



[CLICK HERE FOR ACCESS](#)

September 5, 2022 06:16 PM GMT

Investor Presentation | Japan

Food/Household & Personal Care Products

- Top Pick: Kao Corp (4452.T)
- Other Overweight stocks (in the order of preference): Suntory Beverage & Food (2587.T), Asahi Group HD (2502.T), Unicharm (8113.T), and Japan Tobacco (2914.T)
- Underweight stocks: Coca-Cola Bottlers Japan HD (2579.T), Calbee (2229.T), and Kikkoman (2801.T)
- Industry View: Food: In-Line; HPC: In-Line

MORGAN STANLEY MUFG SECURITIES CO., LTD.+

Haruka Miyake

EQUITY ANALYST

Haruka.Miyake@morganstanleymufg.com

+81 3 6836-5421



Food

Japan

IndustryView

In-Line

Household & Personal Care Products

Japan

IndustryView

In-Line



Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

+ = Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to FINRA restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Morgan Stanley Coverage Universe

Company Name	Ticker	Rating	Stock Price 9/2/2022	Target Price	Bull Case	Bear Case
Industry View: Food; In-Line						
Calbee	2229	Underweight	¥2,725.00	¥2,750.00	¥3,450.00	¥2,000.00
Yakult Honsha	2267	Equal-Weight	¥8,100.00	¥8,000.00	¥10,800.00	¥5,600.00
Asahi Group Holdings	2502	Overweight	¥4,658.00	¥5,500.00	¥7,350.00	¥3,800.00
Kirin Holdings	2503	Equal-Weight	¥2,236.00	¥2,400.00	¥3,300.00	¥1,800.00
Coca Cola Bottlers Japan	2579	Underweight	¥1,404.00	¥1,400.00	¥2,200.00	¥900.00
Suntory Beverage & Food	2587	Overweight	¥5,060.00	¥5,900.00	¥7,800.00	¥3,700.00
Kikkoman	2801	Underweight	¥8,580.00	¥6,800.00	¥10,000.00	¥4,500.00
Ajinomoto	2802	Equal-Weight	¥3,821.00	¥3,600.00	¥4,500.00	¥2,600.00
Japan Tobacco	2914	Overweight	¥2,374.00	¥2,800.00	¥4,000.00	¥1,800.00

Industry View: Household & Personal Care Products; In-Line

Kao	4452	Overweight	¥6,001.00	¥6,600.00	¥8,500.00	¥5,000.00
Shiseido	4911	Equal-Weight	¥5,107.00	¥5,600.00	¥8,600.00	¥3,000.00
KOSE	4922	Equal-Weight	¥13,120.00	¥12,000.00	¥17,000.00	¥7,000.00
Unicharm	8113	Overweight	¥4,727.00	¥5,500.00	¥8,100.00	¥3,100.00

Source: Refinitiv, Morgan Stanley Research

Investment Ratings - Overweight & Underweight Stocks

Overweight Stocks	
Kao Corp	<ul style="list-style-type: none"> Earnings recovery should accelerate with Japan's full-reopening, driving Kao's earnings to bottom out. We think consensus estimates still have room for upside for the next 2-3 FYs. Raw materials costs should peak out in 1H F12/23. We still highly regard the management capability, given flexible cost adjustments in difficult environment. Undemanding valuations and market's low expectations also keep the stock relatively attractive.
Suntory Beverage & Food	<ul style="list-style-type: none"> Brand reinforcement and cost cuts as promising sources of domestic profit growth; reopening benefits have not emerged yet. Asia growth is the mid-to longer-term growth driver, in addition to profitability recovery/improvement in Europe Stock still remains undervalued vs. food peers, despite its solid earnings growth outlook (weaker JPY also a tailwind).
Asahi Group HD	<ul style="list-style-type: none"> Solid earnings driven by premiumization and further volume growth in both Europe and Australia In Japan, beer brand initiatives (2 brands simultaneously) have proven to be successful. Price hikes in October also enables the company to offset cost headwinds. Reopening is yet to drive further earnings recovery. Relatively cheap valuation
Unicharm	<ul style="list-style-type: none"> Top-quality growth company within our coverage group, with top market share in various EMs and Japan. Even Japan business earnings should continue to grow, driven by adult incontinence and pet care. Raw materials costs are likely peaking in F12/22.
Japan Tobacco	<ul style="list-style-type: none"> Valuation discount overly done; Even by assuming zero-valuation for the Russian biz, SOTP analysis shows exceptionally low implied value for domestic tobacco biz; International tobacco business is still strong (and weaker JPY is a tailwind) Re-rating potential over Japan business (potential RRP share gain and greater visibility for Japan OP to bottom out)
Underweight Stocks	
Coca-Cola Bottlers Japan HD	<ul style="list-style-type: none"> While reopening will be a key tailwind for the company's earnings to recover, CCBJH's profitability will likely remain low due to structural reasons. Fully-domestic earnings portfolio for the company also keeps the stock less attractive. Coca-Cola Group's topline performance in Japan also does not look particularly stronger vs. the overall market.
Calbee	<ul style="list-style-type: none"> While earnings have likely bottomed out, Calbee still lacks key earnings growth drivers in Japan and overseas. Volume trends post-price hikes remain at risk, should consumer sentiment deteriorate. Calbee's dependency on Japan earnings keeps the stock less attractive than peers.
Kikkoman	<ul style="list-style-type: none"> Expensive valuation; valuation premium looks too large on the OP CAGR at only mid-single digit %. As Covid provided tailwind for the company's B2C business, backlash effect may be seen in the next 1-2 FYs. Weaker consumer sentiment is a potential risk both in Japan/overseas.

Investment Framework: Prefer Relatively Defensive Stocks

		Rating	High international earnings mix%	Tailwind from full reopening	Appealing valuations	Demand less susceptible to recession risk
Calbee	2229.T	UW		✓		
Yakult Honsha	2267.T	EW	✓			✓
Asahi GHD	2502.T	OW	✓	✓	✓	
Kirin HD	2503.T	EW		✓	✓	
Coca-Cola Bottlers Japan	2579.T	UW		✓		
Suntory Beverage & Food	2587.T	OW	✓	✓	✓	
Kikkoman	2801.T	UW	✓			
Ajinomoto	2802.T	EW	✓			
Japan Tobacco	2914.T	OW	✓		✓	✓
Kao Corp	4452.T	OW		✓	✓	✓
Shiseido	4911.T	EW	✓	✓		
KOSE	4922.T	EW		✓		
Uni-Charm	8113.T	OW	✓			✓

Source: Morgan Stanley Research

Sales and profit exposure by region



	Translational FX impact on OP: -1JPY depreciation vs. USD, EUR, GBP, AUD; -1% depreciation vs. other currencies	View in Gallery
Calbee	Marginal impact	
Yakult	CNY/JPY: +sub-0.2bn JPY; IDR/JPY: +sub-0.2bn JPY; MXR/JPY: +0.1bn JPY; BRL/JPY and USD/JPY: marginal impact	
Asahi Goup Holdings	EUR/JPY: +0.6bn JPY; AUD/JPY: +1.2bn JPY	
Kirin Holdings	USD/JPY: +0.2bn JPY; AUD/JPY: +0.4bn JPY	
CCBII	N/A	
Suntory Beverage & Food	USD/JPY: +0.15bn JPY; EUR/JPY: +0.2bn JPY; GBP/JPY +0.1bn JPY; AUD/JPY +0.1bn JPY; THB/JPY:+0.2bn JPY; VND/JPY +0.1bn JPY	
Kikkoman	USD/JPY: +0.3bn JPY; EUR/JPY: +0.05bn JPY	
Ajinomoto	USD/JPY: +0.8bn JPY (incl. THB and BRL fluctuation impact); EUR/JPY: +sub-0.1bn JPY	
JT	USD/JPY: +1bn JPY; EUR/JPY: +1.5bn JPY; JPY/RUB: +1bn JPY, GBP/JPY +0.3bn JPY	
Kao	USD/JPY: +0.25bn JPY; CNY/JPY: +0.85bn JPY	
Shiseido	USD/JPY: +0.3bn JPY; CNY/JPY: +0.2bn JPY	
KOSE	USD/JPY: +0.03bn JPY; CNY/JPY: +0.8bn JPY; KRW/JPY: +sub-0.1bn JPY	
Unicharm	USD/JPY: +0.4bn JPY (incl. all non-CNY currency fluctuations); CNY/JPY: +0.25bn JPY	

Note: Business profit or core OP is shown for Kikkoman, Ajinomoto, Asahi GHD, and Kirin HD. Profit for others is OP.
Source: Company data, Morgan Stanley Research

Food Industry Valuations

As of: 9/2/2022	Ticker	Currency	Current Price (Last close, local FX)	Market cap		P/E			Adjusted P/E			OP CAGR	EPS CAGR	PEG	EV/EBITDA			EV/Sales		P/B	ROE			Dividend yield		FCF yield				
				Local (Bn)	USD (Bn)	2022e	2023e	2024e	2022e	2023e	2024e				F21-F24e	F21-F24e	F21-F24e	2022e	2023e		2024e	2022e	2023e	(Last FY)	2022e	2023e	2024e	F22e	F23e	F22e
Japanese Beverages: Soft drinks & Brewers																														
	Yakult Honsha	2267.T	JPY	8,100	1,385.5	9.9	1,301.5	26.7x	24.7x	23.3x	26.7x	24.7x	23.3x	10%	7%	3.3x	15.0x	14.0x	13.4x	2.9x	2.7x	2.9x	10.4%	10.4%	10.2%	1.0%	1.0%	2.7%	3.1%	3.5%
	Asahi Group Holdings	2502.T	JPY	4,658	2,361.6	16.8	3,904.2	14.3x	12.0x	10.9x	14.3x	12.0x	10.9x	13%	5%	2.2x	10.4 e	9.0 e	8.1 e	1.6x	1.4x	1.3x	9.1%	10.2%	10.4%	2.5%	2.8%	7.9%	9.3%	10.4%
	Kirin Holdings	2503.T	JPY	2,236	2,043.7	14.6	2,804.3	16.2x	12.9x	10.7x	16.2x	12.9x	10.7x	17%	NA	NA	10.5 e	9.4 e	8.1 e	1.4x	1.4x	2.1x	12.7%	15.3%	17.3%	3.6%	4.0%	2.9%	2.4%	5.4%
	Coca-Cola Bottlers Japan	2579.T	JPY	1,404	289.6	2.1	406.7	NA	NA	43.0x	NA	NA	28.7x	NA	NA	NA	8.9 e	7.0 e	5.8 e	0.5x	0.5x	0.5x	-2.2%	-0.1%	1.9%	1.8%	2.5%	-10.9%	-7.1%	-1.9%
	Suntory Beverage & Foods Int'l	2587.T	JPY	5,060	1,563.5	11.2	1,587.5	20.6x	18.0x	17.1x	19.5x	17.2x	16.4x	10%	10%	1.8x	7.5x	6.8x	6.6x	1.1x	1.1x	1.8x	9.0%	9.7%	9.5%	1.5%	1.8%	5.9%	6.2%	6.4%
	Japanese beverages average							19.4x	16.9x	21.0x	19.2x	16.7x	18.0x	13%	7%	2.5x	10.5x	9.2x	8.4x	1.5x	1.4x	1.7x	7.8%	9.1%	9.9%	2.1%	2.4%	1.7%	2.8%	4.7%
Japan: Food & Tobacco																														
Tobacco																														
	Japan Tobacco	2914.T	JPY	2,374	4,748.0	33.9	5,041.6	9.6x	8.2x	7.5x	8.1x	7.1x	6.5x	17%	17%	0.4x	6.1x	5.4x	5.0x	2.0x	1.8x	1.5x	17.9%	19.1%	19.0%	5.7%	6.1%	11.4%	13.9%	15.7%
Condiment & Processed Food																														
	Kikkoman	2801.T	JPY	8,580	1,663.5	11.9	1,634.1	37.3x	33.8x	31.6x	37.3x	33.8x	31.6x	13%	16%	2.2x	21.5x	19.9x	18.9x	2.7x	2.5x	4.6x	11.8%	11.9%	11.6%	0.6%	0.6%	0.3%	1.3%	1.6%
	Ajinomoto	2802.T	JPY	3,821	2,051.9	14.6	2,267.9	25.4x	22.9x	21.3x	24.8x	22.4x	20.9x	6%	9%	2.6x	12.5x	11.8x	11.2x	1.7x	1.6x	3.0x	11.6%	12.0%	11.8%	0.9%	0.9%	0.1%	1.2%	1.6%
	Kewpie	* 2809.T	JPY	2,271	321.3	2.3	313.2	20.1x	18.4x	17.3x	20.1x	18.4x	17.3x	-2%	1%	NA	7.1x	6.7x	6.5x	0.7x	0.7x	1.3x	6.3%	6.6%	6.7%	2.1%	2.2%	2.9%	3.8%	4.4%
	House Foods	* 2810.T	JPY	2,940	296.2	2.1	252.6	23.7x	21.7x	20.8x	23.7x	21.7x	20.8x	5%	0%	NA	7.6x	7.2x	7.9x	0.9x	0.9x	1.2x	4.8%	4.8%	4.8%	1.6%	1.6%	2.4%	3.1%	N/A
	Kagome	* 2811.T	JPY	3,050	287.8	2.1	304.8	33.3x	32.4x	31.5x	33.3x	32.4x	31.5x	-3%	-4%	NA	15.2x	14.8x	15.6x	1.6x	1.5x	2.3x	6.8%	6.7%	6.6%	1.3%	1.3%	N/A	N/A	N/A
	Ariake Japan	* 2815.T	JPY	4,595	150.8	1.1	88.1	19.4x	17.7x	NA	19.4x	17.7x	NA	6%	NA	NA	6.3x	5.9x	NA	1.6x	1.5x	1.4x	7.0%	7.4%	NA	2.1%	2.1%	13.1%	5.1%	N/A
	Nichirei	* 2871.T	JPY	2,485	333.1	2.4	430.7	15.4x	14.3x	13.6x	15.4x	14.3x	13.6x	4%	1%	13.1x	7.4x	7.1x	7.1x	0.7x	0.7x	1.6x	9.9%	9.7%	9.5%	2.1%	2.2%	2.4%	1.9%	5.4%
Confectionery & Daily																														
	Calbee	2229.T	JPY	2,725	365.0	2.6	319.5	22.1x	19.9x	18.5x	20.0x	18.2x	17.5x	5%	1%	14.1x	9.5x	8.8x	8.4x	1.2x	1.1x	2.0x	9.8%	10.2%	10.0%	2.0%	2.1%	4.1%	5.1%	5.6%
	Morinaga Seika	* 2201.T	JPY	3,915	212.2	1.5	182.9	17.9x	16.4x	15.3x	17.9x	16.4x	15.3x	1%	-23%	NA	6.6x	6.3x	5.9x	1.0x	0.9x	1.5x	8.2%	8.6%	8.7%	0.7%	0.9%	N/A	N/A	N/A
	Ezaki Glico	* 2206.T	JPY	3,585	245.5	1.8	184.6	17.4x	16.5x	15.2x	17.4x	16.5x	15.2x	5%	7%	2.2x	5.5x	5.2x	NA	0.6x	0.6x	0.9x	5.3%	5.4%	5.7%	0.8%	0.9%	N/A	N/A	N/A
	Morinaga Milk Industry	* 2264.T	JPY	4,180	200.0	1.4	275.6	12.4x	NA	11.0x	12.4x	4.0x	11.0x	-3%	-18%	NA	6.1x	5.8x	5.5x	0.5x	0.5x	0.9x	7.4%	19.5%	6.4%	2.2%	2.4%	N/A	N/A	N/A
	Meiji Holdings	* 2269.T	JPY	6,620	982.2	7.0	1,051.2	16.3x	16.1x	15.7x	16.3x	16.1x	15.7x	-1%	-11%	NA	7.2x	7.1x	7.6x	1.0x	1.0x	1.4x	8.3%	8.0%	7.9%	2.6%	2.6%	3.0%	3.7%	4.0%
	Megmilk Snow Brand	* 2270.T	JPY	1,690	119.6	0.9	176.6	12.7x	12.4x	11.5x	12.7x	12.4x	11.5x	-7%	-6%	NA	5.6x	5.4x	5.1x	0.3x	0.3x	0.6x	4.3%	4.3%	4.5%	3.3%	3.3%	-0.4%	3.1%	2.6%
Bakery																														
	Yamazaki Baking	* 2212.T	JPY	1,656	364.8	2.6	351.5	28.6x	26.0x	23.9x	28.6x	26.0x	23.9x	12%	13%	2.1x	5.5x	5.3x	5.2x	0.3x	0.3x	1.1x	3.7%	3.8%	4.0%	1.3%	1.4%	4.2%	6.4%	7.3%
Instant Noodles																														
	Toyo Suisan	* 2875.T	JPY	5,730	635.3	4.5	463.6	21.7x	19.0x	16.5x	21.7x	19.0x	16.5x	18%	16%	1.2x	8.4x	7.5x	7.2x	1.1x	1.1x	1.6x	7.4%	8.0%	8.6%	1.7%	1.9%	3.1%	3.6%	4.5%
	Nissin Foods HD	* 2897.T	JPY	9,890	1,030.8	7.4	1,017.3	28.2x	25.0x	23.4x	28.2x	25.0x	23.4x	10%	7%	3.5x	11.7x	11.1x	10.7x	1.6x	1.6x	2.5x	8.7%	9.3%	9.5%	1.4%	1.5%	2.0%	2.3%	1.9%
	Food average							21.3x	20.0x	18.4x	21.0x	18.9x	18.3x	5%	2%	4.6x	8.8x	8.3x	8.5x	1.1x	1.1x	1.7x	8.2%	9.1%	8.5%	1.9%	2.0%	3.7%	4.2%	5.0%
	Japanese food/beverage/tobacco avg.							20.9x	19.4x	19.0x	20.7x	18.5x	18.2x	6%	3%	4.1x	9.2x	8.5x	8.5x	1.2x	1.2x	1.7x	8.1%	9.1%	8.8%	1.9%	2.1%	3.2%	3.8%	4.9%

Note: For those companies that we do not cover (noted with *), all valuation figures are calculated using IFIS consensus estimates. For covered companies, Morgan Stanley earnings forecasts are used for calculations. Adjusted P/E figures are calculated using EPS figures that exclude the impact of goodwill amortization.

Source: Morgan Stanley Research, Refinitiv, IFIS

HPC Industry Valuations

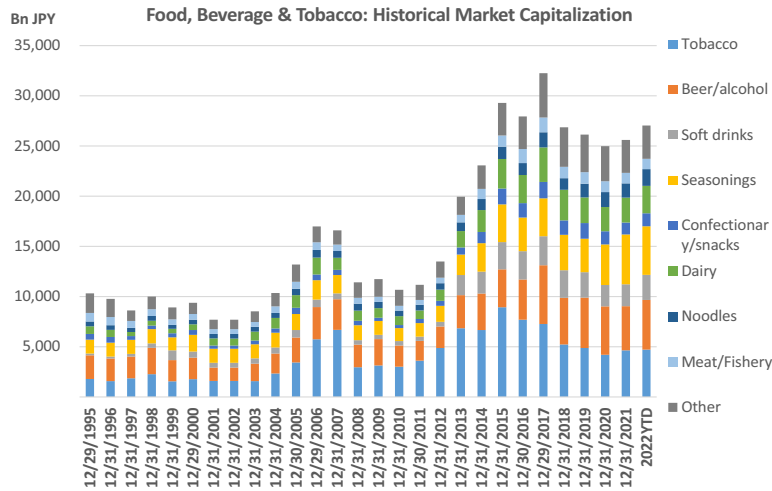
As of: 9/2/2022	Ticker	Currency	Current Price (Last close, local FX)	Market cap		EV Local (Bn)	P/E			Adjusted P/E			OP CAGR		EPS CAGR		PEG	EV/EBITDA			EV/Sales		P/B (Last FY)	ROE			Dividend yield		FCF yield		
				Local (Bn)	USD (Bn)		2022e	2023e	2024e	2022e	2023e	2024e	F21-F24e	F21-F24e	F21-F24e	2022e		2023e	2024e	2022e	2023e	2022e		2023e	2024e	F22e	F23e	F22e	F23e	F24e	
Japan: Cosmetics & Toiletries																															
	Kao Corporation	4452.T	JPY	6,001	2,850.5	20.3	2,854.1	25.6x	20.8x	18.3x	25.6x	20.8x	18.3x	12%	1%	NA	12.9x	11.4x	10.7x	1.9x	1.7x	2.9x	11.5%	14.1%	15.6%	2.5%	2.7%	2.0%	2.7%	3.2%	
	Shiseido	4911.T	JPY	5,107	2,042.8	14.6	2,271.7	54.7x	27.4x	22.8x	54.7x	27.4x	22.8x	47%	22%	1.2x	21.2x	14.2x	12.5x	2.0x	1.8x	3.7x	6.7%	12.7%	14.0%	1.1%	1.3%	0.8%	1.8%	3.7%	
	KOSE	4922.T	JPY	13,120	795.0	5.7	708.6	61.4x	34.3x	28.6x	56.1x	32.6x	27.4x	30%	24%	1.4x	22.4x	15.6x	13.7x	2.5x	2.2x	3.1x	5.6%	9.3%	10.7%	1.5%	1.8%	-1.2%	0.6%	1.2%	
	Unicharm	8113.T	JPY	4,727	2,934.7	20.9	2,708.6	33.3x	29.4x	22.9x	33.3x	29.4x	22.9x	9%	19%	1.5x	16.5x	14.9x	13.6x	3.0x	2.8x	5.1x	14.6%	15.3%	18.0%	0.8%	0.9%	1.7%	1.9%	2.7%	
	Rohto Pharmaceuticals	* 4527.T	JPY	4,155	490.7	3.5	439.9	21.2x	19.4x	17.7x	21.2x	19.4x	17.7x	10%	8%	2.3x	12.3x	10.0x	9.4x	1.9x	1.9x	2.7x	12.1%	11.9%	11.9%	0.9%	1.0%	N/A	N/A	N/A	
	Lion	* 4912.T	JPY	1,611	471.3	3.4	406.9	23.2x	24.4x	21.9x	23.2x	24.4x	21.9x	-3%	-3%	NA	9.5x	9.0x	8.3x	1.1x	1.0x	1.9x	7.8%	6.9%	7.3%	1.6%	1.6%	2.4%	4.2%	5.2%	
	Mandom	* 4917.T	JPY	1,522	73.5	0.5	60.1	57.7x	32.2x	24.5x	57.7x	32.2x	24.5x	NA	NA	NA	8.8x	7.3x	6.4x	0.9x	0.9x	1.1x	1.9%	3.4%	4.4%	2.5%	2.6%	N/A	N/A	N/A	
	Milbon	* 4919.T	JPY	6,130	203.0	1.4	190.3	35.6x	33.2x	30.3x	35.6x	33.2x	30.3x	7%	9%	3.8x	18.7x	17.1x	15.6x	4.3x	4.0x	5.0x	13.5%	13.8%	14.1%	1.4%	1.5%	1.1%	1.1%	1.8%	
	Fancl Corp	* 4921.T	JPY	2,795	364.3	2.6	344.1	45.1x	35.4x	29.7x	45.1x	35.4x	29.7x	18%	15%	2.3x	22.2x	19.4x	17.6x	3.1x	2.9x	4.6x	9.8%	11.6%	13.1%	1.2%	1.3%	1.2%	2.9%	3.4%	
	Pola Orbis Holdings	* 4927.T	JPY	1,518	347.8	2.5	270.2	24.7x	29.8x	25.1x	24.7x	29.8x	25.1x	6%	4%	6.7x	12.2x	9.9x	8.9x	1.6x	1.5x	2.0x	7.8%	6.4%	7.5%	3.4%	3.5%	4.5%	4.5%	4.7%	
	Pigeon	* 7956.T	JPY	2,062	250.8	1.8	218.6	26.8x	25.1x	23.3x	26.8x	25.1x	23.3x	5%	5%	5.0x	12.6x	11.2x	10.5x	2.2x	2.1x	3.3x	12.4%	13.0%	13.7%	3.7%	3.7%	3.2%	3.4%	N/A	
	HPC average							37.2x	28.3x	24.1x	36.7x	28.2x	24.0x	14%	10%	3.0x	15.4x	12.7x	11.6x	2.2x	2.1x	3.2x	9.4%	10.8%	11.8%	1.9%	2.0%	1.7%	2.6%	3.3%	
	Cosmetics average							46.5x	31.7x	26.5x	45.2x	31.3x	26.2x	25%	16%	2.9x	19.5x	14.8x	13.2x	2.3x	2.1x	3.3x	7.5%	10.0%	11.3%	1.8%	2.0%	1.3%	2.5%	3.3%	
	Household & Personal care (non-cosmetics) average							31.9x	26.4x	22.7x	31.9x	26.4x	22.7x	7%	6%	3.1x	13.1x	11.6x	10.6x	2.2x	2.1x	3.1x	10.5%	11.2%	12.1%	1.9%	2.0%	2.1%	2.7%	3.2%	

Note: For those companies that we do not cover (noted with *), all valuation figures are calculated using IFIS consensus estimates. For covered companies, Morgan Stanley earnings forecasts are used for calculations. Adjusted P/E figures are calculated using EPS figures that exclude the impact of goodwill amortization.

