Mizuho Custody Newsletter

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Contents:

I. Market News

1. Listed companies seek shareholders oversea

Since March 2023, the Tokyo Stock Exchange (TSE) has been requesting companies listed on the Prime and Standard markets to take on management style being conscious of capital costs and stock prices. The request from TSE has been leading companies to engage in proactive dialogue with investors. TSE's initiative was welcomed by the market, especially from foreign investors including some big names, such as Mr. Warren Buffet.

Listed companies in Japan are now actively trying to develop opportunities to communicate with more foreign shareholders. A major steel manufacturing company selected around 80 foreign investors as candidates of their shareholders and started approaching. Also, a leading semiconductor manufacturing company set up a base in the United States for their IR activities for the first time. The more foreign investors got interested in Japanese stocks, the more long-term investors issuers aim to attract by having active and constructive dialogue with them.

From 2023, the aforesaid steelmaker sought support from a trust bank and picked up 70-80 potential foreign shareholders domiciled mainly in Europe and the United States for interview. They used to have securities firms select interviewees, but now they have decided to take the initiative in choosing investors they want to be their shareholders.

The steelmaker selected these 70 to 80 entities based on the criteria of "long-term investment policy" and "being shareholders of competitors in the industry". "We have been concerned that some investors might decline to meet us due to reasons such as high greenhouse gas emissions level of our industry," said the CSR department manager of the company. By selecting specific targets, they anticipate the dialogues more informative to each other. A packaging material company with market capitalization around JPY 100 billion (approx. USD 670 million) also selected about ten Western investors in 2023 and has been keeping in touch with them.

A leading medical device manufacturer has started reaching out to foreign investors that they had no contacts ever before. One of those is a sovereign wealth fund in the Middle East. "We see them as excellent investors with medium to long term strategic approach. We have already had some dialogue with them," said an executive of the company.

The company also resumed small meetings between securities analysts who deal with foreign investors and its senior executives for the first time in eight years. They intend to make these meetings as opportunities to refresh and enhance analysts' understanding about the Factory Automation (FA) Industry, for investors who know very little about FA appear to be getting interested recently.

In November 2023, a leading semiconductor manufacturer set up its first base in New York (NY) to promote IR activities overseas, aiming to create more opportunities to approach directly to investors. As semiconductor-related stocks have been attracting more investors' attention, more overseas investors came to Japan including first-timers for meetings, which led the number of dialogues (including domestic investors) in fiscal 2023 up by 30% from the previous year to about 800 cases. The company also held tours of their Research and Development hubs in North America.

"In the West, very few investors know about our company, in spite that they have been investing in our competitors. We have to do much more IR activities to enhance our presence." says the head of the IR department at the company. They will monitor how effective their dialogues are, by interviewing foreign investors, and conduct research on its own to see who has potential to be their shareholders.

The Managing Director of the Japan IR Council said, "It is believed that oversea investors tend to prefer active investment products unlike domestic investors. Companies try to attract mid/long-term investors who watch closely companies one-by-one to hold their shares." "As the unwinding of cross-shareholdings expands, companies with a market capitalization of JPY 3 to 5 trillion (approx. USD 20 to 30 billion) also began to put more weight on doing IR overseas," explained an executive at a domestic trust bank.

It is now fair to say that more foreign investors have been interested in Japanese stocks. According to a survey conducted by a major American bank in February, 56% of investors select Japanese stocks in the Asia-Pacific region. 29% of respondents said they expect a return of "more than 10%" on Japanese stocks over the next 12 months, indicating a likelihood of higher quotations. As of the end of Fiscal Year 2022, the foreign investors owned 30.1% of Japanese stocks in the market, which is below the peak of FY 2014 (31.7%), implying more room to grow further.

Various ways to support for overseas IR are coming up. An IR consulting firm started a pilot service program using statistical methods to find potential shareholder candidates. Based on information such as what type of investors hold what type of sectors or companies, they compute likelihood of the company's shares to be held. In addition, another trust bank that provides services to inquire investor's opinion about their client companies, newly added foreign investors to its contact list for inquiry.

In 2023, a major American securities firm held its first two-way communication event for about 100 listed companies and investors, such as Western pension funds. The investors that joined the event showcased their investment and dialogue strategies. Companies with a market capitalization of less than 100 billion yen accounted for about 30% of the participants. In 2024, they plan to carry out the event by inviting investors who did not join last time.

However, these companies' efforts to strengthen its overseas IR activities doesn't always bear fruit and bring them investors with mid/long term investment strategies. A representative of the IR Council points out, "Investors tend to stay away from companies dealing with various businesses lines as that makes analysis difficult and complicated. The thing is to proceed IR activities by closely working with teams proceeding management reforms."

