



MONTHLY MORNING MEETING APRIL 2009. PRESENTED BY iFAST FINANCIAL INDIA PVT LTD ©

JAPAN (3.0 STARS – ATTRACTIVE)

- 1) The earnings growth in 2008 plunged significantly by 83.3%. Due to the low earnings base, we expect earnings growth in 2009 and 2010 to rise drastically at 105.6% and 75.2% respectively. Despite of the earnings rebound, the 3 year annualized expected returns is at 9.6% which is lower than the average of Asian countries. Japan is an export oriented economy. Amidst the global economic slowdown, Japanese exporters are likely to recover only when external demand starts to increase. We expect that Japan would recover at a slower pace than other regions and countries. Hence, we remain the Japanese market to attractive rating of 3 stars.
- 2) Estimated PE for Japanese equities, represented by the NIKKEI 225 Index is at 30X and 17.1X as at 27 March 2009 for FY2009* and FY2010*.
- 3) Earnings growth for the Japanese market is at 105.6% and 75.2% in FY2009 and FY 2010. Earnings growth is at an average annualized 68.6% for the next 3 fiscal years.
- 4) Japan's economy slid 3.3% q-o-q which is equivalent to an annualized fall of 12.7% in the 3Q 08 FY. It was the sharpest decline since the 1974 oil shock when Japan's economy was battered by soaring oil prices.
- 5) Industrial production plunged at a fastest pace in the 1Q 09. However, there are some signs to show the decline in factory output may be bottom out because of the excessively cut in past months.
- 6) Japan is heading to deflation as retail sales slump by the most in 7 years and Core CPI stalled in Feb 09. Consumer Price excluding food and energy fell 0.1% in Feb 09. It is a second monthly decline. Sales at large retailers dropped 8.2% in the same month, the biggest drop in 11 years.
- 7) Consumer confidence and domestic spending remains weak as unemployment rate has increased to 4.4% in Feb 09, the highest since 2003.
- 8) Merchandise trade exports kept overshadowing the record high since Nov 08 due to the worsening demand for auto and electronics. Exports dropped 49.4% y-o-y in Feb 09, which is higher than the market estimation of 47.6%. Shipments to US and China, which are the two largest trading partners of Japan, dropped 58.4% and 39.7% year-on-year. The figures show the recession would be longer and deeper than expected.
- 9) The Bank of Japan (BOJ) hold interest rate was at 0.1% in Mar 09. BOJ is considering to buy corporate bonds rated A and above up to ¥1000 billion to help companies which suffered from credit crunch. In addition, Japanese government will put the priority on creating jobs and new markets. It plans to create 1.6 million jobs in next three years by several measures including infrastructure improvement, research and development.
- 10) Over the next 3 years, we believe that Japanese economy will expand moderately. As the valuation is unattractive and the economy would recover at a slower pace compared with other markets, we maintain an "attractive rating" of 3.0 stars on the Japanese equity market.

*Japan forecasts are based on Fiscal Year Ended March 2009 and 2010.