thawley (Team Leader)	
Air China (601111 CH)	CGN New Energy Holdings (1811 HK)
Angang Steel (347 HK)	Dowa Holdings (5714 JP)
Anhui Conch Cement (600585 CH)	GCL New Energy Holdings (451 HK)
China Petroleum & Chemical (386 HK)	Iino Kaiun Kaisha (9119 JP)
China Shenhua Energy (1088 HK)	Maruichi Steel Tube (5463 JP)
CNOOC (883 HK)	Mie Holdings (1555 HK)
Daido Steel (5471 JP)	Nippon Coke & Engineering (3315 JP)
Harwa (8078 JP)	NS United Kaiun Kaisha (9110 JP)
Kawasaki Kisen (9107 JP)	Osaka Steel (5449 JP)
Kunlun Energy (135 HK)	Sino Oil and Gas Holdings (702 HK)
Kyoei Steel (5440 JP)	
Mitsui O.S.K. Lines (9104 JP)	
PetroChina (857 HK)	
Sanyo Special Steel (5481 JP)	
Shanghai International Airport (600009 CH)	
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 Suntieng (956 HK)	
CIMC Enric (3899 HK)	
CLP Holdings (2 HK)	
GCL-Poly (3800 HK)	
Henan Pinggao Electric (600312 CH)	
Hilong (1623 HK)	
Hong Kong and China Gas (3 HK)	
Honghua Group (196 HK)	
Huadian Fuxin Energy (816 HK)	
Huaneng Renewables (958 HK)	
Jiangsu Linyang Energy (601222 CH)	
Nari Technology (600406 CH)	
Xinjiang Goldwind (2208 HK)	
Xinyi Solar Holdings (968 HK)	

Pan Asia TMT	
Core Coverage Universe	Non-Coverage Universe
Steve Myers	
Canon (7751 JP)	China Fiber Optic Network System (3777 HK)
Fujitsu (6702 JP)	ChipMOS Technologies (8150 TT)
Hon Hai Precision Industry (2317 TT)	DTS (9682 JP)
Keyence (6861 JP)	Eva Precision Industrial Holdings (838 HK)
Konica Minolta Holdings (4902 JP)	Ferrotec (6890 JP)
LG Electronics (066570 KS)	GMO Internet (9449 JP)
Mediatek (2454 TT)	Hikari Tsushin (9435 JP)
Nikon (7731 JP)	Internet Initiative Japan (3774 JP)
Samsung Electronics (005930 KS)	Itochu Techno-Solutions (4739 JP)
Taiwan Semiconductor Mfg. Co. (2330 TT)	Megachips (6875 JP)
Toshiba (6502 JP)	Micro-Star International (2377 TT)
Jones Ku	
AAC Technologies (2018 HK)	Shindengen Electric Mfg. (6844 JP)
BYD Electronic (285 HK)	Taiwan Chelic (4555 TT)
China Communications (552 HK)	Trigiant Group (1300 HK)
Coolpad Group (2369 HK)	Truly International Holdings (732 HK)
Kingsoft (3888 HK)	Unity Opto Technology (2499 TT)
Sunny Optical (2382 HK)	Yangtze Optical Fibre & Cable (6869 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)	
Catcher Technology (2474 TT)	
Largan Precision (3008 TT)	
Lenovo (2992 HK)	
Nidec (6594 JP)	
Skyworth Digital Holdings (751 HK)	
Sony (6758 JP)	
Billy Leung	
Alibaba Group Holdings (BABA US)	
Anhui Xinhua Media (601801 CH)	
Baidu (BIDU US)	
Ctrip.com International (CTRP US)	
JD.com (JD US)	
NetEase (NTES US)	
Tencent Holdings (700 HK)	
Zhe Jiang Daily Media Group (600633 CH)	
Yushi Kawamoto	
Cookpad (2193 JP)	
CyberAgent (4751 JP)	
Dentsu (4324 JP)	
Monotaro (3064 JP)	
Recruit Holdings (6098 JP)	
Softbank (9984 JP)	
Start Today (3092 JP)	
Yahoo Japan (4689 JP)	

Japan Real Estate	
Core Coverage Universe	Non-Coverage Universe
Mark Brown (Team Leader)	
Daito Trust Construction (1878 JP)	Daiburu (8806 JP)
Daiwa House Industry (1925 JP)	Dai-kyo (8840 JP)
Lixil Group (5938 JP)	Haseko (1808 JP)
Mitsubishi Estate (8802 JP)	Hulic (3003 JP)
Mitsui Fudosan (8801 JP)	Kenedix (4321 JP)
Noritz (5943 JP)	Leopapace21 (8848 JP)
Obayashi (1802 JP)	Sanwa Holdings (5929 JP)
Sekisui House (1928 JP)	Sumitomo Real Estate Sales (8870 JP)
Sumitomo Realty & Development (8830 JP)	
Taisei (1801 JP)	
Takara Leben (8897 JP)	
Tokyo Tatemono (8804 JP)	

