

### Struggling in Japan but ahead of rivals

#### Leaving overall 17/3 OP forecast unchanged, but revise down for Japan and up for overseas

**Investment stance: still Neutral, but earnings stronger than at sector peers**

We have fine-tuned our forecasts following the 17/3 H1 results briefing (see our 1 November Global Research report [Japan construction sector: Sanwa Holdings' results briefing](#)). We retain our Neutral rating, but amid lackluster business conditions in Japan earnings are stronger than at rivals, underpinned by the company's adept cost control abilities and efforts to diversify both in Japan and overseas. We revise down our outlook for Japanese operations, having lowered our product volume forecasts for the industry for 17/3 and beyond. We revise up our forecasts for overseas operations to reflect steady progress in H1, despite assuming a stronger yen, and leave our overall 17/3 operating profit forecast unchanged. Our 17/3 EPS forecast is also unchanged, but a rise in the average P/E for the benchmark Russell/Nomura Large Cap (manufacturing) index lifts our target price to ¥1,140.

**Still expecting medium-term profit growth, but decline in product volumes likely to continue**

We expect the same trend of reining in costs to offset a decline in product volumes at Japanese operations seen in H1 to continue in H2. We are more downbeat about the impact of these volume declines than management and have cut our earnings forecasts as a result. We expect product volumes to remain lackluster through 18/3 H1 owing to a decline in construction start floor area for factories and plants. We have lowered our forecasts for 18/3 and beyond too but still look for sustained profit growth as full-fledged boosts from major projects kick in.

**We revise up our outlook for overseas operations on steady progress in Europe and the US**

While we expect Japanese operations to struggle over the near term, the company's overseas operations have performed well and we raise our forecasts for the US and European businesses in 17/3 and beyond. We think restructuring at the European business is running ahead of management expectations and we expect continued strong sales of products such as industrial doors. We think earnings are likely to overshoot guidance at the US business too given strong progress in H1 and the spike in costs stemming from production difficulties in 16/3 H2.

Cons	16/3		17/3E		18/3E		19/3E	
	Actual	Old	New	Co's	Old	New	Old	New
Currency: JPY								
<b>Sales (mn)</b>	365,615	363,000	357,500	357,000	380,000	375,000	393,000	388,500
<b>Ope profits (mn)</b>	26,870	28,100	28,100	28,200	31,100	30,800	32,900	32,500
<b>EPS</b>	63.1	72.1	72.1	73.0	80.4	79.6	85.2	83.9
<b>P/E (x)</b>	16.6	14.5	14.5	N/A	13.0	13.2	12.3	12.5
<b>EV/EBITDA (x)</b>	7.4	6.9	6.9	N/A	6.1	6.2	5.6	5.7
<b>P/B (x)</b>	1.9	1.7	1.7	N/A	1.6	1.6	1.5	1.5
<b>Dividend yield (%)</b>	2.2	2.4	2.4	N/A	2.7	2.7	2.9	2.9

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

### Global Markets Research

8 November 2016

<b>Rating</b> Remains	<b>Neutral</b>
<b>Target Price</b> Increased from 1,090	JPY 1,140
<b>Closing price</b> 7 November 2016	JPY 1,049
<b>Potential upside</b>	+8.7%

### Anchor themes

In Japan, we expect margins on non-residential products to continue improving in response to higher margins at companies that place orders and solid growth in demand. As we expect sales of high-margin lightweight shutters to decline over the longer term, our attention is on companies' longer-term growth strategies.

### Catalyst

Amid weak shipments of heavy-duty shutters and other products in Japan, our focus is on JSDA statistics and data on nonresidential construction starts. The share price is likely to be swayed by announcements of shareholder returns such as the buybacks that management has been continuing with over the past few years.

