



Today's Theme



Japan

# Japanese Equity Market Outlook



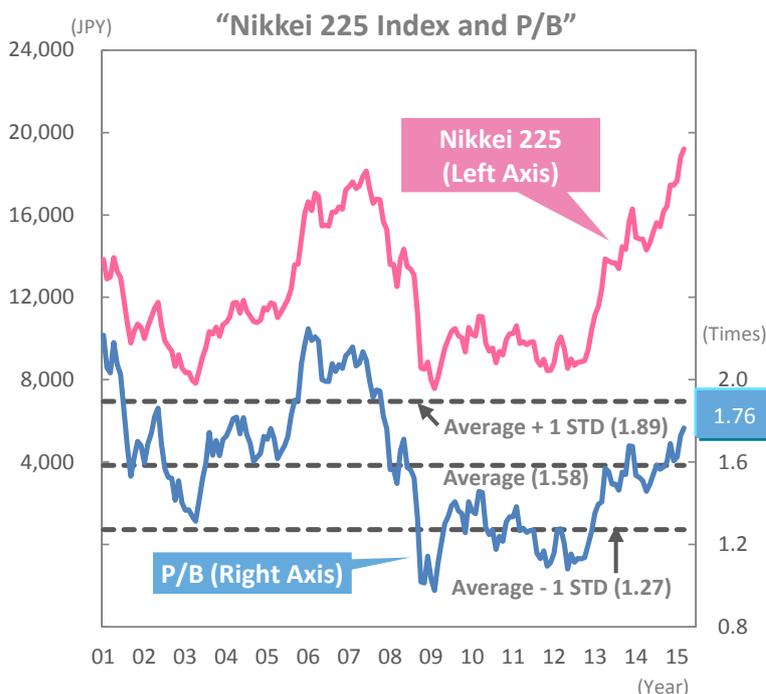
## What is required for a sustainable Japanese equity market rally in medium to long terms?



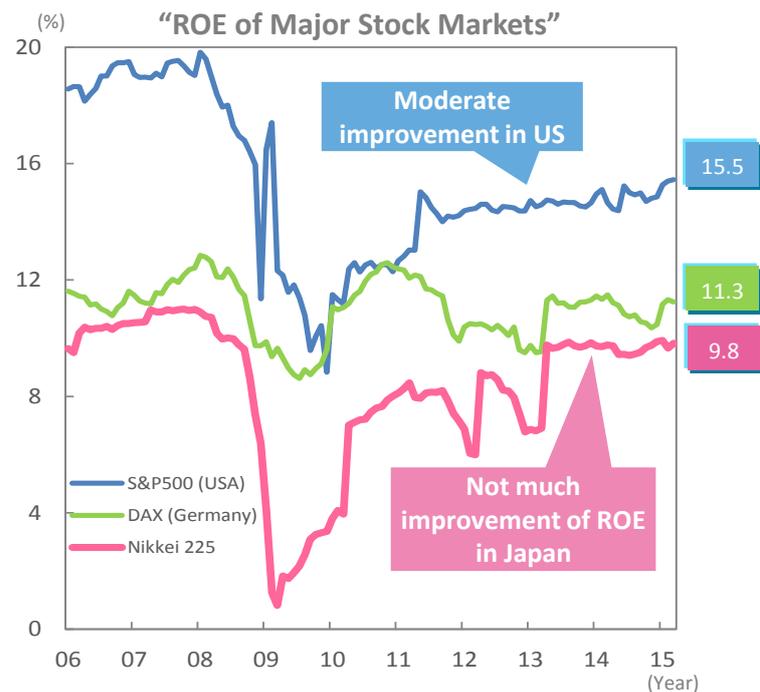
**Sustainable profit growth through “Maximizing shareholders’ interest” is key issue. ROE (Return on Equity) seems to be a useful measure to foresee the future performance.**

- Lately P/B (Price to Book value) is rising alongside the Japanese market prices rise. However, we need to keep it in mind to take also into account of Return on Equity (ROE) level when analysing a share price valuation using the P/B.
- ROE measures the ability of a company to generate profits from its shareholders’ investments in the company. Provided that comparing the two companies with the same net profit, the higher ROE company tends to generate higher profit to shareholders in each 1 dollar they invest. Therefore, the share price and the P/B for the higher ROE company tend to be higher. In general, the share price of a company would not be deemed expensive if the ROE is reasonably high enough to prove its high P/B.

- The below show average ROE of Japanese companies has been leveling off, while the share prices and the P/B have been surging until recently. Going forward, lifting up the ROE should help the sustainable rally for the equity market in medium to long term. Japanese companies are required to focus more on shareholders’ interest and maximize the profits on their investment as the ROEs are lower than those of the other developed countries.
- In these days, increasing number of Japanese companies adopt ROE as the key financial goal for their corporate management plans. The key for the Japanese stock market is how they improve the corporate governance focusing more on shareholders’ interest and lift up the ROE as this movement spreads out.



(Note) 1. Data is from Jan. 2001 to Mar. 2015.  
To calculate the Average and STD (Standard Deviation) of P/B, we used the data from Jan. 4, 2011 to Dec. 30, 2014.  
STD is a measurement to quantify the degree of data dispersion.  
2. P/B: Price of share divided by its net asset.  
(Source) SMAM, based on Bloomberg L.P. data



(Note) 1. Data is from Jan. 2006 to Mar. 2015.  
2. ROE : Net income divided by shareholders’ equity.  
Based on Bloomberg’s forecast.  
(Source) SMAM, based on Bloomberg L.P. data



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