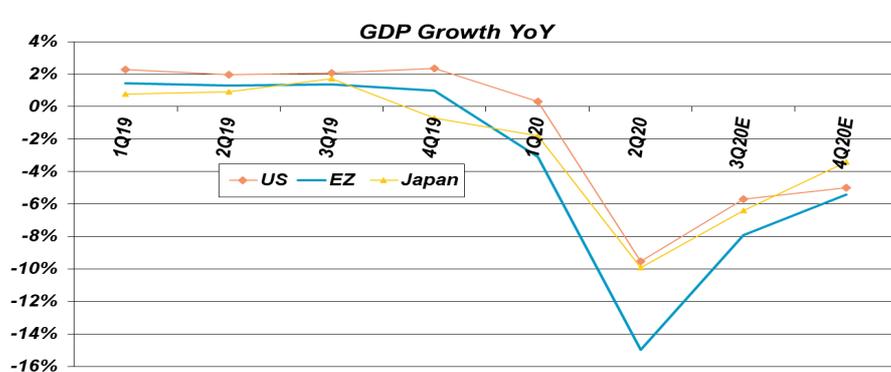


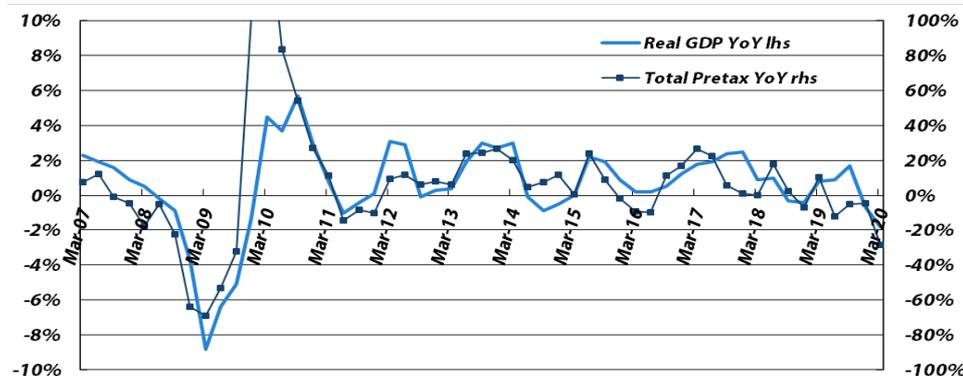
JAPAN'S COMPETITIVE GDP AND PROFIT OUTLOOK

Not many investors likely realize that Japan's GDP performance in CY20, instead of being comparably poor, is actually about equal to that of the US, and well above the Eurozone's. Its base was lower due to a VAT hike that hurt 4Q19 GDP, but thereafter, partially due to the lack of widespread lockdowns, its GDP has been competitive. Using Bloomberg consensus estimates, Japan's CY20 GDP should be -5.2%, virtually the same as the US at -5.0%, with the Eurozone at -8.1%. CY21 should be 3.7%, 2.5% and 5.7%, respectively, for a cumulative effect of Japan being only about 1% behind the US, and slightly ahead of the Eurozone.



Source: Bloomberg consensus estimates

Japan's Ministry of Finance nationwide (including unlisted companies) corporate profit data for the 2Q will be updated on 1 September, but clearly, beyond the structural upshift in profit margins in the last decade, there is a strong relationship between profit growth and GDP; thus, given Japan's competitive GDP outlook, the below chart suggests 20% or higher corporate profit growth in CY21. Of course, Japan's profitability is greatly a function of global GDP, so the latter's growth will also be of crucial importance. As it stands, TOPIX consensus earnings expectations finally seem to be bottoming out and given the global GDP rebound, will likely start to rise, particularly as global automobile consumption has been sharply improving, with used car pricing quite strong. With FYMarch2022 consensus EPS showing 38% YoY growth, this equates to a PER of only 14.5 times, coupled with a particularly competitive dividend yield of 2.4%, with all but a handful of companies showing confidence in the future by not cutting their dividends. Thus, for domestic, both retail and institutional, and foreign investors, Japanese equities presently deserve strong consideration instead of the prevailing pessimism.



Sources: Bloomberg Consensus estimates and Ministry of Finance, thru 1QCY20

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