

Market Insight: Japanese Equities

Tokio Marine Asset Management (London) Limited
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Japan – That Electric Feeling

“Galvanised” – fast and furious advent of the EVs

Down with the combustion engine



“The board is set, the pieces are moving” Gandalf famously said in The Lord of the Rings, referring to the forces of good and evil coming out of balance and into a rapid motion. One could quite as well use the same phrase for the automotive industry today, and one of the pieces that have been stirring things up recently is EVs (Electric Vehicles).

A series of high profile announcements by the governments of France, UK and other countries has seen many of them set specific dates to ban the sales of new combustion engine cars.

Table 1 Announcements of intention to restrict new fossil-fuel car sales

Country	Announced	Commences
Japan	Jun 2015	2030*
Norway	Jun 2016	2025**
India	May 2017	2030
France	Jul 2017	2040
UK	Jul 2017	2040
China	Sep 2017	-

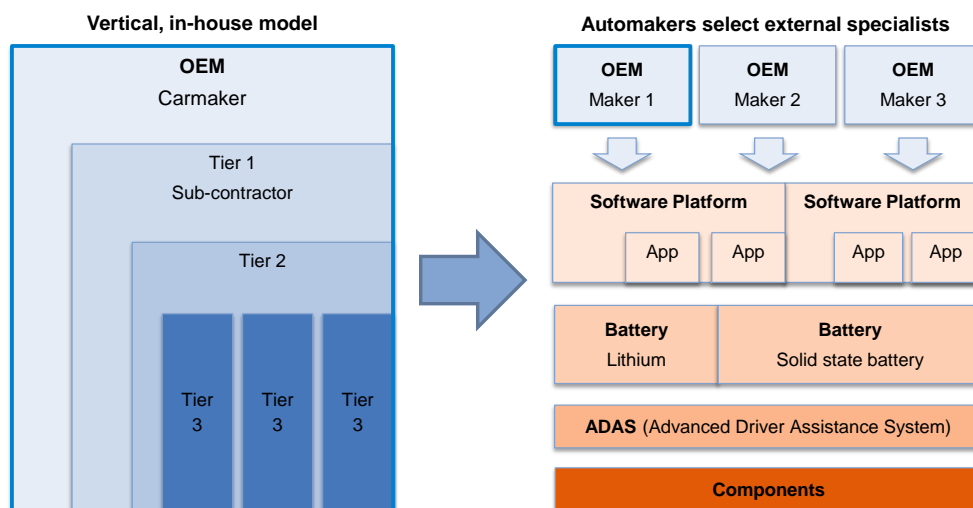
Sources: Press (BBC, Economist, Guardian, Independent), METI

* 50% of new car sales to be EV/PHV

** Announced, but not implemented

While it remains to be seen how practical the specific deadlines will prove to be, the consequences are already far-reaching. Along with the emergence of self-driving technology, they are causing a shake-up of the auto industry, which for many years was dominated by large car manufacturers, with subcontractors forming several tiers in their supply chains. New technologies are increasingly being provided by external specialists – barbarians are at the gates, and the established order is crumbling, creating interesting investment opportunities.

Chart 1 Structural Shift in the Automotive Industry



Source: TMAM

Manufacturers go with the flow

The car manufacturers took notice of government announcements, and a number of players are promising to flood our streets with EVs and hybrid cars.

Table 2 Announcements by Car Manufacturers to Increase EV Production

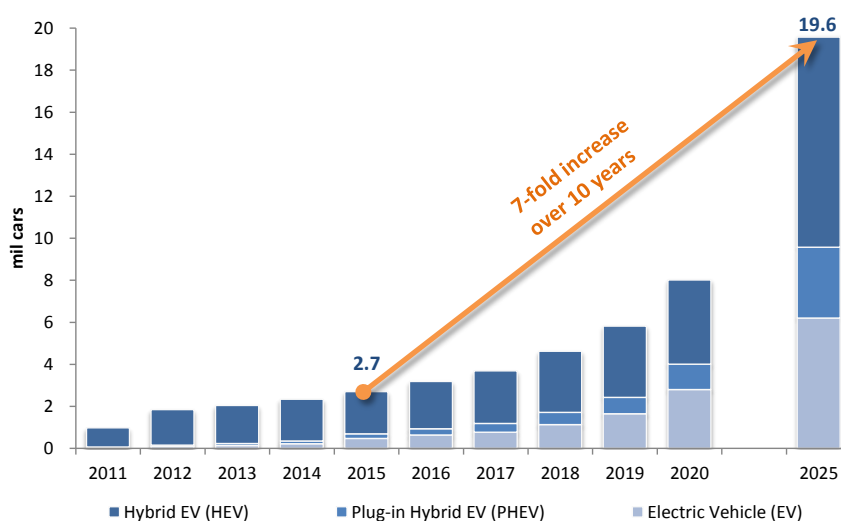
Car Manufacturer	Year	EV Initiatives
Volvo	2019	electrify entire vehicle line-up
Jaguar Land Rover	2020	electrify entire vehicle line-up
Toyota and Mazda	2021	new \$1.6bn U.S.-based plant for electric/hybrid vehicles
Daimler	2022	electrify "entire portfolio", 50 electric and hybrid models
Renault, Nissan, Mitsubishi	2022	12 all-electric models
GM	2023	20 all-electric vehicles

Ford	2023	13 all-electric models
VW Group	2030	electric and hybrid versions of 300 vehicles

Source: Press (Automotive News, Mashable UK)

The market growth potential is significant, and while the specific numbers projected differ, the general consensus is that the only way is up.