### Research analysts

#### Japan construction

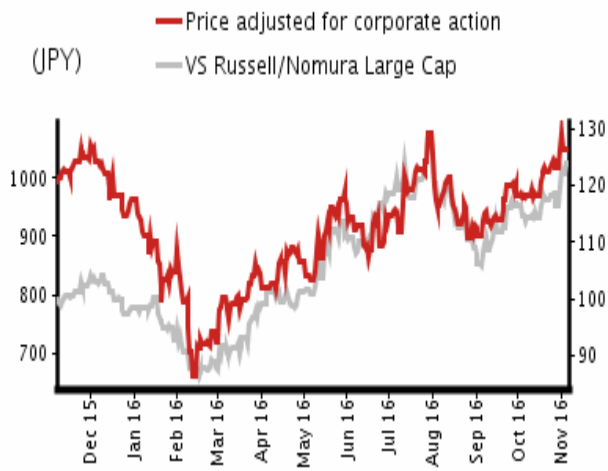
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# Key data on Sanwa Holdings

## Rating

Stock	Neutral
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## Relative performance chart



Source: ThomsonReuters, Nomura research

## Performance

(%)	1M	3M	12M
Absolute	7.9	10.2	5.5
Relative to Russell/Nomura Large Cap	7.3	4.2	19.4

## Stock price data

Current stock price (JPY)	1,049
Market capitalization (JPY bn)	250.7
52-week low stock price (JPY)	660
52-week high stock price (JPY)	1,118
Shares out (mn)	239.0

Source: ThomsonReuters, Nomura research

## Valuation and ratio analysis

(JPY)	16/3	17/3E	18/3E	19/3E
EPS	63.1	72.1	79.6	83.9
BPS or NAV per share	565.6	612.9	665.3	720.4
DPS	23.0	25.0	28.0	30.0
ROE (%)	11.4	12.2	12.4	12.1

## Income statement

(JPY mn)	16/3	17/3E	18/3E	19/3E
Sales	365,615	357,500	375,000	388,500
Operating profits	26,870	28,100	30,800	32,500
EBITDA	36,306	37,500	40,200	41,900
Interest & dividend income	486	500	750	750
Interest expense	719	700	650	600
Recurring profits	26,161	27,400	30,100	31,800
Pretax profits	23,740	26,200	28,900	30,600
Minority interest	60	100	100	100
Profits attributable to owners of parent	14,627	16,500	18,200	19,200
(Equity in net income of affiliates)	-176	-500	-400	-400

## Balance sheet

(JPY mn)	16/3	17/3E	18/3E	19/3E
Current assets	188,575	202,900	208,900	227,700
Operating receivables	81,756	84,000	88,000	93,000
Inventories	48,331	51,000	53,000	55,500
Long-term assets	121,694	119,600	117,600	118,600
Total assets	310,269	322,500	326,500	346,300
Operating payables (Current)	46,075	50,000	51,000	52,500
Interest-bearing debt	70,797	68,000	58,000	60,000
Total liabilities	179,934	181,300	173,300	180,500
Net assets	130,334	141,200	153,200	165,800
Shareholders' equity	129,389	140,200	152,200	164,800

## Cash flow statement

(JPY mn)	16/3	17/3E	18/3E	19/3E
Operating cash flow	24,378	27,100	25,200	24,900
Profits attributable to owners of parent	14,627	16,500	18,200	19,200
Depreciation	8,022	8,000	8,000	8,000
Change in working capital	-3,192	-988	-5,000	-6,000
Investment cash flow	-15,641	-9,000	-9,000	-9,000
Capex	-8,127	-9,000	-9,000	-9,000
Free cash flow	8,737	18,100	16,200	15,900
Financial cash flow	-25,702	-8,500	-16,200	-4,600
Change in interest-bearing debt	-17,686	-2,797	-10,000	2,000
Dividend payments	-4,439	-5,700	-6,200	-6,600
Change in cash & equivalents	-17,238	9,600	0	11,300

Source: Company data, Nomura estimates

Note: We assume USD/JPY of 103 and EUR/JPY of 114 from 17/3 Q3 onwards.

