

Today's Topic **The cheapest Japanese small cap stock market after 2014**
Strong profit growth may support the stock price

Point 1

Sharp correction of Japanese stock market in 2018

TOPIX Small dropped more than 20%

- In 2018, Japanese stock market corrected sharply. TOPIX and TOPIX 500 (large and mid cap index) decreased -17.8% and -17.2% YoY, respectively. Meanwhile, correction of small cap index stood out as TOPIX Small* dropped -22.3%.

*TOPIX Small: The index calculated by stocks comprising TOPIX 1000 excluding those of TOPIX 500.

Point 2

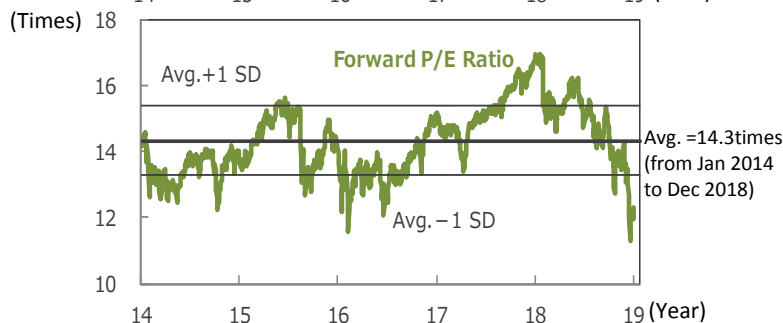
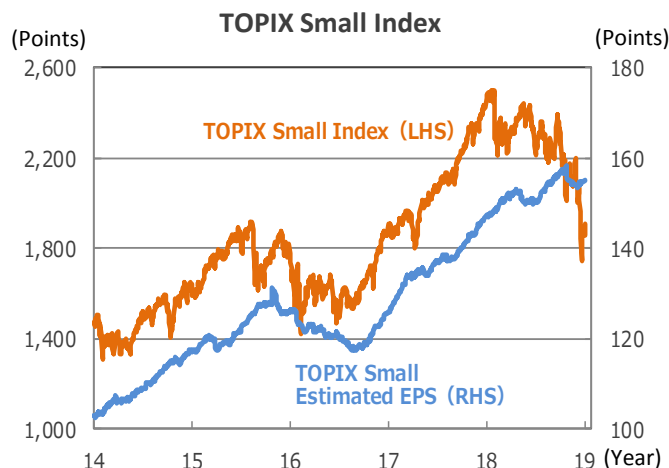
The cheapest Japanese small cap stock market after 2014

- Forward P/E Ratio of TOPIX Small rose to 16.9 times in January 2018 and the index reached recent high of 2,500 points on January 23. After that, it moved in the box range for a while and sharply corrected after October like other indexes due to (1) concern over expanding US-China trade friction, (2) US long term interest rate hike and (3) caution on Chinese economic slowdown.
- Estimated EPS has been strong to date despite earnings revised downward due to stock price fall. Forward P/E Ratio of TOPIX Small seems undervalued as it became 12.3 times on January 7 which is much lower than 14.3 times, the average after 2014.

Outlook

Strong profit growth may support the stock price

- Jan-Mar 2019 financial results might be negatively affected by (1) US-China trade friction, (2) Chinese economic slowdown and (3) current strong JPY. Earnings momentum would take time to recover as it is expected to happen after the Spring. However, double-digit growth of recurring profit of small caps is expected in FY 2019 mainly driven by manufacturers. Strong profit growth of small caps is expected to support the stock price.



(Note1) Data from Jan 6, 2014 to Jan 7, 2019. Estimated EPS is 12 months forward estimate by Bloomberg L.P.

(Note2) Forward P/E Ratio = Share price/Estimated EPS
 (Source) SMAM, based on Bloomberg L.P. data.

(TSE 1) Recurring Profits (YoY, %)

Year	2017 (Actual)	2018 (Estimate)	2019 (Estimate)	2020 (Estimate)
All Sectors (ex. Financials)	17.1	8.2	7.1	4.6
Manufacturing	22.9	8.6	5.7	8.5
Non-manufacturing	10.5	7.6	9.0	-0.3

(TOPIX500)

Year	2017 (Actual)	2018 (Estimate)	2019 (Estimate)	2020 (Estimate)
All Sectors (ex. Financials)	18.0	8.0	7.3	4.6
Manufacturing	24.4	8.7	6.1	8.3
Non-manufacturing	10.7	7.0	9.0	-0.1

(TOPIX Small)

Year	2017 (Actual)	2018 (Estimate)	2019 (Estimate)	2020 (Estimate)
All Sectors (ex. Financials)	9.3	12.9	10.4	6.0
Manufacturing	12.0	15.1	10.8	7.2
Non-manufacturing	5.6	9.8	9.7	4.2

(Note1) As of the end of December 2018. ■ indicates double-digit growth after FY2019. Estimate based on QUICK Consensus.
 (Source) SMAM, based on QUICK data.



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