

Mind Matters

Revulsion and valuation

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We have long argued that the final stage of the de-bubbling process is revulsion. This phase is characterised by overwhelmingly cheap asset prices. Recent price moves in the UK and European stock markets have taken us to levels that have generally been associated with revulsion (i.e. 10x). Of course, cheap markets can always get cheaper, but for the long-term investor this may provide an excellent entry point. From a bottom-up viewpoint, the general cheapness of the market is confirmed. Of special note is the quality of stocks that are currently passing our deep value screens – names like Microsoft, BP, Novartis and Sony!

■ The hallmark of revulsion is unambiguously cheap asset prices. The speed of the market's unravelling means that we are rapidly approaching the levels of valuation that are normally associated with revulsion. For instance, the UK and European markets are trading on 10x Graham and Dodd PEs (current price over 10 year moving average earnings).

■ Of course, valuation isn't a binding constraint in the short term. Cheap stocks can always get cheaper, and more expensive stocks can always get more expensive. However, for long-term investors these are compelling valuations indeed.

■ Once upon a long ago, I was often told that my favoured valuation measures were anachronistic, that they failed to capture growth and were at best simplistic, and at worst stupid. However, in recent weeks, investors have started to raise a different question. Rather than arguing that my use of 10 year average earnings ignores growth, they now argue that this measure has been inflated by good growth in recent years! Perhaps this switch in concern is the best sign of the times!

■ Bottom-up valuations show a similar picture. Around 60-70% of stocks are trading on Graham and Dodd PEs of less than 16x ("the maximum price one should be willing to pay for an investment" according to Ben Graham).

■ A more stringent approach favoured by Graham focused on stocks that pass three criteria – an earnings yield that is at least twice the AAA bond yield, a dividend yield that is at least two-thirds the AAA bond yield, and total debt that is less than two-thirds of tangible book value. I add in an extra condition, which is that a stock must have a G&D PE of less than 16x. When running this test, I find fewer stocks passing the screen than passed in November last year, largely as a result of the dividend cuts. However, the quality of the names appearing is very high – stocks such as Microsoft, BP, Novartis, Sony and SK Telecom all appear. For those with a taste for the more adventurous, a truly deep value net-net screen reveals that Japanese small caps are just about the cheapest assets in the world.

■ As I wrote recently, the slow deployment of cash into deep value opportunities remains my chosen path. The closer we move to revulsion the more cash I will seek to deploy. The road to revulsion is unpleasant, but it ends in value investor nirvana.

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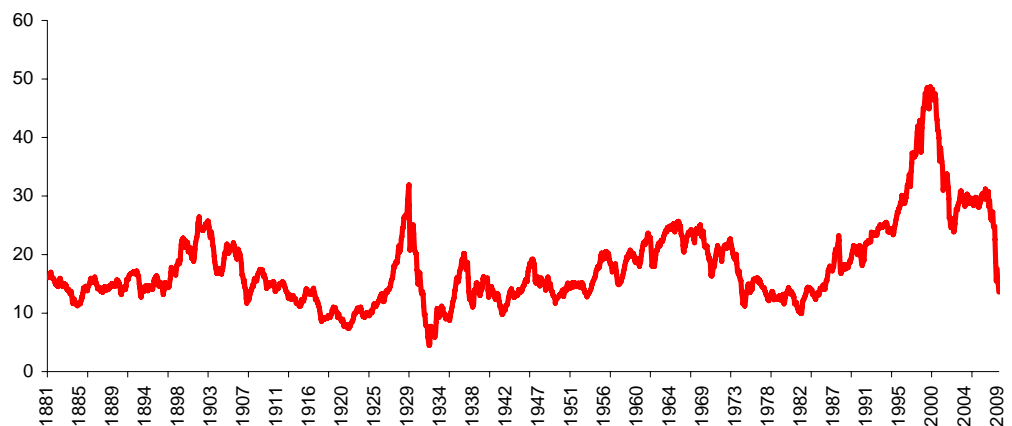
Revulsion and valuation

As regular readers will know, I have long argued that the final stage of any de-bubbling process is revulsion. The key hallmark of revulsion is unambiguously cheap asset prices. Revulsion is also characterised by us being embarrassed to admit we work in finance. On a personal note, we must surely be getting closer to revulsion on this basis. I was in the North of England a few weeks ago and took a cab, the driver asked me what I did for a living, and I had to wrack my brains for an answer that in those parts would be more socially acceptable than a banker – not easy since up there even paedophiles probably get a better press these days!

Indeed, the speed of the market's unravelling means that we are now rapidly approaching levels of valuation normally associated with revulsion. The chart below shows our perennial favourite among the valuation measures – the Graham and Dodd PE. This measures current price against a 10-year moving average of reported earnings.