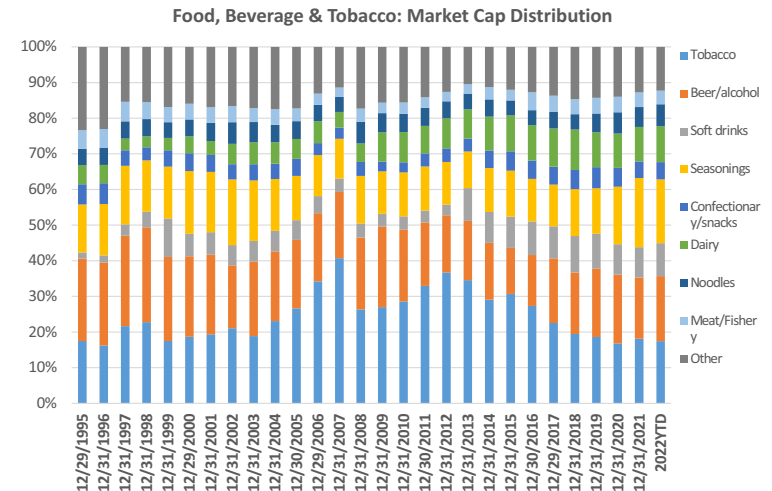
Source: Morgan Stanley Research, Refinitiv, IFIS

Food & HPC Industry: Historical Market Capitalization

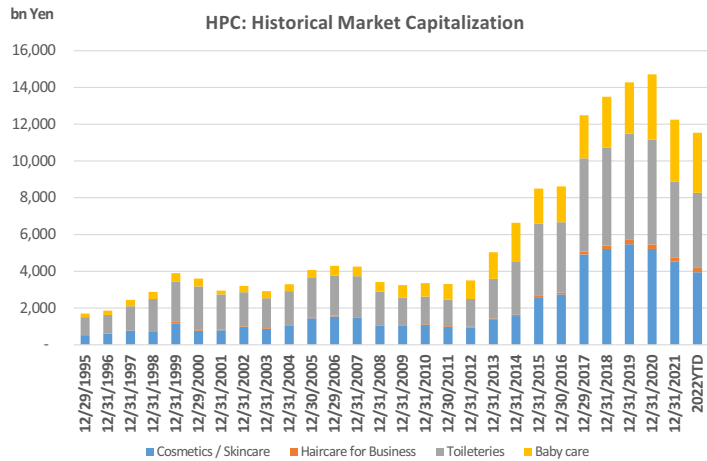
Food industry: Market cap trends



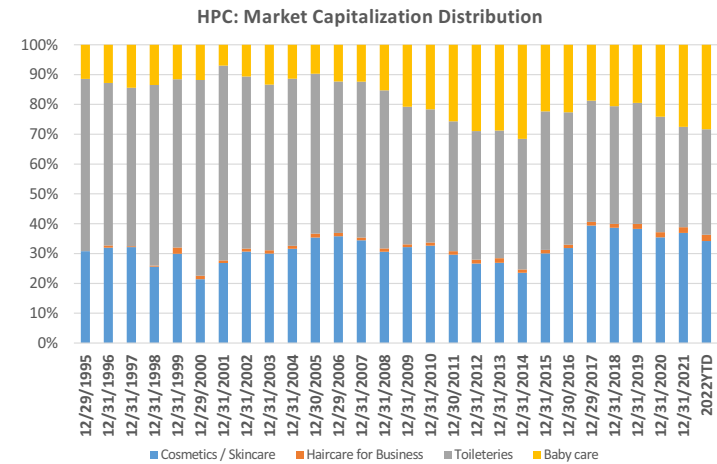
Food industry: Market cap mix



HPC industry: Market cap trends



HPC industry: Market cap mix

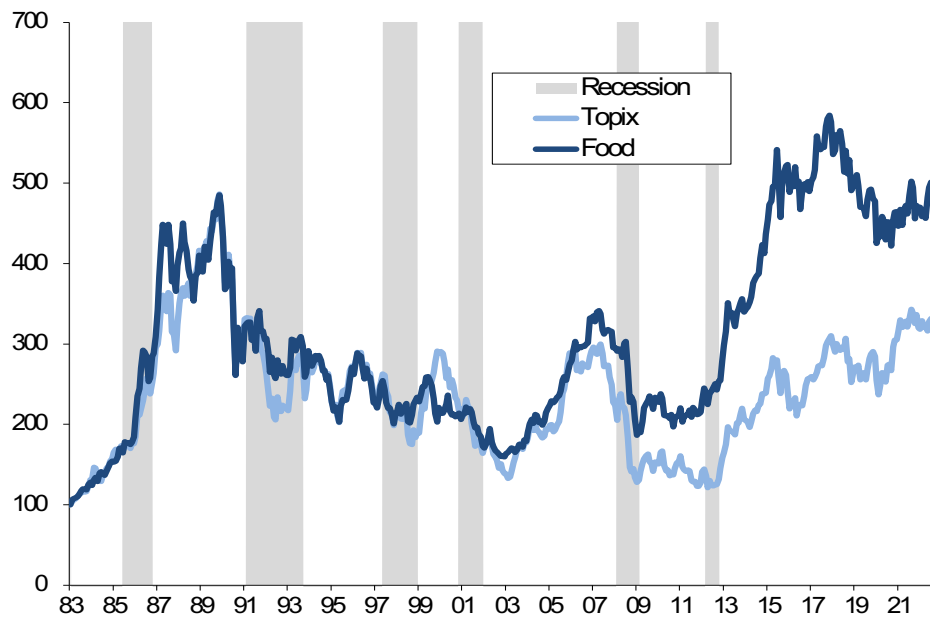


Source: Refinitiv, Company Data, Morgan Stanley Research

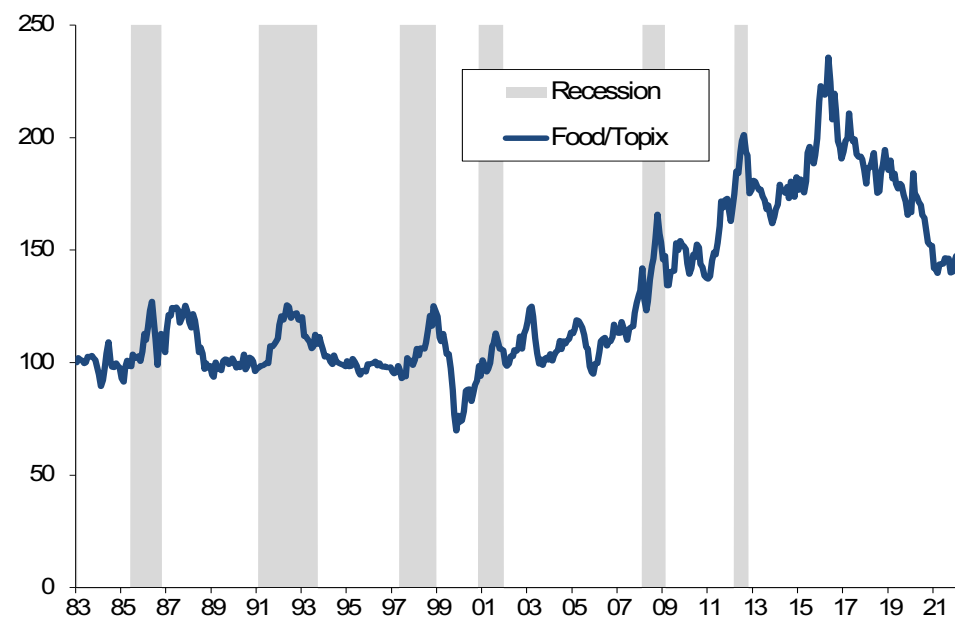
Historical Stock Price Performance

Food Industry: In Line

TOPIX & Food Industry Performance



Food Industry Performance



*Stock prices as of the end of Aug-22

'Food' is average share price for TSE-1 food companies. TOPIX indexed to Feb 1982. Food divided by TOPIX
 Source: Morgan Stanley Research, Economic Planning Agency, Refinitiv

Historical Stock Price Performance

	TOPIX		Foods									Toiletries/Cosmetics			
	TOPIX - PRICE INDEX	TOPIX FOODS	CALBEE J2229	YAKULT HONSHA J2267	ASAHI GROUP HOLDINGS J2502	KIRIN HOLDINGS J2503	COCA-COLA BOTTLERS JAPAN HOLDINGS J2579	SUNTORY BEVERAGE & FOOD J2587	KIKKOMAN J2801	AJINOMOTO J2802	JAPAN TOBACCO J2914	KAO J4452	SHISEIDO J4911	KOSE J4922	UNI CHARM J8113
7/31/2020	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
8/31/2020	108.2	105.2	98.5	100.7	107.8	102.5	112.3	102.9	117.2	103.8	109.4	105.7	105.5	117.3	97.0
9/30/2020	108.7	105.1	103.3	97.3	106.2	97.0	111.7	99.4	118.4	113.4	106.0	103.3	103.2	121.2	99.0
10/30/2020	105.6	98.2	95.4	84.2	93.6	92.4	93.5	90.6	105.4	110.2	108.7	97.2	110.3	125.3	101.7
11/30/2020	117.3	105.8	92.0	82.8	117.2	111.8	102.0	96.0	132.0	114.5	117.0	102.3	125.8	150.4	106.4
12/31/2020	120.6	108.0	92.7	86.5	123.2	119.7	102.2	91.8	145.9	122.8	116.0	104.4	122.0	166.0	102.8
1/29/2021	120.9	108.2	92.3	88.9	122.3	110.4	100.6	91.9	150.2	129.9	114.7	99.5	116.1	158.8	98.8
2/26/2021	124.6	103.9	83.5	87.7	133.9	102.7	116.2	91.7	143.0	111.3	106.2	93.6	135.3	161.0	88.6
3/31/2021	130.6	108.8	84.1	93.2	135.5	104.3	122.5	103.5	134.1	119.0	117.3	95.8	126.9	147.7	97.6
4/30/2021	126.9	104.2	78.1	88.5	132.5	100.8	110.8	92.8	136.5	114.8	112.8	91.8	135.5	155.3	89.2
5/31/2021	128.5	108.7	75.3	98.3	151.5	108.7	114.5	101.5	144.7	132.1	119.3	87.7	135.5	162.0	90.9
6/30/2021	129.9	109.9	76.4	104.7	150.7	106.5	110.2	105.2	149.1	151.5	115.8	89.5	139.7	164.9	93.9
7/30/2021	127.1	107.5	75.0	107.5	142.6	98.3	113.3	96.5	135.9	146.3	118.1	86.1	124.5	162.7	92.1
8/31/2021	131.1	112.9	81.3	105.5	148.5	98.0	97.4	110.8	168.1	170.4	117.7	87.0	124.7	125.5	103.1
9/30/2021	135.7	116.9	81.1	94.2	157.4	102.0	102.8	116.7	184.9	173.6	120.9	87.2	128.8	126.2	104.0
10/29/2021	133.8	115.2	87.5	95.5	149.7	97.4	99.3	111.1	189.6	178.9	123.4	84.2	129.5	124.4	96.5
11/30/2021	128.9	106.0	75.9	94.3	121.8	89.3	80.3	100.8	176.2	178.9	125.5	75.8	111.2	129.0	102.7
12/31/2021	133.2	109.9	79.6	99.8	129.9	90.8	83.8	104.7	196.7	183.7	128.2	78.8	109.6	123.1	105.1
1/31/2022	126.7	108.4	78.6	96.8	135.5	90.3	85.1	110.9	175.4	167.7	126.6	75.1	98.5	98.3	93.0
2/28/2022	126.1	109.4	77.0	103.7	134.8	93.8	93.2	115.7	173.8	175.4	117.0	70.5	112.2	123.9	90.8
3/31/2022	130.1	106.7	70.2	108.5	129.5	89.9	91.6	117.2	165.4	182.5	115.2	65.8	106.3	121.6	91.6
4/29/2022	127.0	108.7	69.3	111.8	141.2	93.4	92.7	129.1	148.9	177.8	122.7	68.5	104.9	126.8	95.1
5/31/2022	127.8	106.3	71.0	118.0	126.0	98.0	87.0	121.1	139.6	164.6	129.2	68.0	92.8	110.2	92.9
6/30/2022	125.0	112.2	81.5	130.3	129.1	105.1	102.9	129.1	146.5	173.3	129.5	71.7	93.1	116.4	95.4
7/29/2022	129.7	115.2	85.1	134.8	134.1	107.4	95.9	132.1	160.1	183.7	131.8	75.8	93.2	111.3	101.5
8/31/2022	131.2	116.7	82.3	136.9	135.7	112.8	90.7	128.3	174.2	202.8	130.2	79.3	90.5	124.9	102.0

Note: Share price on 7/31/2020 =100; Source: Morgan Stanley Research, Datastream

Food Companies: OP Consensus

(bn yen)

As of 9/5/2022

Ticker	Company Name	FY-end	Actual (F21)	YoY	Ce (F22)	YoY	IBES(F22)	YoY	IBES(F23)	YoY
1332	Nissui	Mar	27.1	50%	22.5	-17%	24.4	-10%	25.9	6%
2002	Nisshin Seifun GP	Mar	29.4	8%	30.0	2%	31.3	6%	33.0	6%
2201	Morinaga	Mar	17.7	-8%	16.5	-7%	16.0	-10%	17.3	8%
2212	Yamazaki Baking	Dec	18.4	5%	24.0	31%	22.7	24%	24.2	7%
2229	Calbee	Mar	25.1	-7%	25.5	1%	24.8	-1%	28.0	13%
2264	Morinaga Milk Industry	Mar	29.8	3%	25.0	-16%	24.2	-19%	26.2	8%
2267	Yakult Honsha	Mar	53.2	22%	59.0	11%	60.3	13%	65.2	8%
2269	Meiji HD	Mar	92.9	-12%	92.5	0%	87.3	-6%	89.3	2%
2270	Megmilk Snow Brand	Mar	18.1	-9%	14.0	-22%	13.5	-25%	13.6	0%
2282	NH Foods	Mar	48.1	-5%	43.0	-11%	44.0	-9%	49.7	13%
2296	Ito Ham	Mar	24.6	2%	21.0	-15%	21.8	-11%	22.3	2%
2501	Sapporo HD	Dec	22.0	NM	7.3	-67%	8.6	-61%	12.4	44%
2502	Asahi Group HD	Dec	211.9	57%	217.5	3%	221.7	5%	254.0	15%
2503	Kirin HD	Dec	68.1	-34%	172.0	153%	159.0	134%	177.9	12%
2531	Takara HD	Mar	43.4	101%	31.7	-27%	38.7	-11%	36.0	-7%
2579	Coca-Cola Bottlers Japan	Dec	-21.0	NM	-11.0	NM	-11.3	NM	-3.8	-67%
2587	Suntory Beverage & Food	Dec	118.6	23%	125.5	6%	132.6	12%	139.0	5%
2593	Ito En	Apr	18.8	13%	20.0	6%	20.6	10%	22.0	7%
2602	The Nisshin Oillio GP	Mar	11.7	-5%	13.0	11%	12.7	8%	13.6	8%
2607	Fuji Oil	Mar	15.0	-16%	16.5	10%	15.9	6%	17.9	13%
2613	J-Oil Mills	Mar	0.0	NM	1.0	NM	1.5	NM	3.0	100%
2801	Kikkoman	Mar	50.7	19%	NA	NM	55.5	10%	59.7	7%
2802	Ajinomoto	Mar	124.6	23%	124.0	0%	126.2	1%	142.6	13%
2809	QP	Nov	28.0	-1%	26.0	-7%	25.9	-7%	27.7	7%
2810	House Foods	Mar	19.2	-1%	18.4	-4%	18.9	-2%	21.8	15%
2811	Kagome	Dec	14.0	31%	10.7	-24%	13.0	-7%	12.3	-5%
2871	Nichirei	Mar	31.4	-5%	31.5	0%	31.2	-1%	33.4	7%
2875	Toyo Suisan Kaisha	Mar	29.7	-18%	36.5	23%	39.0	31%	45.4	16%
2897	Nissin Foods Holdings	Mar	46.6	-16%	47.0	1%	52.0	12%	57.9	11%
2914	Japan Tobacco	Dec	499.0	6%	549.0	10%	566.9	14%	563.5	-1%

Source: Company data, Refinitiv, Morgan Stanley Research

HPC Company Earnings: OP Consensus

(bn yen)

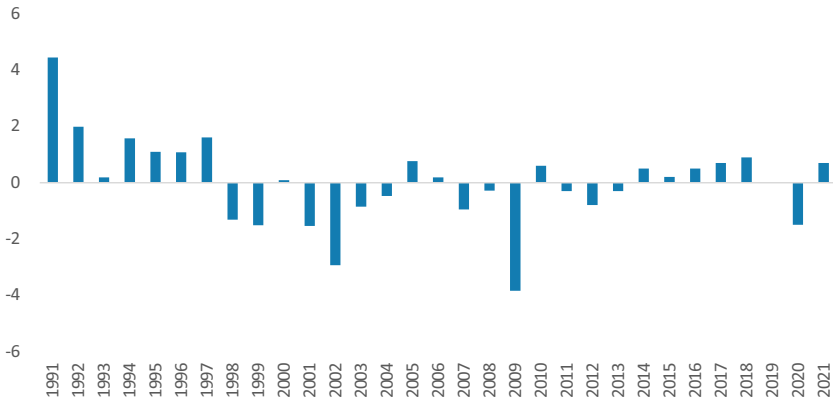
As of 9/5/2022

Ticker	Company Name	FY-end	Actual (F21)	YoY	Ce (F22)	YoY	IBES(F22)	YoY	IBES(F23)	YoY
4452	Kao	Dec	152.7	-15%	145.0	-5%	144.6	-5%	171.1	18%
4527	Rohto Pharmaceutical	Mar	28.2	23%	30.0	6%	30.8	9%	33.8	10%
4911	Shiseido	Dec	41.6	178%	40.0	-4%	51.5	24%	100.6	95%
4912	Lion	Dec	31.8	-28%	27.5	-14%	26.6	-16%	27.7	4%
4917	Mandom	Mar	-2.3	NM	1.0	NM	1.5	NM	3.2	107%
4921	Fancl Corp	Mar	9.8	-16%	10.4	6%	10.6	9%	13.5	27%
4922	KOSE	Dec	18.9	NM	20.0	NM	19.2	NM	31.1	62%
4927	Pola Orbis	Dec	16.9	23%	11.7	-31%	13.5	-20%	18.6	38%
7956	Pigeon	Dec	13.3	-13%	12.0	-10%	13.0	-3%	15.0	15%
8113	Unicharm	Dec	122.5	7%	127.0	4%	123.3	1%	138.8	13%

Source: Company data, Refinitiv, Morgan Stanley Research

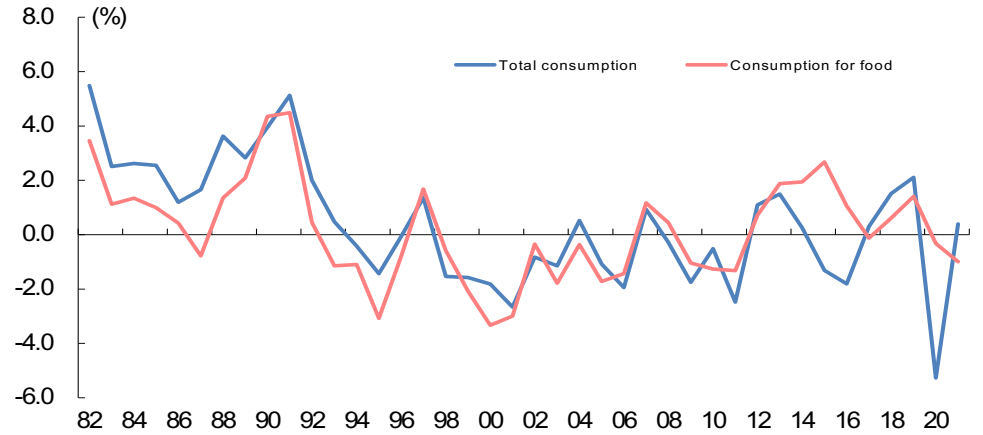
Japan: Consumption/Macro Overviews

Wage Index: Total Cash Salary (CY2015=100, annual average, Y/Y%)

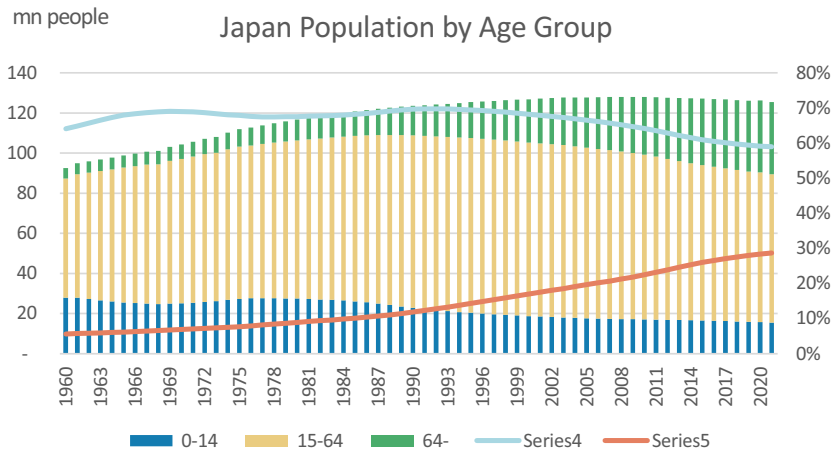


Note: Data from 2017 is based on establishments in the common sample

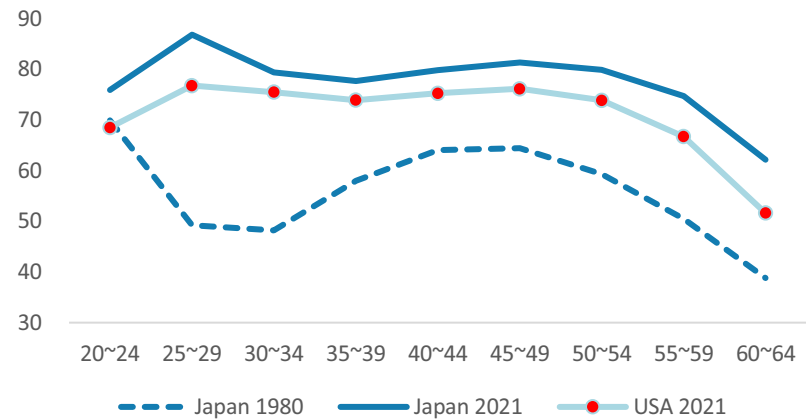
Spending per Household (YoY)



Population trends



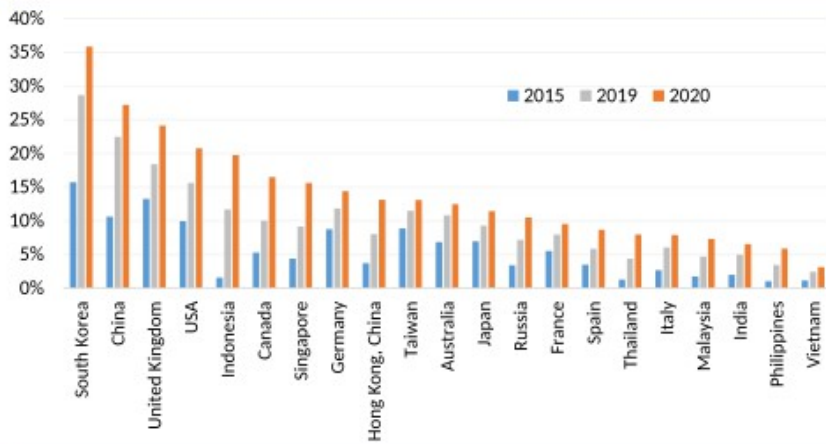
Female Labor Force Participation Rates: Japan vs. US



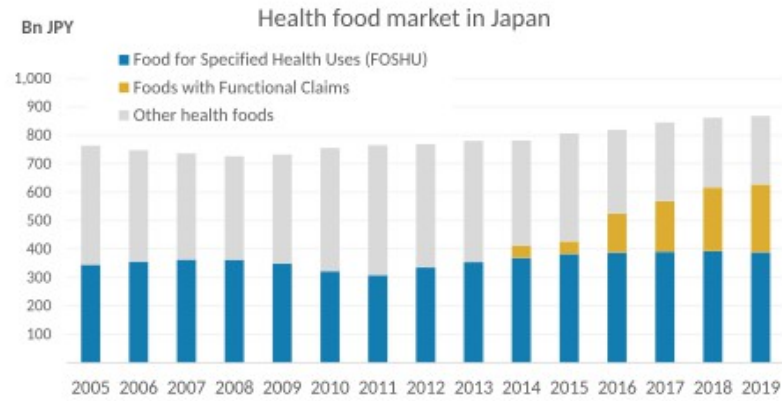
Source: Ministry of Internal Affairs and Communications, Ministry of Health, Labor and Welfare "Monthly Labor Statistics", World Bank, OECD, Morgan Stanley Research

Food & HPC Industries: Risks and Opportunities

E-Commerce Penetration



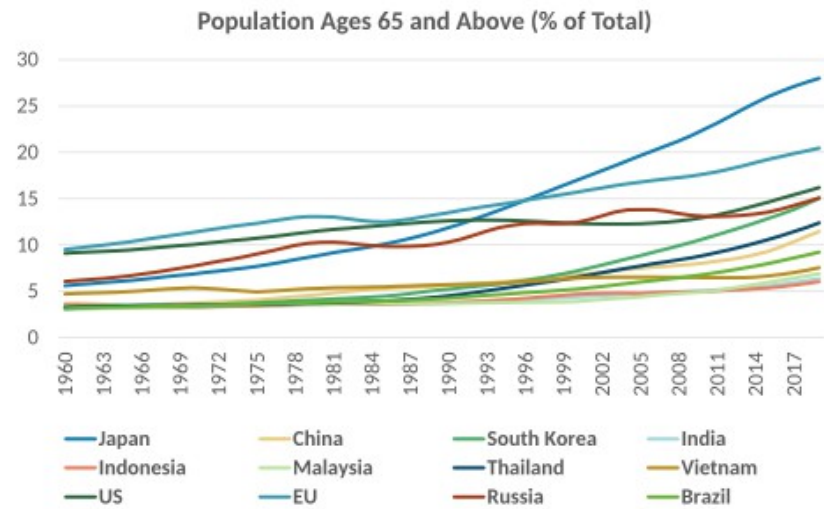
Health and Wellness



New products/technologies

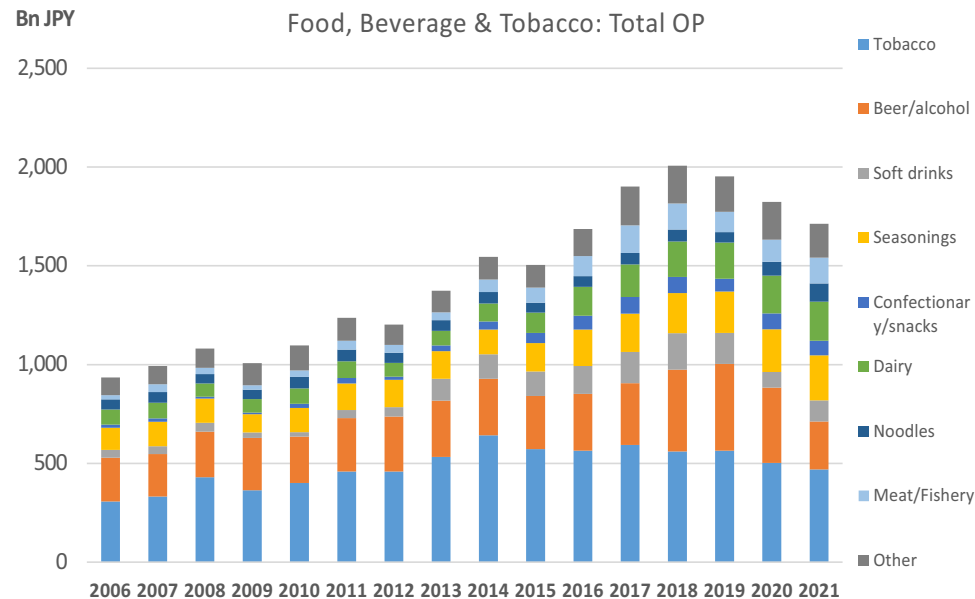
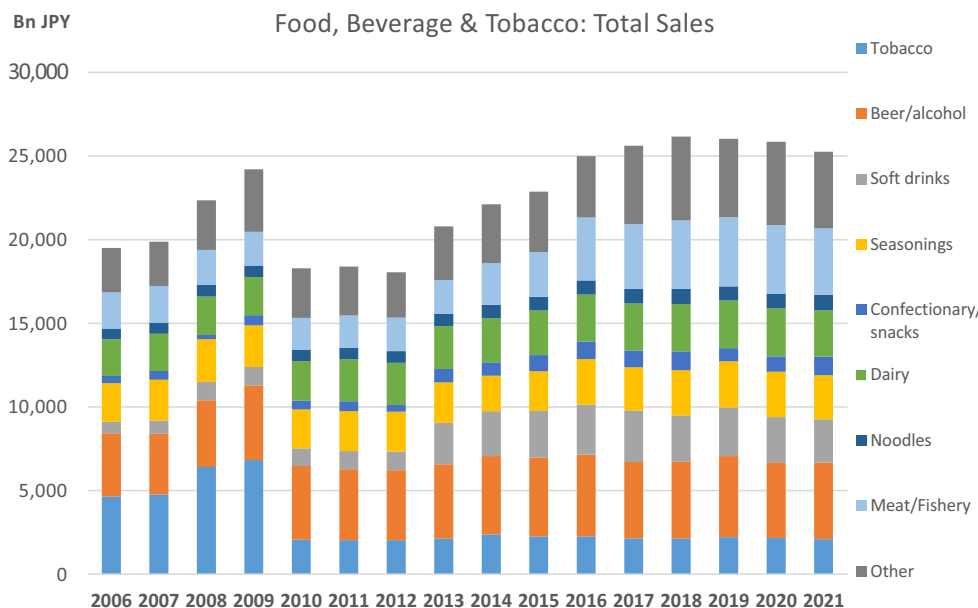


Aging population in major countries



Source: Euromonitor, Yano Research Institute, World Bank, Morgan Stanley Research

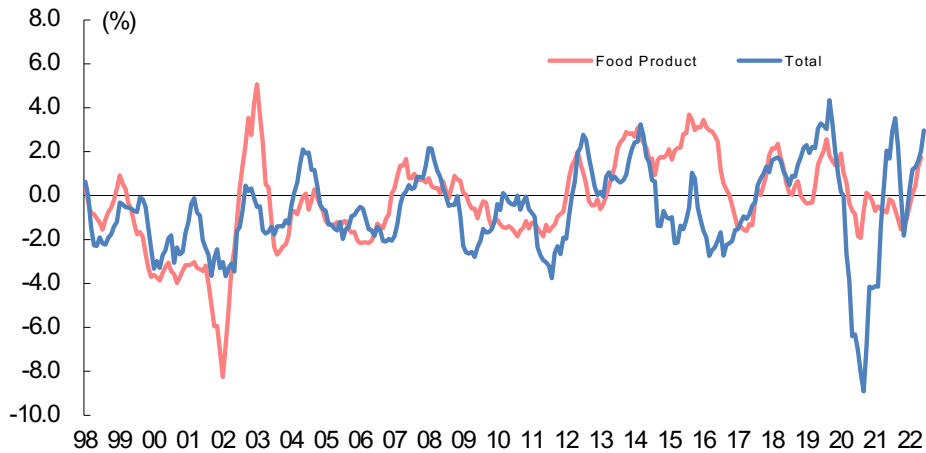
Food Industry: Sales and OP Trends



Source: Refinitiv, Company Data, Morgan Stanley Research

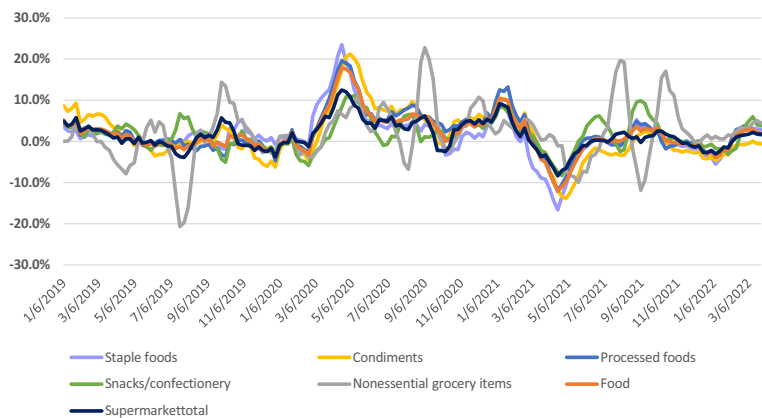
Food Industry Overview

Spending per Household (YoY) (YoY, 6-month moving average)

