

## global investor by Jean Pierre Verster



# What's big in Japan

**T**he Tokyo Olympics will kick off later this month with an opening ceremony that is scheduled for July 23. Due to Covid, the games will be decidedly less celebratory than usual. No cheering, no foreign spectators, no alcohol sales at venues and no fraternising between athletes will be allowed. It will be an indication of the future of major sporting events if humanity can't get this pandemic under control.

After the bursting of its asset price bubble 30 years ago, Japan also gave us a glimpse of what may be a strange economic future – one of deflation, ultra-loose monetary policy and negative population growth. Central bankers are grappling with the negative consequences of the “Japanification” of the world economy. But Japan also offers a glimmer of hope for investors. While the Nikkei 225 index is still below its peak of 1989, many astute stock pickers in Japanese equities have been richly rewarded since then.

A winning investment strategy has been to choose shares of those companies that pursued above-average growth by expanding internationally in a disciplined and shareholder-friendly manner.

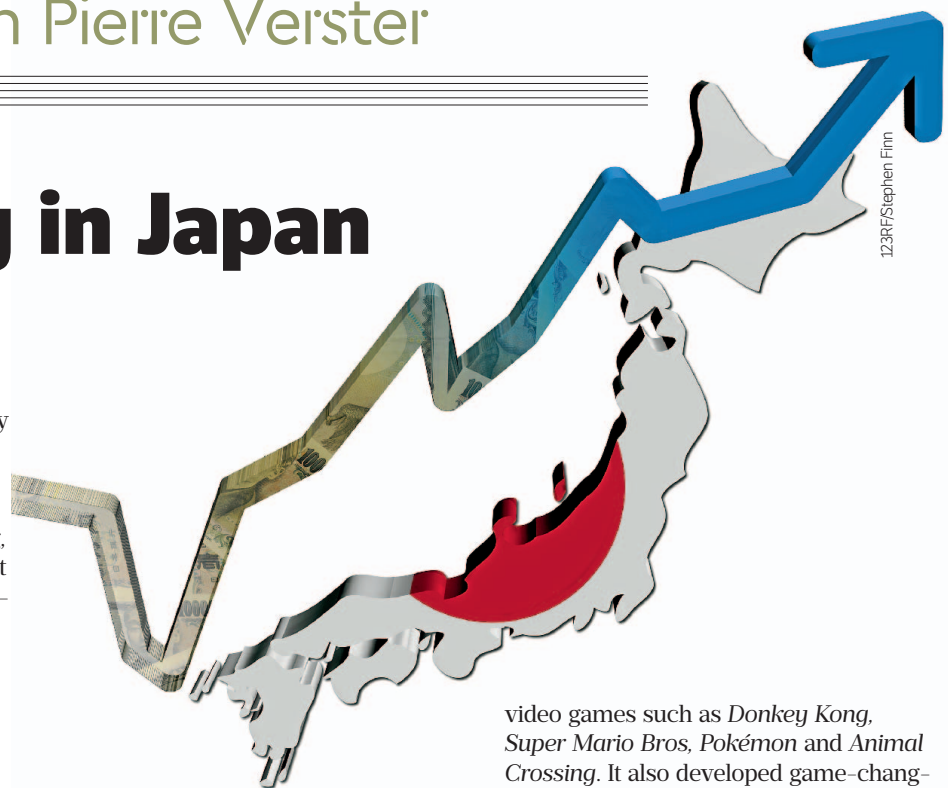
Here follow some stocks that could continue to outperform.

### SoftBank Group

Headed by Masayoshi Son, Japan's second-richest person, SoftBank is Japan's equivalent of Naspers. Since 1999, when SoftBank invested \$20m in Alibaba, the value of the stake has grown to more than \$100bn. The problem is that SoftBank regularly trades at a discount of 50% or more to the value of its underlying investments.

Son has responded by aggressively diversifying away from Alibaba and buying other telecommunications and technology assets, such as Vodafone Japan (since renamed SoftBank Mobile) and British computer processing giant Arm Holdings. It has also purchased a large minority stake in the US's T-Mobile.

The ambitious SoftBank Vision Fund,



the world's largest venture capital fund, was launched in 2017 with more than \$100bn in capital. A second such fund was launched in 2019. While the investment in office space rental company WeWork was a flop, SoftBank's sprawling investment portfolio has some real gems and is valued at almost double the current share price.

### Tokyo Electron

As a world leader in semiconductor production equipment, Tokyo Electron manufactures machines that produce microchips. Due to the current worldwide chip shortage, the company is coining it, with the shares trading at near record highs. Some investors sense a bubble, but the demand for chips that are ever smaller and more powerful seems insatiable.

Semiconductor manufacturers are squeezing more and more transistors onto a silicon wafer. This process is becoming increasingly complex, raising barriers to entry and increasing pricing power. Current levels of profitability might therefore be sustainable, making Tokyo Electron's shares an attractive proposition even at record highs.

### Nintendo

The innovative video gaming company was founded in 1889 and originally produced handmade playing cards. It has come a long way since then, keeping pace with technological change.

Nintendo is responsible for popular

video games such as *Donkey Kong*, *Super Mario Bros*, *Pokémon* and *Animal Crossing*. It also developed game-changing (excuse the pun) consoles like the Nintendo 64, Game Boy, Wii and Switch.

The video gaming industry is notoriously hit-driven, profit growth being heavily reliant on whether the next new game will be a hit, but Nintendo has built up a valuable library of concepts over the years.

By tweaking past hits and transitioning players to subscription services like Nintendo Switch Online, the company is well-placed to continue entertaining young and old.

### DIP Corp

The name is an acronym formed by the first letters of the words “dreams, ideas and passion”. Founded by entrepreneur Hideki Tomita in 1997, it is an outlier. It has been one of the best-performing shares in Japan over the past decade by focusing on the domestic market.

The company offers labour force solutions, including personnel recruitment, job training, online job-listing and robotic process automation. Its core business is Baitoru, Japan's largest online portal for part time job-seekers.

Covid has had a serious impact on the past year's profitability, especially due to the sudden drop in demand for temporary placement services in the restaurant industry. Profits are expected to bounce back strongly in the year to come, though.

With the share price still slightly below the levels of February 2020, the FM rates DIP Corp shares a buy.

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