Chart 2 Forecasted Global EV Annual Shipments (mil cars)



Source: Automobile Inspection & Registration Information Association

“Electrical undercurrent” – Japan’s underrated contribution to EVs

EVs – show me what you are made of

Today, EV-related headlines are typically dominated by Tesla Inc., but one notable Japanese exception recently has been Nissan Leaf. While we find Nissan’s investment case convincing in the long term, there are also more subtle ways to invest into the EV surge.

For instance, building new electric cars means many more batteries and electric motors need to be produced. There is a number of stocks, which are well positioned to benefit from the ensuing demand, Sumitomo Metal Mining (5713), and Mitsubishi Chemical (4188) to name a few.

Sumitomo’s case is a particularly strong one as they own the MCLE (Matte Chlorine Leach Electrowinning) technology of highly efficient electrolyte nickel and cobalt production. Both metals are crucial in high-capacity batteries. And Mitsubishi Chemical is the world’s biggest manufacturer of electrolyte solution for lithium-ion batteries.

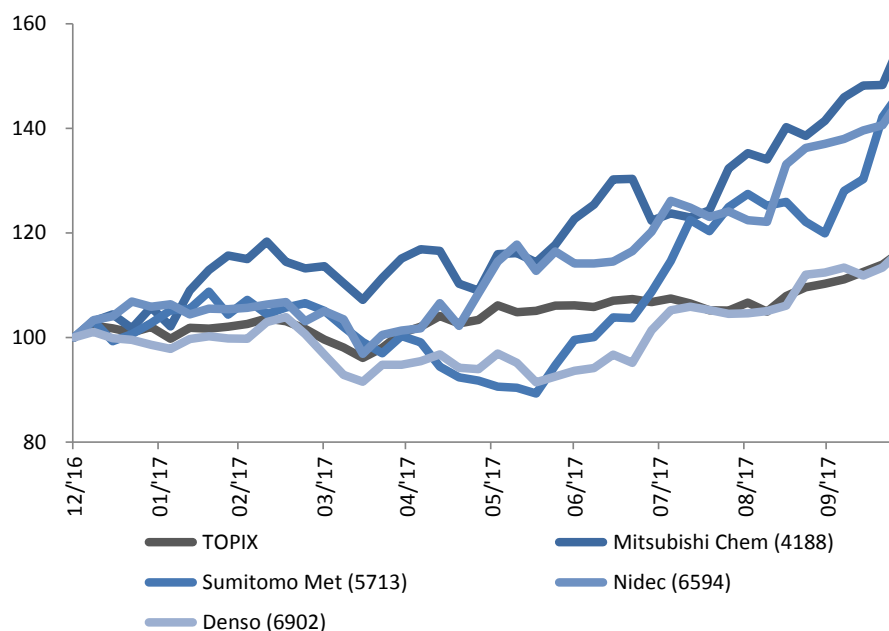
Efficiently electric

Another dimension of EV proliferation is the growing demand for electrically powered components. Their efficiency is a much bigger issue in electric cars than in their combustion engine counterparts, because every additional piece that consumes electricity means more battery drainage and shorter range.

One example of an industry incumbent succeeding in this environment is Denso (6902), a global auto parts supplier. This firm produces efficient electrical components such as air conditioning systems as one example, and is also a leader in ADAS (advanced driver assistance systems), leveraging on another major trend – the gradual shift to autonomous driving.

Nidec's (6594) business was focused on small precision motors for hard disk/DVD drives, but as its core business slowed down, it found a reincarnation in supplying the moving parts that help steer, adjust seats and cool the engines in cars.

Chart 3 Comparative YTD Stock Performance



Source: Bloomberg

Our approach (Growth at Reasonable Price or 'GARP') to stock selection has consistently been effective in identifying growth names, while also paying attention to valuations. With plenty of opportunities like those mentioned above, we feel confident about continuing to select interesting ideas for our clients.

Tokio Marine Asset Management (TMAM)

TMAM is a Japan/Asia equity specialist with over 30 years' market experience and approx. \$57.2 bn AUM (as of September-end 2017).

Product info

Our flagship Japanese Equity GARP strategy, managed by our veteran PM Yoshihisa Nakagawa, is a diversified portfolio of growth stocks with a two-decade-long track record.

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