Pan Asia Autos, Machinery & Industrial	
Core Coverage Universe	Non-Coverage Universe
Ole Hui (Team Leader)	
BAIC Motor (1958 HK)	BeijingWest Industries International (2339 HK)
Brilliance China (1114 HK)	Calsonic Kasei (7248 JP)
BYD (1211 HK)	China Harmony New Energy Auto (3836 HK)
Changyuan Group (600525 CH)	China Yongda Automobiles Services (2558 HK)
China Communications Construction (1800 HK)	DMG Mori (6141 JP)
China Railway Construction (1186 HK)	Frontier Services Group (500 HK)
China Railway Group (390 HK)	Hitachi Koki (6581 JP)
China Railway Signal & Communication (3969 HK)	Kato Works (6390 JP)
China State Construction Engineering (601688 CH)	Keihin (7251 JP)
China Yongda Automobile Services (3669 HK)	Makino Milling Maching (6135 JP)
CRRC (1766 HK)	Mitsui Engineering & Shipbuilding (7003 JP)
Dongfeng Motor (489 HK)	Okuma (6103 JP)
Geely Automobile (175 HK)	Press Kogyo (7246 JP)
Great Wall Motor (2333 HK)	Roland DG (6789 JP)
Guangzhou Automobile (2238 HK)	Shanghai Prime Machinery (2345 HK)
Hongfa Technology (600885 CH)	Takeuchi Mfg. (6432 JP)
Hyundai Mobis (012330 KS)	TS Tech (7313 JP)
Hyundai Motor (005380 KS)	West China Cement (2233 HK)
Jiangsu Expressway (600377 CH)	Xingda International Holdings (1899 HK)
Kia Motors (000270 KS)	Yasukawa Electric (6506 JP)
Tainjin Port (600717 CH)	
Zhuzhou CRRC Times Electric (3898 HK)	
Tsutomo Kijima	
Amada Holdings (6113 JP)	
Daikin Industries (6367 JP)	
Fanuc (6954 JP)	
Hitachi Construction Machinery (6305 JP)	
Komatsu (6301 JP)	
Kubota (6326 JP)	
Makita (6586 JP)	
SMC (6273 JP)	
THK (6481 JP)	
Gary Cheung	
Adlink Technology (6166 TT)	
Advantech (2395 TT)	
Airtac International Group (1590 TT)	
Bizlink Holding (3665 TT)	
Delta Electronics (2308 TT)	
Giant Manufacturing (9921 TT)	
Hiwin Technologies (2049 TT)	
Merida (9914 TT)	
Technronic Industries (669 HK)	
Teco Electric and Machinery (1504 TT)	
Weichai Power (2338 HK)	
Kosuke Matsuda	
Aisin Seiki (7259 JP)	
Bridgestone (5108 JP)	
Denso (6902 JP) -- Kosuke Matsuda	
Fuji Heavy Industries (7270 HK)	
Honda Motor (7267 JP)	
Isuzu Motors (7202 JP)	
Mazda (7261 JP)	
Mitsubishi Motors (7211 JP)	
Nexteer (1316 HK)	
Nissan Motor (7201 JP)	
Suzuki Motor (7269 JP)	
Toyota Motor (7203 JP)	
Yamaha Motor (7272 JP)	
Lily Li	
Mintch (425 HK)	

Japan Consumer	
Core Coverage Universe	Non-Coverage Universe
James Moon (Team Leader)	
Ain Holdings (9627 JP)	Aeon Mall (8905 JP)
Aoyama Trading (8219 JP)	Avex Group Holdings (7860 JP)
Asics (7936 JP)	DCM Holdings (3050 JP)
Don Quijote Holdings (7532 JP)	H2O Retailing (6242 JP)
FamilyMart (8028 JP)	Honeys (2792 JP)
Fast Retailing (9983 JP)	Parco (8251 JP)
HIS (9603 JP)	
Japan Tobacco (2914 JP)	
Kao (4452 JP)	
Laox (8202 JP)	
Oriental Land (4661 JP)	
Seven & I Holdings (3382 JP)	
Unicharm (8113 JP)	