**Fig. 1: Sanwa Holdings [5929]: consolidated earnings by segment**

Consolidated earnings by segment	14/3	15/3	16/3	New							Old		Co's
				17/3E	17/3E	18/3E	18/3E	19/3E	19/3E	17/3E	17/3E		
(¥mn, except where noted)													
Sales	311,957	339,045	365,615	357,500	363,000	375,000	380,000	388,500	393,000	357,000			
% y-y	17.3	8.7	7.8	-2.2	-0.7	4.9	4.7	3.6	3.4	-2.4			
Sanwa Shutter parent	160,520	169,419	180,157	184,500	189,500	195,000	198,000	200,500	203,000	182,000			
% y-y	12.8	5.5	6.3	2.4	5.2	5.7	4.5	2.8	2.5	1.0			
Other domestic subsidiaries	28,581	29,108	30,822	32,000	33,000	35,000	35,000	37,000	37,000	32,000			
% y-y	11.0	1.8	5.9	3.8	7.1	9.4	6.1	5.7	5.7	3.8			
ODC (US)	87,247	98,504	110,085	100,000	101,500	102,000	104,000	105,500	107,500	99,960			
% y-y	25.7	12.9	11.8	-9.2	-7.8	2.0	2.5	3.4	3.4	-9.2			
Novoferm (Europe)	42,852	49,989	53,329	51,000	50,000	53,000	54,000	55,500	56,500	52,680			
% y-y	22.3	16.7	6.7	-4.4	-6.2	3.9	8.0	4.7	4.6	-1.2			
Others	-7,243	-7,975	-8,778	-10,000	-11,000	-10,000	-11,000	-10,000	-11,000	-9,640			
Operating profits	20,649	26,334	26,870	28,100	28,100	30,800	31,100	32,500	32,900	28,200			
% y-y	45.7	27.5	2.0	4.6	4.6	9.6	10.7	5.5	5.8	4.9			
Margin (%)	6.6	7.8	7.3	7.9	7.7	8.2	8.2	8.4	8.4	7.9			
Sanwa Shutter parent	13,470	17,517	18,674	18,800	19,300	21,000	21,500	21,800	22,300	19,000			
% y-y	54.5	30.0	6.6	0.7	3.4	11.7	11.4	3.8	3.7	1.7			
Margin (%)	8.4	10.3	10.4	10.2	10.2	10.8	10.9	10.9	11.0	10.4			
Other domestic subsidiaries	1,323	1,682	1,758	1,900	2,000	2,100	2,300	2,400	2,600	1,950			
% y-y	69.2	27.1	4.5	8.1	13.8	10.5	15.0	14.3	13.0	10.9			
Margin (%)	4.6	5.8	5.7	5.9	6.1	6.0	6.6	6.5	7.0	6.1			
ODC (US)	4,868	6,301	6,383	7,500	7,100	7,500	7,400	7,900	7,900	7,245			
% y-y	23.9	29.4	1.3	17.5	11.2	0.0	4.2	5.3	6.8	13.5			
Margin (%)	5.6	6.4	5.8	7.5	7.0	7.4	7.1	7.5	7.3	7.2			
Novoferm (Europe)	1,077	1,504	1,679	2,100	1,900	2,400	2,100	2,600	2,300	2,160			
% y-y	39.7	39.7	11.6	25.1	13.2	14.3	10.5	8.3	9.5	28.6			
Margin (%)	2.5	3.0	3.1	4.1	3.8	4.5	3.9	4.7	4.1	4.1			
Others	-89	-670	-1,624	-2,200	-2,200	-2,200	-2,200	-2,200	-2,200	-2,155			
Local-currency basis													
ODC sales (\$'000)	890,375	925,271	909,573	960,000	960,000	992,500	992,500	1,025,500	1,025,500	952,000			
% y-y	2.7	3.9	-1.7	5.5	5.5	3.4	3.4	3.3	3.3	4.7			
ODC operating profits (\$'000)	49,681	59,183	52,747	72,000	67,000	73,000	70,000	77,000	75,000	69,000			
% y-y	1.3	19.1	-10.9	36.5	27.0	1.4	4.5	5.5	7.1	30.8			
Margin (%)	5.6	6.4	5.8	7.5	7.0	7.4	7.1	7.5	7.3	7.2			
Novoferm sales (€ '000)	328,219	356,178	398,902	440,000	425,000	465,000	465,000	485,000	485,000	439,000			
% y-y	-3.1	8.5	12.0	10.3	6.5	5.7	9.4	4.3	4.3	10.1			
Novoferm operating profits (€ '000)	8,247	10,718	12,561	18,500	16,000	21,000	18,000	23,000	20,000	18,000			
% y-y	10.7	30.0	17.2	47.3	27.4	13.5	12.5	9.5	11.1	43.3			
Margin (%)	2.5	3.0	3.1	4.2	3.8	4.5	3.9	4.7	4.1	4.1			
Average forex rates													
\$/¥	97.99	106.46	121.0	104.1	105.7	103.0	105.0	103.0	105.0	105.0			
€/¥	130.56	140.35	133.7	116.0	117.5	114.0	116.0	114.0	116.0	120.0			

