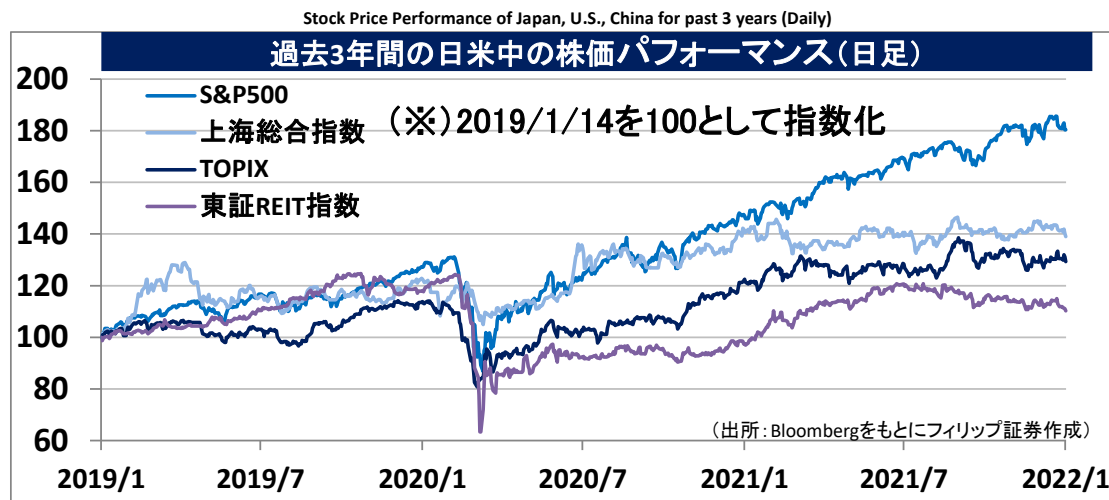


Report type: Weekly Strategy



Source: Bloomberg, Amended by Phillip Securities Japan, Ltd.

“The U.S. FRB in Overseas Factors and the Spread of Infection of the Omicron Variant in Domestic Factors”

For the Japanese stock market in the week of 11/1, it was shaken up by domestic factors such as the sharp increase in the spread of infection of the Omicron variant in addition to overseas factors such as the uncertainty surrounding the timing of the FRB balance sheet reduction (quantitative tightening) and the frequency of increased interest rates in the U.S.

For overseas factors, in response to indications of a tight labour market, such as the decline in the labour force participation rate, the increase in average hourly earnings and the decline in unemployment rate in the July U.S. employment statistics, investment bank Goldman Sachs announced their quarterly interest rate forecasts for March, June, September and December. While it was digesting materials one after another, such as the reappointment of FRB Chair Powell in November, the statement at the approval public hearing involving the appointment of the FRB governor Brainard as the Vice Chair of the FRB on the 13th as well as the U.S. Consumer Price Index for December announced on the 12th, which indicated high growth that was last seen 39.5 years ago with a 7.0% increase compared to the same month the previous year, the 10-year government bonds declined from over 1.8% last week to near to 1.7%. Due to indications of signs of subsiding supply constraints in the U.S. Manufacturing ISM Report on Business announced on the 4th, the excessive uneasiness on the increase in interest rates and quantitative tightening appears to have abated.

At the same time, in the foreign exchange market, a change was observed in the tone of the strong dollar, such as the dollar/yen exchange rate falling under 114 yen on the 14th after rising to 116.35 yen on the 4th. With the depreciation in the dollar accompanied by inflation concerns, there will likely be attention on future trends on whether it will be risk-

on following the influx of funds to the commodity market in addition to precious metals, nonferrous metals and gold, or risk-off following an escape to safe currencies, such as Yen and Swiss franc buying.

Although the U.S. long term interest rates are gradually regaining stability, the U.S. Nasdaq Composite, which focuses on growth stocks regarded to have a tendency to increase from a decrease in interest rates, saw an increase in the range of decline between the 12th and 13th. As a result, the Nikkei average is also being pushed from the declining pressure from the fall of high price high-tech stocks that have high contribution to the index.

For domestic factors, there has been a sharp increase in the spread of the COVID-19 Omicron variant. On the 13th, there were 3,124 persons who newly tested positive in Tokyo and the rate of hospital bed usage reached 15%, nearing 20%, which is the standard for the call on measures to prevent the spread. If the rate of hospital bed usage reaches 50% in Tokyo, there will be a call on a state of emergency to be declared on the country, which will be a situation where there will be concerns of a slump in those related to leisure, retail and F&B outlets, where a recovery in customers was observed towards the end of the year.

For the time being, the tendency to lookout for value stocks will likely be the focus, such as Toyota Motor (7203) and its group enterprise, which has been favoured involving additional investment in electric vehicles (EV); iron and steel stocks, where its aspect as a low P/E ratio and high dividend yield value stock is being reviewed; nonferrous metals, which have had an inflation in the copper and nickel market; and trading company stocks, which are expected to benefit from the increase in energy prices.

In the 17/1 issue, we will be covering **SBS Holdings (2384)**, **Ube Industries (4208)**, **Yokogawa Electric (6841)** and **Toppan (7911)**.

