



M3 STAR RATINGS REVIEW

MONTHLY MORNING MEETING JUL 2010. PRESENTED BY iFAST FINANCIAL PTE LTD ©

JAPAN (3.0 STARS – ATTRACTIVE)

1. Due to the low earnings base in 2009, we expect earnings growth in 2010 to rise drastically. The earnings growth in 2010 and 2011 are estimated to rise 90.6% and 13.4% respectively as at 29 Jun 10. We remain concern on the prolonged deflation as the country's spontaneous growth of domestic demand remains sluggish. Besides, there are still uncertainties on the GDP growth when the effects of the stimulus package recede. Hence, we remain the Japanese market at an attractive rating of 3 stars.
2. Estimated PE for Japanese equities, represented by the NIKKEI 225 Index is at 17.8X and 15.7X as at 29 Jun 10 for FY2010* and FY2011*. Factoring in the significant earnings growth in 2010, the estimated PE still trades at the highest level among the regions under our coverage.
3. The Japan's economy expanded 1.2% q-o-q which is equivalent to an annualized rise of 4.9% in the 1Q 10. It was the fourth consecutive quarter of growth. The GDP data supports our view that Japan economy will benefit from the government's actions and hence rebound in the 1H 10.
4. Japan's export growth slowed in May 10. Exports rose 32.1% y-o-y in May 10, moderating from the 40.4% increase in Apr 10. On a m-o-m basis, exports dropped 1.2% as compared to 2.3% growth a month earlier.
5. Confidence of Japan's large manufacturers rebounded for a fourth straight quarter as global economic backdrop has improved significantly. Tankan Large Manufacturers Index in the 1Q 10 climbed to negative 14 from negative 25 in Dec 09, the least pessimistic since 2008.
6. The Bank of Japan (BOJ) outlined a new lending programme in May Monthly Report. The new loan scheme aims to encourage commercial banks to lend to early-stage and venture-backed companies which struggle to find funding.
7. Japanese Prime Minister Yukio Hatoyama announced his resignation after just eight months in office in 1 Jun 10. His term was the shortest since 1994, and his resignation forced parliament to select the country's fifth prime minister in four years. Naoto Kan, known as an advocate for raising the consumption tax and a weaken yen, was appointed as the new prime minister.
8. Kan's government made fiscal consolidation as the main focus in its latest manifesto for the Diet upper house election in Jul 10. In order to bolster investors' confidence on the country, the government targets to balance the budget in 10 years and reduce bond sales.
9. Over the next 3 years, we believe that Japanese economy will expand moderately. As the valuation is relatively unattractive and the economy would recover at a slower pace compared with other markets, we remain the Japanese market at an attractive rating of 3 stars.

**Japan forecasts are based on Fiscal Year Ended March 2011 and 2012.*