Source: Company data, Nomura estimates

**Fig. 2: Sanwa Holdings [5929]: consolidated earnings by segment (quarterly)**

Consolidated earnings by segment	15/3				16/3				17/3	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
(¥mn, except where noted)										
Sales	61,817	84,589	75,995	116,644	66,884	94,042	81,020	123,669	68,602	91,855
% y-y	11.3	7.3	10.3	7.4	8.2	11.2	6.6	6.0	2.6	-2.3
Sanwa Shutter parent	26,324	45,618	32,339	65,138	26,928	49,000	35,509	68,720	27,084	48,151
% y-y	10.2	10.4	2.8	2.0	2.3	7.4	9.8	5.5	0.6	-1.7
Domestic subsidiaries	5,393	6,865	6,623	10,227	5,379	7,605	6,560	11,278	5,615	7,826
% y-y	1.9	3.2	-2.6	4.0	-0.3	10.8	-1.0	10.3	4.4	2.9
Overhead Door Corporation (ODC, US)	20,382	23,154	25,916	29,052	24,294	27,058	28,714	30,019	24,632	25,359
% y-y	12.4	5.3	16.0	17.2	19.2	16.9	10.8	3.3	1.4	-6.3
Novoferm (Europe)	11,048	11,014	13,008	14,919	11,707	12,697	12,424	16,501	13,022	13,086
% y-y	16.6	3.2	26.2	20.4	6.0	15.3	-4.5	10.6	11.2	3.1
Others	-1,330	-2,062	-1,891	-2,692	-1,424	-2,318	-2,187	-2,849	-1,751	-2,567
Operating profits	574	6,566	4,339	14,855	-1,161	7,212	4,022	16,797	-110	8,086
% y-y	-	27.0	13.3	20.7	-	9.8	-7.3	13.1	-	12.1
Margin (%)	0.9	7.8	5.7	12.7	-1.7	7.7	5.0	13.6	-0.2	8.8
Sanwa Shutter	379	4,860	2,012	10,266	-245	5,846	1,778	11,295	-486	5,665
% y-y	-	17.2	17.8	26.0	-	20.3	-11.6	10.0	-	-3.1
Margin (%)	1.4	10.7	6.2	15.8	-0.9	11.9	5.0	16.4	-1.8	11.8
Domestic subsidiaries	38	409	202	1,033	-83	475	154	1,212	-98	403
% y-y	52.0	52.6	-22.6	34.3	-	16.1	-23.8	17.3	-	-15.2
Margin (%)	0.7	6.0	3.0	10.1	-1.5	6.2	2.3	10.7	-1.7	5.1
Overhead Door Corporation (ODC, US)	276	1,306	1,933	2,786	-129	1,088	1,920	3,504	771	1,715
% y-y	-	92.3	22.4	11.1	-	-16.7	-0.7	25.8	-	57.6
Margin (%)	1.4	5.6	7.5	9.6	-0.5	4.0	6.7	11.7	3.1	6.8
Novoferm (Europe)	-134	66	477	1,095	-328	208	514	1,285	237	643
% y-y	-	-	-15.4	38.7	-	215.2	7.8	17.3	-	209.1
Margin (%)	-1.2	0.6	3.7	7.3	-2.8	1.6	4.1	7.8	1.8	4.9
Others	15	-75	-285	-325	-376	-405	-344	-499	-534	-340
Consolidated income statement										
Sales	61,817	84,589	75,995	116,644	66,884	94,042	81,020	123,669	68,602	91,855
% y-y	11.3	7.3	10.3	7.4	8.2	11.2	6.6	6.0	2.6	-2.3
Operating profits	574	6,566	4,339	14,855	-1,161	7,212	4,022	16,797	-110	8,086
% y-y	-	27.0	13.3	20.7	-	9.8	-7.3	13.1	-	12.1
Margin (%)	0.9	7.8	5.7	12.7	-1.7	7.7	5.0	13.6	-0.2	8.8
Recurring profits	353	6,473	4,121	15,028	-1,298	6,938	3,893	16,628	-184	7,391
% y-y	-	29.7	5.8	24.0	-	7.2	-5.5	10.6	-	6.5
Margin (%)	0.6	7.7	5.4	12.9	-1.9	7.4	4.8	13.4	-0.3	8.0
Profits attributable to owners of parent	11	3,275	3,152	6,419	-1,195	4,421	2,259	9,142	-490	4,493
% y-y	-	36.3	29.9	-5.9	-	35.0	-28.3	42.4	-59.0	1.6
Margin (%)	0.0	3.9	4.1	5.5	-1.8	4.7	2.8	7.4	-0.7	4.9