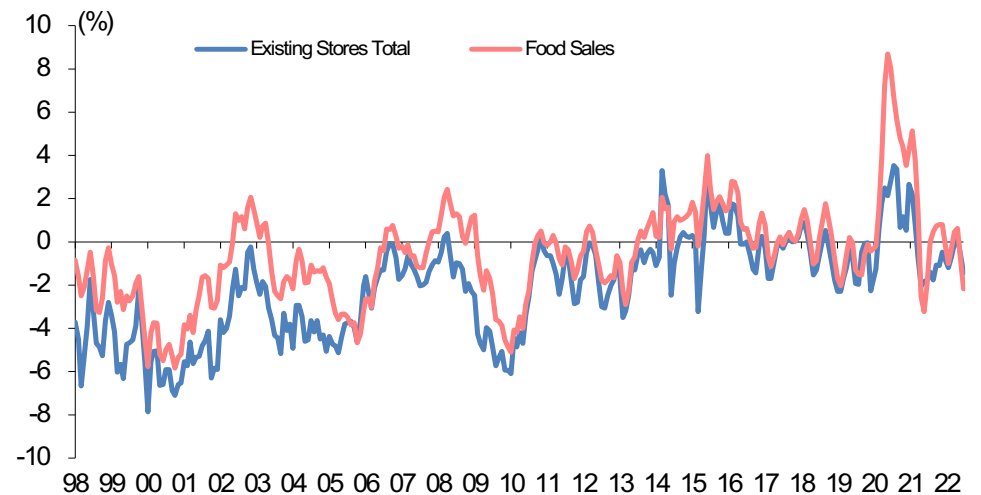


METI POS Data at Supermarkets

POS Y/Y% (4WMA) at supermarkets/grocery stores: Total and Food



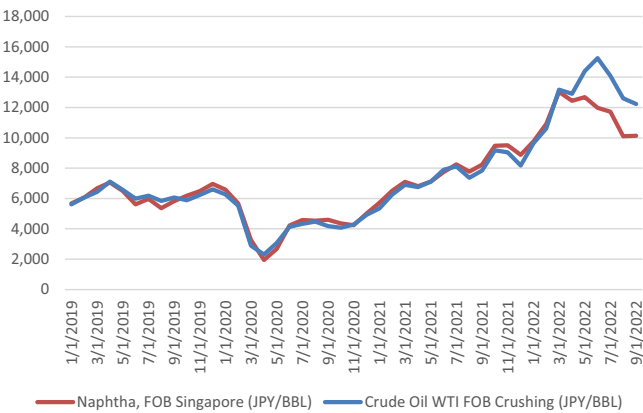
Sales at Supermarkets: Same Store Sales & Food Sales (YoY, 6-month moving average)



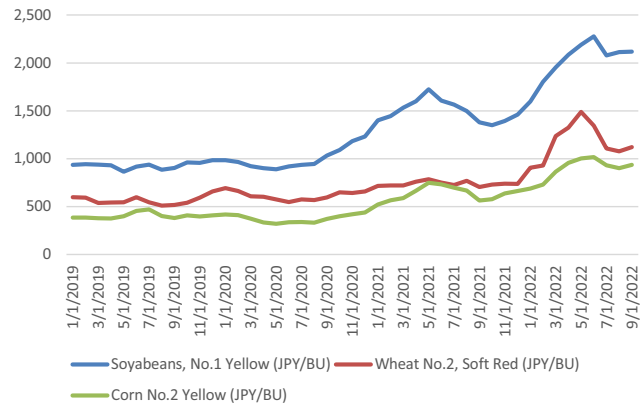
Source: MCA, METI, Morgan Stanley Research

Commodity Market Trends

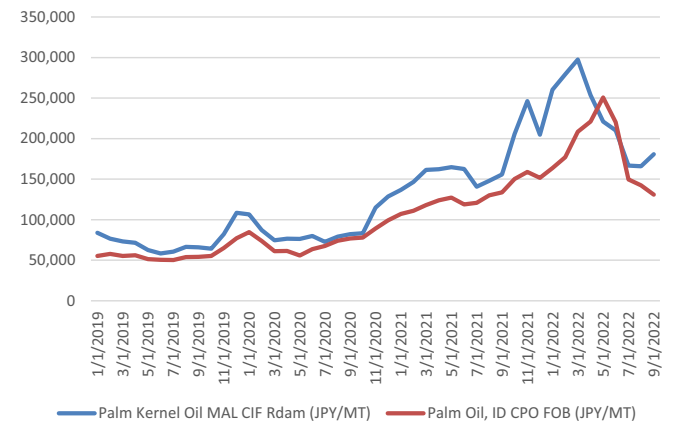
Crude oil and Napththa



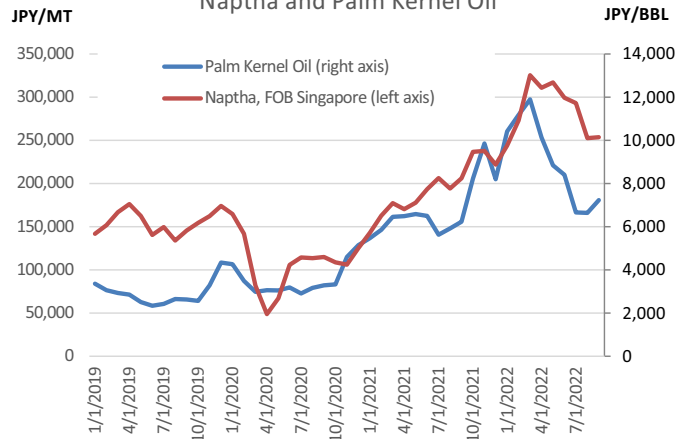
Soybeans and Wheat



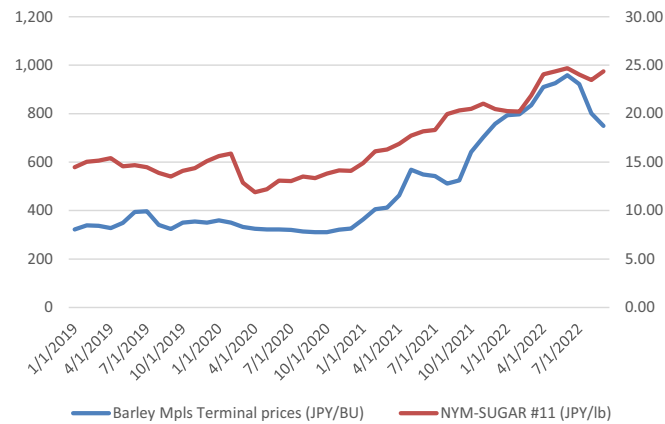
Palm and Palm Kernel Oil



Naptha and Palm Kernel Oil

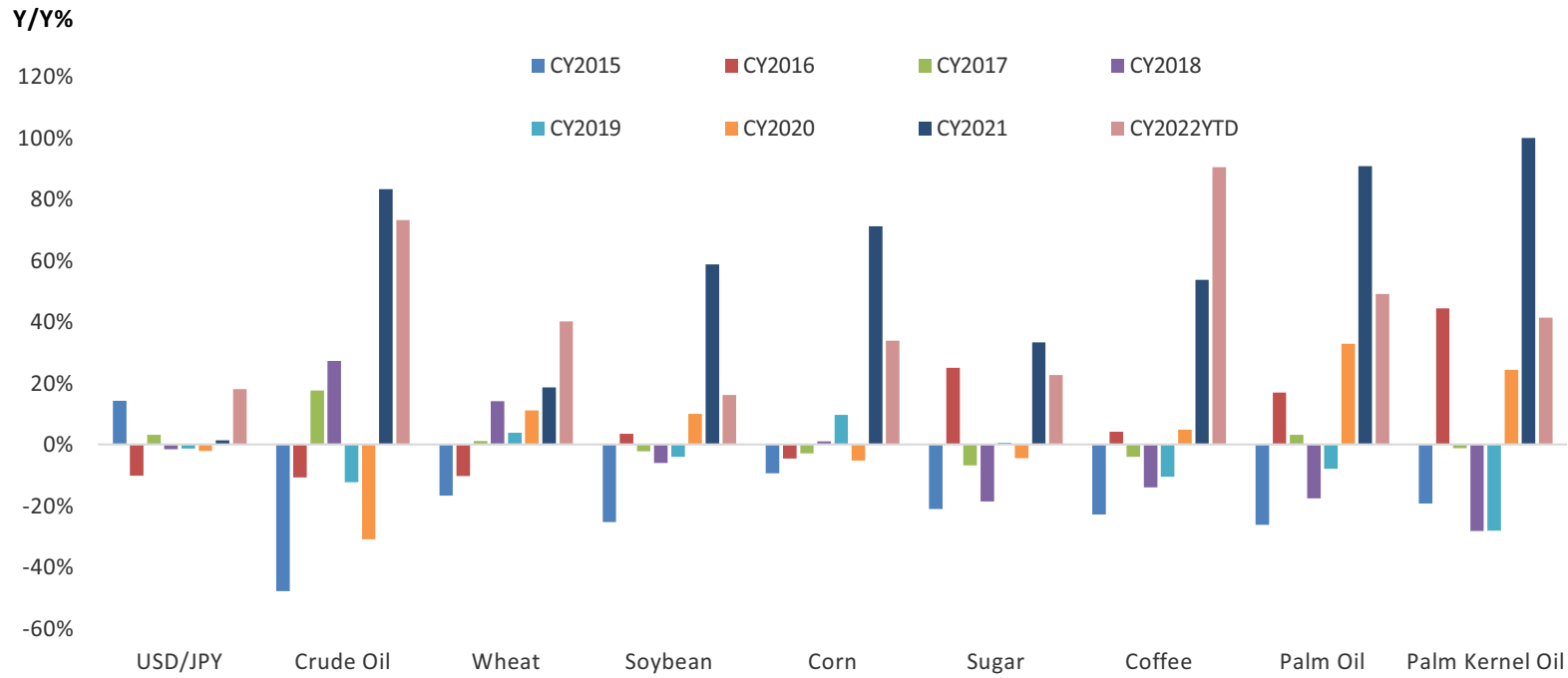


Barley and Sugar



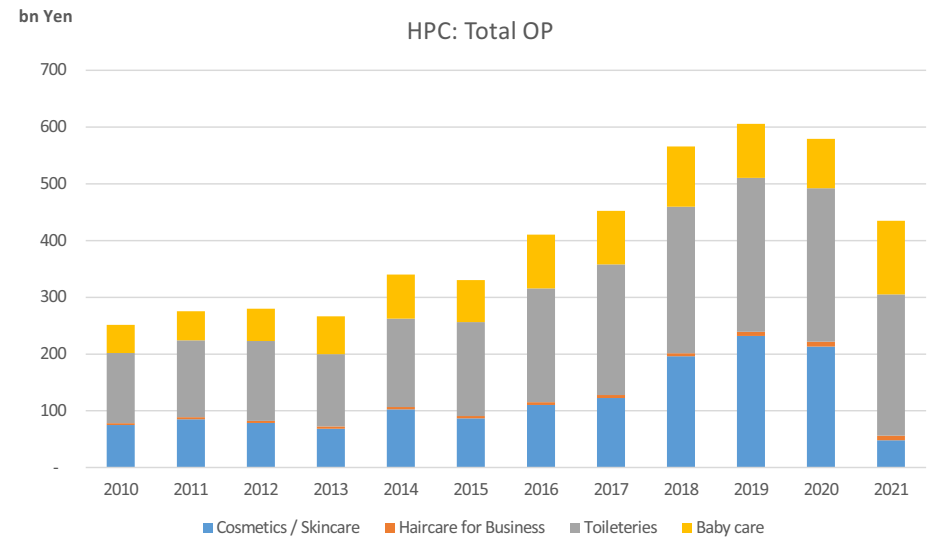
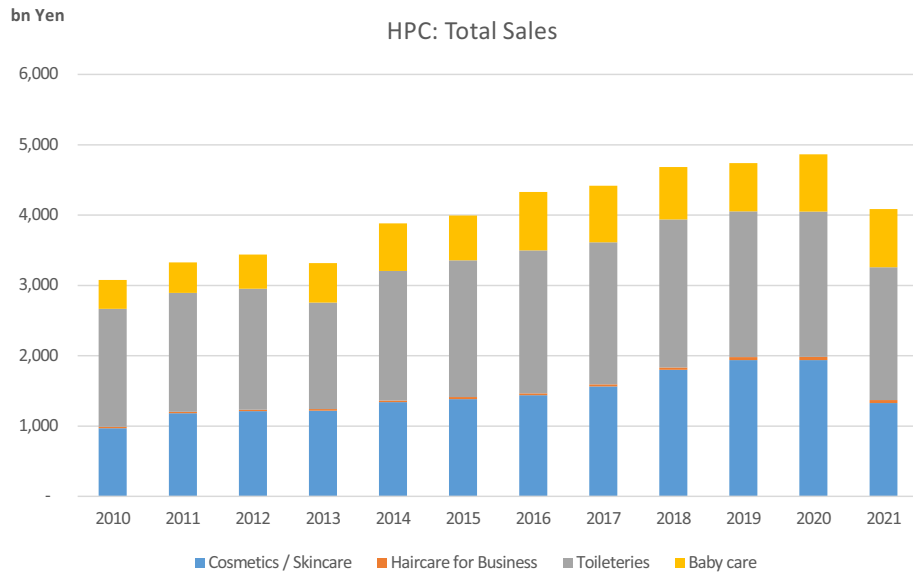
Source: Morgan Stanley Research, Datastream

Commodity Market Trends



Source: Morgan Stanley Research, Datastream

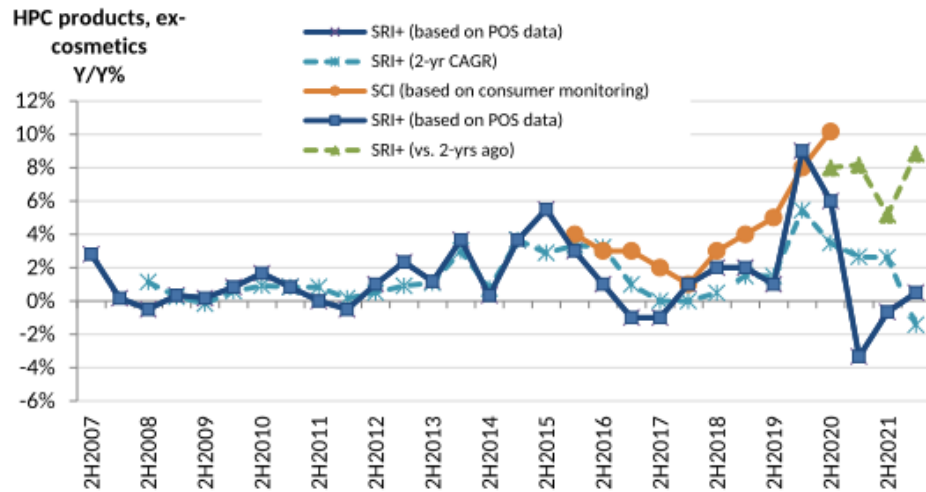
HPC Industry: Sales and OP Trends



Source: Refinitiv, Company Data, Morgan Stanley Research

HPC Industry Trends

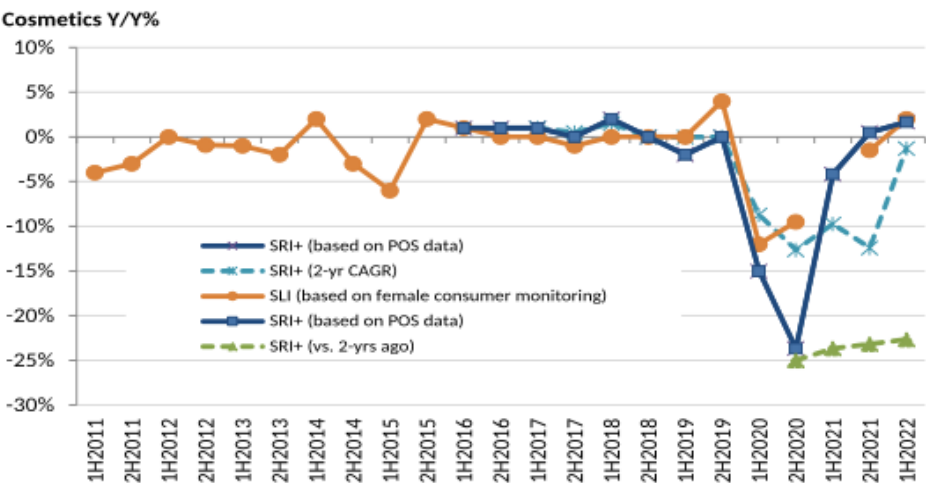
Domestic Toiletries Market Trends



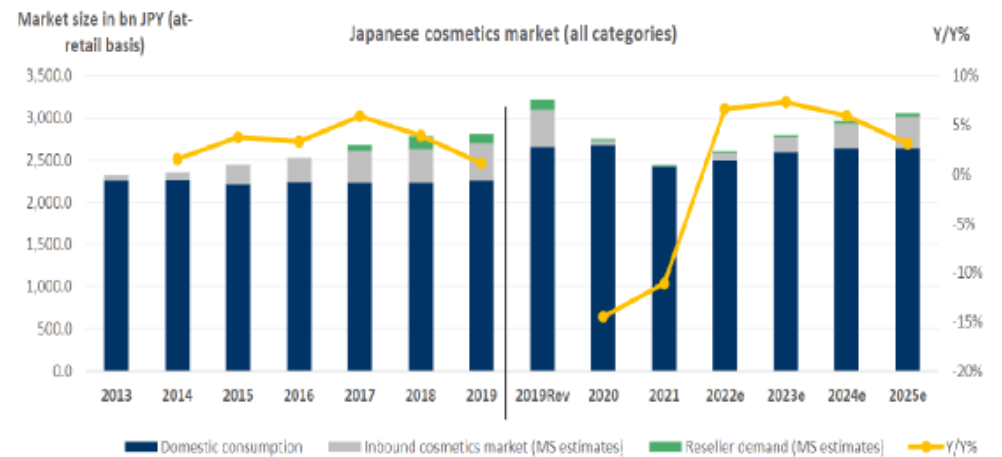
China Cosmetics Retail Sales Trends



Domestic Cosmetics Market Trends



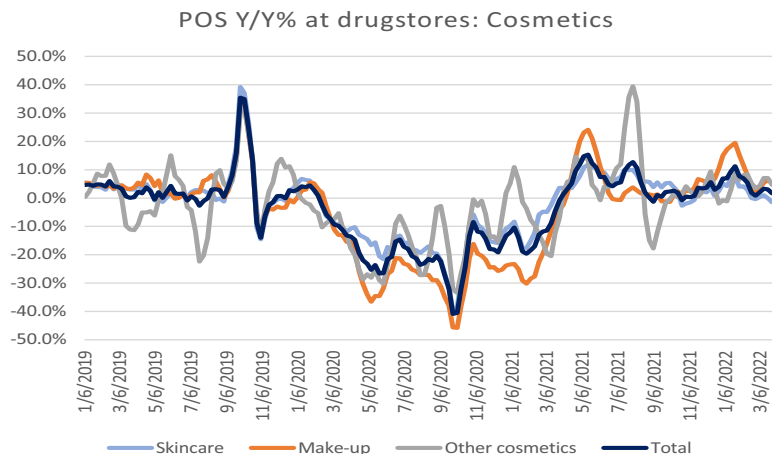
Japan Cosmetics Market: Inbound vs. Domestic



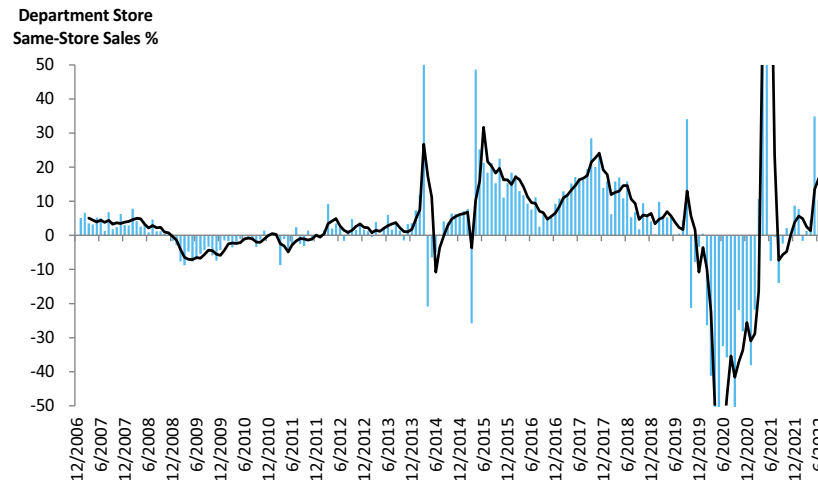
Source: Euromonitor, SRI (abstract from Kao briefing material), Cabinet Office, CEIC, NBS, Morgan Stanley Research; e=Morgan Stanley Research ests

Cosmetics Industry Trends

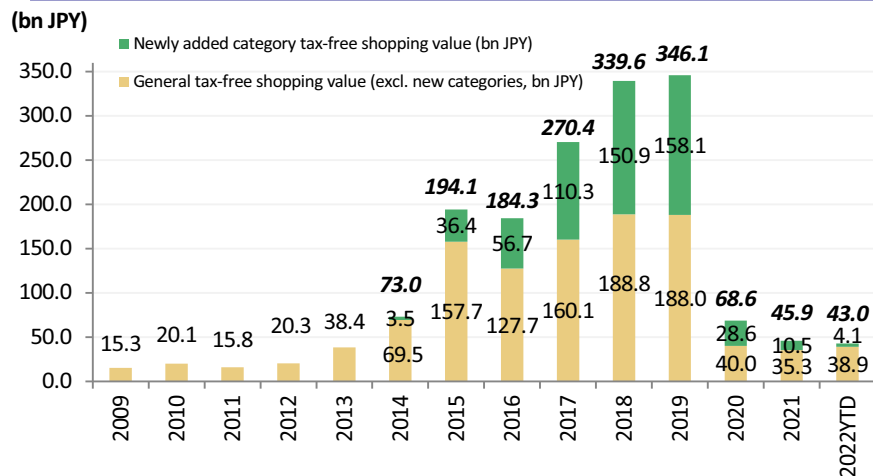
METI POS Data: Cosmetics sales at drugstores



Department store comps for cosmetics



Tax free shopping at department stores



Sales mix in Japan

As of 2019	Shiseido	Kose
Japan sales mix (incl. inbound D)		
High-end	25-30%	~50%
Mid-priced	~55%	~20%
Mass	15-20%	~30%
Japan sales mix (excl. inbound D)		
High-end	15-20%	45-50%
Mid-priced	60-65%	~20%
Mass	15-20%	30-35%
Exposure to inbound D		
High-end	40-50%	~20%
Mid-priced	5-10%	~5%
Mass	10-15%	~5%-10%

Note: Shiseido divested the mass business in 2021.

Outlook=Morgan Stanley Research estimates; Source: Japan Department Store Association, Company data, Refinitiv, Morgan Stanley Research

1. Tobacco Industry: JT (2914)

Keys are Japan profit recovery, international pricing and shareholder returns

OVERWEIGHT THESIS

As a tobacco company, and one with business in Russia, investors may disregard JT as an investment option from the ESG perspective, but for the following reasons we see scope for re-rating as undervalued. 1) Effects of rising ASP, particularly in overseas business, seem likely to remain a driver of firm expansion in earnings going forward. 2) Having few competitors in tobacco business makes it relatively easy to increase prices, and by its nature this is a product where price increases carry little risk of dampening demand. 3) Weaker JPY is a major tailwind. 4) Even assigning zero value to Russia biz and a discount for positioning as a tobacco name leaves the stock looking undervalued.

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



RISKS TO PT/RATING

RISKS TO UPSIDE

1) FX provides a further tailwind, 2) the volume trend for combustibles proves stronger than expected, or 3) market share for heat-not-burn products in Japan rises by more than expected.

RISKS TO DOWNSIDE

1) If withdrawal from Russia were to be announced, and prompt a dividend cut in reflection of the lost business, 2) FX rates turn back as headwind, or 3) consumption deterioration results in rapid downtrading.

BULL CASE	¥4,000	BASE CASE	¥2,800	BEAR CASE	¥1,800
F12/23e Adj. EBITDA ¥1,035bn x EV/EBITDA 6.5x		F12/23e Adj. EBITDA ¥943bn x EV/EBITDA 4.9x		F12/23e Adj. EBITDA ¥923bn x EV/EBITDA 3.1x	
Double-digit growth for adjusted OP (constant currency) over medium term. International tobacco business is brisk with support from price hikes, and domestic profits returns to growth trends, helped by continued pricing and success in RRP. Russia biz still valued at zero but additional discount for being a tobacco company is eliminated.		Medium-term adjusted OP CAGR (constant FX) tracks in high-single digits. By segment, growth rate of +high-single digit for international tobacco (impact of ongoing price hikes) and flattish growth for domestic tobacco. EV/EBITDA assumes sum-of-the-parts valuations of: 1) 0x for Russia business EBITDA; 2) 9x for W. Europe biz, 5x for Japan biz, and 7.5x for biz in other regions; and 3) a discount of 15% added to the sum of fair EV/EBITDA based on relatively low appeal as a tobacco stock.		Medium-term adjusted OP CAGR (constant currency) at only low single digit levels. With price hikes in international tobacco business gradual, OP CAGR slows to mid-single digits there and Japan continues to struggle as expansion of share in the RRP market fails to advance. EV/EBITDA low, given lackluster earnings growth.	