We are currently trading on 13.6x this measure – the cheapest we have seen since 1986. The average since 1871 is 18x. So we are definitely on the cheap side of fair value. However, we are not yet at bargain basement levels. This tends to occur at around 10x. This represents an S&P500 of around 500. In the depths of the Great Depression, we saw an all-time low in terms of valuation when you could have bought the S&P500 for just 5x 10-year earnings.

US Graham and Dodd PE – S&P500

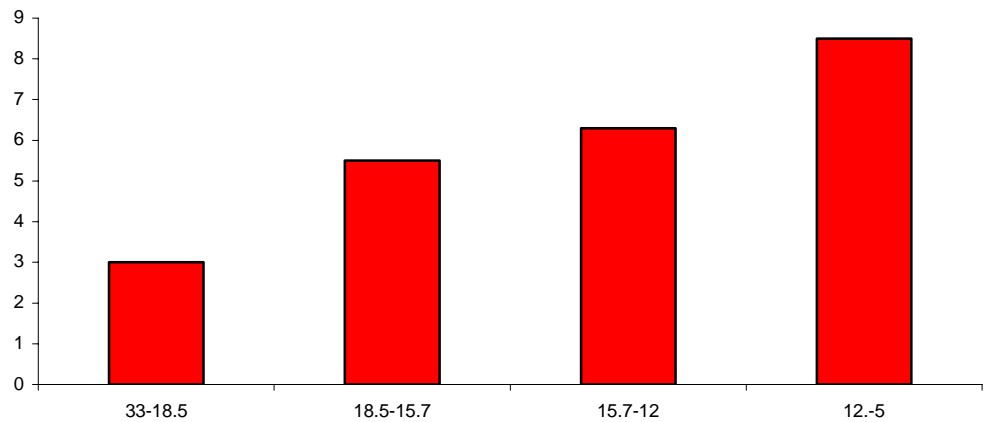


Source: SG Global Strategy

As I have pointed out many times before, valuation isn't a binding constraint in the short term: cheap stocks can always get cheaper and expensive stocks can always get more expensive. However, it is the primary determinant of long-term returns.

To illustrate this point, the chart below shows the real returns achieved over the subsequent decade based around a purchase point defined in terms of the Graham and Dodd PE. We are currently in the third column from the left; this column represents above average (but not yet superb) returns that are likely to be achieved by a Rip Van Winkle investor who can buy and forget about them for the next ten years.

Real returns over the next decade by purchase G&D PE (% p.a.)

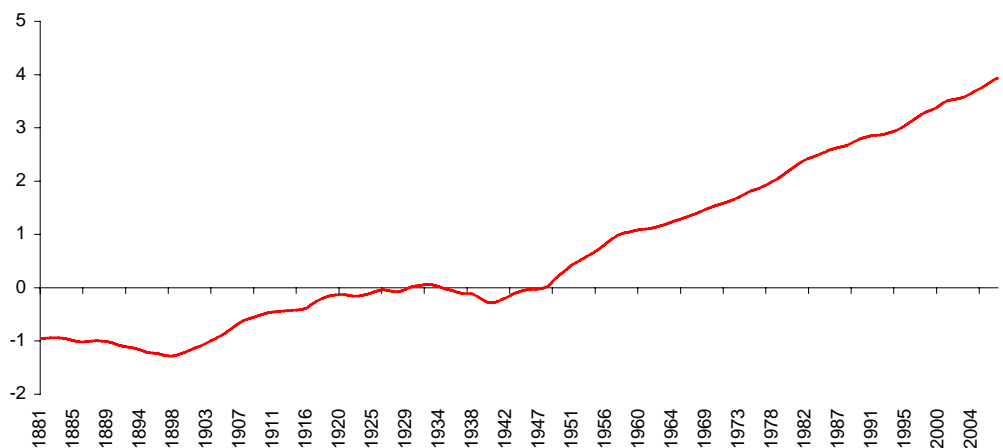


Source: SG Global Strategy

One of the interesting comments that has appeared in my meetings with clients over recent weeks concerns the denominator in the Graham and Dodd PE. In the past, I have been told my measure fails to capture growth, and that using a 10-year moving average of earnings is simplistic, even stupid. Such comments have disappeared over the last year. Instead they have been replaced by investors suggesting that the 10-year moving average is too high! If ever there was a sign of the times, this must surely be it!

I would argue that the 10-year moving average is just fine. After all it contains the post-bubble destruction of earnings as well as the more recent boom (and bust). The chart below shows the 10-year moving average of reported earnings that is used as the denominator in the Graham and Dodd PE. I can find no discernable change in its growth over the most recent period. So I would submit that it is still a sensible method to use. Indeed those arguing that it is flawed are running the risk of committing the same mistake that I made in 2003, ignoring the models when you have built them to work!