Source: Nomura, based on company data

**Fig. 3: Sanwa Holdings [5929]: consolidated income statement and balance sheet**

				(¥mn, except where noted)						
Consolidated income statement	14/3	15/3	16/3	New 17/3E	Old 17/3E	New 18/3E	Old 18/3E	New 19/3E	Old 19/3E	Co's 17/3E
Sales	311,957	339,045	365,615	357,500	363,000	375,000	380,000	388,500	393,000	357,000
% y-y	17.3	8.7	7.8	-2.2	-0.7	4.9	4.7	3.6	3.4	-2.4
Gross profits	86,003	96,771	105,537	104,000	106,000	111,000	112,000	116,000	117,000	
% y-y	24.1	12.5	9.1	-1.5	0.4	6.7	5.7	4.5	4.5	
Margin (%)	27.6	28.5	28.9	29.1	29.2	29.6	29.5	29.9	29.8	
SG&A expenses	65,353	70,437	78,666	75,900	77,900	80,200	80,900	83,500	84,100	
% y-y	18.6	7.8	11.7	-3.5	-1.0	5.7	3.9	4.1	4.0	
Margin (%)	20.9	20.8	21.5	21.2	21.5	21.4	21.3	21.5	21.4	
Operating profits	20,649	26,334	26,870	28,100	28,100	30,800	31,100	32,500	32,900	28,200
% y-y	45.7	27.5	2.0	4.6	4.6	9.6	10.7	5.5	5.8	4.9
Margin (%)	6.6	7.8	7.3	7.9	7.7	8.2	8.2	8.4	8.4	7.9
Recurring profits	20,316	25,975	26,161	27,400	27,400	30,100	30,400	31,800	32,200	27,500
% y-y	45.2	27.9	0.7	4.7	4.7	9.9	10.9	5.6	5.9	5.1
Margin (%)	6.5	7.7	7.2	7.7	7.5	8.0	8.0	8.2	8.2	7.7
Profits attributable to owners of parent	10,161	12,857	14,627	16,500	16,500	18,200	18,400	19,200	19,500	16,700
% y-y	41.5	26.5	13.8	12.8	12.8	10.3	11.5	5.5	6.0	14.2
Margin (%)	3.3	3.8	4.0	4.6	4.5	4.9	4.8	4.9	5.0	4.7
DPS (¥)	13	16	23	25	25	28	28	30	30	25
Interim (¥)	6	7	10	12	12	14	14	15	15	12
Year-end (¥)	7	9	13	13	13	14	14	15	15	13
Payout ratio (%)	30.7	29.5	36.4	34.7	34.7	35.2	34.8	35.7	35.2	34.2
Consolidated balance sheet										
Cash & equivalents	54,926	64,310	49,306	58,900	58,600	58,900	58,700	70,200	70,100	
Accounts receivable	72,946	78,387	81,756	84,000	84,000	88,000	88,000	93,000	93,000	
Inventory assets	41,713	46,971	48,331	51,000	51,000	53,000	53,000	55,500	55,500	
PPE/intangible long-term assets	72,592	85,989	80,273	78,100	78,100	76,100	76,100	77,100	77,100	
Other assets	39,740	47,670	50,603	50,500	50,500	50,500	50,500	50,500	50,500	
Total assets	281,917	323,327	310,269	322,500	322,200	326,500	326,300	346,300	346,200	
Accounts payable	43,608	44,538	46,075	50,000	50,000	51,000	51,000	52,500	52,500	
Interest-bearing debt	69,153	88,483	70,797	68,000	68,000	58,000	58,000	60,000	60,000	
Other liabilities	55,200	63,557	63,062	63,300	63,000	64,300	63,900	68,000	67,400	
Shareholders' equity	113,789	126,532	129,389	140,200	140,200	152,200	152,400	164,800	165,300	
Minority interests	167	217	946	1,000	1,000	1,000	1,000	1,000	1,000	
Total liabilities and net assets	281,917	323,327	310,269	322,500	322,200	326,500	326,300	346,300	346,200	
Turnover period (months)										
Operating assets	5.5	5.9	5.4	5.5	5.4	5.3	5.2	5.3	5.3	
Invested capital	6.7	7.1	7.0	6.6	6.5	6.3	6.3	6.6	6.5	
Total assets	10.8	11.4	10.2	10.8	10.7	10.4	10.3	10.7	10.6	
Cash & equivalents	2.1	2.3	1.6	2.0	1.9	1.9	1.9	2.2	2.1	
Accounts receivable	2.8	2.8	2.7	2.8	2.8	2.8	2.8	2.9	2.8	
Inventory assets	1.6	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.7	
Accounts payable	1.7	1.6	1.5	1.7	1.7	1.6	1.6	1.6	1.6	
Working capital	2.7	2.9	2.8	2.9	2.8	2.9	2.8	3.0	2.9	
PPE/intangible long-term assets	1.4	1.7	1.4	1.4	1.4	1.2	1.2	0.6	0.6	

