

European individuals money flows channeled to Japan, increasingly through ETF.

Japanese cash rich industries hot summer (**part 2**)

As previously mentioned I shall regularly make insights on available funds universe for Euroland individuals to buy Japanese growth. Ex UK the choice is yet 'very limited' to say the least*(see template below). Think about it: the first (ever) [Euroland listed TOPIX based ETF](#) was registered on Euronext last year's November, on Italian stock exchange in April 06 and Deutsche Borse in August 06. (Originator is Lyxor Asset Management the Societe Generale group alternative arm.). NAV is yet pretty small at 403 million Euros (which is 60 billion yen). European individual's willingness to invest in Japan is strong, since it begun trading on Euronext Paris section trading volume has surged 8.4 times. The Japanese ETF boom really took off last year February and each exchange is competing hard to introduce such vehicles. Underlying indexes are mostly TOPIX and Japanese MSCI. Including US and Euroland 17 stock exchanges already offer Japan indexes based ETF'S. The oldest is UK Barclay's I-shares MSCI Japan listed on NY AMEX since 1996. NAV is roughly 12 billion US \$ (1 trillion 500 billion Yen) and as forecasted 70 to 80 % of investors trading in such vehicles are individuals (US and Euroland alike). Minimum trading lot plus special tax incentives make it increasingly attractive for foreign individual's money to buy Japanese index ETF's.

European or US individuals (in general) have limited knowledge of Japanese individual stocks and ETF makes it easier for them to 'buy' Japan. The expanding wave of European or US individual savers buying Japanese ETF's listed on national stock exchanges is interesting as it shows high expectations .Up to now such type of investors were totally anonymous. In fact this is obviously one of the core reasons '*Japan Investments*' was launched: to bridge such a gap.

Such a wave is welcomed by Japanese stockbrokers. Japanese individuals trading has been subdued for a while. Margin loss/profit ratio [for JASDAQ](#) (Japanese individual's favorite) was -29,23 % by the 29th of September a slight improvement but still no sign of reduction for the leading indicator. On the other hand the margin loss/profit ration on the three main markets (Tokyo, Osaka, and Nagoya) was **-10.1 %** on the 29th of September. A slight deterioration compared to *my Newsletter dated 6th of September* but still improvement trend confirmed for the main markets.

Now what to buy?

Japanese M&A advising companies are coming to the market, for example (2126) GCA Co Ltd (Tokyo) listed on MOTHERS the 6th of October, (2127) Nihon M&A Center Inc listed on MOTHERS the 10th of October. I found interesting that the Japanese M&A advisers are now chasing investor's money to expand their activities. From January to September end M&A rose +4.9 % YOY at 2069 deals for 9 trillion 89 billion Yen +19.9 %. For now top acquisition has been Japanese Vodafone entity buyout by Softbank (the sole case was 1 trillion 91 billion Yen). The trend for Japanese companies is to engineer acquisitions themselves rather than outsourcing it to investment professionals. This is considered a business chance by the above mentioned advisers. With the additional equity raised from the market the above mentioned advisers may well expand activity overseas.

Japanese cash rich hot summer (part 2)

Let's update my *newsletter dated 15th August*, I mentioned Japanese apparel/fashion industry was undergoing a serious shakeout; by coincidence the Japan Financial Daily wrote an article recently about the industry. The newspaper listed 57 apparel/fashion companies according to M&A ratio (M&A ratio = total capitalization x 50 %- financial assets / after tax ordinary profit+depreciation, (please see *Pascal Jeannenot Newsletter dated 30th June*) and net cash ratio (net cash ratio = financial assets-debt/total capitalization). (8112) Tokyo Style still ranks top of the list , should you buy half the shares traded and therefore join the board then you put your hand on more cash than the invested amount itself (net cash ratio: 106,6 %). Since the ex Murakami Fund launched an all out offensive in 2001 the situation has not changed much and cash at hand has piled up. Number two in the list is Aeon affiliated (9876) COX a casual chain store with zero debt and 125 % net cash ratio. Fashion/apparel companies initial investment to open chain stores is always worth only a few million yen therefore should current cash flow increases then cash quickly piles up. For year 2005 M&A in the fashion industry totaled 617 deals. For year 2006 up to September we had 318 deals.

For information top 20 listed companies were as follows.

rank	company	Ticker code	M&A ratio (years)	Net cash ratio(%)
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1	Tokyo Style	8112	-31,2	106.6
2	COX	9876	-14,0	124.6
3	Okamoto	8025	-11,3	47,0
4	Sankyo SEiko	8018	-9,6	80.9
5	Look	8029	-7,3	97.6
6	Ginza Yamagata	8215	-6,1	68.7
7	Cabin	8164	-4,6	61.8
8	Cross Plus Inc	3320	-3,8	58.3
9	Rio Chain	9834	-3,1	88.8
10	Kosugi	8146	-2,9	42.2
11	Marufuru	9877	-2,8	75.8
12	Daidoh Ltd	3205	-2,7	29.7
13	Crymson	2776	-1,9	61.8
14	Tokyo Soir	8040	-1,8	58.6
15	Jeans mate	7448	-1,8	68
16	Impact 21	9944	-1,6	62.5
17	Narumiya	3364	-0,6	60.0
18	Nice Claup	7598	-0,5	52.0
19	Chiyoda	8185	-0,1	47,7

Source : Nikkei Financial Daily 3rd October 2006. Figures are based on September month closing prices.

Note that M&A ratio is widely used for LBO operations to check the relative value of a target company. It shows in how many years an investment can be recovered through target company cash flow discounting (the lower the better for the indicator).

Appendix

* Japanese equities ETF listed on Foreign stock exchanges

Base Index	Fund name
TOPIX Listed Euronext Paris (2005.11) Borsa Italia (2006.4) Deutsche Borse (2006.8)	<i>Lyxor RTF Japan(TOPIX)</i>

Nikkei 225 Listed Deutsche Borse (2006.7)	<i>Nikkei 225EX</i>
MSCI Japan AMEX (1996.3) London (2004.12) Virt-X (2004.12) Euronext Amsterdam (2005.02) NYSE (2005.11) Euronext Paris (2005.12)	<i>i-shares MSCI Japan</i>
DJ Japan Titans 100 Swiss Borse (2001.11) Deutsche Borse (2003.2) Virt-X (2005.10)	<i>UBS ETF DJ Japan Titans 100</i>
S&P TOPIX 150 AMEX (2001.10)	<i>i-shares S&P TOPIX 150</i>

n.a US listed Wisdom Trees serials not included in this report