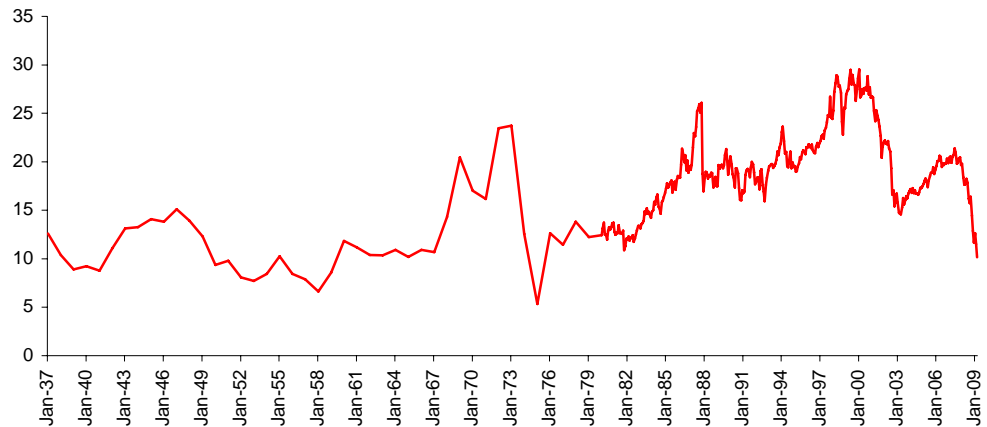
S&P500 10-year moving average of reported earnings (log)



Source: SG Global Strategy

Of course, the US isn't the only equity market in the world – and while the US isn't yet in revulsion, the UK and Europe do appear to be there already. The chart below shows the Graham and Dodd PE for the UK; we are currently trading at 10x on this measure. This is the cheapest the UK market has been since the mid-1970s. Of course, in the mid-1970s the UK had a secondary banking crisis and had to go to the IMF and ask for a bailout (sounds kind of familiar doesn't it!).

UK Graham and Dodd PE – the UK arrives in revulsion

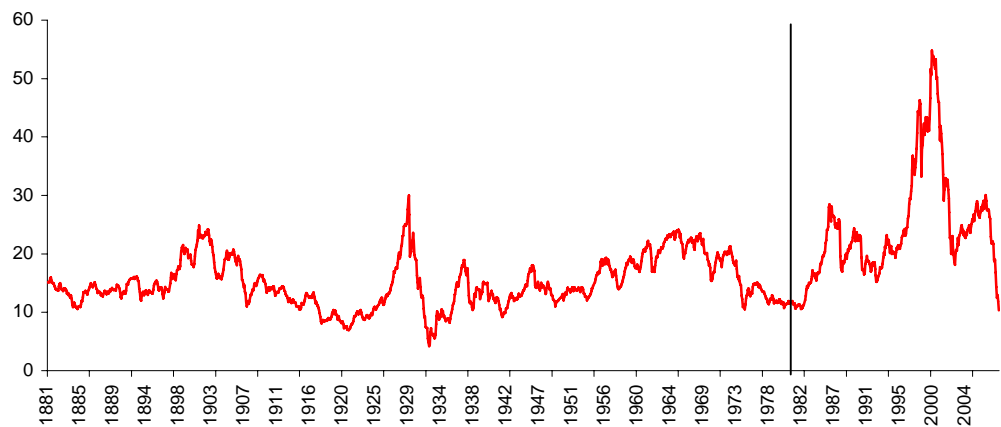


Source: SG Global Strategy

The history for Europe is much shorter than that available in the US or the UK. However, to give some idea of what the situation might have looked like, the chart below shows an artificial history pre 1982, calculated by applying the average discount on Europe post 1982 to the long run US history. The data post the vertical black line is the real data for Europe.

Europe is currently trading on a G&D PE of 10x, the lowest valuation since 1982. Just like the UK, Europe has arrived in revulsion territory.

European G&D PE with artificial history



Source: SG Global Strategy

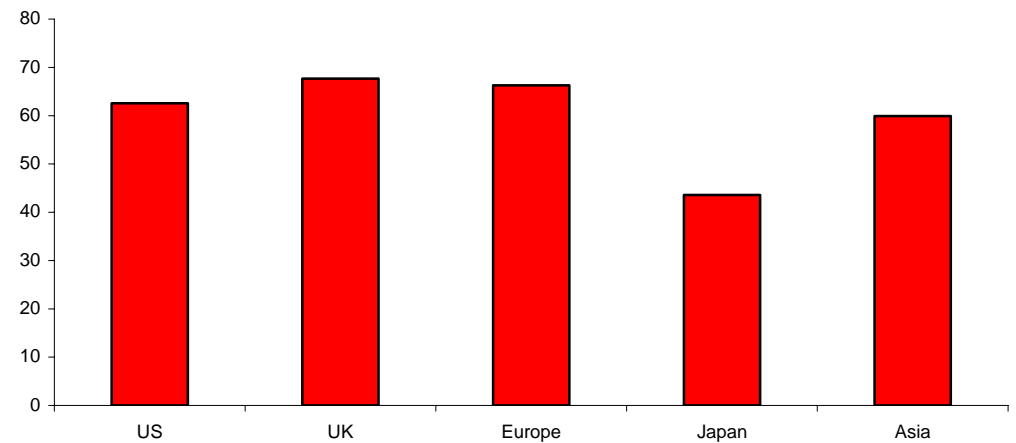
Bottom-up perspective

As I have often said, top-down valuation can only get you so far. A bottom-up perspective can also add insights. There are, of course, myriad ways to think about bottom-up valuations, but as befits me I like a simple approach.

