Sumitomo Mitsui Asset Management
SMAM

For Information Only

7 October, 2014

Teach Me ! Q&A

QUESTION

Today's Theme Japan

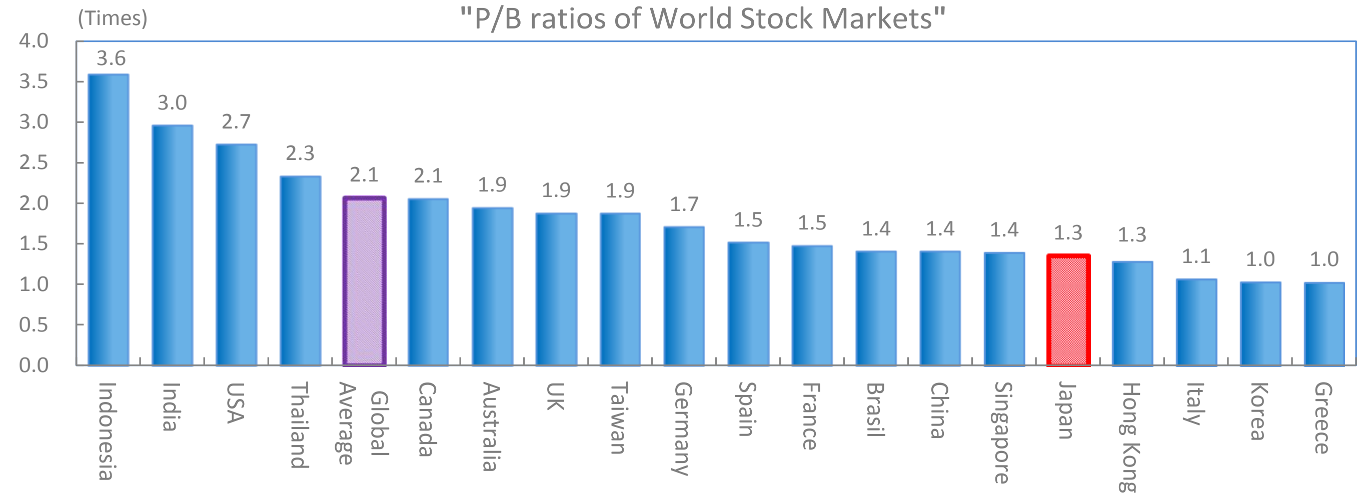
Japanese Equity Market (Series 3 / 3)

Q Is Japanese Equity market really "Undervalued"?

A YES. In terms of global comparison, Japan is relatively undervalued as its P/B ratio is only 1.3 times, much lower than the global average. The undervaluation is outstanding and such perception is justifiable as Japan is equipped with solid earnings growth.

■ The Price to Book value ratio, hereafter P/B ratio, is one of the index to evaluate the valuation of stock prices. This index is used to evaluate the relative cheapness of stock price compared with book value of net asset of the stock. It is calculated by the stock price divided by book value of net asset (shareholder's equity) per share of the stock.

■The global average of the P/B ratio of the major markets is 2.1 times as of September end, 2014. The most highly rated countries among the developed markets and the emerging markets are the US traded on 2.7 times and Indonesia on 3.6 times, respectively.



(Note) All of the data is MSCI based as of September end 2014.
The definition of P/B ratio is share price divided by net asset value (shareholder's equity) per share.
(Source) SMAM, based on FactSet data

Outlook Relatively low PBR of Japan is expected to be corrected by healthy earnings growth.

■Among the global markets, Japan is currently traded undervalued with modest 1.3 times of P/B ratio.

■Recently, the Japanese corporations are increasingly focusing on their growth in shareholder's interests through more efficient use of given capital. The increase in the return on equity is the factor of increasing their P/B ratios as well.

■Also, the Japanese equity market begin to look undervalued from the P/E perspective due to weakening of yen and improving corporate earnings. More market participants are beginning to consider such Japan as an "Undervalued" market lately. Therefore, we expect the "laggard" to gradually catch up the world leaders going forward, confirming the extent of improvement in capital efficiency and earnings capability of the Japanese corporations.

*** P/E ratio is an index dividing share price by earnings per share.**

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