

Japanese individuals hold the key, Individual's market knowledge is increasing faster than you would think.

Listed subsidiaries targeted by their parents or to be sold off, interesting?

The very interesting news on the 29th of August was the buy back of 100 % Mitsubishi UFJ securities by parent MUFJ and subsequent delisting from TSE. I worked myself for MUFJ Securities (at that time UFJ Tsubasa securities) from 96 to 2003 but that's not the point.

The strategy to chase before hand potential targets was argued in the scramble section of the Nikkei financial daily dated 23rd of August: listed subsidiaries represent 1/4 of all listed securities, a substantial universe. The point is that with global competition there is no place for waste of resources. Investors buying parent companies always question whether such subsidiaries are necessary or not. Should they prove strategic then investors will pressure for complete buy back, which is exactly what we have witnessed with MUFJ Securities. However if listed subs are not a core asset then to sell off is an option. Those arguments are more and more considered by Japanese management. The paper stresses the example of the Hitachi group which had no less than 1619 consolidated subsidiaries by 2001, this figure was reduced to 932 by March 2006 end and according to Hitachi CEO (Furukawa Ichio) this number should be further reduced to 700. The example of Matsushita group is also worth considering in details with the recent declarations of the new CEO. Current environment is favorable for parent companies to buy back their listed subs and increase consolidated earnings. On the sell side it is worth mentioning that TSE is currently amending rules to increase liquidity: that is allowing delisting by lowering the minority privately held share ownership percentage from 80 to 70 %. The article states that by March 06 end there are 80 stocks (listed subsidiaries) with the top ten shareholders fulfilling delisting conditions.

A spin-off can also be considered, Nippon Steel will sell Nippon Steel Solutions (NSSOL) by March 07 among others...The case of Nippon Steel is also interesting as the group has a substantial number of consolidated subsidiaries.

I mentioned in a previous article comment that the buyout funds day was closing by therefore sellout of non strategic subsidiaries is bound to increase on TSE from the second quarter.

M&A activity update

The value investor will always cross screen fragment information to reach a logical conclusion. On the 23rd of august the Mainichi Newspaper published an article on Mizuno entering the fashion business. Incidentally I also noted within the recruitment section of Nikkei that some Japanese company was looking for M&A specialist in the fashion sector (both inside and outside of Japan). Mizuno announced excellent 1st Q earnings on the 14th of august with a high probability to further revise up at the next interim stage trading at less than 14 times expected march 2006 earnings. Good value and ready to expand predator. Despite the recent surge in volume (8067) Tomiya apparel still looks interesting. But such owner type companies are plenty (9990) Tokyo Derica for example.

Regarding new growth markets

By the 21st of august For the 1st quarter (April - June) 80 % of New growth markets listed companies (564 companies) had announced earnings ,average net earnings growth is +14,6% (Jasdaq,Mothers,,Herakles). Industry related current earnings rose +24,3%, services +6,6% only. This reflects the equipment investment surge in LCD TVs, semiconductors. This reflects the equipment investment surge in LCD TVs, semiconductors on the other side price competition took its toll but I am positive for services as you know.

Usually asset managers investing in mid small caps always have the Russell/ Nomura small cap index (dividends re-invested trading at FY06 Per 19,9 x (E) by July end) as reference for performance purpose but as a value based investment stock picker I do not use any reference index. This said should I have to give an idea of a well balanced portfolio in the mid small caps universe I would overweight consumption, services.

The Nikkei published a very interesting statistic on the 24th of august 2006. Japanese individual's share of futures trading is surging. The article stresses the fact that in July popular Nikkei futures individual market share was 18,7% (a new historic high) double the FY 2005 level (9,4%). Individuals increasingly use futures to guard against market fall. Considering futures' trading was foreign players near monopoly not so long ago this is excellent stuff as it is bound to reduce overall market volatility I believe.