For instance, the chart below shows the percentage of stocks in each market that are currently trading on less than 16x Graham and Dodd PEs. Why 16x? Because that is the level that Graham described as “the maximum one should be willing to pay for an investment”.

This generally confirms the top-down view point. Most markets appear to have somewhere between 60-70% of stocks on Graham and Dodd PEs of less than 16x. So value investors should be in their element.

% of stocks with G&D PEs < 16x



Source: SG Global Strategy

The problem of the disappearing dividends

A more stringent approach was recommended by Ben Graham shortly before his death. He argued that stocks should have an earnings yield at least twice the AAA bond yield, a dividend yield at least two-thirds the AAA bond yield, and total debt less than two-thirds of tangible book value. To this list I have added a constraint that it must have a G&D PE of less than 16x.

The table below shows the percentage of large cap stocks in each country/region passing these four criteria. Despite the fact that the markets are now below the levels seen in November 2008, the number of bottom-up opportunities is actually lower. The reason for this is all too obvious, dividends have been cut. So in past runs of the screen, stocks such as Pfizer and Nokia have appeared, and then proceeded to cut their dividend.

% of large cap stocks passing Graham criteria (ex Financials)

	Now	Nov-08
US	2	4
Europe	6	9
UK	6	8
Asia	16	17
Japan	20	20

Source: SG Global Strategy

Quality and deep value

That said, the quality of the stocks that are passing the deep value screen is impressive. Normally when I run these screens I get a list of stocks which I have never heard of (which doesn't stop me from buying them, of course). However, these days I am seeing names that I actually know. For instance, Microsoft is appearing in the US screen, BP in the UK, Novartis in the European screen, Sony in Japan, and SK Telecom in the Asian version (a full list of the stocks appears at the end of this note). This suggests that it is perfectly possible for an investor to build a diversified global portfolio of deep value stocks provided that they are prepared to shut their eyes for the next few years.

Small caps and net current assets

For those who are still worried about the use of earnings-based valuations, an alternative is to return to a balance sheet approach which Ben Graham would have approved (see [Mind Matters, 30 September 2008](#)).

In particular, Graham favoured net-nets. That is:

The type of bargain issue that can be most readily identified is a common stock that sells for less than the company's net working assets alone, after deducting all prior obligations. This would mean that the buyer would pay nothing at all for the fixed assets – buildings, machinery, etc. or any goodwill items that might exist. Very few companies turn out to have an *ultimate* value less than the working capital alone, although scattered instances may be found. The surprising thing, rather, is that there have been so many enterprises obtainable which have been valued in the market on this bargain basis.

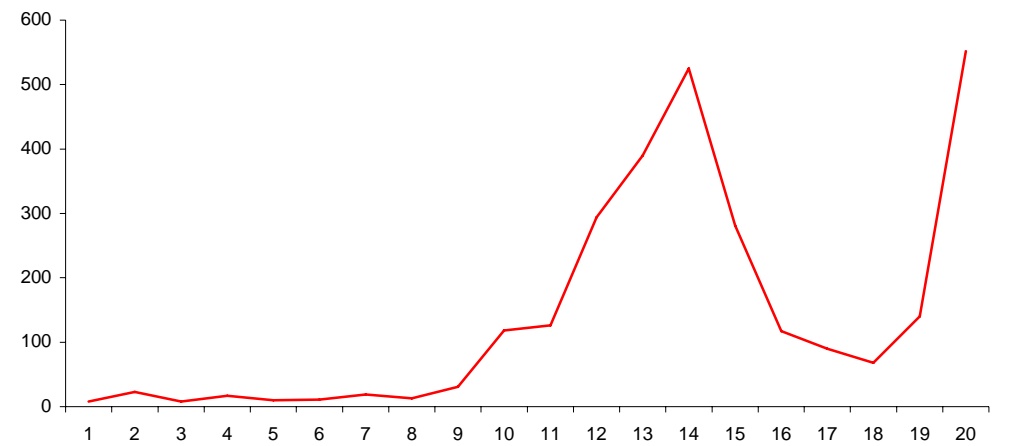
It is clear that these issues were selling at a price well below the value of the enterprise as a private business. No proprietor or majority holder would think of selling what he owned at so ridiculously low a figure...In various ways practically all these bargain issues turned out to be profitable and the average annual return proved much more remunerative than most other investments.

