



Monthly Blog

PM's Perspectives

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Three approaches to gain tenfold returns through value stock investment

“If stock prices of my investment destination jumped tenfold...” Every investor aspires to such an experience. Today I would like to review characteristics of stocks that grew tenfold in the past (shown in table below).

While stock prices of the TOPIX's 103 components rose tenfold in the 2010s. Only 16 of them met a standard of market cap size for many institutional investors (JPY30 billion or over)¹. When we analysed factors of their stock price surges in the realistically investible time axis, we found that the sales result was the biggest contributor followed by PER and profitability. It was surprising that a change in the number of outstanding shares following share buybacks had only a minor impact on stock prices. When we categorize these 16 companies by sector, seven companies belonged to IT & Services, Others and four to Retail Trade². Which means most companies that enjoyed tenfold stock price surges were either IT service providers or retailers³.

Tenfold stocks in the 2010s with market cap over JPY 300 billion at the end of 2019

No	Code	Company	Rise rate (times)	Attribution analysis				Reasons of earnings growths
				Sales	PER	Profitability	No. of stock	
1	3064	MonotaRO	8.4	4.5	1.3	1.4	1.0	E-commerce of indirect materials, Changes in core customers and market strategies
2	3769	GMOPG	7.2	5.6	1.8	0.8	1.1	Expansion of cashless payment transactions
3	3038	Kobe Bussan	6.2	1.4	1.1	3.7	1.0	New store openings, Growth of existing stores, Expansion of profitable PB products
4	8111	Goldwin	10.2	1.7	3.2	1.8	1.0	Cost reduction, Growth of the profitable brand, North Face
5	7747	Asahi Intecc	4.3	2.0	1.7	1.3	1.0	Growth of catheter, Direct marketing in Europe
6	2413	M3	28.1	11.1	2.7	1.0	1.1	Online marketing of drugs, Outsourcing of clinical trials, M&A
7	2127	Nihon M&A Center	15.7	4.5	3.2	1.1	1.0	Expansion in demand for succession of businesses including prescription, Cultivation of human resources.
8	6920	Lasertec	16.2	2.1	5.4	1.4	1.0	Growth in semiconductor mask defect inspection equipment and EUV systems
9	2412	Benefit One	9.5	1.8	3.1	1.6	1.0	Outsourcing of clerical work, Cost reduction
10	4686	Just Systems	12.0	2.6	2.9	1.6	1.0	Growth of 'Smile Zemi' which started in 2012, Keyence-style management
11	8876	Relo Group	9.5	2.7	11.1	0.3	1.0	Outsourcing of clerical work, M&A
12	4587	Pepti Dream	3.2	9.1	0.2	1.9	1.2	Expansion of customer base, Development of its projects
13	9435	Hikari Tsushin	14.3	1.1	1.9	6.3	0.9	Focus on stock-type products of its own to raise profitability
14	3141	WELCIA Holdings	14.7	3.3	3.5	1.8	1.4	New store openings, Growth of existing stores, M&A
15	6383	Daifuku	11.3	2.9	0.5	9.6	1.1	Sales expansion in e-commerce, Standardization of manufacturing processes
16	3092	ZOZO	11.0	7.3	1.0	1.4	0.9	E-commerce of apparel products
Average			11.4	4.0	2.8	2.3	1.0	
Median			10.6	2.8	2.3	1.5	1.0	

Created by Sumitomo Mitsui DS Asset Management based on data from Bloomberg

¹We calculated stock price movements from the end of December in the year when companies' market cap exceeded JPY30 billion to the end of 2019.

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I can hardly invest in companies whose PERs are over 30 as a portfolio manager of value investment funds. Then what could I have done for tenfold returns?

The first approach is to pay attention to uptrends of companies' long-term profitability. Those including **Kobe Bussan**, **Hikari Tsushin** and **Daifuku** were initially considered as value stocks with net profit ratios of 1-2% but they raised their profitability later, which led to their stock price rallies. If companies with low profitability improved their profit margin by virtue of their own efforts, we may be able to expect tenfold climbs of their stock prices.

The second approach is to buy stocks that are trading at less than 10 times the projected earnings per share (EPS). Tenfold stock price increases of companies such as **Lasertec**, **Benefit One** and **JustSystems** were led by upturns of PER and their stock prices are now trading at 30 times their EPS. But their PER used to fall below 10. On the other hand, it seems difficult for value investment funds to invest in companies whose stock prices are driven by sales growths because PERs of these companies including M3 tend to remain high.

The third approach is to find debt-ridden companies that are in danger of bankruptcy but are likely to mend their ways. We call them stocks with earnings recovery potentials. When we examined stocks that achieved tenfold rallies from the end of 2002 to the end of 2006 on the same conditions as those of the 2010s, two out of five companies were stocks with earnings recovery potentials; namely **Isuzu Motors** and **Sumitomo Heavy Industries**. Their net DERs (debt equity ratio) were very high at 9.8 and 7.6 respectively at the end of March 2001 but they both achieved earnings recoveries later on through corporate efforts such as debt reduction and restructurings and their stock prices shot up accordingly.

Even if investors fortunately find these promising stocks, they need to win support and understanding from their customers and persons involved to reap benefits of tenfold stocks. Given the fact that market cap of most issues posted above stands at around JPY500 billion, we have to start investments when their market cap is between JPY30 and JPY50 to gain tenfold returns. But stocks of this size accompany certain liquidity risks because their turnovers are low.

In addition, a couple of tenfold stocks in the past remind us of bad news such as inadequate sales approaches, leakage of customer information and alleged insider trading. But even if your investment destination with earnings recovery potentials created a scandal, you shouldn't sell them in a rush as long as its core business is immune from the news. In other words, you should not "pull out flowers and water weeds". When we invest in these stocks, hopes for big returns lie side by side with certain bankruptcy risks. We have to bear in mind that every rose has its thorn.

<Notes>

¹ Comparison of stock prices of the TOPIX's components at the end of 2009 with those at the end of 2019. As for those that went public in 2010 or later, we compared their stock prices on the listing date with those at the end of 2019.

² We selected these 16 companies on the proviso that market cap is JPY300 billion or more.

³ We categorized Kobe Bussan as a retailer.

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