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

1. Tobacco Industry: JT (2914)

Earnings Forecast Summary

(bn yen)	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Revenues	2,092.6	2,324.8	2,579.8	2,758.6	2,815.6
Operating Profit	469.1	499.0	625.1	725.3	793.9
Adjusted OP	595.5	515.9	483.2	550.3	570.7
EBITDA	648.7	686.1	830.7	938.3	1,005.9
Net Income	310.3	338.5	440.1	514.5	565.4
EPS	175	191	248	290	319
Adjusted EPS	210	229	292	336	365
<i>Y/Y%</i>					
Revenues		11.1%	11.0%	6.9%	2.1%
Operating Profit		6.4%	25.3%	16.0%	9.5%
Adjusted OP		-13.4%	-6.3%	13.9%	3.7%
EBITDA		5.8%	21.1%	12.9%	7.2%
Net Income		9.1%	30.0%	16.9%	9.9%

Valuation Metrics

Rating:Overweight	(Price as of:09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA	
(Consolidated)		F19(FY ending Dec)	154.00	1,547	1,226	12.7%	12.1	10.1	1.5	1.93	6.6
Price	2,365.0 Yen	F20 (IFRS)	154.00	1,465	1,179	11.9%	13.5	11.2	1.6	2.01	6.9
Target Price	2,800 Yen	F21 (IFRS)	140.00	1,626	1,310	11.7%	12.4	10.3	1.5	1.81	6.6
Market Cap	41,983 100m	F22Ce (IFRS)	150.00	NA	1,304	NA	14.0	NA	NA	2.15	NA
Avg Shares Outstanding	1,775,161 000	F22e (IFRS)	150.00	1,731	1,453	14.3%	9.5	8.1	1.4	1.63	5.4
Dilutive shares	- 000	F23e (IFRS)	135.00	1,880	1,554	15.4%	8.2	7.0	1.3	1.52	4.8
EV(F22e)	45,072 100m	F24e (IFRS)	145.00	2,050	1,586	15.5%	7.4	6.5	1.2	1.49	4.5

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+{Total Debt-(Cash & Deposits+Marketable Securities)}

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

JT (2914)

Segment earnings forecast

Segment Data	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Sales (bn yen)	2,092.6	2,324.8	2,579.8	2,758.6	2,815.6
Tobacco total	1,861.8	2,095.1	2,351.5	2,530.7	2,589.1
JT product	na	2,002.0	2,252.9	2,432.9	2,495.6
<i>Asia</i>	na	792.2	805.4	808.5	807.7
<i>Western Europe</i>	na	503.1	513.7	526.0	533.8
<i>EMA</i>	na	706.6	933.9	1,098.4	1,154.1
Pharmaceutical	79.0	80.4	78.6	78.2	76.8
Food/Beverage	149.3	147.2	147.2	147.2	793.9
Other	2.5	2.1	2.5	2.5	910.2
Adj. Operating Profit (bn yen)	487.0	610.4	708.7	812.7	881.3
Tobacco total	508.9	639.2	738.2	842.2	910.2
<i>Asia</i>	na	279.9	300.5	313.0	320.6
<i>Western Europe</i>	na	206.7	212.1	222.0	228.8
<i>EMA</i>	na	152.6	225.6	307.2	360.8
Pharmaceutical	17.2	11.1	9.8	10.0	10.0
Food/Beverage	-0.8	4.0	2.3	1.5	2.0
Other/Corporate/Elimination	-38.4	-43.9	-41.5	-41.0	-41.0
Adj. Operating Margins (%)	23.3%	26.3%	27.5%	29.5%	31.3%
Tobacco total	27.3%	30.5%	31.4%	33.3%	35.2%
<i>Asia</i>	na	35.3%	37.3%	38.7%	39.7%
<i>Western Europe</i>	na	41.1%	41.3%	42.2%	42.9%
<i>EMA</i>	na	21.6%	24.2%	28.0%	31.3%
Pharmaceutical	21.7%	13.8%	12.4%	12.8%	13.1%
Food/Beverage	-0.5%	2.7%	1.5%	1.0%	0.3%

e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

JT (2914)

JTI : Sales Volume by Area

(YoY %)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
South & West Europe	37.6	7.3	0.4	-2.6	-3.8	3.1	-2.8	-2.2	5.7	3.2	-0.1	-0.6	1.6	2.2	4.2
Spain	41.1	10.4	-5.3	-11.2	-21.1	1.4	-6.5	0.6	1.9	2.2	1.5	2.8	3.8	-2.3	7.0
Italy	23.3	8.6	9.9	-0.9	3.7	1.1	-10.4	-7.9	9.3	7.6	-2.3	0.4	-0.9	0.8	3.7
France	30.6	5.8	7.8	8.4	0.4	6.9	8.1	-2.1	6.4	2.4	-3.1	-4.0	-1.9	13.4	-1.4
Greece	94.4	5.6	-1.1	-5.2	-3.4	-	-	-	-	-	-	-	-	-	-
Switzerland	-	-	-	-	-	-	-	0.0	-0.9	10.3	3.3	-	-	-	-
North & Central Europe	592.0	-2.1	7.6	3.1	0.3	1.6	1.0	0.8	2.6	2.3	-4.5	2.7	5.1	13.5	7.1
Austria	1501.7	-7.6	-0.3	1.8	-9.9	-0.6	2.2	-2.0	-2.2	-0.4	-2.0	-	-	-	-
Sweden	1436.0	5.1	2.6	3.9	0.5	-1.0	4.8	2.4	-2.0	3.0	-8.8	-	-	-	-
UK	7232.6	5.5	10.0	-0.4	-2.2	-0.8	-4.3	-3.7	-2.9	-2.7	-6.1	-1.3	-0.8	16.3	4.2
Ireland	5901.0	-4.8	-9.7	-1.7	-0.4	-1.9	2.6	-0.5	0.4	-2.3	-6.6	-	-	-	-
Poland	-	-	-	-	-	3.9	-0.9	-2.9	1.0	-3.3	-0.8	-	-	-	-
Germany	-	-	-	-	-	-	-	-	-	-	-7.3	4.9	5.2	8.5	6.4
CIS+	79.7	3.2	-2.4	-5.1	-2.8	-0.2	-6.2	-10.5	-7.9	-7.3	-5.9	0.7	-1.9	-7.1	3.3
Russia	75.7	5.9	1.4	-4.4	-2.4	-2.8	-8.0	-13.6	-11.4	-8.6	-5.0	-9.0	0.0	-10.0	5.1
Ukraine	99.2	-7.2	-12.5	-16.4	-14.9	-3.0	-8.4	-7.1	0.3	-9.8	-12.6	-	-	-	-
Kazakhstan	830.2	-9.7	-1.5	0.5	-0.2	-1.2	-5.2	-12.4	-12.5	8.2	-6.5	-	-	-	-
Romania	18.0	0.6	-15.2	-24.6	12.7	-1.2	0.6	0.2	3.7	2.7	0.2	-0.2	2.2	9.1	4.6
Rest of the World	11.7	11.3	-8.0	4.0	4.7	7.2	-5.3	0.8	3.6	10.1	8.4	18.1	9.6	-5.0	7.2
Turkey	31.8	19.8	12.5	4.9	0.0	11.7	1.3	2.3	18.1	1.1	-3.4	6.4	1.7	-3.3	15.1
Taiwan	-7.1	8.6	-11.8	1.5	1.7	-2.1	2.1	-5.3	1.3	1.3	-2.0	-9.2	5.5	11.5	-0.3
Malaysia	-4.0	10.8	-0.4	2.5	-7.4	1.4	-4.5	-2.7	-10.4	-25.9	-0.9	-	-	-	-
Canada	-1.9	-5.7	9.6	8.9	3.1	1.9	0.7	-5.1	1.6	3.0	-3.6	-	-	-	-
Near East	31.8	19.8	12.5	4.9	0.0	-	-	-	-	-	-	-	-	-	-
Iran	-	-	-	-	-	-	-	-	-	-	-14.3	5.6	16.3	5.9	13.8

JTI : Market Share by Area

(%)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
South & West Europe																
Spain	18.5	20.1	20.5	20.6	20.3	20.2	20.3	21.0	21.7	22.3	22.8	24.0	24.8	26.2	26.7	27.8
Italy	15.3	16.0	17.1	18.5	19.5	20.5	21.4	21.6	19.9	21.1	23.3	23.1	23.9	24.6	25.7	26.7
France	12.9	13.4	14.2	14.8	15.7	16.0	17.5	20.0	20.8	21.4	21.9	22.0	23.2	24.8	27.1	28.9
Greece	12.3	13.7	15.0	15.5	18.3	19.1	20.2	21.3	21.9	-	-	-	-	-	-	-
Switzerland	-	-	-	-	-	-	14.6	15.0	16.3	17.1	17.5	20.0	-	-	-	-
North & Central Europe																
Austria	-	-	35.4	35.2	34.0	32.4	31.9	32.2	32.0	31.2	31.4	-	-	-	-	-
Sweden	37.6	34.0	36.4	37.6	39.4	39.1	39.2	39.0	38.4	38.9	39.6	-	-	-	-	-
UK	38.8	38.6	38.5	39.2	37.8	38.3	39.4	40.7	41.3	42.0	41.7	40.4	41.3	44.3	45.0	45.8
Ireland	-	49.2	48.8	49.0	47.2	48.2	49.8	53.2	55.1	56.7	56.9	-	-	-	-	-
Germany	-	-	-	-	-	-	-	-	-	-	-	7.5	7.9	8.4	9.1	-
CIS+																
Russia	33.8	34.9	35.7	36.7	37.3	37.1	36.4	36.3	34.9	33.6	32.8	32.9	35.6	38.4	36.3	36.7
Ukraine	29.5	29.4	29.0	28.9	27.4	23.3	23.7	24.2	22.6	23.8	20.6	-	-	-	-	-
Kazakhstan	-	39.4	39.9	40.4	40.4	40.3	40.7	38.5	36.0	35.2	36.5	-	-	-	-	-
Romania	27.0	28.7	27.6	25.3	24.7	24.0	24.0	24.2	25.0	25.4	26.1	26.7	27.9	28.1	29.1	-
Rest of the World																
Turkey	11.2	14.4	16.9	19.0	22.6	24.1	26.3	26.6	29.0	30.2	29.4	28.8	27.7	27.2	26.6	27.7
Taiwan	37.2	36.0	38.7	38.0	38.1	38.1	38.9	39.4	38.4	39.2	39.9	41.7	42.5	46.1	47.8	48.1
Malaysia	18.2	18.2	18.4	19.4	20.4	20.3	20.0	21.1	21.5	21.7	21.9	-	-	-	-	-
Canada	-	-	-	-	13.6	14.6	14.8	15.1	15.3	15.9	16.6	-	-	-	-	-
Iran	-	-	-	-	-	-	-	-	-	-	-	-	52.1	56.2	59.6	59.4

Note: Numbers of sales vol. growth data include Gallaher. Source: Company data, Morgan Stanley Research

JT (2914): Global Valuation Comps

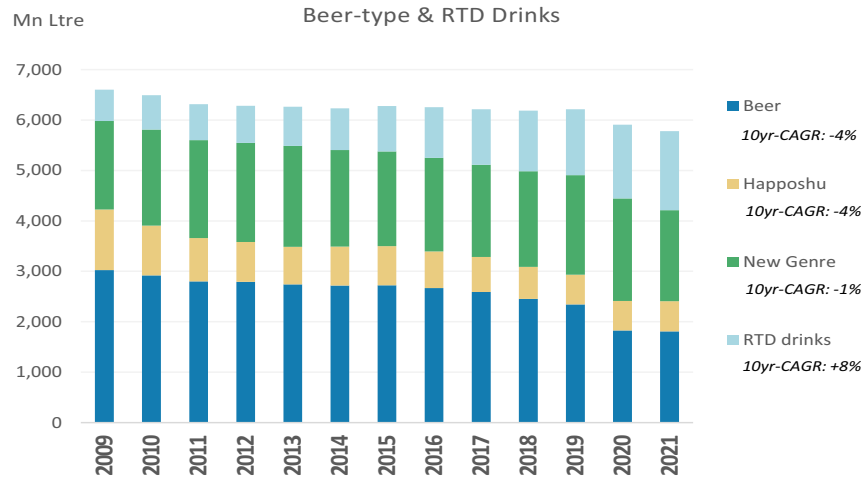
	9/2/2022	Japan Tobacco 2914.T In-Line	PMI PM.N In-Line	British American Tobacco BATS.L In-Line	Imperial Brands IMB.L In-Line	KT&G 033780.KS In-Line	Altria MO.N In-Line	ITC ITC.NS Attractive	Average (non-JT)
Industry View		Miyake, Haruka	Kaufman, Pamela	Kawan, Rashad	Kawan, Rashad	Kim, Kelly	Kaufman, Pamela	Rathi, Sheela	
Covering Analyst									
Stock Rating		Overweight	Overweight	Overweight	Equal-Weight	Overweight	Equal-Weight	Overweight	
Currency		JPY	USD	GBP	GBP	KRW	USD	INR	
Price Target		2,800.00	112.00	41.00 GBP	20.00 GBP	100,000.00	43.00	330.00	
Current Price		2,374	94.53	34.61	19.00	83,000	45.00	323.15	
Market Capitalization (mn local currency)		4,214,232	146,711	79,488	18,003	11,395,277	84,105	3,943,820	
EV									
2022FY		4,296,927	172,446	118,393	27,307	7,750,679	113,218	3,788,843	
2023FY		3,957,257	171,035	118,372	26,928	7,713,739	113,175	3,782,955	
2024FY		3,554,399	168,982	118,227	26,535	7,609,672	113,210	3,765,738	
Adjusted P/E									
2021FY		10.3x	15.4x	10.5x	7.7x	11.1x	9.7x	26.2x	13.5x
2022FY		8.1x	17.6x	9.5x	7.3x	10.4x	9.2x	22.6x	12.8x
2023FY		7.1x	15.4x	8.6x	7.0x	10.5x	8.7x	20.3x	11.8x
2024FY		6.5x	14.3x	8.0x	6.6x	9.7x	8.4x	18.4x	10.9x
EV/EBITDA									
2022FY		5.2x	13.3x	9.0x	6.9x	4.8x	8.6x	16.7x	9.9x
2023FY		4.2x	11.8x	8.4x	6.7x	4.7x	8.4x	14.9x	9.1x
2024FY		3.5x	10.9x	8.0x	6.4x	4.3x	8.2x	13.4x	8.5x
P/B		1.6x	NM	1.2x	3.7x	1.3x	20.4x	6.2x	6.6x
FCF Yield									
2021FY		9.3%	5.7%	11.5%	15.8%	11.0%	15.9%	4.7%	10.8%
2022FY		11.9% e	5.8% e	6.6% e	4.5% e	7.8% e	9.3% e	3.9% e	6.3%
2023FY		14.5% e	6.5% e	10.3% e	10.2% e	8.5% e	9.8% e	4.6% e	8.3%
2024FY		16.4% e	7.1% e	11.1% e	10.7% e	9.3% e	10.0% e	5.1% e	8.9%
Dividend Yield									
2021FY		6.0%	5.1%	8.0%	8.9%	6.1%	7.4%	4.6%	6.7%
2022FY		5.7% e	5.3% e	6.9% e	7.4% e	6.0% e	8.4% e	3.8% e	6.3%
2023FY		6.1% e	5.5% e	7.6% e	7.5% e	6.3% e	9.0% e	4.2% e	6.7%
2024FY		6.3% e	5.7% e	8.1% e	7.5% e	6.5% e	9.4% e	4.6% e	7.0%
Dividend Payout Ratio									
2021FY		73.4%	79.4%	65.9%	56.3%	64.3%	75.5%	93.2%	72.5%
2022FY		54.4% e	94.1% e	64.7% e	53.7% e	62.7% e	76.6% e	85.0% e	72.8%
2023FY		50.0% e	84.6% e	64.7% e	52.3% e	65.5% e	77.8% e	85.0% e	71.6%
2024FY		47.1% e	80.8% e	64.7% e	49.4% e	63.2% e	78.3% e	85.0% e	70.2%
ROE									
2021FY		12.3%	NM	12.1%	47.9%	11.3%	300.6%	25.5%	79.5%
2022FY		14.2% e	NM	12.4% e	46.2% e	11.9% e	NM	28.4% e	24.7%
2023FY		15.7% e	NM	13.8% e	45.1% e	11.7% e	NM	30.3% e	25.2%
2024FY		15.9% e	NM	14.5% e	48.3% e	12.4% e	NM	32.1% e	26.8%

(ex-PMJ)

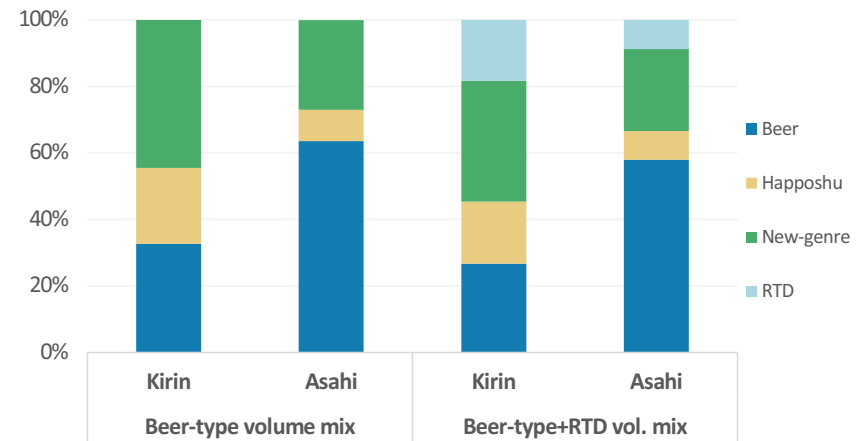
e=Morgan Stanley Research estimates; Source: Refinitiv, Morgan Stanley Research

2. Beer Industry: Domestic Market Trends

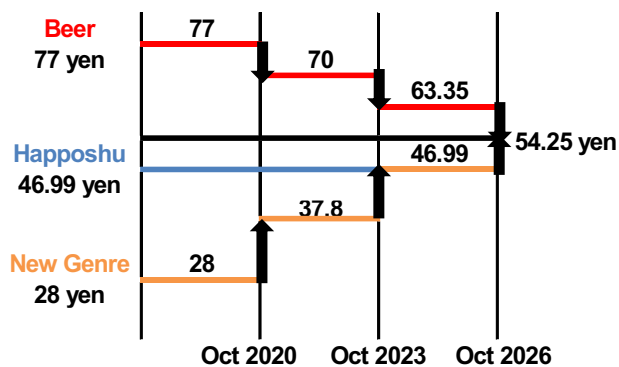
Beer-type & RTD drinks volume trends in Japan



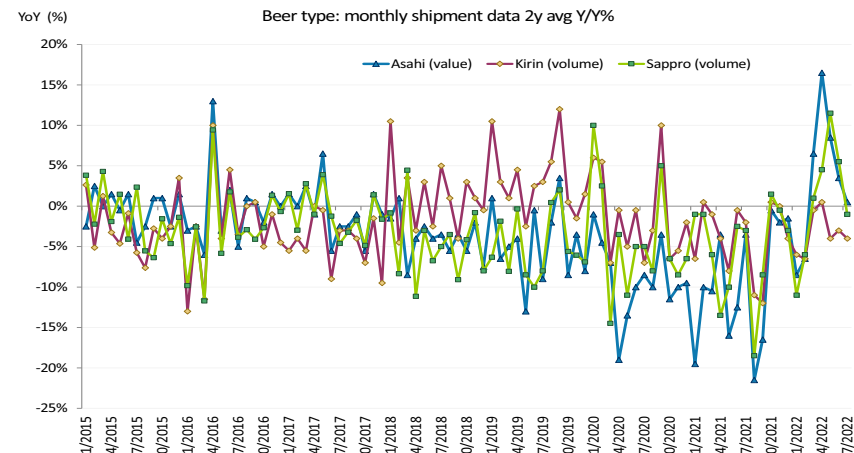
Japan: Volume mix comparisons



Alcohol tax change schedule in Japan



Beer-type monthly sales data: by company (YoY)



Note: RTD industry sizes are Suntory HD's estimates. 2019 market share data is Morgan Stanley Research ests, based on Asahi and Kirin's disclosures.
 Source: National Tax Agency, Morgan Stanley Research, Company data

Beer Industry: RTD and Beer-type Drinks Markets

Industry	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Beer-type + RTD (Mn Litres)			6,605,579	6,492,927	6,317,043	6,283,885	6,263,598	6,232,407	6,277,121	6,258,262	6,213,302	6,186,859	6,215,815	5,910,269	5,782,701
Beer-type Market total	6,280,264	6,110,773	5,981,909	5,813,127	5,600,643	5,546,485	5,488,998	5,406,807	5,379,521	5,250,922	5,115,602	4,986,859	4,907,815	4,445,309	4,215,194
Beer	3,469,393	3,242,531	3,026,188	2,917,829	2,798,237	2,790,843	2,743,280	2,716,871	2,720,594	2,667,489	2,590,111	2,454,954	2,344,481	1,828,695	1,810,408
Happoshu	1,540,262	1,422,454	1,201,180	988,365	861,095	793,142	742,988	775,984	778,093	725,461	696,171	634,965	590,517	584,612	596,305
New Genre	1,270,609	1,445,788	1,754,541	1,906,933	1,941,311	1,962,500	2,002,730	1,913,876	1,880,834	1,857,972	1,829,320	1,896,939	1,972,817	2,032,001	1,808,481
RTD drinks			623,670	679,800	716,400	737,400	774,600	825,600	897,600	1,007,340	1,097,700	1,200,000	1,308,000	1,464,960	1,567,507
Mix%															
Beer-type Market total			91%	90%	89%	88%	88%	87%	86%	84%	82%	81%	79%	75%	73%
Beer			46%	45%	44%	44%	44%	44%	43%	43%	42%	40%	38%	31%	31%
Happoshu			18%	15%	14%	13%	12%	12%	12%	12%	11%	10%	10%	10%	10%
New Genre			27%	29%	31%	31%	32%	31%	30%	30%	29%	31%	32%	34%	31%
RTD drinks			9%	10%	11%	12%	12%	13%	14%	16%	18%	19%	21%	25%	27%
YY%															
Beer-type Market total				-1.7%	-2.7%	-0.5%	-0.3%	-0.5%	0.7%	-0.3%	-0.7%	-0.4%	0.5%	-4.9%	-2.2%
Beer				-2.8%	-3.7%	-1.0%	-1.0%	-1.5%	-0.5%	-2.4%	-2.6%	-2.5%	-1.6%	-9.4%	-5.2%
Happoshu				-3.6%	-4.1%	-0.3%	-1.7%	-1.0%	0.1%	-2.0%	-2.9%	-5.2%	-4.5%	-22.0%	-1.0%
New Genre				-17.7%	-12.9%	-7.9%	-6.3%	4.4%	0.3%	-6.8%	-4.0%	-8.8%	-7.0%	-1.0%	2.0%
RTD drinks				8.7%	1.8%	1.1%	2.0%	-4.4%	-1.7%	-1.2%	-1.5%	3.7%	4.0%	3.0%	-11.0%
				9.0%	5.4%	2.9%	5.0%	6.6%	8.7%	12.2%	9.0%	9.3%	9.0%	12.0%	7.0%

Note: RTD industry sizes are Suntory HD's estimates. Source: Morgan Stanley Research, Company data

Asahi Group HD (2502)

International growth remains a mid-term earnings driver

OVERWEIGHT THESIS

Besides the strength of a high share in all its main markets, we think a structural shift toward premium demand overseas will support stable growth for the firm in the medium/longer term. Full-fledged effects of reopening in Japan and Australia should also be a tailwind for the next year or two. Risk of high costs may weigh on improvement in profit margins, but one of Asahi's strengths is the ability to make continuous cost savings, and translational FX tailwind helps to alleviate the negative risks. With the stock trading at less demanding valuations despite mid-term profit growth that is not materially different from peers, we see re-rating opportunity.

RISK REWARD CHART



RISKS TO PT/RATING

RISKS TO UPSIDE

1) Better-than-expected levels of volumes and ASP sustained. 2) Weaker JPY. 3) Strong recovery in the domestic B2B market. 4) Debt repayment proceeds faster than expected, and the company resumes buybacks.

RISKS TO DOWNSIDE

1) International consumption cools, and volumes decline or trading down develops. 2) Japanese consumers shift back to new genres. 3) Fierce price competition sweeps the soft drinks market again.

BULL CASE

¥7,350

F12/23e Adj. EPS ¥433 x P/E 17x

3-yr core profit CAGR at +18% (incl. FX). Japan alcohol business profit recovers to close levels with F12/19 by F12/23, helped by marketing cost rationalization and smaller vol declines. European and Oceanian businesses grow robustly as the strategy around strengthening premium beer brands play out successfully. P/E moves up to almost in line with global beer avg. as market values the profit growth and better margins through global cost synergies in beverage/overseas business.

BASE CASE

¥5,500

F12/23e Adj. EPS ¥389 x P/E 14x

3-yr core profit CAGR (2021-2024, FX-neutral) at ~+8% (or +10% incl. FX). Domestic alcoholic drink profits recover with full-reopening and cost cuts. Overseas is the key growth driver for the overall earnings. Assume P/E inline vs. the historical average, given economic uncertainties that may affect beer consumption globally, despite greater international earnings contribution that will continue to drive overall growth for the company.

BEAR CASE

¥3,800

F12/23e Adj. EPS ¥348 x P/E 11x

3-yr core profit CAGR at ~7% (incl. FX). Domestic alcohol earnings struggles to recover from F12/20 levels due to topline weakness and cost inflation. Overseas profits still grow but at slower rate than expected. As growth expectations fade, and with delayed pace of debt paydown and greater risk of asset write-downs in sight, P/E derates to ~50% discount levels vs. food industry avg.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

Asahi Group HD (2502)

Earnings Forecast Summary

(bn yen)	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Revenues	2,027.8	2,236.1	2,514.4	2,714.9	2,785.6
Core OP	167.8	217.9	252.1	288.5	312.0
EBITDA	283.9	377.8	359.5	397.2	420.7
Net Income	92.6	153.8	165.6	197.2	216.2
EPS	197	303	327	389	427
Adjusted EPS	250	365	327	389	427
<i>Y/Y%</i>					
Revenues		10.3%	12.4%	8.0%	2.6%
Core OP		29.9%	15.7%	14.4%	8.1%
EBITDA		33.1%	-4.8%	10.5%	5.9%
Net Income		66.1%	7.7%	19.0%	9.7%

Valuation Metrics

Rating:Overweight	(Price as of:09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA
(Consolidated)	F19(FY ending Dec)	100.00	2,721	4,123	11.3%	14.7	12.9	1.7	1.11	11.5
Price	4,574.0 Yen F20	106.00	2,992	4,002	6.1%	23.3	18.3	1.5	1.14	13.6
Target Price	5,500 Yen F21 (IFRS)	109.00	3,467	4,413	8.8%	15.1	12.5	1.3	1.04	10.2
Market Cap	23,178 100mn F22Ce (IFRS)	110.00	NA	4,835	NA	19.0	NA	NA	1.14	NA
Avg Shares Outstanding	506,734 000 F22e (IFRS)	116.00	3,681	4,962	8.9%	14.0	14.0	1.2	0.92	10.7
Dilutive shares	- 000 F23e (IFRS)	130.00	3,947	5,358	9.9%	11.8	11.8	1.2	0.85	9.7
EV(F22e)	38,607 100mn F24e (IFRS)	140.00	4,239	5,497	10.1%	10.7	10.7	1.1	0.83	9.2

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share, ROE: Return on Equity, Enterprise Value (EV): Market Cap.+{(Total Debt-(Cash & Deposits+Marketable Securities))}

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Asahi Group HD (2502)

Segment earnings forecast

Segment Data				
(bn yen)	F12/21	F12/22e	F12/23e	F12/24e
Sales				
Japan	1,219.4	1,313.1	1,387.7	1,364.5
Alcohol	722.1	796.2	843.9	817.4
Beverages	357.8	370.1	395.7	397.7
Food	125.9	126.8	128.1	129.4
Other	13.6	20.0	20.0	20.0
Europe	474.4	584.3	640.2	688.5
Oceania	500.0	574.9	641.7	687.0
SE Asia	42.7	50.8	54.2	54.4
Other	6.0	6.2	6.2	6.2
Adjustments	-6.4	-15.0	-15.0	-15.0
Total	2,236.1	2,514.4	2,714.9	2,785.6
EBIT (Core profit)				
Japan	103.5	114.3	126.2	125.7
Alcohol	70.8	81.5	93.9	92.5
Beverages	33.1	33.0	32.3	32.9
Food	11.4	11.8	12.0	12.3
Other	-11.8	-12.0	-12.0	-12.0
Europe	75.5	81.3	92.3	106.1
Oceania	83.1	103.9	117.6	127.7
SE Asia	0.4	1.2	1.6	1.7
Other	1.2	1.0	1.0	1.0
Adjustments	-14.7	-16.5	-16.5	-16.5
EBITA	249.0	285.2	322.2	345.7
Amortization of intangibles	-31.1	-33.1	-33.7	-33.7
Total	217.9	252.1	288.5	312.0
EBIT margin %				
Japan	8.5%	8.7%	9.1%	9.2%
Alcohol	9.8%	10.2%	11.1%	11.3%
Beverages	9.3%	8.9%	8.2%	8.3%
Food	9.1%	9.3%	9.4%	9.5%
Other	nm	nm	nm	nm
Europe	15.9%	13.9%	14.4%	15.4%
Oceania	16.6%	18.1%	18.3%	18.6%
SE Asia	0.9%	2.4%	2.9%	3.1%
Other	20.0%	16.1%	16.1%	16.1%
Total	9.7%	10.0%	10.6%	11.2%
EBITA margin %	11.1%	11.3%	11.9%	12.4%

e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Kirin HD (2503)

Appealing valuations but not enough growth drivers

EQUAL-WEIGHT THESIS

We see support for recovery in Kirin's earnings as full-reopening effects materialize in Japan and Australia, and prospects of good earnings at consolidated subsidiary Kyowa Kirin in the mid/longer term are also positive. Another of the firm's strengths in recent years has arguably been the capacity for organized and agile management of the business portfolio when faced with various risks, such as the decision to sell its Myanmar business. On the other side of the coin, we think a lack of drivers to power earnings growth in the medium and longer term may well remain an impediment to valuation gains. However, the low valuation within the food industry lends a relatively positive bias.

RISK REWARD CHART



RISKS TO PT/RATING

RISKS TO UPSIDE

- 1) Potentially greater-than-expected B2B recovery in Japan,
- 2) start of major cost-cutting efforts,
- 3) larger than expected buybacks conducted constantly.