Source: Company data, Nomura estimates

**Fig. 4: Sanwa Holdings [5929]: consolidated cash flow and indicators**

Consolidated cash flow	14/3	15/3	16/3	(¥mn, except where noted)					
				New 17/3E	Old 17/3E	New 18/3E	Old 18/3E	New 19/3E	Old 19/3E
Profits attributable to owners of parent	10,161	12,857	14,627	16,500	16,500	18,200	18,400	19,200	19,500
Depreciation	6,180	7,188	8,022	8,000	8,000	8,000	8,000	8,000	8,000
Goodwill amortization	446	935	1,414	1,400	1,400	1,400	1,400	1,400	1,400
Change in working capital	-1,140	-4,729	-4,290	-1,000	-1,000	-5,000	-5,000	-6,000	-6,000
Other	4,081	6,053	4,605	2,200	1,900	2,600	2,500	2,300	2,100
Operating cash flow	19,728	22,304	24,378	27,100	26,800	25,200	25,300	24,900	25,000
Acquisition or sale of PPE	-7,116	-7,727	-8,127	-9,000	-9,000	-9,000	-9,000	-9,000	-9,000
Other	13,048	-19,353	-7,514	0	0	0	0	0	0
Investment cash flow	5,932	-27,080	-15,641	-9,000	-9,000	-9,000	-9,000	-9,000	-9,000
Change in borrowings	6,539	13,443	-16,235	-4,800	-4,800	-13,000	-13,000	2,000	2,000
Dividend payments	-2,637	-3,356	-4,439	-5,700	-5,700	-6,200	-6,200	-6,600	-6,600
Share buybacks	-25	-5,010	-5,001	0	0	0	0	0	0
Other	-26	538	-27	2,000	2,000	3,000	3,000	0	0
Financial cash flow	3,876	10,625	-25,702	-8,500	-8,500	-16,200	-16,200	-4,600	-4,600
Consolidated indicators									
Free cash flow	25,660	-4,776	8,737	18,100	17,800	16,200	16,300	15,900	16,000
EBITDA	27,275	34,457	36,306	37,500	37,500	40,200	40,500	41,900	42,300
Shares out (FY-end, mn)	258	244	239	239	239	239	239	239	239
Treasury stock (FY-end, mn)	18	10	10	10	10	10	10	10	10
EPS (¥)	42.4	54.1	63.1	72.1	72.1	79.6	80.4	83.9	85.2
CFPS (¥)	70.0	88.6	104.1	113.2	113.2	120.7	121.5	125.0	126.3
BPS (¥)	474.6	541.5	565.6	612.9	612.9	665.3	666.2	720.4	722.6
ROE (%)	9.6	10.7	11.4	12.2	12.2	12.4	12.6	12.1	12.3
ROA (%)	7.8	8.6	8.3	8.7	8.7	9.3	9.4	9.5	9.6
Net interest-bearing debt	14,227	24,173	22,169	9,800	10,100	-200	0	-9,500	-9,400
Net D/E ratio (x)	0.1	0.2	0.2	0.1	0.1	0.0	0.0	-0.1	-0.1
D/E ratio (x)	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4
Shareholders' equity to total assets (%)	40.4	39.1	41.7	43.5	43.5	46.6	46.7	47.6	47.7

Source: Company data, Nomura estimates

# Appendix A-1

## Analyst Certification

I, Atsushi Yoshioka, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sanwa Holdings	5929 JP	JPY 1,049	07-Nov-2016	Neutral	N/A	A6,A11