Compiled from Nikkei Shimbun and Mizuho research

2. Domestic asset management companies tightens their standards of voting rights

Domestic asset management companies in Japan will begin nudging their investee companies to take on management style being more conscious of their stock prices. An affiliated asset management company of a leading banking group would oppose the reappointment of representative directors at the AGM of companies if their ROE (Return on Equity) had been less than 8% for three consecutive years and a PBR (Price-Book Ratio) had been less than x1. If other domestic asset management companies, that cover approximately JPY 90 trillion of domestic stocks in publicly offered investment trusts would follow suit, that could move the management reform of listed companies further.

At the end of last year, a major American proxy advisory firm revised its advisory policy for Japan, putting the Return on Equity (ROE) benchmark, which had been suspended due to the Covid-19 pandemic back on its list. The new policy recommends to oppose proposals of the reappointment of senior directors if an investee company does not meet its standard level.

These domestic asset management companies invest their clients' assets in domestic stocks, and exercise voting rights on behalf of the clients with the aim of improving the corporate value of their investees. Until now, they had been looking at the ratio of outside directors and actions they were taking to ESG (Environment, Society, Governance) issues.

The Japanese government has held up a goal to make the nation that excels in asset management. For this purpose, it now intends to lead household savings into equity investments, in order to establish an "investment chain" where companies develop its earning power on those funds, part of which would be eventually returned to investors. To widen and develop the investment chain, exercise of voting rights would play more important roles to keep the ball of "management reform" rolling.

The aforementioned domestic asset management company announced they would oppose proposals of reappointment of representative directors of companies that have recorded ROE less than 8% and a PBR less than x1 for three consecutive years, which begins from April 2027. The current standard is "less than 5% for ROE". The company invests in almost all listed stocks through index funds and the like, and its initial target will be constituent issues of the Tokyo Stock Price Index (TOPIX) 500. The company plans to gradually expand its coverage.

The company will set a grace period until April 2027, during which it could engage in dialogue with its investees and encourage them to review their operations and strategies to achieve the goals. For companies that may have a significant influence on market capitalization or the industries, the company may exercise its voting rights before April 2027, if it recognized those big names had not been taking proper actions to TSE's request to manage companies with more consciousness of capital cost and stock prices.

An affiliated asset management company of a major life insurer has also established a new standard on PBR. It opposes proposals of appointment of representative directors, if the company's PBR is less than x1 and it seemed to have made no efforts to realize capital cost and stock price-conscious management suggested by the TSE. The asset manager will review what actions their investees has taken and how far they has come close to the goals at the fiscal year-end after March 2025. The new standard shall apply from the shareholders' meeting in June 2025. Approximately a quarter of prime listed companies are expected to be subject to this review.

Some asset managers are going to tighten the standards for cross-shareholding stocks ratio. A major bank-affiliated asset management company will oppose proposals of appointment of representative directors if the ratio of cross-held stocks exceeds 20% (including deemed holdings) of net assets of a company. Another major bank-affiliated asset management company will oppose proposals of appointment of representative directors if the ratio of cross-held stocks to net assets exceeds 20%, (for financial sector, the threshold will be 40% or more.)

The market reforms TSE has been advocating is the main driving force of the recent introduction of stricter voting standards by asset management companies. In March 2023, TSE requested all companies listed on the Prime or Standard markets to disclose and implement specific plans to raise their stock prices. While asset management companies have been urging their investee companies to reform their management for some time, they will demand companies to do more, taking the opportunities of the introduction of TSE's market reforms.

An executive of a major bank-affiliated asset management company said, "As an institutional investor, we want more and more companies to be conscious of stock prices." In the Prime market, 726 companies, accounting for barely 40% of them listed there, have disclosed specific plans. The asset manager aims to support corporate transformation through dialogue and appropriate exercise of voting rights.

Not only tightening the standards for exercising voting rights, having constructive dialogue with investee companies is also important. "Exercising voting rights is the absolute last resort." says a senior executive at a major asset management company. Those responsible for IR at each asset management company agree that continuous dialogue with issuers comes first. Proxy voting is just results of the dialogue".

Trust banks will also seek more opportunities for dialogues as institutional investors with issuers. Major trust banks calculate capital costs from the investor's perspective using their original models, and visualize the gap between these costs and the capital costs recognized by the company. Thus, they analyze the factors to push down capital costs and identify challenges that the company should tackle. A representative of the company said, “To enhance corporate value, we need to work on both analysis of companies for proxy voting and dialogues to know them more at the same time.

As the government promotes the policy to be a nation that excels in asset management, asset managers have been focusing on increasing investment returns through further developing their investment capabilities. In addition to the efforts of asset management companies, it is essential to improve corporate value for maximizing investment returns. Market participants are watching closely how asset managers have constructive dialogue with issuers and how effectively they exercise voting rights, which are believed to enhance the value of Japanese companies.