RISKS TO DOWNSIDE

- 1) Weaker domestic and Australian sales,
- 2) more unfavorable volume mix in Japan,
- 3) weaker JPY to drive costs higher

BULL CASE

¥3,300

F12/23e EPS ¥200 x P/E 16.5x

Total core profit CAGR at ~+upper teens%. While domestic beer category sales remain sluggish, the firm succeeds in improving profit margins through cost cuts and premiumization. Pharma and health science business grow faster than expected, and expectations mount on the potential for higher earnings growth outlook P/E rerates to only a slight discount vs. food industry avg., thanks to accelerated earnings growth momentum and growing expectations for constant & large buybacks.

BASE CASE

¥2,400

F12/23e EPS ¥174 x P/E 14x

Consolidated core profit CAGR at +-10%. Japan and Australian B2B demand recover with full-reopening, and new marketing measures in Australia also helps in recovering the segment earnings. Benchmark dividend payout ratio set around 45-50%, and continued implementation of share buybacks. Stock trades at P/E in line with its historical average, due to 1) a shrinking domestic beer market, 2) scant longer-term growth in businesses except pharma, and 3) disadvantages in liquor tax changes for Kirin.

BEAR CASE

¥1,800

F12/22e EPS ¥156 x P/E 12x

Consolidated core profit CAGR only at 5%, only managing to recover the F12/19 core OP level. Domestic beer business margin deteriorates slightly, despite cost reductions. Australian alcohol business earnings recovery also remains sluggish. With health science business earnings showing a not very prominent outlook for growth acceleration, the market is disappointed by Kirin's future earnings and P/E derates to ~20% discount levels vs. the stock's historical average.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

Kirin HD (2503)

Earnings Forecast Summary

(bn yen)	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Revenues	1,849.5	1,821.6	1,955.1	2,034.8	2,077.0
Core OP	191.0	140.0	167.0	191.9	224.3
EBITDA	185.0	149.2	235.6	259.5	291.9
Net Income	71.9	8.6	115.7	143.1	169.0
EPS	86	10	138	174	209
Adjusted EPS	86	10	138	174	209
<u>Y/Y%</u>					
Revenues		-1.5%	7.3%	4.1%	2.1%
Core OP		-26.7%	19.3%	14.9%	16.9%
EBITDA		-19.4%	57.9%	10.1%	12.5%
Net Income		-88.0%	1240.0%	23.7%	18.1%

Valuation Metrics

Rating:Equal-Weight	(Price as of:09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA
(Consolidated)	F19(FY ending Dec)	64.00	1,320	2,329	5.2%	32.6	32.6	1.7	0.95	13.0
Price	2,220.0 Yen F20 (IFRS)	65.00	1,315	2,219	6.6%	25.9	25.9	1.7	1.00	11.9
Target Price	2,400 Yen F21 (IFRS)	65.00	1,377	2,185	0.8%	214.3	214.3	1.6	1.02	14.7
Market Cap	18,506 100mn F22Ce (IFRS)	65.00	NA	2,387	NA	13.6	NA	NA	1.01	NA
Avg Shares Outstanding	833,599 000 F22e (IFRS)	80.00	1,444	2,345	9.9%	16.1	16.1	1.5	0.95	9.3
Dilutive shares	- 000 F23e (IFRS)	90.00	1,539	2,441	11.9%	12.8	12.8	1.4	0.91	8.5
EV(F22e)	21,971 100mn F24e (IFRS)	102.00	1,666	2,492	13.5%	10.6	10.6	1.3	0.89	7.5

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+(Total Debt-(Cash & Deposits+Marketable Securities))

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Kirin HD (2503)

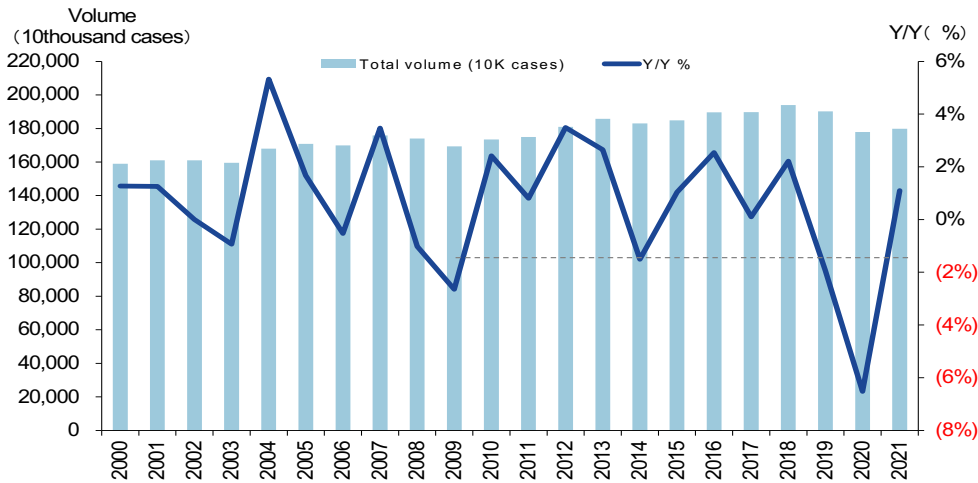
Segment earnings forecast

	F12/2019	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Sales	1,941.3	1,849.5	1,821.6	1,955.1	2,034.8	2,077.0
Domestic beer/spirits	681.9	651.4	661.3	674.5	690.5	684.8
Domestic soft drinks	286.8	252.2	244.4	260.9	282.7	282.1
Oceania beverages	299.7	292.1	216.3	243.7	271.1	277.9
<i>Alcohol</i>	171.5	177.4	206.6	243.7	271.1	277.9
<i>Dairy</i>	128.2	114.7	-	-	-	-
Pharma/Biochem	304.9	317.8	351.7	388.0	421.0	459.0
Other	368.0	336.0	347.9	388.0	369.5	373.2
Mercian	63.9	62.1	57.9	62.5	65.0	65.7
Myammer Brewery	32.6	31.8	-	-	-	-
CCNNE	132.6	129.4	154.9	184.8	181.1	182.0
Kyowa-Hakko Bio	74.9	57.3	53.0	58.3	60.0	61.8
Other/Adjustments	64.0	55.4	62.8	82.4	63.4	63.7
Myammer Brewery	-	-	0.0	19.3	0.0	0.0
Other/Adjustments	64.0	55.4	0.0	63.1	63.4	63.7
Core OP	190.8	162.1	165.4	167.0	191.9	224.3
Domestic beer/spirits	85.2	75.5	70.5	75.0	83.7	84.1
Domestic soft drinks	26.4	21.8	21.1	15.9	16.4	17.8
Oceania beverages	41.4	22.1	26.6	33.9	44.3	47.8
<i>Alcohol</i>	45.1	24.4	33.2	41.5	51.1	54.6
<i>Dairy</i>	1.6	3.1	-	-	-	-
<i>Inter-segment adj/eliminations</i>	-5.3	-5.4	-7.5	-7.7	-6.8	-6.8
Pharma/Biochem	55.4	59.0	61.2	68.0	80.0	105.5
Other	27.0	29.3	31.3	29.2	24.5	26.2
Mercian	2.2	3.6	2.3	1.2	2.5	2.8
Myammer Brewery	12.9	13.8	-	-	-	-
CCNNE	5.3	9.3	16.5	14.8	14.5	14.6
Kyowa-Hakko Bio	2.3	-2.3	0.4	1.7	3.0	4.3
Other/Adjustments	4.4	4.9	5.6	11.5	4.5	4.5
Myammer Brewery	-	-	0.0	7.0	0.0	0.0
Other/Adjustments	4.4	4.9	0.0	4.5	4.5	4.5
Corporate/eliminations	-44.6	-45.6	-45.3	-55.0	-57.0	-57.0

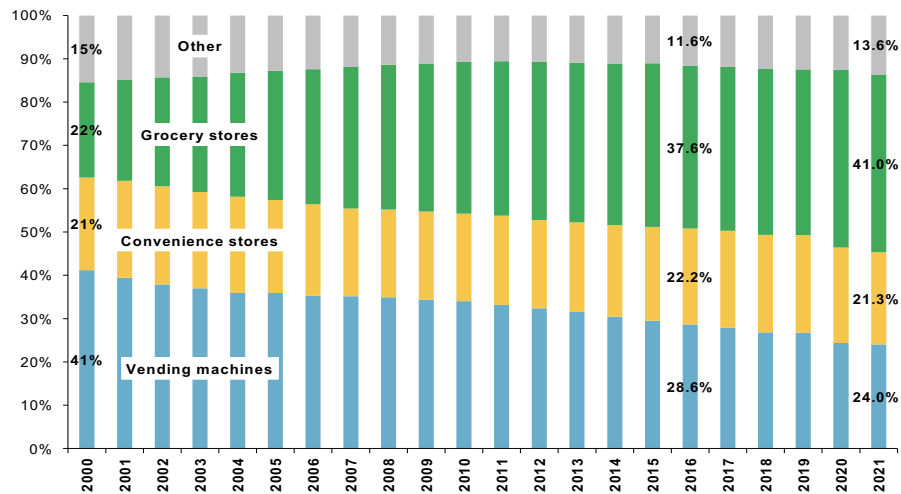
e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

3. Beverage Industry: Domestic Market Trends

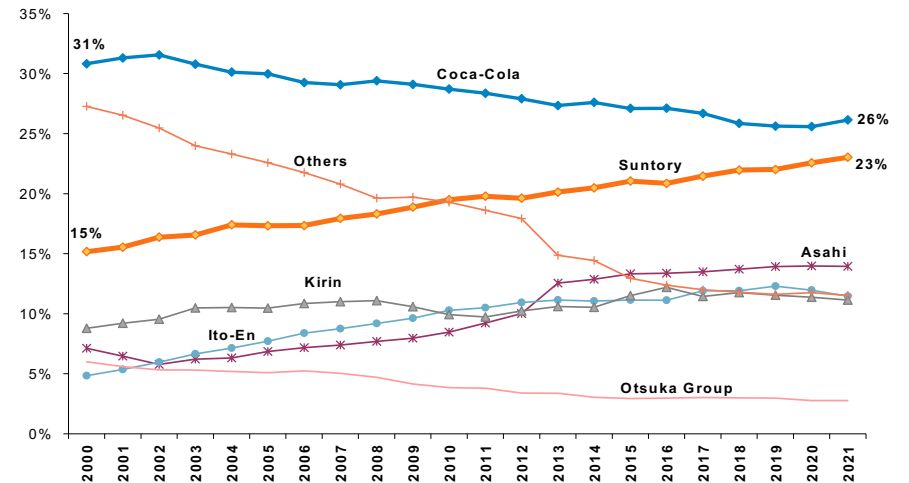
Total Demand Trends of Soft Drinks



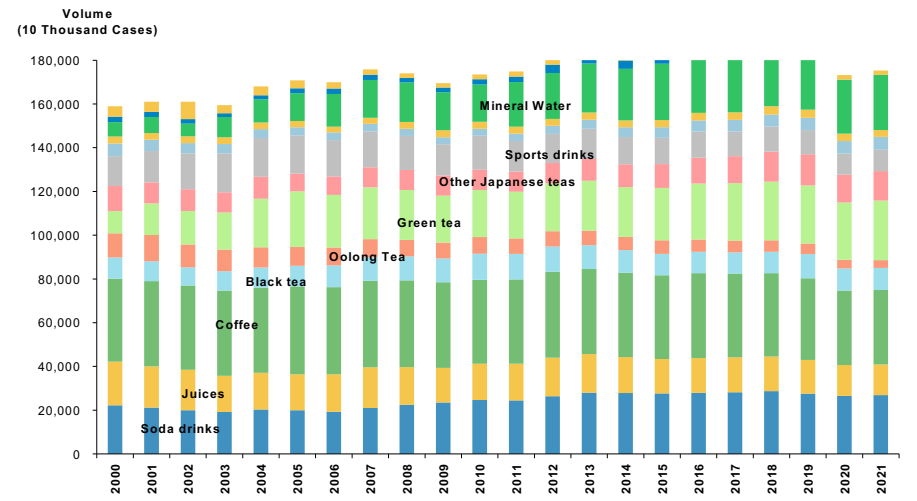
Share Trends by Channel



Share Trends by Maker



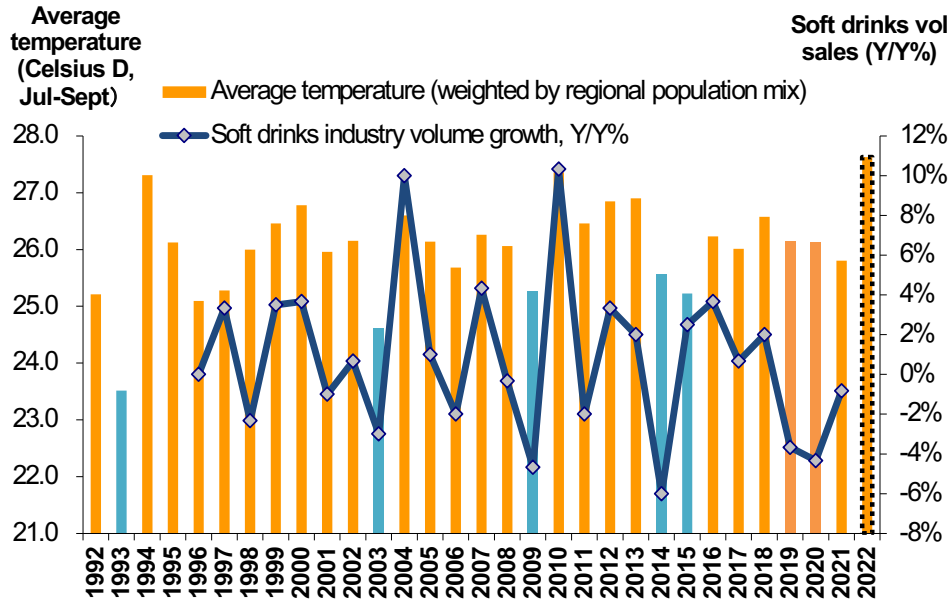
Volume trend by category



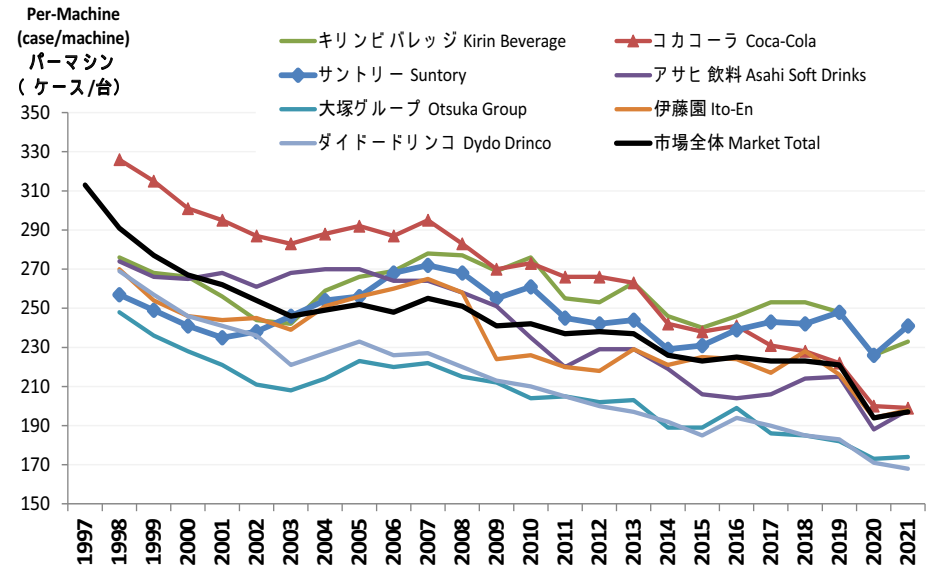
Source: Company data, Inryo Souken, Refinitiv, Morgan Stanley Research

Soft Drinks Market

Weather impact on summer volume



Per-machine sales in the vending machine channel



Source: Company data, Inryo Souken, Japan Meteorological Agency, Morgan Stanley Research

Suntory Beverage & Food (2587)

Keys are robust growth in Asia and margin recovery in Europe

OVERWEIGHT THESIS

With earnings growth from continued brand investment and the company's flexible earnings management, we expect continued smooth and stable earnings growth over the medium to long term both domestically and abroad. Suntory Beverage & Food currently trades at a P/E of 18x our F12/23 adjusted EPS estimate of ¥294, below the level of the foods industry, but we expect the company to be able to maintain a relatively solid CAGR of +6.5% for OP on a constant exchange rate basis, and thus considering the favorable wind from forex conversion due to yen depreciation, we anticipate relative share price outperformance.

RISK REWARD CHART



RISKS TO PT/RATING

RISKS TO UPSIDE

1) Sales growth in Europe exceeds our expectations. 2) Health food sales momentum picks up in Asia. 3) The yen continues to depreciate.

RISKS TO DOWNSIDE

1) Larger-than-anticipated negative impact on overseas sales volumes as consumers reject price hikes. 2) Price hikes fail to stick in Japan, reigniting price competition and putting pressure on profits. 3) The yen appreciates.

BULL CASE

¥7,800

F12/22e Adj. EPS ¥356 x P/E 23x

Steady sales growth in Japan/overseas drive market share growth and margins improve on ongoing cost cut efforts. OP CAGR close to +20%, and the market recognizes SBF's high quality growth story by adding a premium to valuations. External factors are also tailwinds, including the weaker yen and stabilization of prices in the domestic beverage market.

BASE CASE

¥5,900

F12/22e Adj. EPS ¥294 x P/E 20x

Margins continue to improve in Europe (recovers to upper-teens% levels) and solid sales momentum in Asia drives overall profit growth. Total 3-year OP CAGR at high-single digit % (FX neutral-basis, or +10% incl. FX), and Asia OP grows at mid-teens % per annum. Look for the market to evaluate SBF as a blue-chip name capable of steady and continued profit growth in Japan/overseas, and P/E to rerate to industry average levels.

BEAR CASE

¥3,700

F12/22e Adj. EPS ¥249 x P/E 15x

Competition tightens again in Japan and Europe, and Asia sales remains sluggish due to weak health-food business performance. Expect SBF to be forced to choose between sales and margins. 3-yr CAGR at only at a mid-single-digit % level. JPY also strengthens. Assessment on growth declines and P/E derates to ~30% discount levels vs. industry average.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

Suntory Beverage & Food (2587)

Earnings Forecast Summary

(bn yen)	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Revenues	1,178.1	1,268.9	1,440.8	1,508.9	1,547.5
Operating Profit	96.2	118.6	131.1	149.5	157.5
EBITDA	166.8	187.9	212.0	232.2	241.1
Net Income	52.2	70.0	76.0	86.8	91.4
EPS	169	227	246	281	296
Adjusted EPS	181	235	259	294	309
<i>Y/Y%</i>					
Revenues		7.7%	13.5%	4.7%	2.6%
Operating Profit		23.3%	10.6%	14.0%	5.3%
EBITDA		12.7%	12.8%	9.5%	3.8%
Net Income		34.1%	8.6%	14.2%	5.3%

Valuation Metrics

Rating:Overweight	(Price as of:09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA
(Consolidated)	F19(FY ending Dec)	78.00	2,448	4,205	9.1%	22.2	21.1	2.0	1.18	8.3
Price	4,960.0 Yen	F20 (IFRS)	78.00	2,530	3,813	6.7%	29.4	27.4	2.0	1.30
Target Price	5,900 Yen	F21 (IFRS)	78.00	2,782	4,107	8.1%	21.9	21.1	1.8	1.21
Market Cap	15,326 100mn	F22Ce (IFRS)	78.00	NA	4,430	NA	20.9	NA	NA	1.12
Avg Shares Outstanding	309,000 000	F22e (IFRS)	78.00	2,950	4,663	8.3%	20.2	19.1	1.7	1.06
Dilutive shares	- 000	F23e (IFRS)	90.00	3,147	4,883	8.9%	17.7	16.9	1.6	1.02
EV(F22e)	15,360 100mn	F24e (IFRS)	94.00	3,351	5,008	8.8%	16.8	16.1	1.5	0.99

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+(Total Debt-(Cash & Deposits+Marketable Securities))

EBITDA:(consolidated) Income before tax+Dep+Net interest expense, (parent)Oper. income+Dep, F13Ce dividend: Adjusted diluted EPS (excl. amortization of goodwill)x30%

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Suntory Beverage & Food (2587)

Consolidated earnings estimates

Consolidated Income Statement	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Sales (bn yen)	1,178.1	1,268.9	1,440.8	1,508.9	1,547.5
COGS	694.3	745.7	843.3	880.1	899.6
Gross profit	483.9	523.2	597.5	628.8	647.9
Gross margin (%)	41.1%	41.2%	41.5%	41.7%	41.9%
SG&A	382.3	397.7	470.2	483.1	494.3
Operating profit	96.2	118.6	131.1	149.5	157.5
Operating margin (%)	8.2%	9.3%	9.1%	9.9%	10.2%
EBITA	99.8	122.4	135.2	153.6	161.6
EBITDA	172.1	194.9	216.0	236.2	245.1
Non-operating income/expenses	-2.0	-1.5	-1.4	-0.9	-0.3
Pre-tax income	94.2	117.1	129.7	148.6	157.2
Taxes	29.9	34.5	38.1	43.6	45.9
Tax rate (%)	31.7%	29.5%	29.4%	29.3%	29.2%
Net income	64.3	83.0	91.6	105.1	111.3
Adjusted net income	55.8	72.5	80.0	90.9	95.5
Diluted EPS	169.0	222.3	245.9	281.0	295.8
Adjusted EPS (yen)	180.7	234.8	259.0	294.2	309.0

Overseas earnings estimates by region

Sales (bn yen)	F12/21 Actual	F12/22 e Guidance	F12/23 e	F12/24 e
Domestic	629.6	669.8	665.0	672.1
Overseas	639.3	771.1	704.0	836.8
Europe	234.9	261.7	249.0	271.0
Asia Pacific	295.9	355.1	336.0	394.1
US	108.5	154.3	119.0	171.7
Consolidated Sales	1,268.9	1,440.8	1,369.0	1,508.9
Y/Y%				
Domestic	-0.5%	6.4%	5.6%	0.4%
Overseas	17.3%	20.6%	10.1%	8.5%
Europe	23.6%	11.4%	6.0%	3.6%
Local FX basis	14.9%	6.2%	2.3%	0.9%
Asia Pacific	11.7%	20.0%	13.6%	11.0%
Local FX basis	6.8%	5.7%	6.8%	5.2%
Americas	20.4%	42.2%	9.7%	11.3%
Local FX basis	16.9%	20.0%	5.0%	1.0%
Consolidated total	7.7%	13.5%	7.9%	4.7%
OP (bn yen)	F12/21 Actual	F12/22 e Guidance	F12/23 e	F12/24 e
Japan	40.9	37.4	42.0	43.3
Overseas	88.7	107.7	96.5	121.2
Europe	35.7	40.9	38.5	44.1
Asia Pacific	39.7	47.9	44.0	55.7
North America	13.3	19.0	14.0	21.4
EBITA	129.6	145.1	138.5	164.5
Amortization of goodwill	0.0	0.0	0.0	0.0
Intersegment adjustments	-11.0	-14.0	-13.0	-15.0
Consolidated OP	118.6	131.1	125.5	149.5
Pre-tax income	117.1	129.7	124.0	148.6
OP margin %				
Domestic	6.5%	5.6%	6.3%	6.4%
Overseas	13.9%	14.0%	13.7%	14.5%
Europe	15.2%	15.6%	15.5%	16.3%
Asia Pacific	13.4%	13.5%	13.1%	14.1%
Americas	12.3%	12.3%	11.8%	12.5%
EBITA margin %	10.2%	10.1%	10.1%	10.9%
Consolidated total	9.3%	9.1%	9.2%	10.2%

Note: Adjusted net income = net income excl. amortization of goodwill impact; e = Morgan Stanley Research estimates, Source: Company data, Morgan Stanley Research

Coca-Cola Bottlers Japan (2579)

Sales growth recovery and cost inflation still bear watching

RISK REWARD CHART

UNDERWEIGHT THESIS

Though we think earnings are now poised to move out of the slump brought on by the pandemic, we expect high costs to take a toll for now, and are not upbeat on the outlook for sales momentum or market share in the medium/longer term either. Even assuming the firm can turn a profit in the business profit line in F12/23, as long as low single-digit margins persist we see no grounds for favoring the stock relative to other food names.



RISKS TO PT/RATING

RISKS TO UPSIDE

- 1) Coca-Cola's market share expands, and sales performance exceeds market expectations.
- 2) Input cost inflation settle down faster than expected.
- 3) Further large-scale cost reductions.

RISKS TO DOWNSIDE

- 1) Price competition returns across the industry.
- 2) Weak vending machine sales trends prolonged.
- 3) Commodity prices rise and the yen falls further.

BULL CASE

¥2,200

Our F12/24e adjusted EPS x P/E 22x

Supply chain rebuilding and materialization of integration synergies advance rapidly in F12/20-23. The market environment also improves, and pricing in the soft drinks industry holds stable. Core business profit margin reaches around 4.0% in F12/24. Increasing assurance on the firm's mid/longer-term earnings, helps the stock valuation to rerate to slightly above-industry average.

BASE CASE

¥1,400

EV/EBITDA 6x on our F12/23e EBITDA

OPM gradually improves but sluggish topline momentum and input cost inflation keeps the profit margin improvement gradual. The profit growth remains smaller than the company's mid-term plan. The market's disappointment should cap the stock valuations at only in-line levels with the pre-merger historical EV/EBITDA, despite the medium term restructuring story. P/B of ~0.5x.

BEAR CASE

¥900

EV/EBITDA 5.5x on our F12/23e EBITDA

The majority of CCEJ integration effects are canceled out by rising costs alongside stiffening competition in the industry, and operating margin remains at around 1% for the medium term. Shares trade at below-historical average (pre-merger era), or ~0.3x P/B.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

Coca-Cola Bottlers Japan (2579)

Earnings Forecast Summary

(bn yen)	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Revenues	792.0	785.8	837.1	898.1	908.8
Core OP	-11.7	-21.0	-15.3	-0.5	12.7
EBITDA	47.9	36.9	40.0	54.8	68.0
Net Income	-4.7	-2.5	-12.8	-2.8	5.9
EPS	-26	-14	-71	-16	33
Adjusted EPS	1	0	-59	-2	49
<i>Y/Y%</i>					
Revenues		-0.8%	6.5%	7.3%	1.2%
Core OP		NM	NM	NM	NM
EBITDA		-22.8%	8.3%	37.0%	24.1%
Net Income		NM	NM	NM	NM

Valuation Metrics

Rating: Underweight	(Price as of: 09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA	
(Consolidated)	F19(FY ending Dec)	44.00									
Price	1,381.0 Yen	F20	48.00								
Target Price	1,400 Yen	F21 (IFRS)	52.00	2,746	4,382	-0.5%	-99.0	NA	0.5	0.32	8.3
Market Cap	2,477 100mn	F22Ce (IFRS)	50.00	NA	4,570	NA	-31.8	NA	NA	0.31	NA
Avg Shares Outstanding	179,346 000	F22e (IFRS)	55.00	2,650	4,668	-2.7%	-19.4	-23.6	0.5	0.30	7.6
Dilutive shares	- 000	F23e (IFRS)	56.00	2,599	5,008	-0.6%	-89.1	-806.1	0.5	0.28	5.6
EV(F22e)	3,053 100mn	F24e (IFRS)	56.00	2,592	5,067	1.3%	42.3	28.2	0.5	0.27	4.5

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+{Total Debt-(Cash & Deposits+Marketable Securities)}

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

4. Food Products & Seasonings: Calbee (2229)

Earnings recovery likely to start but cost/consumption outlook unclear

UNDERWEIGHT THESIS

Though we expect earnings to enter a mild recovery phase, the firm is low on powerful growth drivers for the medium/longer term, and the valuation is not cheap. Given risk of a retreat in consumption hurting its sales volumes in the wake of price increases, and few benefits of yen weakness due to the still small scale of overseas business, we think the stock will very likely underperform relative to the industry.

RISKS TO PT/RATING

RISKS TO UPSIDE

1) Sustained snack demand growth over the longer term; 2) sales acceleration in the US and China; 3) large-scale cost-cutting measures; 4) stronger JPY and lower input costs.

RISKS TO DOWNSIDE

1) Domestic volume decline greater than expected; 2) weaker JPY and higher materials costs; 3) international biz recovery proves only temporary.