China Real Estate	
Core Coverage Universe	Non-Coverage Universe
Andy So (Team Leader)	
Agile Property (3383 HK)	Times Property Holdings (1233 HK)
China Fortune Land Development (600340 CH)	Yuzhou Properties (1628 HK)
China Overseas Land & Investment (688 HK)	
China Resources Land (1109 HK)	
China Vanke (2202 HK)	
China World Trade Center (600007 CH)	
CIFI Holdings Group (884 HK)	
CMST Development (600787 CH)	
Country Garden Holdings (2007 HK)	
Dalian Wanda Commercial Properties (3699 HK)	
Greentown China Holdings (3900 HK)	
Guangzhou R&F Properties (2777 HK)	
Huafa Industrial (600325 CH)	
KWG Property Holding (1813 HK)	
Longfor Properties (960 HK)	
Nanjing Gaoke (600064 CH)	
Shenzhen International (152 HK)	
Shimao Property Holdings (813 HK)	
Shui On Land (272 HK)	
SOHO China (410 HK)	
Peter Yang	
China South City Holdings (1668 HK)	
Greenland Hong Kong Holdings (337 HK)	
Shenzhen Investment (604 HK)	
Soufun Holdings (SFUN US)	

Haitong International Coverage as of 1 Sep 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)
Chongqing Brewery (600132 CH)	Tenwow International (1219 HK)
CSPC Pharmaceutical Group (1093 HK)	
Foshan Flavouring & Food (603288 CH)	
Hengan International (1044 HK)	
Inner Mongolia Yili Industrial Group (600887 CH)	
Jiangsu Hengrui Medicine (600276 CH)	
Jonjee High-Tech Industrial (600872 CH)	
Kweichow Moutai (600519 CH)	
Laobaixing Pharmacy Chain (603883 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)	
Xinjiang Yiliite Industry (600197 CH)	
Zhangzhou Pientzehuang Pharmaceutical (600436 CH)	
Zhejiang Huahai Pharmaceutical (600521 CH)	
Jessica Hong	
Chongqing Department Store (600729 CH)	
Chow Tai Fook Jewellery Group (1929 HK)	
GOME Electrical Appliances Holding (493 HK)	
Li & Fung (494 HK)	
L'Occitane International (973 HK)	
Luk Fook Holdings (590 HK)	
Prada SpA (1913 HK)	
Samsonite International (1910 HK)	
Sun Art Retail Group (6806 HK)	
Yonghui Superstores (601933 CH)	
Jessica Ye	
Anta Sports Products (2020 HK)	
Belle International Holdings (1880 HK)	
Cosmo Lady China Holdings (2298 HK)	
Galaxy Entertainment (27 HK)	
Li Ning (2331 HK)	
Sands China (1928 HK)	
Wynn Macau (1128 HK)	

Pan Asia Financials	
Core Coverage Universe	Non-Coverage Universe
Steven Chan (Team Leader)	
Agricultural Bank of China (1288 HK)	
Bank of China (3988 HK)	
Bank of Communications (3328 HK)	
China CITIC Bank (998 HK)	
China Construction Bank (939 HK)	
China Everbright Bank (6818 HK)	
China Merchants Bank (3968 HK)	
China Minsheng Bank (1988 HK)	
Chongqing Rural Commercial Bank (3618 HK)	
Industrial and Commercial Bank of China (1398 HK)	
Michael Makdad	
Japan Post Bank (7182 JP)	
Mitsubishi UFJ Financial Group (8306 JP)	
Mizuho Financial Group (8411 JP)	
Sumitomo Mitsui Financial Group (8316 JP)	
Tony Tanaka	
Centruy Tokyo Leasing (8439 JP)	
China Life Insurance (601628 CH)	
China Pacific Insurance Group (601601 CH)	
CITIC Securities (600030 CH)	
Digital Garage (4819 JP)	
Everbright Securities (601788 CH)	
GCA Sawian (2174 JP)	
GF Securities (1776 HK)	
GMO Payment Gateway (3769 JP)	
Hitachi Capital (8586 JP)	
Hong Kong Exchanges and Clearing (388 HK)	
Huatai Securities (6886 HK)	
Mitsubishi UFJ Lease & Finance (8593 JP)	
Nihon M&A Center (2127 JP)	
Ping An Insurance Group (601318 CH)	
Zenkoku Hosho (7164 JP)	

