

UBS Says Buy Japan Stocks on Dips; Topix May Gain 15% by Yr-End
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By Jennifer Tan

June 16 (Bloomberg) -- Nikkei 225 Index fairly valued, to remain range-bound with limited upside in near term; investors should buy on dips at ~14,000 and sell into strength at 15,000-15,500, until Bank of Japan unveils further monetary policy easing, Toru Ibayashi, Head of Japan Equities at UBS Wealth Management, says in interview.

- Nikkei 225 seen peaking at 17,000 in 2H; expect 15% upside for Topix by end-2014 in best-case scenario
- UBS remains neutral on Japan stks, after cutting from overweight in late 2013; mkt now trading at ~13.8x forward PE vs historical PEs of 23x-24x
- BOJ likely to ease further in July-Oct. by increasing purchases in JGBs, ETFs and J-REITs; govt will also decide in Oct.-Nov. whether to raise VAT to 10% from 8%, and if parliament approves another VAT increase, expect higher public investment and further monetary loosening, which should boost equities
- Weaker yen trend to continue: UBS sees USD/JPY at 103 by end-2014, and at 105 in 12 mos.; key is widening of yield gap between U.S. and Japan
- Key sector picks:
 - Japan exporters
 - Automakers, machinery and specialty chemical cos., are best-positioned to take advantage of weaker yen, global economic recovery
 - Exporters also trading at discount of ~12.5x PE vs avg mkt PE of ~14x, are likely to post higher EPS growth this yr and next yr
 - 2013 “losers” may become “winners” this yr; most have reported sluggish results and carried out major business restructuring
 - J-REITs
 - They offer attractive 3.5%-4.5% annual yields, are

- well-positioned to take advantage of lower office vacancy rates and higher monthly rents from mid-yr
- Govt Pension Investment Fund (~\$1.27t AUM) will also start investing in J-REITs, while BOJ is expected to buy more J-REITs at next policy meeting
- Stks tied to China's economy
 - Japanese steelmakers underperformed Nikkei last yr due to China's slowing economy and are oversold
 - While there aren't clear signs of recovery in China's steel industry yet, Japanese steel cos. will benefit from lower iron ore prices and the industry rebound may not be too far away

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