RISK REWARD CHART



BULL CASE

¥3,450

F3/24e Adj. EPS ¥173 x P/E 20x

Stable topline growth and improved operating margins through cost reduction initiatives drive domestic earnings growth. International business earnings growth reaccelerates as it regains topline momentum. The market appreciates the OP CAGR recovery to ~10%, and the stock rises to valuation slightly above the food industry average.

BASE CASE

¥2,750

F3/24e Adj. EPS ¥150 x P/E 18x

OP CAGR through F3/25 remains at up just a low/mid-single-digit %. International OP recovers and expands quickly, while Japan OP remains sluggish post price hikes. With no new earnings growth driver that is large enough to reaccelerate the consolidated earnings growth, the stock trades at a slight discount from the food industry average.

BEAR CASE

¥2,000

F3/24e Adj. EPS ¥134 x P/E 15x

CAGR in consol. OP slows down to flattish levels, and the outlook for Calbee is poorer than for industry peers. Domestic profit shows no recovery, and overseas profit growth remains slow. Shares trade down to P/E at a ~20% discount to food industry average.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

4. Food Products & Seasonings: Calbee (2229)

Earnings Forecast Summary

(bn yen)	F3/2021	F3/2022	F3/2023e	F3/2024e	F3/2025e
Revenues	266.7	245.4	269.0	281.0	287.9
Operating Profit	27.1	25.1	24.6	27.1	29.0
EBITDA	35.3	34.2	33.7	36.2	38.1
Recurring profit	27.5	26.9	24.2	26.7	28.6
Net Income	17.7	18.1	15.9	17.7	19.0
EPS	132	136	123	137	147
Adjusted EPS	145	150	136	150	156
<i>Y/Y%</i>					
Revenues		-8.0%	9.6%	4.5%	2.5%
Operating Profit		-7.1%	-2.2%	10.2%	6.9%
EBITDA		-3.2%	-1.3%	7.4%	5.2%
Recurring profit		-2.1%	-10.2%	10.4%	7.0%
Net Income		2.1%	-11.9%	11.4%	7.2%

Valuation Metrics

Rating: Underweight	(Price as of: 09/05/2022)		Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA
(Consolidated)		F19(FY ending Mar)	50.00	1,221	1,932	10.7%	20.8	20.0	2.2	1.41	8.9
Price	2,728.0 Yen	F20	50.00	1,312	2,013	10.1%	20.6	18.8	2.1	1.36	8.8
Target Price	2,750 Yen	F21	52.00	1,358	1,852	10.3%	20.0	18.2	2.0	1.47	9.1
Market Cap	3,615 100mn	F22Ce	52.00	NA	2,023	NA	22.9	NA	NA	1.36	NA
Avg Shares Outstanding	132,503 000	F22e	54.00	1,429	2,030	8.6%	22.2	20.1	1.9	1.34	9.2
Dilutive shares	- 000	F23e	56.00	1,513	2,121	9.1%	19.9	18.2	1.8	1.29	8.6
EV(F22e)	3,101 100mn	F24e	57.00	1,604	2,173	9.2%	18.5	17.5	1.7	1.26	8.1

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+(Total Debt-(Cash & Deposits+Marketable Securities))

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Calbee (2229)

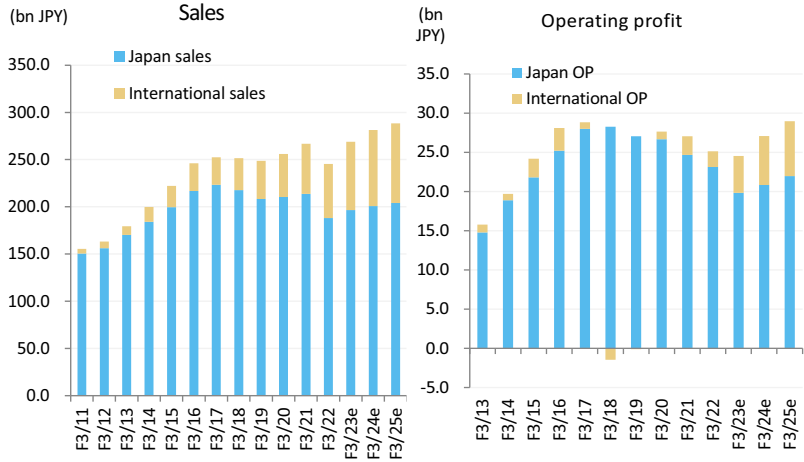
Segment earnings forecast

Regional Data	F3/2021	F3/2022	F3/2023e	F3/2024e	F3/2025e
Sales (bn yen)	266.7	245.4	268.8	281.4	288.3
Japan	213.6	213.6	223.5	228.1	231.9
International	53.1	64.4	82.0	91.6	95.7
<i>North America</i>	14.4	16.2	23.7	27.1	27.8
<i>Greater China</i>	15.1	19.6	25.4	28.6	30.2
<i>Others</i>	23.5	28.7	32.9	35.9	37.7
Y/Y growth %	4.2%	-8.0%	9.5%	4.7%	2.5%
Japan	1.5%	0.0%	4.6%	2.1%	1.7%
International	16.8%	21.3%	27.3%	11.7%	4.5%
<i>North America</i>	36.6%	11.9%	46.7%	14.4%	2.7%
<i>Greater China</i>		29.5%	29.6%	12.7%	5.4%
<i>Others</i>		21.9%	14.8%	9.0%	5.1%
OP (bn yen)	27.1	25.1	24.6	27.1	29.0
Japan	24.7	23.2	19.8	20.8	22.0
International	2.4	2.0	4.7	6.2	7.0
<i>North America</i>	0.6	0.0	1.6	2.4	2.8
<i>Greater China</i>	0.6	1.0	1.6	2.0	2.2
<i>Others</i>	1.1	1.0	1.5	1.8	2.0
Operating margin %	10.1%	10.2%	9.1%	9.6%	10.0%
Japan	11.6%	10.8%	8.9%	9.1%	9.5%
International	4.5%	3.1%	5.7%	6.8%	7.3%
<i>North America</i>	4.3%	-0.3%	6.7%	9.0%	9.9%
<i>Greater China</i>	4.1%	5.0%	6.4%	7.1%	7.3%
<i>Others</i>	4.8%	3.6%	4.6%	5.0%	5.4%

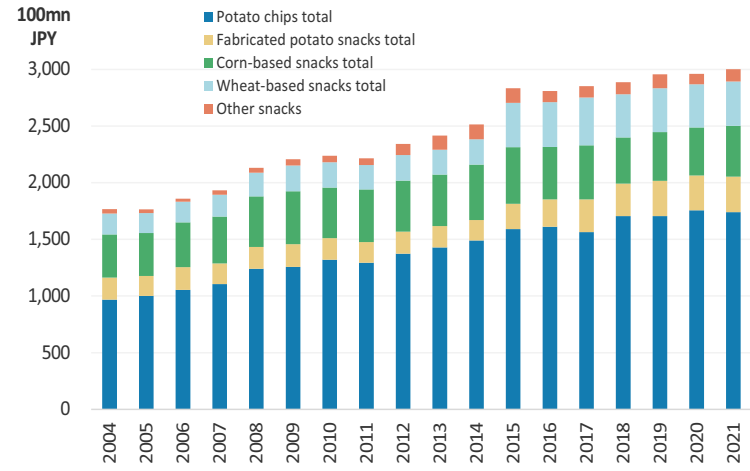
e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Calbee (2229)

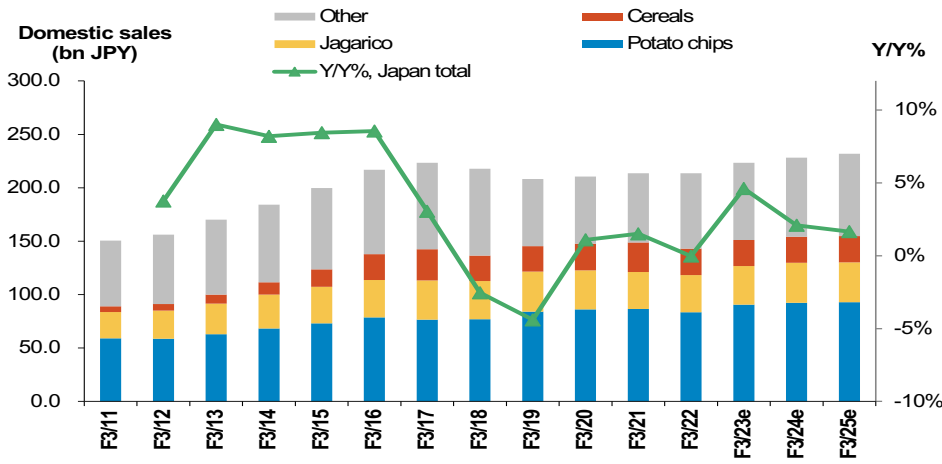
Overall company sales & OP



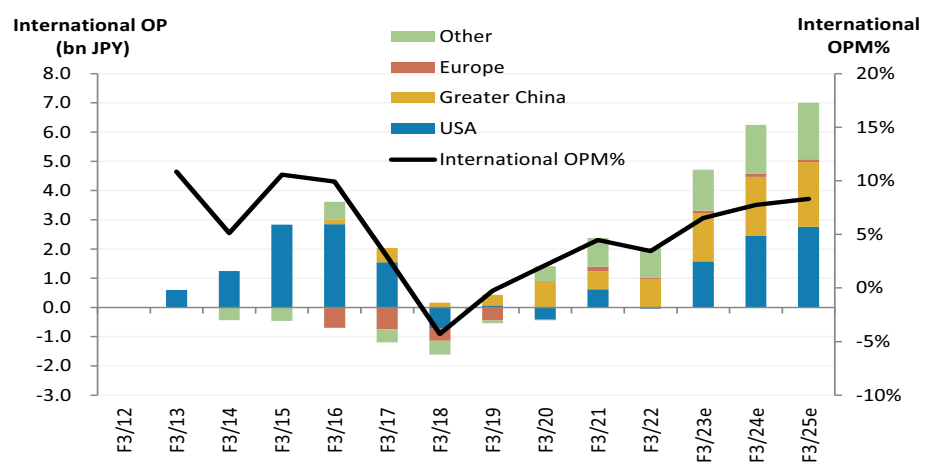
Snacks market in Japan



Calbee's snack sales in Japan



International OP by country



Source: JASCA, Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates

Yakult Honsha (2267)

Strong Japan sales already in the price; China reacceleration remains uncertain

EQUAL-WEIGHT THESIS

We think positive assessment of brisk sales momentum for value-added offerings in Japan (so popular that supply has not kept up with demand) has been largely reflected in recent share price gains. We still see scope for consensus forecasts to rise, but mainly due to FX influences, and this too may already be in the price. The shares trade at a ~30% premium over the food industry, and further upside seems limited. We do, however, see potential for continuing growth in global volumes drawing on brand strength in the medium/longer term, and in the absence of any particular identifiable negatives at this time we favor a neutral stance.

RISK REWARD CHART



RISKS TO PT/RATING

RISKS TO UPSIDE

(1) Domestic growth for Yakult 1000/Y1000 remains much greater than we expected, (2) Volume growth momentum in China picks back up, (3) Yen keeps sliding.

RISKS TO DOWNSIDE

(1) Weaker consumer sentiment stagnates volume growth in key markets; (2) The popularity of high-value-added products in Japan fades quicker than anticipated; (3) greater cost inflation, (4) China volumes remain below expectations.

BULL CASE

¥10,800

F3/26e EPS ¥434 x P/E 25x

Total OP CAGR (F3/25 vs. F3/22) accelerates to ~+14% (incl. FX), with international OP growing at +high-teens% p.a. and Japan OP growth at +mid-teens % p.a. China sales growth rate trends at around mid-single-digit%. With the market valuing the long-term growth story, we set our bull case based on F3/26 earnings.

BASE CASE

¥8,000

F3/24e EPS ¥328 x P/E 24.5x

Total OP CAGR (F3/25 vs. F3/22) remains at mid-single digit % levels on FX-neutral basis (or +10% p.a. incl. FX), with overseas OP CAGR at mid-single digit %. 3-yr volume CAGR in China trends at only low-single digit %. We apply P/E at a ~30+% premium over the food industry average, justified by: 1) brand power and strong sales channels which enables the firm to maintain growth in globally, 2) product mix improvement in Japan, driven by value-added offerings, 3) FX benefits.

BEAR CASE

¥5,600

F3/25e EPS ¥294 x P/E 19x

Total OP CAGR (3-years vs. F3/22, incl. FX) slows to mid-single-digit % . Unit CAGR in China down low-single digit% levels through F3/25 vs. F3/22. Overseas OP growth slows down to mid-single digit. P/E comes down to slightly below the food industry average.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

Yakult Honsha (2267)

Earnings Forecast Summary

(bn yen)	F3/2021	F3/2022	F3/2023e	F3/2024e	F3/2025e
Revenues	385.7	415.1	452.6	477.0	489.7
Operating Profit	43.7	53.2	61.3	67.3	71.7
EBITDA	66.8	78.0	86.8	92.7	97.1
Recurring profit	57.6	68.5	73.8	79.8	84.2
Net Income	39.3	44.9	48.1	52.0	55.1
EPS	245	280	303	328	347
<i>Y/Y%</i>					
Revenues		7.6%	9.0%	5.4%	2.7%
Operating Profit		21.8%	15.2%	9.7%	6.5%
EBITDA		16.7%	11.3%	6.9%	4.7%
Recurring profit		19.0%	7.7%	8.1%	5.5%
Net Income		14.4%	7.0%	8.2%	5.8%

Valuation Metrics

Rating:Equal-Weight	(Price as of:09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA
(Consolidated)	F19(FY ending Mar)	46.00	2,331	2,534	10.6%	32.5	NA	3.5	3.18	17.6
Price	8,050.0 Yen	F20	52.00	2,524	2,407	9.7%	32.9	NA	3.2	18.2
Target Price	8,000 Yen	F21	72.00	2,813	2,591	10.1%	28.7	NA	2.9	15.6
Market Cap	12,897 100mn	F22Ce	82.00	NA	2,918	NA	26.0	NA	NA	2.74
Avg Shares Outstanding	160,217 000	F22e	82.00	3,039	2,825	10.0%	26.6	NA	2.6	2.85
Dilutive shares	- 000	F23e	88.00	3,282	2,977	10.0%	24.5	NA	2.5	2.70
EV(F22e)	12,124 100mn	F24e	90.00	3,540	3,057	9.8%	23.2	NA	2.3	2.63

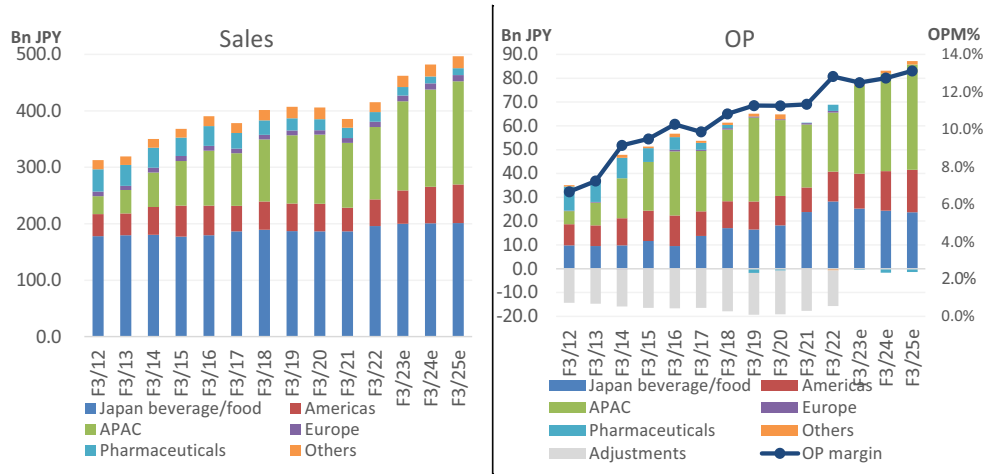
EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+(Total Debt-(Cash & Deposits+Marketable Securities))

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

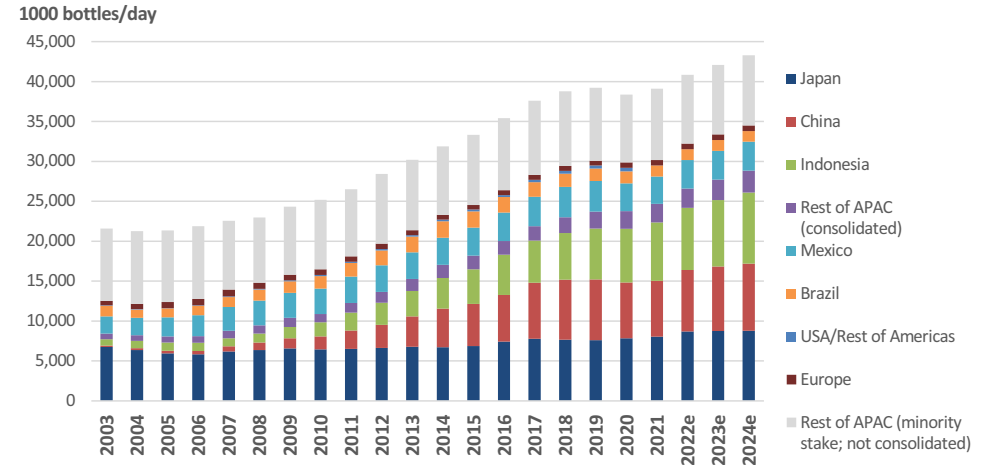
Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Yakult Honsha (2267)

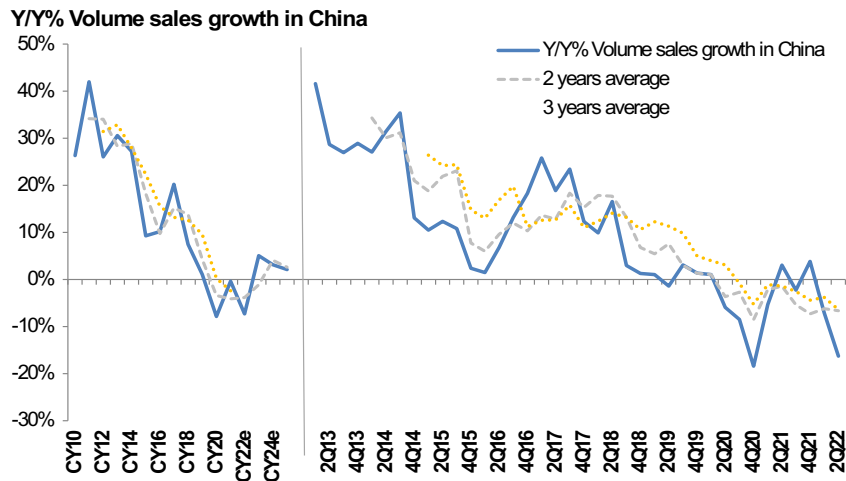
Overall company sales & OP



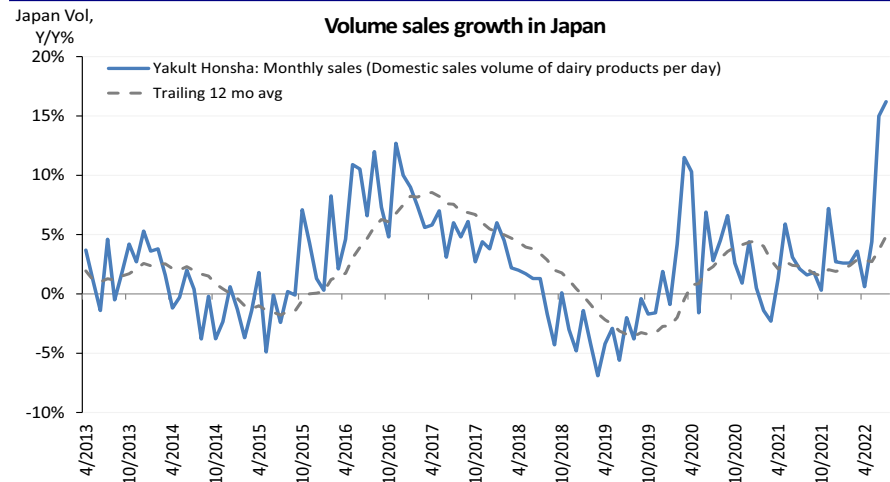
Global daily Yakult volume sales



China volume trends



Japan volume trends



Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Yakult Honsha (2267)

Segment earnings forecast

Segment Information						
(bn yen)	F3/21	F3/22	F3/23e	F3/24e	F3/25e	F3/2026e
[Sales]						
Beverages/Foods	351.9	380.7	417.6	444.0	456.3	469.4
Domestic	186.5	195.7	201.4	205.2	207.1	207.7
Overseas	165.4	185.0	216.2	238.8	249.2	261.8
Americas	41.9	47.4	59.9	65.9	69.4	73.0
Asia/Oceania	115.0	128.2	146.0	162.3	169.0	177.9
Europe	8.6	9.4	10.3	10.6	10.8	10.9
Pharmaceuticals	18.1	17.0	15.0	12.5	12.4	12.0
Others	15.7	17.4	20.0	20.5	21.0	21.0
Consolidated Total	385.7	415.1	452.6	477.0	489.7	502.4
[Operating Income]						
Beverages/Foods	61.2	66.2	77.2	85.1	89.4	94.4
Domestic	23.8	28.2	30.5	31.9	32.3	32.6
Overseas	37.4	38.0	46.7	53.2	57.0	61.8
Americas	10.4	12.6	15.2	16.8	18.3	19.9
Asia/Oceania	26.4	24.8	30.6	35.5	37.9	41.1
Europe	0.6	0.6	0.9	0.9	0.9	0.9
Pharmaceuticals	0.2	2.6	-0.4	-1.7	-1.4	-1.2
Others	-0.1	-0.7	1.2	1.3	1.4	1.5
Adjustments	-17.5	-14.9	-16.7	-17.4	-17.7	-18.0
Consolidated Total	43.7	53.2	61.3	67.3	71.7	76.7
[OP Margin %]						
Beverages/Foods	17.4%	17.4%	18.5%	19.2%	19.6%	20.1%
Domestic	12.7%	14.4%	15.1%	15.5%	15.6%	15.7%
Overseas	22.6%	20.5%	21.6%	22.3%	22.9%	23.6%
Americas	24.8%	26.5%	25.4%	25.5%	26.3%	27.2%
Asia/Oceania	22.9%	19.4%	21.0%	21.9%	22.4%	23.1%
Consolidated Total	11.3%	12.8%	13.5%	14.1%	14.6%	15.3%

e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Kikkoman (2801)

Appreciate the stable growth but the stock looks overvalued

UNDERWEIGHT THESIS

We expect solid earnings growth to continue over the longer term, leveraging the powerful brand, and the substantial FX conversion benefits emerging currently from the weaker yen provide appeal. But we forecast a constant-currency OP CAGR over the medium term of +6%, and relative to this the valuation premium built into the current share price (which we estimate to be about 100%) looks excessive. Although we do not see immediate catalysts that would spark a steep correction, we expect the share price to underperform in relative terms, and assign an UW rating.

RISKS TO PT/RATING

RISKS TO UPSIDE

1) Acceleration in growth overseas; 2) yen depreciation; 3) larger-than-expected share buybacks.

RISKS TO DOWNSIDE

1) JPY strengthens; 2) international sales (esp. in N. America) decelerate significantly; 3) higher raw materials costs; 4) Japanese macro environment weakens, putting volume sales at risk; 5) Corporate tax hike in the US triggers negative sentiment

RISK REWARD CHART



Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

BULL CASE

¥10,000

F3/26e EPS ¥369 x P/E 27x

Consolidated OP CAGR robust at around +upper-teens% (incl. FX). JPY trends weaker. Market appreciates the strong profit growth and long-term sustainability, allowing the stock to trade on P/E at a ~60% premium to the food industry average.

BASE CASE

¥6,800

F3/24e EPS ¥254 x P/E 27x

Consolidated OP CAGR at +high-single digit% (FX-neutral basis; or, +low-teens% incl. FX) on 3yr CAGR basis (F3/22-25). Recognition of stable earnings growth, as well as a business model with the strong, globally-operated Kikkoman brand (especially in developed markets) allows P/E to trend at ~40% premium to the food industry average.

BEAR CASE

¥4,500

F3/24e EPS ¥223 x P/E 20x

Consolidated OP CAGR at a low/mid-single-digit. Market expectations for profit growth subside, compressing P/E to a level almost in line with the food industry average.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

Kikkoman (2801)

Earnings Forecast Summary

(bn yen)	F3/2021	F3/2022	F3/2023e	F3/2024e	F3/2025e
Revenues	439.4	516.4	610.9	645.7	669.7
Operating Profit	41.7	49.1	59.5	65.5	70.1
EBITDA	60.9	69.1	76.0	82.0	86.6
Net Income	31.2	38.9	44.0	48.7	52.0
EPS	162	203	230	254	272
Adjusted EPS	162	203	230	254	272
<i>Y/Y%</i>					
Revenues		17.5%	18.3%	5.7%	3.7%
Operating Profit		17.8%	21.3%	10.0%	7.1%
EBITDA		13.5%	10.0%	7.8%	5.7%
Net Income		24.9%	13.2%	10.6%	6.9%

Valuation Metrics

Rating:Underweight	(Price as of:09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA	
(Consolidated)	F19(FY ending Mar)	42.00	1,447	2,444	9.6%	62.0	59.6	5.9	3.51	26.0	
Price	8,590.0 Yen	F20	45.00	1,633	2,292	9.9%	52.9	52.9	5.3	3.75	24.7
Target Price	6,800 Yen	F21	61.00	1,900	2,694	10.7%	42.3	42.3	4.5	3.19	21.8
Market Cap	16,467 100mn	F22Ce	61.00	NA	3,113	NA	32.0	NA	NA	2.18	NA
Avg Shares Outstanding	191,703 000	F22e	50.00	2,067	3,187	11.1%	37.4	37.4	4.2	2.70	19.8
Dilutive shares	- 000	F23e	52.00	2,271	3,368	11.2%	33.8	33.8	3.8	2.55	18.4
EV(F22e)	15,049 100mn	F24e	56.00	2,489	3,493	10.9%	31.6	31.6	3.5	2.46	17.4

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+{Total Debt-(Cash & Deposits+Marketable Securities)}

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Kikkoman (2801)

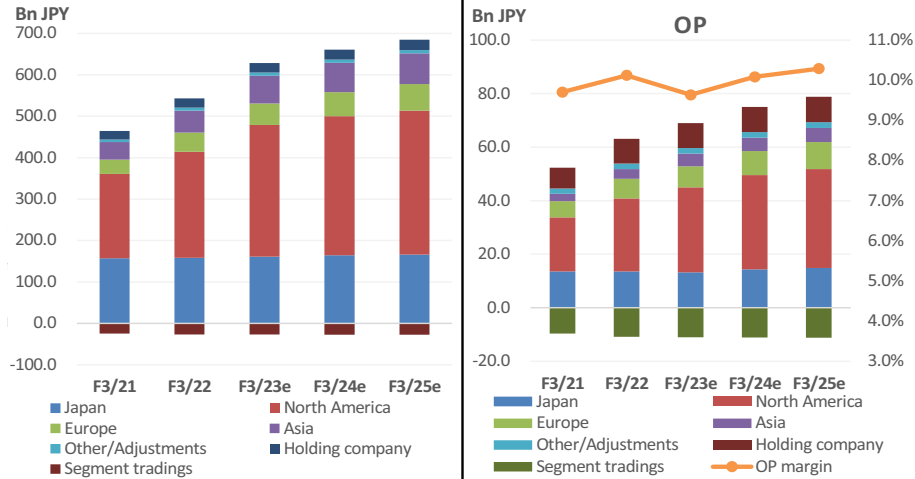
Segmental Earnings Forecasts

Segment Data					
(bn yen)	F3/21	F3/22	F3/23e	F3/24e	F3/25e
Sales					
Domestic	157.1	158.2	163.4	165.6	167.2
Overseas	286.6	362.7	451.4	483.6	505.4
<i>North America</i>	203.8	256.0	322.7	343.6	356.1
<i>Europe</i>	34.2	46.4	54.0	60.6	66.7
<i>Asia</i>	42.4	52.9	67.1	71.5	74.5
<i>Other/Adjustments</i>	6.1	7.4	7.6	7.8	8.0
Holding company	20.6	22.3	23.1	23.9	24.7
Segment tradings	-24.8	-26.7	-27.0	-27.3	-27.6
Consolidated Total	439.4	516.4	610.9	645.7	669.7
Business profit					
Domestic	13.6	13.5	12.9	13.8	14.3
Overseas	31.0	40.4	49.4	54.4	58.5
<i>North America</i>	20.2	27.3	34.4	38.0	40.6
<i>Europe</i>	6.0	7.3	8.1	9.2	10.5
<i>Asia</i>	2.8	3.6	4.7	5.1	5.4
<i>Other/Adjustments</i>	2.0	2.1	2.1	2.1	2.1
Corporate/eliminations	-1.9	-1.6	-1.7	-1.7	-1.7
Consolidated Total	42.7	52.3	60.5	66.5	71.1
Business profit margin (%)					
Domestic	8.6%	8.5%	7.9%	8.3%	8.6%
Overseas	10.8%	11.1%	10.9%	11.2%	11.6%
<i>North America</i>	9.9%	10.7%	10.7%	11.1%	11.4%
<i>Europe</i>	17.5%	15.8%	15.0%	15.2%	15.7%
<i>Asia</i>	6.5%	6.9%	7.1%	7.1%	7.2%
Consolidated Total	9.7%	10.1%	9.9%	10.3%	10.6%