Compiled from Nikkei Shimbun and Mizuho research.

3. Companies appeals stable dividend policy

Japanese listed companies are diversifying their dividend policies. Some companies guarantee a minimum dividend amount and others link dividends to their own equity capital level that fluctuates less than its annual profits. In Japan, due to the introduction of the new Individual Savings Account (NISA) program, a tax-free savings program for individual investors, individual investors are getting more interested in issues paying high dividends than ever. Stocks that have high dividend yields and potential for capital gains are welcomed by NISA investors. “Under the NISA program, investors tend to hold stocks relatively long period of time, instead of trading frequently,” explains a securities company analyst. Each company intends to encourage shareholders to hold their stocks for a long term by emphasizing its policy to pay dividends at stable level.

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A major daily goods manufacturer introduced a “progressive dividend” scheme in February, which guarantees a minimum amount of dividend. In principle, the company will not decrease dividends, and will rather maintain or increase dividend amount. This company used to target maintaining 30% of consolidated net income as “consolidated dividend payout ratio, under which dividend could be paid less if profits decreased. The company stressed that it would maintain long-term stable dividend payments under the new scheme.” The company is going to pay the dividend for the fiscal year ending in December 2024 at JPY 27 per share, which is JPY 1 more than the previous year.

A major food manufacturer also adopted the similar scheme in 2023. In this scheme, the company links its dividends to an index calculated by dividing the profit after tax of their main business by the number of issued shares. While quelling concerns toward dividend decrease, the company demonstrates its policy to actively return more to shareholders if it would earn more. The dividend rate for the term ending March 2024 will increase by JPY 6 to JPY 74 per share.

Many more issuers began to select “Dividend on Equity (DOE) ratio”, which shows the ratio of dividends to its equity capital as their target for dividend rate. This indicator is less erratic than profit-based ones, and it shows more clearly to what extent the shareholders money has been allocated to dividends.

In February, a major metal trading company set 1.5% at DOE as its bottom for its dividend. The company used dividend payout ratio (dividend calculated as a fraction of the annual profit) as its target, and it was often forced to pay less dividends when profits went down due to market conditions of non-iron metals. In February, the company revised its consolidated net profit forecast for the fiscal year ending March 2024 downward from its previous one, reducing it by 71% from the previous fiscal year from by 66%. However, based on the DOE indicator, the company raised its dividend rate by JPY 27 from the original forecast to JPY 98.

In February, a major glass manufacturer also revised its dividend policy from “a dividend payout ratio of 40%” to “a DOE ratio of around 3%”. The company‘s performance has been very volatile, which had made dividend payout ratio also volatile in the past 10 years, between 20% and 130%. The company altered their dividend policy to DOE ratio based approach from dividend payout ratio based one, to make its dividend policy clearer to investors, and to demonstrate its policy to pay dividend at a stable level foo long-term.

A Senior Portfolio Manager at a leading domestic asset management company says, “There are many companies that intends to keep their share prices stable by paying more dividends on medium term, in order to attract investors with long-term investment strategies.”

The PBR (Price Book-Value Ratio) reform of the Tokyo Stock Exchange also supports this trend. The chief equity strategist at a financial think tank, points out that companies could drive up their share prices by extensively publicizing its dividend policy, while compressing asset surplus by returning more to shareholders.”

Compiled from Nikkei Shimbun, and Mizuho research.

4. TSE reforming market from quantity to quality

“Now is the time to discard the idea of “Japan-passing”, which means foreign investors do not give even a glance on Japanese stocks and go to other markets.” Hiromi Yamaji, the CEO of Japan Exchange Group (JPX), stressed this at an event held in London hosted by the Japan Securities Dealers Association (JSDA) in early March. According to JSDA, local investors showed great interest, making the event even “more successful than I the one in New York last year”.

Mr. Yamaji has a working experience in the US and Europe for a total of 18 years while he was with Nomura Securities. His does lectures and interviews with foreign press in English. Some investors, who are not shareholders of JPX also joined its investor relations (IR) event and asked a lot of questions about Japanese stocks. An executive from Tokyo Stock Exchange (TSE, a company of JPX group), says “I do not believe TSE has ever attracted this much market attention in the past”. It is not too much to say that TSE played a pivotal role in revitalizing Japan’s stock market.

In March 2023, TSE requested approximately 3,300 companies listed on it to be more conscious of capital costs and stock prices in managing their business. TSE shed light on companies with low PBR (price-to-book ratio), i.e. less than x1, and posed a question “Are these companies doing everything they can to demonstrate their growth potential fully to shareholders”. This highly unusual initiative, in which a stock exchange prompts companies to think hard how they can make their share prices higher, attracted attention from foreign investors, which assumed a part of roles to attract money from overseas to buy Japanese stocks.