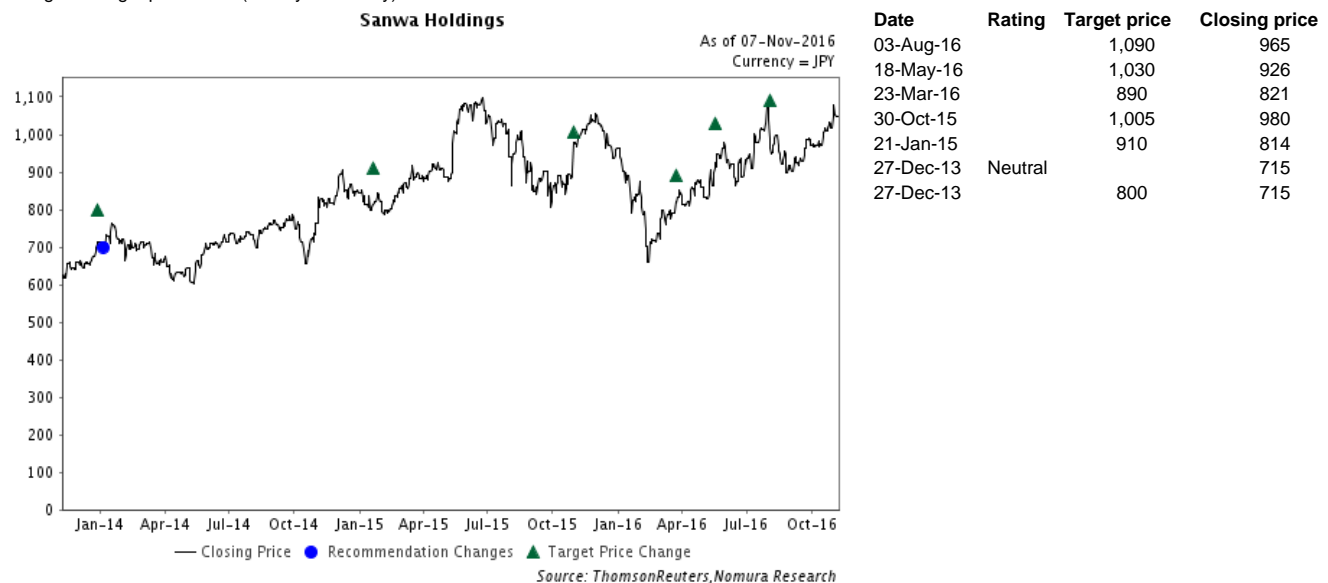
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### Sanwa Holdings (5929 JP)

JPY 1,049 (07-Nov-2016) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We obtain our target price of ¥1,140 by applying a P/E of around 15.8x, below the average for the Russell/Nomura Large Cap (manufacturing) index of 17.6x, to our 17/3 EPS forecast of ¥72.1. We discount the P/E we use by around 10% versus the benchmark. Although our operating profit CAGR estimate of 6.5% over the next three years is higher than the equivalent benchmark forecast of 5.4%, we factor in business risks overseas, such as production difficulties.

**Risks that may impede the achievement of the target price** Factors that could cause the share price to exceed our target price include earnings growth through a greater-than-expected improvement in margins on products for the non-residential market in Japan, or a greater improvement in margins in the US or Europe than management is projecting. Among potential risks on the downside, we see intensifying competition and unexpected cost increases in Japan, a slowdown in earnings in the overseas business, and production difficulties at overseas bases.

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As at 30 September 2016.

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Transactions involving convertible bonds are subject to a sales commission of up to 1.08% of the transaction amount (or a commission of ¥4,320 if this would be less than ¥4,320). When convertible bonds are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Convertible bonds carry the risk of losses owing to factors such as interest rate fluctuations and price fluctuations in the underlying stock. In addition, convertible bonds denominated in foreign currencies also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When bonds are purchased via public offerings, secondary distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. Bond prices may also fall below the invested principal as a result of such factors as changes in the management and financial circumstances of the issuer, or changes in third-party valuations of the bond in question. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used. When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For J117 and subsequent issues, the maturity value shall not undercut the face amount. Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.4% of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.4% (annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors.

No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,800 per issue transferred depending on volume.

## Nomura Securities Co., Ltd.

Financial instruments firm registered with the Kanto Local Finance Bureau (registration No. 142)

Member associations: Japan Securities Dealers Association; Japan Investment Advisers Association; The Financial Futures Association of Japan; and Type II Financial Instruments Firms Association.

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