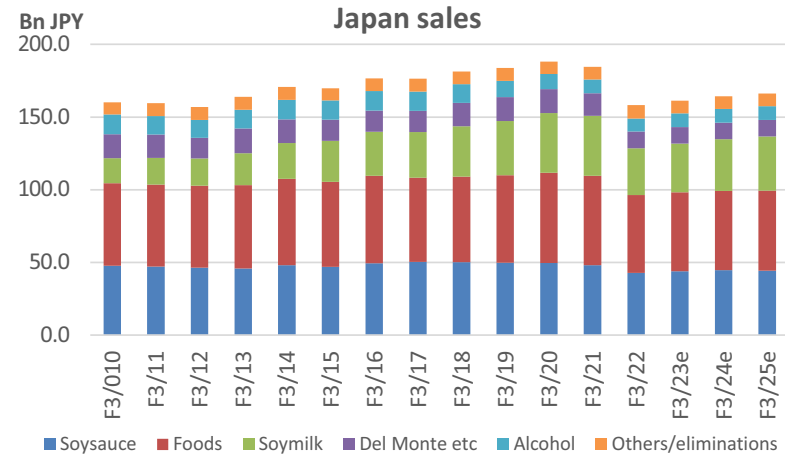
e = Morgan Stanley Research estimates, Source: Morgan Stanley Research, Company data

Kikkoman (2801)

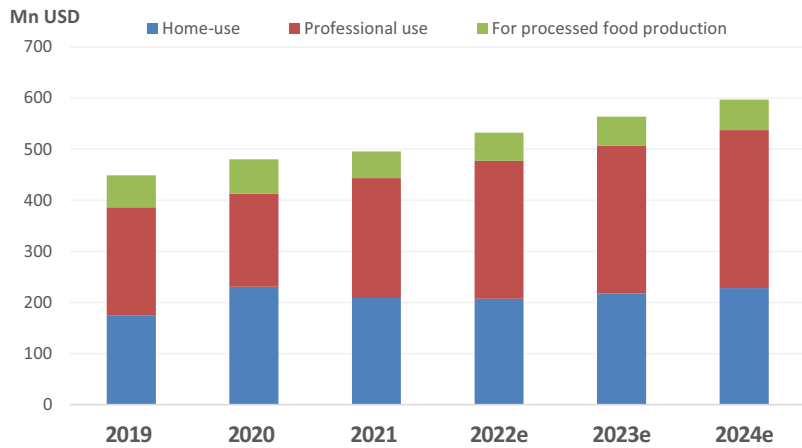
Overall company sales & OP



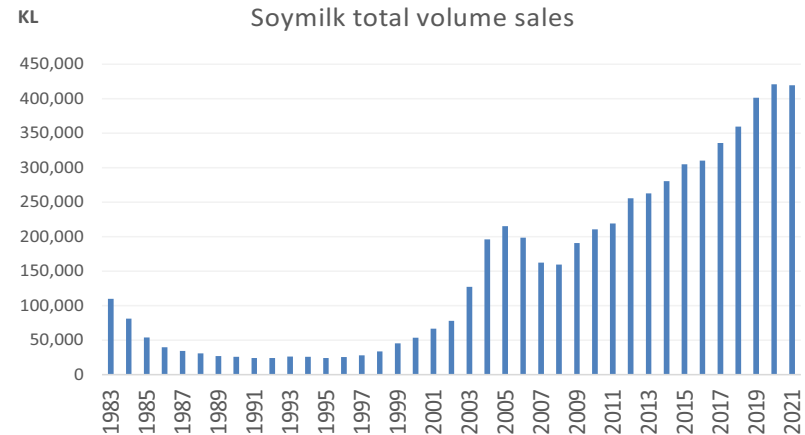
Japan sales: category mix



US soy sauce sales by purpose



Soymilk market volume in Japan



Note: US soy sauce sales breakdown figures are Morgan Stanley Research estimates, based on company data.
 Source: Japan Soymilk Association, Company data, Morgan Stanley Research

Ajinomoto (2802)

Volume trends post-price hikes and ABF sales momentum bear watching

EQUAL-WEIGHT THESIS

With the rise in Ajinomoto's share price since 2021, we believe solid medium- to long-term earnings growth overseas and growth potential in functional materials—a highly profitable business—has been fully discounted in market expectations. We give the company high marks for flexibly announcing and implementing price hikes to deal with cost increases, but with the risk of stagnant or declining consumption up ahead a concern, it is important to be aware of the possibility of reopening after Covid-19 in Japan creating adverse conditions for Ajinomoto's B2C business. The stock does not appear particularly undervalued, and we recommend a neutral stance.

RISK REWARD CHART



RISKS TO PT/RATING

RISKS TO UPSIDE

1) better than expected overseas consumer business, 2) continued sales growth strength in Japan, post-price hikes, 3) weaker JPY, 4) stronger than expected ABF earnings growth.

RISKS TO DOWNSIDE

1) Weaker consumer sentiment result in weaker volume demand and trade down in key markets, 2) faster and greater input cost inflation, 3) greater than expected deceleration of electric materials sales momentum.

BULL CASE

¥4,500

F3/24e Adj. EPS ¥185 x P/E 24x

Core profit CAGR tracks at +low-teens%, with stable top-line growth (led by steady international food sales growth, as well as robust functional materials sales at low-teens % p.a.), business mix improvement and continued cost cuts. Stock carries a 25% premium vs. industry P/E, given higher-than-avg. profit growth.

BASE CASE

¥3,600

F3/24e Adj. EPS ¥170 x P/E 21x

Core profit CAGR at high single digit % (incl. FX) through F3/25. While the seasonings/foods OP CAGR remains at only flattish levels, healthcare/other segment OP CAGR accelerates to +~10%, with particular strength in electronic materials earnings growth. Stock trades at a slight premium vs. the food industry average, given 1) stable international growth, 2) robust earnings growth by the functional materials segment, 3) FX tailwind.

BEAR CASE

¥2,600

F3/24e Adj. EPS ¥153 x P/E 17x

Core profit CAGR at low-single digit% through F3/25. Earnings fall in domestic foods, hurt by poor sales and higher cost inflation. Healthcare/other segment OP CAGR remains only at high-single digit%. With sluggish earnings trends overall, and lack of catalysts to reaccelerate earnings growth, stock slips to 15% discount vs. industry avg. P/E.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

Ajinomoto (2802)

Earnings Forecast Summary

(bn yen)	F3/2021	F3/2022	F3/2023e	F3/2024e	F3/2025e
Revenues	1,071.5	1,149.4	1,313.9	1,374.7	1,406.9
Operating Profit	101.1	124.6	128.7	140.6	149.8
Core OP	93.2	99.2	108.9	106.6	106.3
EBITDA	164.2	190.8	181.0	192.9	202.1
Net Income	59.4	75.7	80.7	89.4	96.2
EPS	108	139	150	167	179
<i>Y/Y%</i>					
Revenues		7.3%	14.3%	4.6%	2.3%
Operating Profit		23.2%	3.3%	9.3%	6.5%
Core OP		6.4%	9.8%	-2.1%	-0.3%
EBITDA		16.2%	-5.1%	6.6%	4.8%
Net Income		27.4%	6.6%	10.8%	7.5%

Valuation Metrics

Rating:Equal-Weight	(Price as of:09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA	
(Consolidated)	F19(FY ending Mar)	32.00	1,080	2,025	3.2%	110.9	101.7	3.5	1.88	19.7	
Price	3,812.0 Yen	F20e (IFRS)	42.00	1,218	1,973	8.9%	35.2	34.2	3.1	1.93	13.3
Target Price	3,600 Yen	F21e (IFRS)	52.00	1,379	2,116	10.2%	27.3	26.7	2.8	1.80	11.5
Market Cap	20,704 100mn	F22Ce (IFRS)	58.00	NA	2,412	NA	25.1	NA	NA	1.49	NA
Avg Shares Outstanding	543,132 000	F22e (IFRS)	34.00	1,475	2,419	10.2%	25.3	24.7	2.6	1.58	12.1
Dilutive shares	- 000	F23e (IFRS)	34.00	1,599	2,531	10.4%	22.9	22.4	2.4	1.51	11.3
EV(F22e)	21,849 100mn	F24e (IFRS)	34.00	1,734	2,590	10.3%	21.3	20.8	2.2	1.47	10.8

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+{Total Debt-(Cash & Deposits+Marketable Securities)}

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Ajinomoto (2802)

Sales and OP Forecasts by Segment

Detailed Segment Breakdown	F3/2020	F3/2021	F3/2022	F3/2023e	F3/2024e	F3/2025e
Total Sales (bn yen)	1,100.0	1,071.5	1,149.4	1,313.9	1,374.7	1,406.9
Seasonings and Food	641.7	620.5	664.2	760.7	790.9	801.7
Seasonings	293.0	288.9	315.7	383.3	407.6	417.6
Nutritions and Processed Food	193.6	186.3	192.5	208.3	213.7	214.5
Solutions and Ingredients	155.1	145.1	155.9	169.1	169.6	169.6
Frozen Food	211.2	198.3	221.7	263.7	283.5	292.6
Healthcare	231.6	239.5	251.3	277.2	287.9	300.1
Amino Acids	98.5	91.4	104.8	114.9	119.6	123.4
Medical and Food use amino acids	44.5	42.5	49.0	57.2	59.5	61.0
Bio-performance	52.5	49.0	55.5	57.7	60.0	62.4
Chemicals	36.3	45.1	60.5	67.9	73.0	80.4
Others	96.7	102.8	85.8	94.4	95.3	96.3
Others	15.3	13.2	12.2	12.3	12.4	12.5
	F3/2020	F3/2021	F3/2022	F3/2023e	F3/2024e	F3/2025e
Core profit (IFRS)	99.2	113.1	120.9	132.7	144.6	153.8
Seasonings and Food	81.6	86.8	81.3	88.2	96.5	101.4
Seasonings	62.2	64.0	64.2	74.1	82.1	86.4
Nutritions and Processed Food	16.8	20.9	19.1	16.2	16.0	16.5
Solutions and Ingredients	22.8	21.0	18.2	17.9	18.4	18.4
Adjustments	-20.2	-19.1	-20.2	-20.0	-20.0	-20.0
Frozen Food	0.0	2.3	-0.7	-2.4	-1.9	-1.8
Frozen Food (pre-adj)	6.5	8.2	5.4	4.4	5.2	5.5
Healthcare	19.5	26.3	43.4	49.4	52.4	56.7
Amino Acids	14.7	11.9	16.2	19.5	20.6	21.5
Medical and Food	9.0	10.1	11.5	13.1	13.7	14.2
Bio-performance	5.4	2.8	5.5	6.4	6.9	7.3
Chemicals	13.6	18.9	28.9	33.1	35.5	39.4
Others	-1.1	2.8	5.5	4.5	4.5	4.5
Adjustments	-7.7	-7.3	-7.2	-7.7	-8.2	-8.7
Others/Adj	-1.9	-2.3	-3.1	-2.4	-2.4	-2.4

e=Morgan Stanley Research estimates, Source: Company data, Morgan Stanley Research

5. HPC Industry: Unicharm (8113)

Winner in Asian EMs; China adult incontinence growth the next key growth driver

OVERWEIGHT THESIS

We envisage medium-term CAGRs of +6% for both sales and OP on a constant-currency basis. Despite strong earnings growth in F12/20-21 amid surging demand for masks and other items in the pandemic, we think the firm is capable of maintaining earnings growth at a steady clip in the medium term as well, and attribute this to the quality of its business portfolio and powerful execution capability. In the short term, raw material cost inflation will continue to be a headwind but should peak out in 1H next FY. The stock ranks high in our consumer goods coverage for the appeal of longer-term growth potential, and we rate it Overweight as a high-quality name on a longer-term view.

RISK REWARD CHART



RISKS TO PT/RATING

RISKS TO UPSIDE

1) Sales for adult diapers and sanitary products in overseas markets outpace projections. 2) Weaker JPY. 3) Milder decline in mask demand in Japan. 4) Price hikes implemented with no volume impact.

RISKS TO DOWNSIDE

1) Rising materials prices take a larger toll and for a longer duration than expected. 2) Consumer sentiment in EMs or Japan weaken, driving lower volumes, demand trade-down, and fiercer competition.

BULL CASE

¥8,100

F12/25e EPS ¥272 x P/E 30x

3-yr OP CAGR of mid-teen % (incl. FX). All regional segments continue to generate healthy topline growth and margin expansion, partially driven by better product mix. Given Unicharm's relatively stronger growth potential in the global HPC industry, the stock market focuses on longer horizon (5-year forward), and we assume P/E of 30x to be sustained (~40-50% premium vs. industry).

BASE CASE

¥5,500

F12/23e EPS ¥161 x P/E 34x

Company can generate mid-single-digit medium-term OP CAGR (FX-neutral basis), despite the tough comp from F12/20-21. We assume a ~20% premium for Unicharm's valuation vs. the stock's 5-yr historical average, given that its OP growth is expected to remain stronger, driven by structural factors, as well as its organic profit growth outlook that remains comparable to or even better than that of the global cosmetics stocks.

BEAR CASE

¥3,100

F12/23e EPS ¥139 x P/E 22x

Earnings momentum slows, with businesses that used to be at the core of high earnings overseas suffering from lower market growth and intensified competition. Stronger yen is also a negative. OP CAGR for the next 3 years is only in low-single digits. China adult incontinence business struggles to grow market share. Reflecting lack of clarity on earnings momentum recovery, P/E moves lower, closer to the lower-end of the historical valuation range.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

5. HPC Industry: Unicharm (8113)

Earnings Forecast Summary

(bn yen)	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Revenues	727.5	782.7	893.0	978.6	1,037.2
Operating Profit	114.7	122.5	124.3	142.3	159.6
EBITDA	150.9	160.4	163.8	181.3	198.6
Net Income	52.3	72.7	84.5	96.0	122.9
EPS	88	122	142	161	206
Adjusted EPS	88	122	142	161	206
<i>Y/Y%</i>					
<i>Revenues</i>		7.6%	14.1%	9.6%	6.0%
<i>Operating Profit</i>		6.7%	1.5%	14.5%	12.2%
<i>EBITDA</i>		6.3%	2.1%	10.7%	9.6%
<i>Net Income</i>		39.0%	16.2%	13.5%	28.1%

Valuation Metrics

Rating:Overweight	(Price as of:09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA
(Consolidated)	F19(FY ending Dec)	28.00	911	1,195	8.5%	60.2	60.2	5.1	3.90	20.1
Price	4,665.0 Yen	F20 (IFRS)	32.00	939	1,217	9.3%	53.3	53.3	5.0	17.1
Target Price	5,500 Yen	F21 (IFRS)	36.00	1,066	1,309	11.4%	38.3	38.3	4.4	16.1
Market Cap	27,886 100mm	F22Ce (IFRS)	38.00	NA	1,422	NA	41.4	NA	NA	3.87
Avg Shares Outstanding	597,781 000	F22e (IFRS)	38.00	1,140	1,494	12.4%	32.9	32.9	4.1	3.12
Dilutive shares	- 000	F23e (IFRS)	42.00	1,228	1,637	13.1%	29.0	29.0	3.8	2.85
EV(F22e)	25,793 100mm	F24e (IFRS)	54.00	1,321	1,735	15.6%	22.6	22.6	3.5	2.69

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+(Total Debt-(Cash & Deposits+Marketable Securities))

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Unicharm (8113)

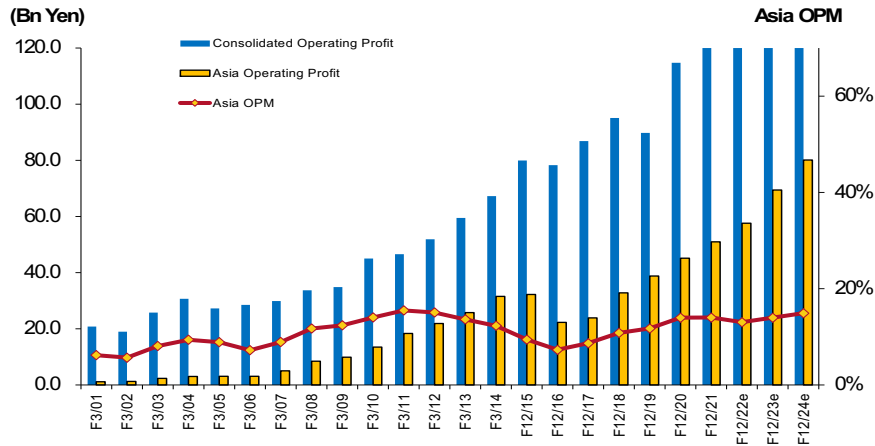
Segment earnings forecast

Regional Data	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Sales (bn yen)	727.5	782.7	893.0	978.6	1,037.2
Domestic	292.4	294.9	301.6	305.9	313.2
Overseas	435.1	487.9	591.4	672.7	724.0
Asia	323.1	363.7	442.8	504.8	546.7
<i>China</i>	95.7	111.6	134.0	153.7	165.4
<i>Asia exChina</i>	227.4	252.1	308.8	351.1	381.3
Other	111.9	124.2	148.6	167.9	177.3
Elimination/Corporate	0.0	0.0	0.0	0.0	0.0
Operating Profit	114.7	122.5	124.3	142.3	159.6
Domestic	57.5	58.3	52.6	53.9	59.0
Overseas	56.7	63.8	71.3	88.0	100.2
Asia	45.2	51.0	54.8	68.4	79.1
<i>China</i>	20.0	21.8	24.7	28.9	33.2
<i>Asia exChina</i>	25.2	29.2	30.1	39.4	45.9
Other	11.6	12.9	16.5	19.6	21.1
Elimination/Corporate	0.5	0.3	0.4	0.4	0.4
Operating Margins(%)	15.8%	15.6%	13.9%	14.5%	15.4%
Domestic	19.7%	19.8%	17.4%	17.6%	18.9%
Overseas	13.0%	13.1%	12.1%	13.1%	13.8%
Asia	14.0%	14.0%	12.4%	13.5%	14.5%
<i>China</i>	20.8%	19.5%	18.4%	18.8%	20.1%
<i>Asia exChina</i>	11.1%	11.6%	9.8%	11.2%	12.0%
Other	10.3%	10.4%	11.1%	11.7%	11.9%

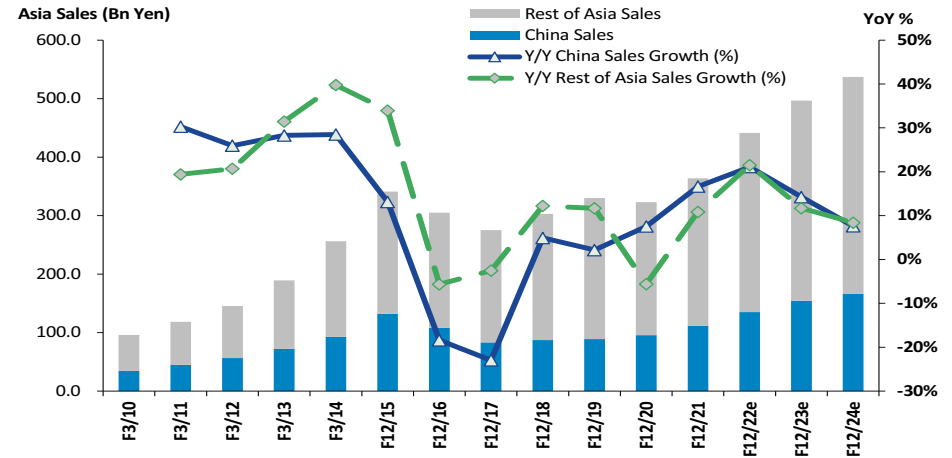
e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Unicharm (8113)

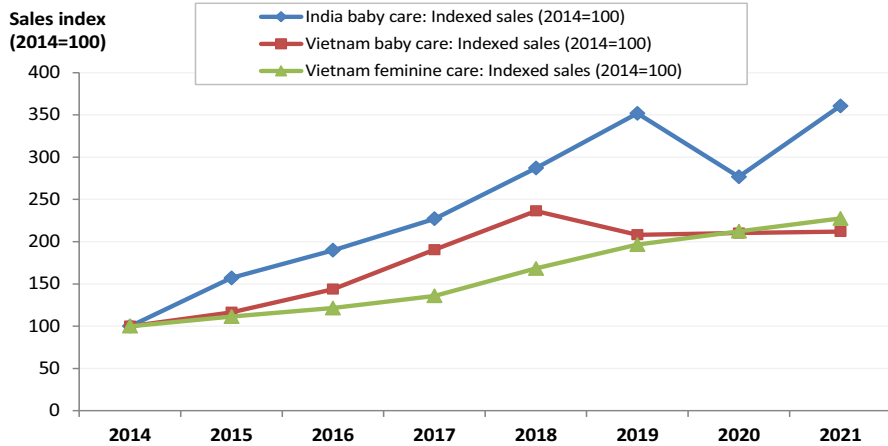
Asia (ex-Japan) Contribution to OP



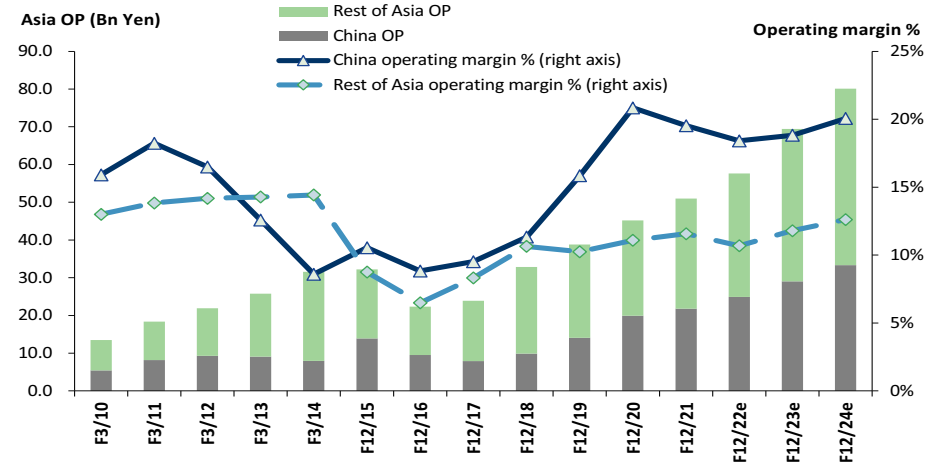
Asian Sales



Sales Growth in Vietnam and India (F3/15=100)



Asian Operating Profit



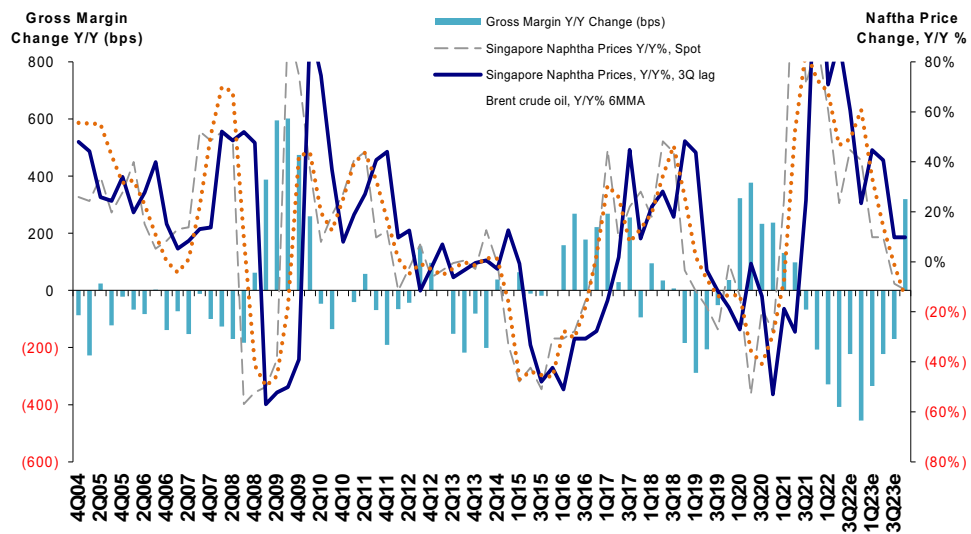
Source: Company data, Morgan Stanley Research

Unicharm (8113)

Raw materials cost mix

Raw materials cost mix% (ests)	Unicharm
Crude oil/naphtha based materials	~80%
<i>SAP</i>	~20%
<i>Other</i>	~60%
Paper/pulp-related materials	~10+%
Palm kernel oil	-
Other materials	~10%

Unicharm's gross margin vs. naphtha prices



Source: Company data, Morgan Stanley Research

Kao (4452)

Earnings trends and market sentiment to bottom out

OVERWEIGHT THESIS

Market expectations and valuations have already corrected sizably since 2021. Kao still maintains a high share of the Japanese personal and household care products market, and despite a challenging environment it is maintaining at least a 10% operating margin via continued cost-cutting efforts, which we consider a tribute to high-quality management and execution capabilities. Earnings recovery should accelerate with Japan's full-reopening, driving Kao's earnings to bottom out. Given the undemanding valuations and market's low expectations, along with now cheaper palm kernel oil and peaking crude oil prices, we think the market perception turnaround is imminent.

RISK REWARD CHART



Source: Refinitiv, Morgan Stanley Research

RISKS TO PT/RATING

RISKS TO UPSIDE

(1) Stronger sales growth of cosmetics and baby diapers and better than expected margins due to aggressive cost reductions and eased competition in the markets; (2) greater than expected size of share buyback.

RISKS TO DOWNSIDE

(1) Poor sales; (2) oil or palm oil prices climb; (3) greater-than-expected deceleration in Asia consumer biz, domestic diaper sales, and inbound demand.

BULL CASE

¥8,500

F12/23e EPS ¥335 x P/E 25x

Assumes OP CAGR of low-teens % for F12/21-F12/24. All-around growth, with strong earnings growth in cosmetics and stable earnings expansion in health & beauty care, as well as recovery in sanitary. Fair-value P/E is at slight premium vs. Kao's long-term historical range, appreciating the strong earnings growth outlook.

BASE CASE

¥6,600

F12/23e EPS ¥288 x P/E 23x

Assumes high-single digit% OP CAGR for F12/21-F12/24. Cosmetics in China remains the growth driver, while Japan cosmetics segment recovers with full-reopening, and other segment earnings also trend up gradually. Our target P/E is at a slight discount to global peers.