The request was originated from the TSE’s market reorganization in April 2022. Then four markets (TSE First, TSE Second, Mothers, and Jasdaq), were reorganized into three: Prime, Standard, and Growth with the aim of making concept of each market clearer.

However, the market still remained “top-heavy”, as the former TSE First section had the largest number of companies listed, which disappointed not a few market participants. In the follow-up meeting set by TSE in July 2022, an external committee member pointed out companies with a PBR of less than x1 should be overhauled, which lead the TSE to make the unusual request to those companies.

This request made a major turning point for TSE. Instead of making numbers of IPO’s, it shifted their focus on enhancing the quality of each issue listed on the market.

JPX was established through the integration of TSE and the former Osaka Stock Exchange in 2013. Until then, TSE and Osaka Stock Exchange were competing each other for companies to list by making listing criteria lower for start-ups. As a result, the stock exchanges were occupied with a large number of small companies with low-growth potential, which has been long regarded as obstacles for the markets to function properly and effectively.

TSE’s request can be described as its policy shift from ‘quantity to quality’. In January 2024, the new individual savings account program (NISA) was launched, which spurred individual investors' interest toward instruments other than bank deposits. An executive at the TSE said adamantly, "We should not be too much concerned about how many companies we have on our exchange any longer. We need to transform the market where companies listed there could grow stably over long term, which would eventually benefit investors."

South Korea was inspired by the reform of the TSE. In February, the government published a "Corporate Value Improvement Program". The program requires listed companies to institute and publicize their own strategies to improve their corporate value. Market participants acknowledge that they have been following the TSE's examples.

However, TSE's reform still have a long way to go. Their next target is the Growth market for emerging companies. Domestic start-ups' listings have been recognized as an opportunity for its founders and venture capital (VC) firms to collect their profits. Due to this implicit practice, those companies had been virtually urged to go public while they were still small in business size, which is believed to have made the Growth market less attractive investment target for institutional investors with abundant funds. Companies listed on the market also having difficulties to raise funds there to expand their capital investment and hiring more talents.

The transition from "quantity to quality" caused a dilemma to the TSE. In 2023, over 60 companies voluntarily selected to delist themselves through a takeover bid (TOB), which was a record high. Hiromi Yamaji of JPX maintains his position that it is a logical decision for companies to go private as a result of their sincere consideration about how to further improve corporate value". On the other hand, another executive at TSE raised concerns, saying, "If our reform was taken too radical, that would lead companies we wanted to stay to leave the market." In January 2024, TSE launched a department specialized in supporting IR activities of listed companies to alleviate these concerns.

As of the end of January, the total market capitalization of the companies listed on TSE has returned to the top in Asia, fourth in the world. Some experts say Japanese stock market has been catching investors' eyes largely due to external factors, such as money fleeing from the stagnant Chinese market. TSE shall continue to proceed its market reform to stay competitive in the global markets.

Compiled from Nikkei Shimbun and Mizuho research.

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Mar-13	NAGOYA ELECTRIC WORKS CO.,LTD.	JP3650000007	S
Mar-13	ENERGY POWER CO.,Ltd.	JP3165880000	P
Mar-18	MINO CERAMIC CO.,LTD.	JP3906400001	S
Mar-19	Exseli Co, Ltd.	JP3161370006	P
Mar-22	Mitsuba Co.,Ltd.	JP3895210007	P
Mar-25	Applepark.CO.,LTD.	JP3121250009	P
Mar-27	GAIA Inc.	JP3233720006	P
Mar-27	OPTY CO.,LTD.	JP3197780004	P
Mar-28	ZEROJAPAN.Co.,LTD	JP3428880003	P
Mar-29	NEO HOME Co.,Ltd.	JP3758290005	P
April-1	Ryoyo Ryosan Holdings,Inc.	JP3975410006	PR
April-1	TASUKI Holdings Inc.	JP3464310006	G
April-1	SBI RHEOS HIFUMI Inc.	JP3163480001	G
April-4	As Partners CO.,Ltd.	JP3119840001	S
April-8	itamiarts inc.	JP3140900006	G
April-11	Hammock Inc.	JP3777550009	G
April-11	AGENTEC Co.,Ltd.	JP3160510008	G
April-16	Will Smart Co.,LTD	JP3154210003	G
April-24	Rezil Inc.	JP3979700006	G
April-25 ～ May-2	Kohjin Bio Co.,Ltd.	JP3283630006	G

**Information compiled based on postings from the Prime (PR), Standard (ST), Growth (G), Tokyo Pro Market (P), NSE (N)、FSE (F) & SSE (S).*
***Board lot size is unified to 100*

III. Foreign Ownership Limit Ratio

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