When Graham refers to net working capital, he means a company's current assets minus its total liabilities. Of course, Graham wasn't content with just buying firms trading on prices less than net current asset value. He required an even greater margin of safety. He would exhort the buying of stocks with prices of less than two-thirds of net current asset value (further increasing his margin of safety).

In today's market place, the vast majority of net-nets will tend to be small caps. The chart below shows the number of stocks that pass the net-net test over time. Currently I am finding the highest number of net-nets I have ever come across.

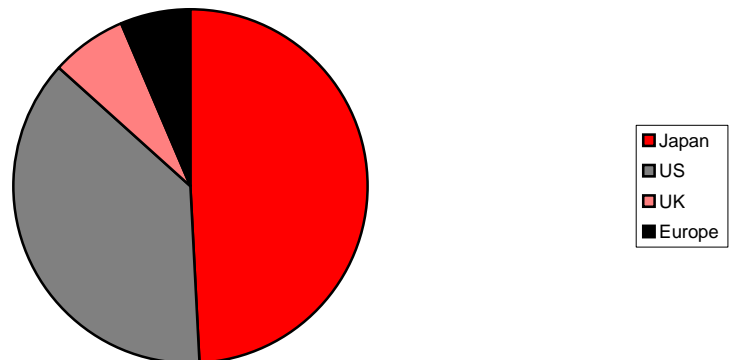
The geographical breakdown of the net-nets is revealing. Half of all the net-nets I can find are actually in Japan. This suggests that Japanese small caps may be one of the cheapest asset classes on earth!

Number of stocks passing the net-net test over time



Source: SG Global Strategy

Geographical breakdown of the current net-nets



Source: SG Global Strategy

Conclusions

As I wrote recently, the pursuit of value is one of the key tenets of my investment creed. From both a top-down and a bottom-up viewpoint I am being offered some truly incredible opportunities (especially outside of the US). Top-down valuation shows that the UK and Europe are both at levels that could be considered reflective of revulsion.

From a bottom-up perspective, for those with long time horizons, buying a diversified deep value quality set of stocks hasn't been easier for years. For those with a thirst for adventure, Japanese small caps look exceptionally good value at the moment.

Stocks passing the Graham criteria

Company name	EY>(2*AAA)	DY>2/3 of AAA	Mkt cap (\$)	G&D PE	Country
Allegheny Technologies Inc.	31.9	4.0	1,916.9	8.6	United States
Analog Devices Inc.	9.7	4.2	5,428.5	16.0	United States
Carnival Corp.	16.0	8.8	16,403.5	8.3	United States
Cummins Inc.	20.6	3.0	4,188.5	11.8	United States
Illinois Tool Works Inc.	11.9	4.3	14,210.3	13.9	United States
Microsoft Corp.	11.8	3.0	143,582.6	14.7	United States
Robert Half International Inc.	11.2	3.0	2,326.4	14.9	United States
Rowan Cos. Inc.	34.2	3.6	1,368.5	7.2	United States
Texas Instruments Inc.	10.2	2.9	18,318.6	13.7	United States
Tiffany & Co.	13.9	3.8	2,344.0	11.0	United States
Acerinox S.A.	14.6	4.3	2,914.0	10.0	Spain
Bekaert S.A. N.V.	19.8	7.2	957.1	9.5	Belgium
BP PLC	15.1	8.0	117,959.7	10.4	United Kingdom
Charter International PLC	22.9	5.3	977.1	11.3	United Kingdom
Compagnie Financiere Richemont S.A.	14.1	3.9	15,845.1	10.7	Switzerland
Deutsche Lufthansa AG	30.4	15.1	5,040.3	9.1	Germany
ENI S.p.A.	17.3	9.3	79,816.0	7.6	Italy
Iberia Lineas Aereas de Espana S.A.	20.7	10.2	2,191.5	7.7	Spain
Kesko Oyj	11.5	6.2	2,082.1	11.3	Finland
Konecranes Oyj	22.6	7.2	956.7	14.3	Finland
Koninklijke Boskalis Westminster N.V.	17.6	8.8	1,640.2	13.9	Netherlands
MAN AG	27.6	6.6	5,967.4	9.1	Germany
Nexans	11.2	7.1	1,080.8	7.5	France
Nokian Renkaat Oyj	12.7	4.5	1,471.3	14.6	Finland
Novartis AG	9.8	5.0	82,096.0	12.9	Switzerland
OMV AG	24.2	5.3	7,826.3	7.2	Austria
Orkla ASA	21.3	5.8	5,927.6	8.3	Norway
Persimmon PLC	36.6	13.6	1,450.1	4.7	United Kingdom
Repsol YPF S.A.	22.4	8.6	18,744.9	6.9	Spain
Royal Dutch Shell Class A	18.9	7.3	133,757.1	7.0	Netherlands
Salzgitter AG	34.7	6.6	3,372.8	7.0	Germany
Skanska AB	12.0	8.5	2,883.6	9.1	Sweden
Societe BIC	9.7	3.7	2,376.0	15.3	France
StatoilHydro ASA	12.5	4.0	52,021.2	10.9	Norway
Sulzer AG	23.5	6.9	1,305.5	12.6	Switzerland
Swatch Group AG	15.1	3.5	6,372.8	12.3	Switzerland
Total S.A.	16.9	6.6	111,692.6	11.0	France
Vallourec S.A.	33.0	12.2	4,222.6	10.8	France
Wacker Chemie AG	17.7	6.2	3,116.5	10.5	Germany
AGA Rangemaster Group PLC	27.8	16.5	76.6	3.7	United Kingdom
Air Partner PLC	16.2	7.7	58.0	12.6	United Kingdom
Bovis Homes Group PLC	19.1	9.2	658.8	6.4	United Kingdom
BP PLC	15.1	8.0	117,959.7	10.4	United Kingdom
Braemar Shipping Services PLC	20.6	9.7	72.3	10.9	United Kingdom
Castings PLC	21.8	7.9	79.0	7.1	United Kingdom
Charter International PLC	22.9	5.3	977.1	11.3	United Kingdom
Computacenter PLC	17.6	7.6	282.6	4.8	United Kingdom
Diploma PLC	11.4	7.2	174.5	11.1	United Kingdom
Greggs PLC	10.0	4.1	537.7	16.0	United Kingdom
Headlam Group PLC	18.2	11.3	238.7	11.6	United Kingdom
Hornby PLC	21.5	11.3	40.7	7.8	United Kingdom
Kier Group PLC	15.0	4.2	464.0	10.5	United Kingdom
Millennium & Copthorne Hotels PLC	11.6	3.4	792.7	7.6	United Kingdom
Persimmon PLC	36.6	13.6	1,450.1	4.7	United Kingdom

