



SECTOR REVIEW

MONTHLY MORNING MEETING JANUARY 2012. PRESENTED BY iFAST CAPITAL SDN BHD ©

REGIONAL MARKETS UPDATE

JAPAN – 3.0 STARS (ATTRACTIVE)

- Bank of Japan (BOJ) held its target rate unchanged at a range between 0% to 0.1% in Dec 11
- Industrial production dropped 4% y-o-y in Nov 11 following an increase of 0.1% in Oct 11
- Machine Orders rose 1.5% y-o-y in Oct 11 as compared to the market consensus of 9.6% y-o-y increase
- Merchandise Trade Export dropped 4.5% y-o-y in Nov 11 after dropping 3.8% y-o-y in Oct 11. Merchandise Trade Import increased 11.4% y-o-y in Nov 11
- Consumer confidence fell from 38.6 in Oct 11 to 38.1 in Nov 11

MARKET OUTLOOK

Confidence of Japan's large manufacturers plunged sharply to -4 in the 4Q 2011 from +2 in 3Q 2011, indicating that companies' sentiment worsened again amidst the fear over European debt crisis, slower global economic growth and the persistent yen appreciation. The deterioration in manufacturer's sentiment also exceeds the market consensus of -2. In particular, the Tankan's business sentiment index for large electrical machinery producers plummeted by 16 points to -21 in the December survey. A negative reading means pessimists outnumber optimists. Large companies became more pessimistic as they expect profits to drop 6.7% in this fiscal year. However, the large manufacturers planned to raise capital spending by an average of 6.2% for this financial year ended March 2012. The survey also unveiled that large manufacturers expect the business sentiment to further deteriorate to -5 in the next survey.

Other major economic figures like industrial production and exports were also disappointing. Industrial production fell -2.6% year-on-year in November, more than the market consensus of -0.8% year-on-year. Exports dropped -4.5% from a year earlier to 5,197 billion yen in the same month, the second straight month of contraction. In particular, shipments to China dropped drastically by 7.9% while exports to the European Union were down by -4.6% in November. It showed that the country's exporters and manufacturers have been hit by the strong yen and the weak external demand. The flooding in Thailand has also negatively impacted on the manufacturers' operation and production in the South East Asia and thereby slowed the shipments of the Japanese products. As an export-oriented economy, these data suggest Japan's post-earthquake recovery starts to lose momentum.

Our estimated PE for the Japan's market is at 16.3X and 14.9X for FY 2012 and FY 2013 as at 30 December 2011. We expect that Japan would recover at a slower pace than other regions and countries. Therefore, we still give Japanese market an attractive rating of 3 stars.

**Japan's fiscal year ended in March (e.g FY 2012 ends in March 2012)