Selected Stocks

SBS Holdings, Inc. (2384.JP) 52 weeks, Daily



Phillip Stock Analytics

Con. Target Price (17 Jan 22) JPY 4,315.00 [‡]	Last Traded Price (14 Jan 22) JPY 3,490.000	Potential Upside ▲ 23.6%
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◇ SBS Holdings, Inc. (2384) **3,490 yen (14/1 closing price)**

- A 3PL (total subcontracted distribution) that established in 1987. Operates a real estate business involving the sale and leasing of owned logistics facilities in addition to the distribution business, which includes 3PL services, frozen, chilled and shelf-stable foodstuff distribution and transporting/same-day delivery, etc.
- For 9M (Jan-Sep) results of FY2021/22 announced on 10/11, net sales increased by 58.4% to 299.761 billion yen compared to the same period the previous year and operating income increased by 2.1 times to 17.559 billion yen. In addition to benefitting from the expansion of the e-commerce (EC) market, such as online shopping and daily necessities, earnings from the securitisation of distribution real estate and the new consolidation of Toshiba Logistics and Toyo Warehouse & Transportation, etc. have contributed.
- For its full year plan, net sales is expected to increase by 55.5% to 400 billion yen compared to the previous year and operating income to increase by 82.5% to 20 billion yen. On 4/1, it was reported in The Nikkei that the company will officially enter home delivery distribution in addition to B2B regarding EC as well as invest approx. 160 billion yen by 2030 in constructing 15 new EC goods exclusive bases in the metropolitan area. They are attempting to incorporate demand for same-day delivery of small quantity goods. Also, the expansion of the frozen food market will likely benefit the company, which is strong in foodstuff transport.

Ube Industries, Ltd. (4208.JP) 52 weeks, Daily



Phillip Stock Analytics

Con. Target Price (17 Jan 22) JPY 2,421.11 [‡]	Last Traded Price (14 Jan 22) JPY 2,114.000	Potential Upside ▲ 14.5%
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◇ Ube Industries, Ltd. (4208) **2,114 yen (14/1 closing price)**

- Started in coal mining in 1897 and established in 1942. Operates business segments, such as chemistry involving nylon resin and synthetic rubber, etc., construction materials involving cement and limestone, etc., as well as machines involving moulding machines, etc., and carries out the manufacture and retail of those involving them.
- For 1H (Apr-Sep) results of FY2022/3 announced on 2/11, net sales was 306.685 billion yen (280.013 billion yen the same period the previous year) and operating income increased by 5.6 times to 19.088 billion yen. The accounting standard involving revenue recognition was adopted from the current period onwards. In addition to an increase in retail units of products related to automobiles, such as nylon, synthetic rubber and battery materials, the increase in retail price of nylon, lactam and synthetic rubber have contributed.
- For its full year plan, net sales is expected to be 635 billion yen (last year's results was 570 billion yen) and operating income to increase by 50.6% to 39 billion yen. With there being a statement last December on the joint start of consideration towards securing safety in "Clean Ammonia" by 4 chemical manufacturers including the company, the government decided to support Indonesia in the implementation of technology that mixes ammonia with coal fired power generation. Also, the company is likely to receive greater attention as a manufacturer of lithium-ion battery electrolytes.

Selected Stocks

Yokogawa Electric Corporation (6841.JP) 52 weeks, Daily



Phillip Stock Analytics

Con. Target Price (17 Jan 22) JPY 2,335.00 [†]	Last Traded Price (14 Jan 22) JPY 2,001.000	Potential Upside ▲ 16.7%
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Yokogawa Electric Corporation (6841) 2,001 yen (14/1 closing price)

• Established in 1920 with electric meter laboratories as its base. Operates the control business involving control systems for various plant production facilities, the measuring instruments business such as measuring instruments involving optical communication and waveform measuring instruments, and aviation equipment and other businesses such as aircraft measuring instruments, etc.

• For 1H (Apr-Sep) results of FY2022/3 announced on 2/11, net sales increased by 5.8% to 184.419 billion yen compared to the same period the previous year and operating income decreased by 7.7% to 14.167 billion yen. Despite orders received performing strongly, a worsening in gross profit margin, the reduction in subsidy and the increase in selling, general and administrative expenses affected, which led to a decrease in operating income. For operating income by segment, although the measuring instruments business increased by 9.2%, their mainstay control business decreased by 6.4%.

• Company revised its full year plan upwards. Net sales is expected to increase by 0.2% to 375 billion yen compared to the previous year (original plan 370 billion yen) and operating income to decrease by 17.7% to 26 billion yen (original plan 25 billion yen). The company is currently focusing their efforts on fusing operational technology (OT) data with IT systems data involving their control business, which accounts for a sales distribution ratio of more than 90%. They are garnering attention for leading “digital twin”, which is a technology that recreates various data in the real world in the digital space.

Toppan Inc. (7911.JP) 52 weeks, Daily



Phillip Stock Analytics

Con. Target Price (17 Jan 22) JPY 2,695.00 [†]	Last Traded Price (14 Jan 22) JPY 2,203.000	Potential Upside ▲ 22.3%
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Toppan Inc. (7911) 2,203 yen (14/1 closing price)

• Established in 1900. Along with Dai Nippon Printing (7912), they are Japan’s 2 printing industry giants. Operates the information communication business, the lifestyle and industry business such as packaging, and the electronics business involving displays and semiconductors.

• For 1H (Apr-Sep) results of FY2022/3 announced on 10/11, net sales increased by 4.8% to 719.027 billion yen compared to the same period the previous year and operating income increased by 59.2% to 24.093 billion yen. In terms of segment, there was a 4% increase in revenue and 8% increase in operating income for information communication, a 3% increase in revenue and 34% increase in operating income for lifestyle and industry, and an 18% increase in revenue and 2.6 times increase in operating income for electronics.

• Company revised its full year plan upwards. Net sales is expected to increase by 2.3% to 1.5 trillion yen compared to the previous year (original plan 1.45 trillion yen) and operating income to increase by 2.1% to 60 billion yen (original plan 52 billion yen). Reinforced profitability is expected due to a structural reform in the profit aspect. Company is focusing their efforts on software creation in the online virtual space (metaverse) field. In addition to robot operation systems for corporate, they are handling avatar generation, etc. using 3D reconstruction technology and artificial intelligence for commercial.

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