Company name	EY>(2*AAA)	DY>2/3 of AAA	Mkt cap (\$)	G&D PE	Country
Renishaw PLC	15.9	8.5	314.8	9.1	United Kingdom
Royal Dutch Shell PLC (CL B)	17.5	6.8	127,661.0	8.8	United Kingdom
St. Ives PLC	32.0	34.8	70.5	2.3	United Kingdom
T. Clarke PLC	11.6	9.7	72.4	7.6	United Kingdom
Ted Baker PLC	11.2	5.1	195.7	14.3	United Kingdom
Acer Inc.	12.0	8.0	3,495.2	15.2	Taiwan
Aneka Tambang	46.4	18.6	954.2	11.0	Indonesia
ASM Pacific Technology Ltd.	11.7	9.0	1,122.7	10.6	Hong Kong
ASUSTeK Computer Inc.	21.4	7.8	4,048.4	7.5	Taiwan
Bumi Resources	51.3	10.1	1,245.6	12.4	Indonesia
Cheung Kong (Holdings) Ltd.	19.4	4.0	19,062.2	7.8	Hong Kong
China Shipping Development Co. Ltd.	22.8	8.3	1,314.0	15.5	China
China Travel International Investment Hong Kong Ltd.	10.2	5.5	807.5	14.0	Hong Kong
Chinese Estates (Holdings) Ltd.	41.1	4.1	2,346.1	8.4	Hong Kong
CITIC Pacific Ltd.	63.4	18.1	3,811.6	4.1	Hong Kong
CNPC (Hong Kong) Ltd.	10.6	4.5	1,511.1	13.4	Hong Kong
Compal Electronics Inc.	17.5	11.8	2,268.9	8.7	Taiwan
Cosco Corp. (Singapore) Ltd.	19.0	9.9	1,040.2	14.2	Singapore
Cosco Pacific Ltd.	26.7	13.2	1,649.4	7.7	Hong Kong
Denway Motors Ltd.	13.3	4.9	2,258.1	13.7	Hong Kong
Evergreen Marine Corp. (Taiwan) Ltd.	28.1	13.5	1,160.4	8.0	Taiwan
Feng Hsin Iron & Steel Co. Ltd.	14.6	9.8	549.2	13.4	Taiwan
Formosa Chemicals & Fibre Corp.	25.6	20.8	5,550.9	8.4	Taiwan
Formosa Plastics Corp.	18.0	14.4	7,777.6	12.8	Taiwan
Formosa Taffeta Co. Ltd.	28.1	20.5	775.5	10.6	Taiwan
GAIL (India) Ltd.	11.1	3.4	3,308.1	14.3	India
Hang Lung Group Ltd.	29.6	3.7	3,611.6	10.9	Hong Kong
Hang Lung Properties Ltd.	22.0	4.6	8,003.8	14.1	Hong Kong
Hang Seng Bank Ltd.	11.7	7.7	21,439.4	14.4	Hong Kong
Henderson Land Development Co. Ltd.	30.0	4.4	7,249.8	6.6	Hong Kong
Hopewell Holdings Ltd.	32.0	12.5	2,496.2	11.7	Hong Kong
Hysan Development Co. Ltd.	33.2	5.3	1,594.3	7.0	Hong Kong
International Container Terminal Services Inc.	14.5	3.3	412.8	14.6	Philippines
Inventec Corp.	21.0	12.4	755.5	7.0	Taiwan
Jiangxi Copper Co. Ltd.	25.0	5.3	1,086.6	13.5	China
Keppel Corp. Ltd.	16.8	8.5	4,491.7	11.5	Singapore
Kerry Properties Ltd.	36.4	7.0	2,715.3	8.7	Hong Kong
Kingboard Chemical Holdings Ltd.	26.4	7.9	1,391.9	6.8	Hong Kong
Korea Electric Power Corp.	9.8	3.2	9,920.8	7.5	South Korea
Lite-On Technology Corp.	16.9	14.5	1,316.4	6.4	Taiwan
MiTAC International Corp.	31.3	11.2	560.2	6.5	Taiwan
MTR Corp. Ltd.	16.3	2.7	12,682.4	14.5	Hong Kong
Nan Ya Plastics Corp.	24.7	21.3	7,246.9	8.8	Taiwan
Oil & Natural Gas Corp. Ltd.	14.3	4.9	28,444.9	13.4	India
Orient Overseas (International) Ltd.	41.1	48.0	1,451.9	4.5	Hong Kong
POSCO	15.1	3.2	17,695.2	11.4	South Korea
PTT Exploration & Production PCL	15.2	5.8	8,153.8	15.2	Thailand
S-Oil Corp.	13.6	9.7	3,808.3	11.1	South Korea
SembCorp Industries Ltd.	14.4	5.3	2,430.5	11.3	Singapore
Sesa Goa Ltd.	44.5	5.1	1,223.9	10.2	India
Shanghai Industrial Holdings Ltd.	11.0	4.4	2,472.8	13.4	Hong Kong
Singapore Airlines Ltd.	16.9	10.1	7,774.6	8.9	Singapore
Singapore Press Holdings Ltd.	10.6	10.6	2,794.0	10.4	Singapore
Singapore Telecommunications Ltd.	9.9	5.0	25,277.6	14.7	Singapore
Sino Land Co. Ltd.	27.3	6.8	3,778.6	8.8	Hong Kong