Latest Drops from Coverage
None

Latest Additions to Coverage
Air China (601111 CH) — Sam Thawley
Changyuan Group (600525 CH) — Ole Hui
China Everbright Bank (6818 HK) — Steven Chan
China Pacific Insurance Group (601601 CH) — Tony Tanaka
Chow Tai Fook Jewellery Group (1929 HK) — Jessica Hong
Everbright Securities (601788 CH) — Tony Tanaka
Foshan Flavouring & Food (603288 CH) — Nicolas Wang
Goodbaby International Holdings (1086 HK) — Yuanyuan Ji
Jiangsu Expressway (600377 CH) — Ole Hui
Kao (4452 JP) — James Moon
Kyung Dong Navien (009450 KS) — Jaesong Woo
Luk Fook Holdings (590 HK) — Jessica Hong
Medy-Tox (086900 KS) — Justin Kim
Shui On Land (272 HK) — Andy So
Tianjin Port (600717 CH) — Ole Hui

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)
Goodbaby International Holdings (1086 HK)	Cuchen (225650 KS)
Pacific Textiles Holdings (1382 HK)	Goldpac Group (3315 HK)
Pax Global Technology (327 HK)	Hotel Shilla (008770 KS)
Sa Sa International Holdings (178 HK)	Maoye International Holdings (848 HK)
Shanghai Fudan Microelectronics (1385 HK)	Modetour Network (080160 KS)
Shenzhou International Group (2313 HK)	Orange Sky Golden Harvest (1132 HK)
SITC International Holdings (1308 HK)	Orbitech (046120 KS)
TAL Education Group (XRS US)	Pou Sheng International Holdings (3813 HK)
Travelsky Technology (696 HK)	PS TEC (002230 KS)
Virscend Education (1565 HK)	Samchully Bicycle (024950 KS)
Wasion Group Holdings (3393 HK)	Sinosoft Technology Group (1297 HK)
Walden Shing	Texhong Textile Group (2678 HK)
APT Satellite (1045 HK)	TK Group Holdings (2283 HK)
Fu Shou Yuan International (1448 HK)	Tsui Wah Holdings (1314 HK)
Lee & Man Paper Manufacturing (2314 HK)	Value Added Technologies (043150 KS)
Man Wah Holdings (1999 HK)	VST Holdings (856 HK)
Vitasoy International Holdings (345 HK)	Xia Nan Guo Restaurants Holdings (3666 HK)
Vtech Holdings (303 HK)	
Xinyi Glass Holdings (868 HK)	
Justin Kim	
Aerospace Technology of Korea (067390 KS)	
Cuckoo Electronics (192400 KS)	
Dexter (206560 KS)	
Duzonbizon (012510 KS) — Justin Kim	
Fila Korea (081660 KS)	
Kepco Plant Service (051600 KS)	
Koh Young Technology (098460 KS)	
Medy-Tox (086900 KS)	
Vieworks (100120 KS)	
Jaesong Woo	
Dio (039840 KS)	
Hansae (105630 KS)	
Hy-Lok (013030 KS)	
Inbody 041830 KS)	
Korea Kolmar (161890 KS)	
Kyung Dong Navien (009450 KS)	
Osstem Implant (048260 KS)	
Yonwool (115960 KS)	
Youngone (111770 KS)	

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)	FancJ (4921 JP)
Asahi (3333 JP)	Istyle (3660 JP)
Doutor Nichires Holdings (3087 JP)	Luzheng Futures (1461 HK)
IDOM (7599 JP)	Meitec (9744 JP)
Kameda Seika (2220 JP)	Nichii Gakkan (9792 JP)
Mandom (4917 JP)	Nippon Parking Development (2353 JP)
Metawater (9551 JP)	SBS Holdings (2384 JP)
Pigeon (7956 JP)	VT Holdings (7593 JP)
Polia Orbis (4927 JP)	
Relo Group (8876 JP)	
Sanrio (8136 JP)	
Shiseido (4911 JP)	
Sohgo Security Services (2331 JP)	
Technopro Holdings (6028 JP)	
Yumeshin Holdings (2362 JP)	

Latest Transfers of Coverage
Brilliance China (1114 HK) to Ole Hui
BYD (1211 HK) to Ole Hui
China Yongda Automobile Services (3669 HK) to Ole Hui
Dentsu (4324 JP) — Hiroyuki Terada to Yushi Kawamoto
Geely Automobile (175 HK) to Ole Hui
Great Wall Motor (2333 HK) to Ole Hui
Honda Motor (7267 JP) to Kosuke Matsuda
Hyundai Mobis (012330 KS) to Ole Hui
Hyundai Motor (005380 KS) to Ole Hui
Kia Motors (000270 KS) to Ole Hui
Nissan Motor (7201 JP) to Kosuke Matsuda
Recruit Holdings (6098 JP) — Hiroyuki Terada to Yushi Kawamoto
Toyota Motor (7203 JP) to Kosuke Matsuda
Yamaha Motor (7272 JP) to Kosuke Matsuda