Results analysis: Schroder Japan

SJG continues to outperform the TOPIX Index, buoyed by good stock selection and an in vogue 'value' style of investing...

Update
22 April 2024

- **Schroder Japan Trust (SJG) has published its half year results covering six months to the end of January 2024. Over the period, the trust delivered NAV total returns of 10.3% and a share price total return of 5.8%, which compares to a 9.1% total return from the TOPIX Index.**
- **The board has committed to a tender offer if NAV total return performance isn't 2% per annum ahead of the benchmark over a four-year period starting from 01/08/2020. These results mean the trust is well ahead of this mark, now 4.4% above the benchmark on an annualised basis.**
- **At a stock level, Niterra, a mid-cap automotive component manufacturer, topped the performance table driven by its strong earnings growth which was buoyed by the recovery in Japanese automotive production. Hitachi, an industrials conglomerate, has also performed well, driven by its management shifting focus towards digital solutions, IT services and sustainable energy, in an ongoing effort to sustainably improve shareholder returns.**
- **SJG's gearing averaged 9.5% over the period and helped amplify returns as the manager added to opportunities amid market volatility. At the time of writing, as of 16/04/2024, gearing has increased slightly, to around 11.0%.**
- **Over the period, SJG's discount widened to 11.1%, in line with its own five-year average and that of the AIC Japan sector, prompting the board to buy-back 1,381,226 shares at a discount of 10.3%. At the time of writing, SJG's discount has come in slightly to 10.2%.**
- **Chairman Philip Kay commented, "The Japanese equity market has enjoyed a strong start to 2024." He also noted: "The board remains very positive on the long-term equity market outlook because corporate Japan is in the middle of a major transformation which is already resulting in improved shareholder returns. This transformation has been a long time in the making".**

Analysts:
Josef Licsauer
josef@keplerpartners.com

Kepler View

As the **Schroder Japan Trust (SJG)** chairman notes, there have been many false dawns when the performance of the Japanese equity market has failed to live up to investor expectations. While some scepticism remains, we think this time is indeed different. During recent months, the Nikkei 225 Index finally exceeded the bubble-era high seen in December 1989, boosted by Japan's corporate transformation and governance reform push.

Masaki employs a differentiated strategy versus most peers in the AIC Japan sector, targeting high-quality, undervalued companies across the market-cap spectrum, which have attractive growth characteristics. This focus brings with it a strong valuation sensitivity, meaning the portfolio tends to tilt more to value, very different from the mostly growth-oriented strategies employed by its peers.

In his mind, the current opportunity set is vast and while the overall valuation of the market looks reasonable, there is a considerable divergence between larger companies that have become relatively fully priced, and smaller companies, which Masaki currently finds more appealing. He has therefore added a number of stocks to the portfolio from this part of the market, including IT services business Nomura Research Institute and food packaging specialist FP Corporation. Both businesses are beneficiaries of long-term structural tailwinds, but their shares have recently been sold down aggressively. FP Corporation fits the latter especially, given its share price hit a six year low, though Masaki argues that its growth rates are stabilising, and the business is steadily increasing its market share, meaning there is significant upside potential.

Masaki also initiated a new position in Nippon Steel, Japan's largest steel maker, given its attractive valuation. He reports being impressed with management's efforts to improve the stability and growth profile of its earnings, particularly the increased focus on profitability through price discipline, and strategy of expanding business into new territories such as India.

Overall, these are good results for SJG with NAV total returns ahead of the TOPIX Index, keeping it on track to outperform its tender performance target. The continued outperformance of value stocks, as well as the manager's use of gearing, have been strong contributors to SJG's returns over the period. At a stock level, a number of companies performed well over the period too, including Niterra, Hitachi, and Disco Corporation, a manufacturer of semiconductor processing equipment.

All in all, we think SJG stands out in the AIC Japan sector, offering a differentiated exposure to Japanese equities through a portfolio of undervalued businesses with strong growth prospects which have the potential to improve returns over time. Amid the new corporate and macro-economic dynamics, which are increasingly shaping a Japanese market that remains cheap, we think Masaki's approach to opportunities further down the market cap scale could make SJG an appealing proposition for investors looking to play Japan in a differentiated way. While it is broadly in line with its five-year average, its current double-digit discount could still be an attractive entry point for investors and we think a continuing strong performance run could lead to it narrowing.

Click here to read the HY report on RNS

Click here to read our latest research on Schroder Japan Growth

Click here to add SJG to your watchlist

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.