Company name	EY>2*AAA	DY>2/3 of AAA	Mkt cap (\$)	G&D PE	Country
SINOPEC Shanghai Petrochemical Co. Ltd.	13.5	5.3	799.1	10.2	China
SK Telecom Co. Ltd.	12.5	5.2	9,808.8	11.3	South Korea
Steel Authority of India Ltd.	26.0	5.2	6,040.2	14.5	India
Sun Hung Kai Properties Ltd.	18.7	4.3	20,162.6	11.2	Hong Kong
Swire Pacific Ltd.	36.4	6.8	9,348.0	7.4	Hong Kong
Taiwan Secom Co. Ltd.	9.5	7.8	595.5	15.9	Taiwan
TECO Electric & Machinery Co. Ltd.	15.7	10.8	521.6	13.5	Taiwan
Television Broadcasts Ltd.	11.2	7.0	1,524.3	15.2	Hong Kong
Tung Ho Steel Enterprise Corp.	22.6	15.0	603.9	12.8	Taiwan
U-Ming Marine Transport Corp.	24.3	19.5	1,099.3	12.7	Taiwan
United Microelectronics Corp.	13.3	9.6	2,902.3	6.2	Taiwan
UOL Group Ltd.	11.1	4.5	862.9	5.6	Singapore
Walsin Lihwa Corp.	9.9	5.8	493.9	6.1	Taiwan
Wharf (Holdings) Ltd.	33.7	4.9	5,849.8	7.4	Hong Kong
Yanzhou Coal Mining Co. Ltd.	15.8	4.1	1,389.6	11.8	China
Yue Yuen Industrial (Holdings) Ltd.	14.8	6.0	3,086.1	10.6	Hong Kong
Yulon Motor Co. Ltd.	14.9	4.2	653.5	5.3	Taiwan
Advantest Corp.	7.5	4.1	2,179.3	11.8	Japan
Aisin Seiki Co. Ltd.	21.0	3.9	4,604.3	11.3	Japan
Ajinomoto Co. Inc.	6.5	2.5	4,811.6	16.3	Japan
Alps Electric Co. Ltd.	9.4	7.7	506.9	5.4	Japan
Asahi Kasei Corp.	16.4	4.3	4,485.8	15.2	Japan
Brother Industries Ltd.	15.9	3.6	1,865.4	12.0	Japan
Citizen Holdings Co. Ltd.	11.0	4.7	1,343.9	12.2	Japan
Dai Nippon Printing Co. Ltd.	8.4	4.5	5,966.8	13.6	Japan
Daihatsu Motor Co. Ltd.	11.2	2.3	3,265.4	16.2	Japan
Daiichi Sankyo Co. Ltd.	8.7	4.5	11,452.7	15.0	Japan
Dainippon Sumitomo Pharma Co. Ltd.	8.6	2.4	3,304.6	15.7	Japan
Denki Kagaku Kogyo K.K.	9.0	6.6	821.7	9.4	Japan
Denso Corp.	16.4	2.9	16,856.5	12.7	Japan
Fuji Media Holdings Inc.	6.1	3.2	2,698.1	13.6	Japan
FUJIFILM Holdings Corp.	11.8	2.0	9,718.3	12.1	Japan
Hitachi Chemical Co. Ltd.	15.1	3.2	2,088.0	11.9	Japan
Hitachi High-Technologies Corp.	17.0	2.6	1,701.9	11.9	Japan
Ito En Ltd.	6.7	3.1	1,157.6	13.3	Japan
Itochu Techno-Solutions Corp.	13.0	4.5	1,233.6	10.7	Japan
JTEKT Corp.	27.1	4.8	1,723.0	11.0	Japan
Kaneka Corp.	12.9	3.7	1,702.1	9.8	Japan
Konami Corp.	10.1	4.1	2,042.6	11.8	Japan
Kyocera Corp.	10.1	2.1	10,900.6	13.4	Japan
Mitsubishi Gas Chemical Co. Inc.	24.3	4.5	1,909.5	10.4	Japan
Mitsubishi Rayon Co. Ltd.	13.9	6.4	1,096.5	9.5	Japan
Mitsumi Electric Co. Ltd.	24.2	4.3	1,095.3	16.2	Japan
Murata Manufacturing Co. Ltd.	9.5	2.7	8,214.8	14.8	Japan
NGK Spark Plug Co. Ltd.	13.3	3.6	1,780.5	12.3	Japan
NHK Spring Co. Ltd.	27.5	4.6	830.1	10.5	Japan
Nippon Steel Corp.	22.5	4.4	18,037.7	13.0	Japan
Nissan Chemical Industries Ltd.	13.5	3.2	1,196.3	15.4	Japan
Nisshin Steel Co. Ltd.	23.7	5.4	1,534.7	15.3	Japan
Nitto Denko Corp.	16.3	4.7	3,140.2	10.4	Japan
Nok Corp.	23.0	3.1	1,258.6	7.7	Japan
OMRON Corp.	16.3	3.5	2,548.2	13.3	Japan
Onward Holdings Co. Ltd.	14.3	5.6	888.6	10.8	Japan
Panasonic Electric Works Co. Ltd.	10.7	4.3	4,575.3	16.4	Japan
Ricoh Co. Ltd.	13.9	3.1	8,318.2	10.5	Japan

Strategy Research

Company name	EY>(2*AAA)	DY>2/3 of AAA	Mkt cap (\$)	G&D PE	Country
Rohm Co. Ltd.	6.1	2.8	5,705.2	9.9	Japan
Sharp Corp.	12.4	3.7	8,638.0	15.4	Japan
Shimamura Co. Ltd.	11.2	2.3	1,884.8	16.3	Japan
Shinko Electric Industries Co. Ltd.	9.7	3.1	1,247.5	14.6	Japan
Sony Corp.	21.2	1.4	17,011.7	11.6	Japan
Stanley Electric Co. Ltd.	17.0	3.1	1,909.3	13.7	Japan
Sumitomo Electric Industries Ltd.	15.5	2.7	6,222.9	15.8	Japan
Sumitomo Heavy Industries Ltd.	28.4	4.0	1,617.4	14.3	Japan
Sumitomo Metal Mining Co. Ltd.	26.0	3.3	5,846.1	14.1	Japan
Takeda Pharmaceutical Co. Ltd.	10.9	4.4	33,021.6	13.9	Japan
TDK Corp.	17.8	4.2	4,302.4	10.3	Japan
THK Co. Ltd.	12.6	3.3	1,545.2	12.9	Japan
Tokyo Steel Manufacturing Co. Ltd.	7.2	2.2	1,531.8	14.9	Japan
Toppan Printing Co. Ltd.	10.6	4.0	4,189.6	13.4	Japan
Toyoda Gosei Co. Ltd.	19.0	3.7	1,771.4	12.9	Japan
Toyota Boshoku Corp.	22.5	3.6	1,817.7	13.3	Japan
Yamaha Corp.	25.6	6.7	1,534.1	12.5	Japan
Yamato Kogyo Co. Ltd.	25.4	2.4	1,479.5	11.0	Japan
Yokogawa Electric Corp.	13.9	5.0	916.4	14.6	Japan

Source: SG Global Strategy

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StatoilHydro	SG is acting as joint bookrunner in the StatoilHydro's senior bond issue
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