BEAR CASE

¥5,000

F12/23e EPS ¥273 x P/E 18x

Assumes OP CAGR to be down mid-single digit % for F12/21-F12/24. Japan earnings recovery remains sluggish, due to weaker than expected cosmetics and sanitary topline recovery, as well as slower growth for other businesses, which also lead to fiercer sales competition and promotional pressure. Top-line growth in Asian consumer business also slows down. With growth set to slow down, P/E trades down to the levels close to the historical bottom.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

Kao (4452)

Earnings Forecast Summary

(bn yen)	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Revenues	1,382.0	1,418.8	1,531.6	1,635.7	1,687.5
Operating Profit	175.6	143.5	145.9	179.3	200.9
EBITDA	261.6	230.9	220.9	249.3	265.9
Net Income	126.1	109.6	110.3	133.7	149.4
EPS	262	231	235	288	327
Adjusted EPS	307	320	235	288	327
<i>Y/Y%</i>					
Revenues		2.7%	7.9%	6.8%	3.2%
Operating Profit		-18.3%	1.7%	22.9%	12.1%
EBITDA		-11.8%	-4.3%	12.8%	6.7%
Net Income		-13.1%	0.6%	21.2%	11.8%

Valuation Metrics

Rating:Overweight	(Price as of:09/05/2022)	Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA
(Consolidated)	F19(FY ending Dec)	130.00	1,812	3,160	17.0%	19.4	19.4	3.3	1.88	8.8
Price	5,942.0 Yen F20 (IFRS)	140.00	1,951	2,907	13.4%	22.7	19.4	3.0	2.04	9.9
Target Price	6,600 Yen F21 (IFRS)	144.00	2,076	2,984	11.1%	25.8	18.6	2.9	1.99	11.2
Market Cap	28,252 100mm F22Ce (IFRS)	148.00	NA	3,302	NA	27.9	NA	NA	2.00	NA
Avg Shares Outstanding	475,466 000 F22e (IFRS)	148.00	2,071	3,221	11.4%	25.3	25.3	2.9	1.84	11.7
Dilutive shares	- 000 F23e (IFRS)	160.00	2,110	3,440	13.8%	20.6	20.6	2.8	1.73	10.4
EV(F22e)	25,933 100mm F24e (IFRS)	170.00	2,177	3,549	15.1%	18.2	18.2	2.7	1.67	9.8

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+(Total Debt-(Cash & Deposits+Marketable Securities))

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Kao (4452)

Segment earnings forecast

(bn yen)	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Sales	1,382.0	1,418.8	1,531.6	1,635.7	1,687.5
Consumer Products	1,151.3	1,143.7	1,228.8	1,313.0	1,356.1
Hygiene & Living Care	503.2	496.8	522.9	543.4	543.8
Health & Beauty Care	362.3	354.5	380.8	406.6	418.4
Life Care	52.2	53.0	56.7	60.0	60.6
Cosmetics	233.6	239.3	268.5	303.0	333.3
Chemicals	269.2	314.3	346.7	366.7	373.4
Adj/Elimination	-38.5	-39.2	-44.0	-44.0	-42.0
Operating Profit	175.6	143.5	145.9	179.3	200.9
Consumer Products	147.2	112.6	112.5	143.9	164.0
Hygiene & Living Care	79.6	51.8	44.9	61.3	69.4
Health & Beauty Care	60.5	49.7	46.0	53.6	58.6
Life Care	4.7	3.6	3.4	3.9	4.2
Cosmetics	2.4	7.5	18.2	25.1	31.9
Chemicals	27.7	29.6	32.9	34.9	36.4
Adj/Elimination	0.7	1.3	0.5	0.5	0.5
Operating Profit Margin %	12.7%	10.1%	9.5%	11.0%	11.9%
Consumer Products	12.8%	9.8%	9.2%	11.0%	12.1%
Hygiene & Living Care	15.8%	10.4%	8.6%	11.3%	12.8%
Health & Beauty Care	16.7%	14.0%	12.1%	13.2%	14.0%
Life Care	8.9%	6.8%	6.0%	6.6%	6.9%
Cosmetics	1.0%	3.1%	6.8%	8.3%	9.6%
Chemicals	10.3%	9.4%	9.5%	9.5%	9.7%
Adj/Elimination	-1.8%	-3.4%	-1.1%	-1.1%	-1.2%

Regional Data	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
(bn yen)					
Sales (post-elimination)	1,382.0	1,418.8	1,531.6	1,635.7	1,687.5
Domestic	888.1	856.3	889.7	912.3	940.3
Overseas	493.9	562.5	728.3	804.5	819.5
Asia	254.1	285.2	363.3	414.3	426.6
Americas	126.3	145.2	195.3	213.7	214.3
Europe	113.5	132.0	169.8	176.5	178.6
Consumer Products					
Sales	1,151.3	1,143.7	1,228.8	1,313.0	1,356.1
Domestic	811.0	768.1	786.4	818.3	846.2
Overseas	340.3	375.6	442.4	494.7	509.9
Asia	200.3	214.7	255.6	291.1	303.5
Americas	83.6	96.2	115.4	127.4	128.0
Europe	56.4	64.6	71.5	76.2	78.4
Chemicals					
Sales	269.2	314.3	346.7	366.7	373.4
Domestic	111.1	122.1	140.4	132.0	133.3
Overseas	158.1	192.2	292.1	316.7	316.7
Asia	56.5	73.9	111.7	127.8	127.8
Americas	42.8	49.0	79.9	86.3	86.3
Europe	58.9	69.2	100.5	102.6	102.6
Other/Corporate Adj.	-38.5	-39.2	-43.3	-44.9	-46.3

e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Shiseido (4911)

Full-reopening benefit likely in the price but Chinese demand outlook uncertain

EQUAL-WEIGHT THESIS

From a longer-term perspective we see multiple positive earnings drivers for Shiseido, including significant growth potential for prestige cosmetics with support from Chinese consumers, as well as re-opening benefits in Japan. However, we think the market is already factoring in a strong earnings recovery, with consensus P/E maintained at about 30x for F3/24, which does not look cheap even on historical or peer comparisons. There is also some uncertainty at this point as to whether growth in cosmetics demand supported by Chinese consumers might be slowing so we will have to watch this for a while, and we take a wait-and-see approach for now.

RISKS TO PT/RATING

RISKS TO UPSIDE

(1) Stronger-than-expected sales recovery in Japan/TR, (2) announcement of initiatives for further fixed cost reductions, (3) higher brand power resulting in clear sales growth in the US and Europe.

RISKS TO DOWNSIDE

(1) China sales growth deceleration, (2) longer than expected negative impact related to Covid (including 2nd/3rd waves), and (3) heavier promotional cost burden potentially impacting operating margins.

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



BULL CASE

¥8,600

F12/24e EPS ¥307 x P/E 28x

CAGR for consolidated sales in F12/21-24 is a brisk ~+10%. Drivers are China and TR (up ~+10% and +30% p.a., respectively) while other areas are also solid. F12/23 OP almost reaches the company's ~¥150bn target. Market regains confidence in global cosmetics stocks, extending the base valuation to 3-year forward basis.

BASE CASE

¥5,600

F12/23e EPS ¥186 x P/E 30x

Driven by strong Chinese consumer demand, China and TR sales grow strongly. Meanwhile, Japan sales CAGR also up by mid-single digit%, due to full-reopening finally materializing. Timing of achieving the OP target of ~¥150bn is delayed until F12/25. Stock trades at P/E in-line with large global peers on 2-yr forward basis.

BEAR CASE

¥3,000

F12/23e EPS ¥142 x P/E 22x

F12/23 OP still does not recover to the F12/19 levels as TR and China's 4-year OP CAGR slows and Japan OPM remains below 5% in F12/23. Profitability improvements at the Americas and European businesses also progresses slowly. Total operating margin remains just at high-single-digit levels, and additional measures towards structural fixed-cost reduction would be needed. Market's expectations for growth fade and P/E contracts closer to the historical low.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

Shiseido (4911)

Earnings Forecast Summary

(bn yen)	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Revenues	920.9	1,035.2	1,127.9	1,285.7	1,370.1
Operating Profit	15.0	41.6	57.3	110.4	131.9
EBITDA	83.0	112.7	107.2	160.3	181.8
Net Income	-11.7	42.4	37.3	74.4	89.5
EPS	-29	106	93	186	224
Adjusted EPS	-14	122	93	186	224
<i>Y/Y%</i>					
Revenues		12.4%	9.0%	14.0%	6.6%
Operating Profit		177.9%	37.9%	92.6%	19.4%
EBITDA		35.8%	-4.9%	49.5%	13.4%
Net Income		NM	-12.2%	99.6%	20.4%

Valuation Metrics

Rating:Equal-Weight	(Price as of:09/05/2022)		Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA
(Consolidated)		F19(FY ending Dec)	60.00	1,246	2,833	14.8%	27.6	25.3	4.1	1.79	11.6
Price	5,079.0 Yen	F20	40.00	1,216	2,305	-2.4%	-174.0	-356.9	4.2	2.20	24.5
Target Price	5,600 Yen	F21	50.00	1,367	2,591	7.8%	47.8	41.6	3.7	1.96	18.1
Market Cap	20,290 100mn	F22Ce	100.00	NA	2,678	NA	87.7	NA	NA	2.09	NA
Avg Shares Outstanding	399,480 000	F22e	54.00	1,406	2,824	6.6%	54.4	54.4	3.6	1.80	19.0
Dilutive shares	- 000	F23e	68.00	1,524	3,219	12.2%	27.3	27.3	3.3	1.58	12.7
EV(F22e)	20,359 100mn	F24e	75.00	1,674	3,430	13.4%	22.7	22.7	3.0	1.48	11.2

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+{Total Debt-(Cash & Deposits+Marketable Securities)}

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Shiseido (4911)

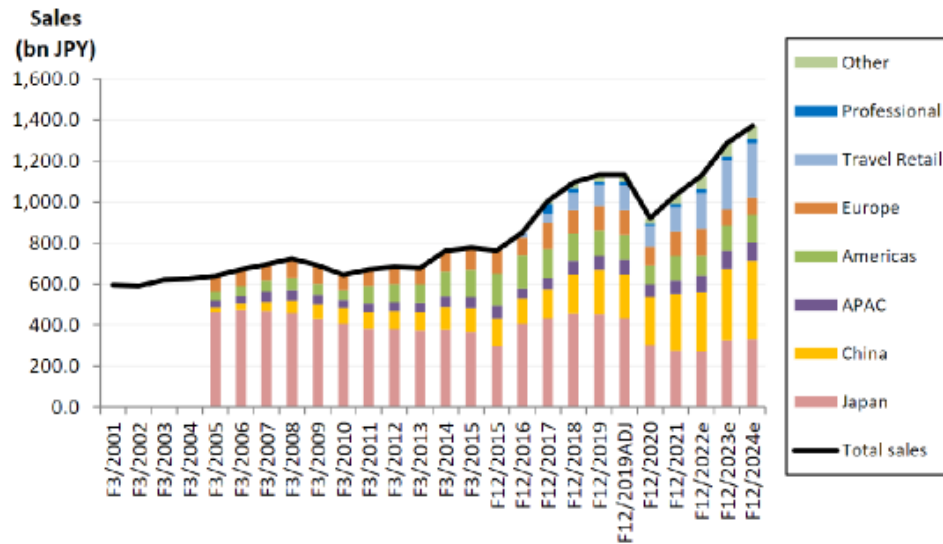
Segment earnings forecast

Segment Data	F12/2020	F12/2021	F12/2022e	F12/2023e	F12/2024e
Sales (bn yen)	920.9	1,035.2	1,127.9	1,285.7	1,370.1
Japan	303.0	276.2	273.1	328.5	332.2
China	235.8	274.7	285.8	346.3	381.3
APAC	59.2	65.0	80.0	87.8	90.9
Americas	91.4	121.4	99.3	120.8	133.8
Europe	94.3	117.0	130.2	77.4	83.6
Travel Retail	98.5	120.5	176.2	240.4	263.9
Professional	12.8	15.9	18.8	19.9	19.9
Other	25.9	44.5	64.5	64.5	64.5
Core OP (bn yen)	-	-	61.8	114.9	136.4
OP (bn yen)	15.0	41.6	-	-	-
Japan	10.5	9.6	6.2	19.0	20.5
China	18.4	1.2	-1.1	16.0	25.3
APAC	3.2	3.7	5.9	6.8	7.4
Americas	-22.3	-13.2	5.8	12.8	15.5
Europe	-13.2	2.5	7.9	5.5	6.4
Travel Retail	14.6	22.0	39.2	55.8	61.3
Professional	0.0	0.8	1.0	1.1	1.1
Other/elimination	3.7	15.1	-3.1	-2.1	-1.1
Core OPM%	-	-	5.5%	8.9%	10.0%
Operating margin %	1.6%	4.0%	-	-	-
Japan	3.5%	3.5%	2.3%	5.8%	6.2%
China	7.8%	0.4%	-0.4%	4.6%	6.6%
APAC	5.5%	5.7%	7.3%	7.7%	8.1%
Americas	-24.3%	-10.9%	5.8%	10.6%	11.6%
Europe	-14.0%	2.1%	6.1%	7.1%	7.7%
Travel Retail	14.9%	18.2%	22.2%	23.2%	23.2%
Professional	-0.3%	4.8%	5.6%	5.6%	5.6%
Other/elimination	14.4%	34.0%	-4.9%	-3.3%	-1.7%

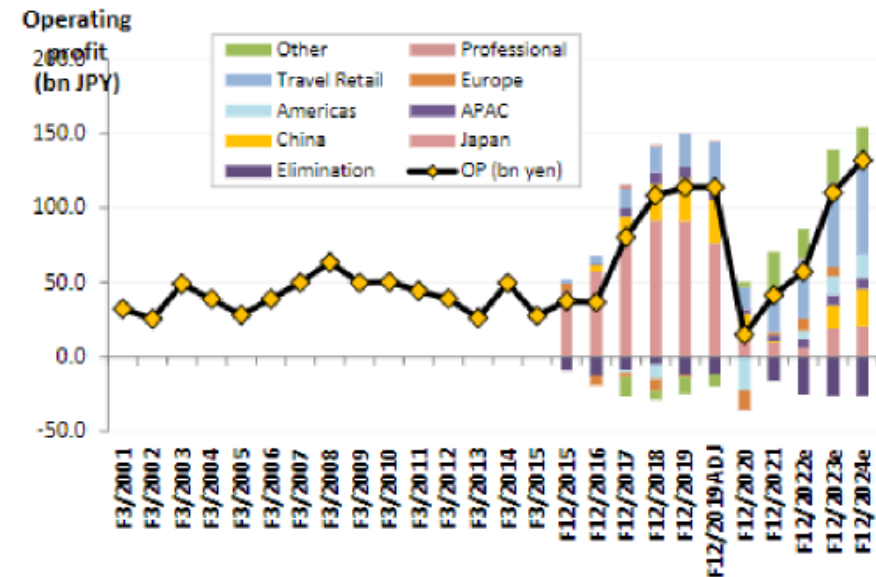
e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Shiseido (4911)

Sales: historical trends and forecasts



Operating profit: historical trends and forecasts



e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

KOSE (4922)

Relatively strong Japan biz attractive but China biz conditions bear watching

EQUAL-WEIGHT THESIS

The company commands a strong market share in Japan, particularly at the high end, and has real brand strength, so as re-opening benefits kick in we look for Kose's sales momentum to exceed the rate of expansion in the market as a whole. However, concerns remain on the China business: the unclear prospects for growth in demand for prestige cosmetics products driven by Chinese consumers, and intensified competition in is denting profit margins. It will take some time for these concerns to blow over, so for now we take a wait-and-see stance on the shares. Consensus forecasts have already come down but valuations are not cheap, so we assign an EW rating.

RISK REWARD CHART



RISKS TO PT/RATING

RISKS TO UPSIDE

1) Strong domestic sales recovery, 2) China sales and OPM trend stronger than expected, 3) Tarte sales reaccelerates.

RISKS TO DOWNSIDE

1) Domestic sales recovery slows or weakens with consumer sentiment deterioration; 2) market competition heats up in China by more than foreseen as rivals go on the offensive; 3) overseas (Chinese) sales increasingly bleak; 4) earnings start to decline at Tarte.

BULL CASE

¥17,000

F12/24e Adj. EPS ¥610 x P/E 28x

3-year sales CAGR (F12/24e vs. F12/21) at ~+11%. Japan sales CAGR at ~10%, China subsidiary and TR at mid-teens% to ~20%, Tarte at low-teens%. With OP exceeding F12/19 levels in F12/23 and showing strong growth, expectations mount for sustainable growth, centered around international expansion. Market bases valuation on 3-year forward earnings forecasts, and valuation multiple rises to levels closer to the recent peak.

BASE CASE

¥12,000

F12/23e Adj. EPS ¥402 x P/E 30x

3-yr CAGR to F12/24 holds at ~+8% for sales. OP recovers to F12/19 levels in F12/24. Japan sales recovers at +mid-single digit% CAGR, while China/Asia business grows at low-to-mid teens%. Tarte grows at ~10%. Market recognizes smooth earnings momentum and remains optimistic on the post-Covid normalization, allowing valuation multiple above the long-term historical average.

BEAR CASE

¥7,000

F12/23e Adj. EPS ¥331 x P/E 21x

Scenario in which overall sales growth remains sluggish and F12/24 sales still fall short of F12/19 levels. Sales growth in Asia slows. KOSE is affected by a tradedown to low-price brackets in Japan as the economy worsens, and intensified competition in the industry. As profit growth expectations fall, P/E multiples contract to levels close to the lower end of the historical valuation range.

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division.

The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 02 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one years' time.

KOSE (4922)

Earnings Forecast Summary

(bn yen)	F3/2021	F3/2022	F3/2023e	F3/2024e	F3/2025e
Revenues	279.4	225.0	288.3	315.5	335.1
Operating Profit	13.3	18.9	20.9	34.7	41.1
EBITDA	24.5	27.3	31.6	45.4	51.8
Recurring profit	18.7	22.4	21.6	35.4	41.8
Net Income	12.0	13.3	12.2	21.8	26.2
EPS	210	234	214	382	459
Adjusted EPS	230	254	234	402	479
<i>Y/Y%</i>					
Revenues		-19.5%	28.2%	9.4%	6.2%
Operating Profit		41.8%	11.1%	65.5%	18.4%
EBITDA		11.6%	15.8%	43.6%	14.2%
Recurring profit		19.3%	-3.2%	63.4%	18.0%
Net Income		11.3%	-8.6%	78.7%	20.2%

Valuation Metrics

Rating:Equal-Weight	(Price as of:09/05/2022)		Dividend	BPS	SPS	ROE	P/E	Adj. P/E	P/B	PSR	EV/EBITDA
(Consolidated)		F19(FY ending Mar)	148.00	3,920	5,745	11.9%	27.9	26.7	3.3	2.27	12.2
Price	13,030.0 Yen	F20	200.00	3,953	4,897	5.3%	62.0	56.8	3.3	2.66	25.0
Target Price	12,000 Yen	F21	220.00	4,178	3,944	5.6%	55.7	51.3	3.1	3.30	22.4
Market Cap	7,433 100mn	F22Ce	170.00	NA	5,136	NA	17.9	NA	NA	2.34	NA
Avg Shares Outstanding	57,049 000	F22e	230.00	4,217	5,054	5.1%	61.0	55.7	3.1	2.58	19.3
Dilutive shares	- 000	F23e	230.00	4,384	5,530	8.7%	34.1	32.4	3.0	2.36	13.5
EV(F22e)	6,107 100mn	F24e	230.00	4,613	5,874	10.0%	28.4	27.2	2.8	2.22	11.8

EPS: Earnings/Share, BPS: Book Value/Share, SPS: Sales/Share ROE: Return on Equity, Enterprise Value (EV): Market Cap.+{(Total Debt-(Cash & Deposits+Marketable Securities))}

EBITDA: (consolidated) Income before tax+Dep+Net interest expense, (parent)Operating income+Dep

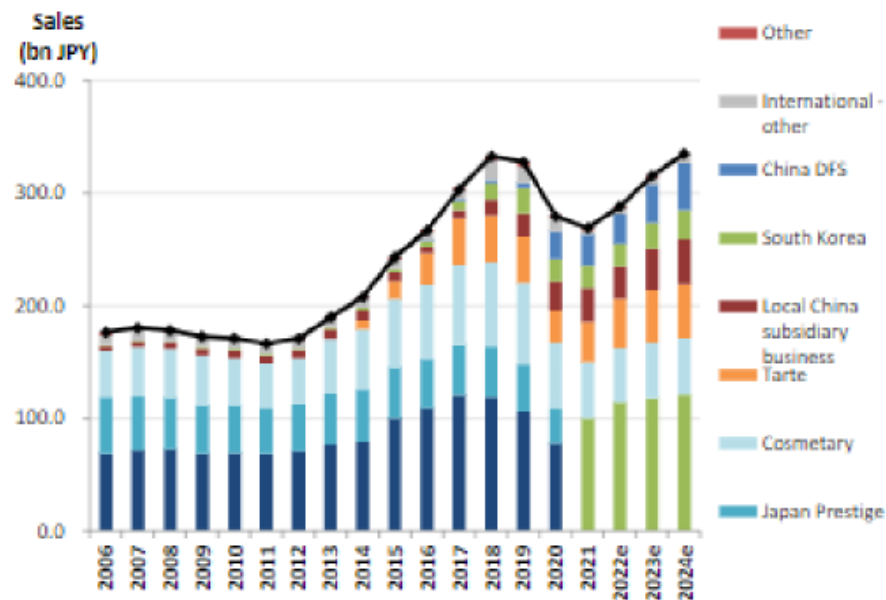
Ce=Company guidance; e=Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

KOSE (4922)

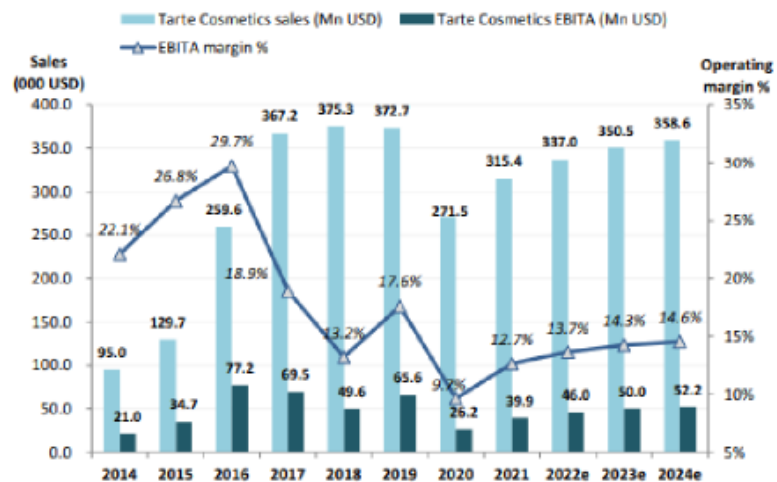
Segmental Earnings Forecasts

Segment Data	F12/21						
	F3/2020	F3/2021	F12/2021	Annualized	F12/2022e	F12/2023e	F12/2024e
Sales (bn yen)	327.7	279.4	225.0	269.0	288.3	315.5	335.1
Cosmetics business	251.9	218.5	189.1	217.7	238.6	264.4	282.9
Cosmetary business	71.9	58.4	34.4	49.1	47.8	49.1	50.2
Other	3.9	2.5	1.6	2.2	2.0	2.0	2.0
OP (bn yen)	40.2	13.3	18.9	15.7	20.9	34.7	41.1
Cosmetics business	44.7	18.7	22.7	19.7	25.3	38.2	44.0
Cosmetary business	0.2	-0.1	-0.8	0.3	0.3	1.3	2.1
Other	1.3	1.0	0.8	0.7	0.5	0.5	0.5
Operating margin %	12.3%	4.8%	8.4%	5.8%	7.3%	11.0%	12.3%
Cosmetics business	17.7%	8.5%	12.0%	9.0%	10.6%	14.4%	15.6%
Cosmetary business	0.3%	-0.1%	-2.2%	0.6%	0.6%	2.6%	4.1%
Other	32.7%	39.3%	52.1%	31.9%	25.0%	25.0%	25.0%

Earnings Estimates of Tarte Cosmetics



Earnings Estimates of Tarte Cosmetics



e = Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Global Beverages Valuation Comparisons

2-Sep-22	Listed CCY	Price Close	Market cap (€bn)	MS Rating	Price Target	Upside	P/E (x)			EPS growth (%)			CAGR CY21-24e	FCF yield* (%)			EV/EBITDA (x)			EV/EBIT (x)			EV/NOPAT (x)			Dividend yield (%)			
							CY22	CY23	CY24	CY22	CY23	CY24		CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24	CY22
MSCI Europe							12.0	11.7	11.1	17.0%	2.2%	5.4%	8.0%														3.6%	3.7%	4.0%
Europe*			387.5				19.1	17.4	15.9	23.2%	9.5%	10.1%	13.9%	3.9%	3.6%	3.7%	12.2	11.0	10.0	15.9	14.3	12.9	21.6	19.4	17.6	2.1%	2.2%	2.4%	
Anheuser-Busch	EUR	49	98.2	EW	54	11%	16.3	14.8	13.3	21.6%	10.0%	11.7%	14.3%	5.0%	2.9%	3.3%	10.8	9.2	8.4	14.4	12.4	11.1	20.1	17.3	15.5	1.7%	1.9%	2.1%	
Heineken	EUR	89	51.5	EW	100	12%	17.9	16.9	15.0	41.1%	5.7%	13.0%	19.0%	7.5%	7.1%	7.7%	10.0	9.2	8.3	14.7	13.5	11.8	20.5	18.8	16.5	2.0%	2.1%	2.3%	
Carlsberg	DKK	953	19.5	EW	1,000	5%	14.9	14.0	12.5	33.1%	6.7%	12.1%	16.8%	4.4%	6.2%	4.8%	12.3	11.5	10.7	16.0	15.8	14.7	20.2	20.3	19.0	2.7%	3.0%	3.3%	
Diageo	GBp	3,780	109.1	OW	4,300	14%	23.2	21.0	19.6	22.3%	10.3%	7.1%	13.1%	2.8%	3.0%	3.4%	16.6	15.4	14.3	19.0	17.2	15.9	24.9	22.4	20.8	2.1%	2.2%	2.3%	
Pernod Ricard	EUR	189	50.4	OW	207	9%	22.4	20.0	18.8	12.3%	12.2%	6.3%	10.2%	2.7%	3.1%	2.8%	15.6	15.0	14.0	17.7	17.0	15.8	23.4	22.5	20.9	2.2%	2.5%	2.7%	
Coca-Cola European Partners	EUR	49	22.4	EW	53	9%	14.8	13.3	12.4	16.7%	11.0%	7.5%	11.7%	NA	NA	NA	11.1	9.8	9.1	15.4	13.4	12.1	19.9	17.3	15.7	3.3%	3.8%	4.0%	
Campari	EUR	10	11.3	EW	10	4%	29.1	26.6	24.2	26.1%	9.4%	10.1%	14.9%	0.6%	2.0%	-1.0%	18.8	17.0	15.6	21.8	19.7	18.0	30.6	27.1	24.6	0.9%	0.9%	1.0%	
Coca-Cola Hellenic	GBp	1,973	8.4	EW	2,200	12%	15.3	14.1	12.4	-5.1%	8.2%	14.1%	5.4%	5.8%	6.9%	7.8%	8.6	8.1	7.1	13.2	12.4	10.7	17.8	16.7	14.5	3.0%	3.2%	3.7%	
Rémy Cointreau	EUR	183	9.5	UW	160	-13%	34.1	30.1	28.3	36.8%	10.9%	6.6%	17.4%	1.8%	2.9%	3.0%	21.8	19.2	17.7	24.3	21.4	19.7	34.9	30.6	28.2	1.2%	1.2%	1.2%	
Fever Tree	GBp	876	1.2	EW	1,200	37%	39.5	31.2	22.5	-43.6%	26.9%	38.3%	NM	2.1%	3.2%	4.0%	21.7	16.6	12.0	28.1	20.7	14.3	34.7	26.8	18.8	1.1%	1.4%	2.0%	
Britvic	GBp	773	2.4	OW	940	22%	13.7	12.9	11.7	19.7%	5.7%	10.8%	11.9%	5.7%	6.6%	6.9%	9.0	8.3	7.5	12.2	11.3	10.0	15.6	14.5	12.8	3.7%	3.9%	4.3%	
Royal Unibrew	DKK	543	3.7	NC	NC	NC	18.0	17.6	15.6	11.6%	2.1%	13.1%	8.8%	NA	NA	NA	15.7	12.8	11.4	19.9	16.3	14.3	24.8	20.6	18.2	3.0%	2.9%	3.3%	
MSCI US							19.1	17.7	16.2	7.9%	8.0%	8.9%	8.3%														1.5%	1.6%	1.7%
US*			702.6				25.2	23.3	21.2	20.6%	9.1%	10.1%	13.3%	3.8%	4.2%	4.8%	18.2	16.8	15.2	21.3	19.6	17.7	26.8	24.7	22.0	2.4%	2.5%	2.6%	
Coca-Cola	USD	61	267.5	OW	74	21%	24.7	23.7	21.8	21.9%	3.8%	9.1%	11.4%	4.7%	4.5%	4.9%	20.0	19.1	17.5	22.0	20.9	19.0	26.6	25.4	23.2	2.9%	3.0%	3.2%	
Pepsi	USD	171	238.0	OW	198	16%	25.5	23.5	21.5	22.4%	8.5%	9.4%	13.2%	2.7%	4.0%	4.9%	17.7	16.3	14.8	21.8	20.2	18.2	27.5	25.4	23.1	2.7%	2.8%	3.0%	
Molson Coors	USD	52	11.4	EW	51	-1%	13.4	12.7	11.8	6.4%	5.4%	7.3%	6.3%	10.1%	10.3%	10.3%	8.6	8.1	7.4	13.3	12.2	11.1	20.5	18.8	11.1	2.9%	3.2%	3.4%	
Constellation Brands	USD	245	45.4	OW	298	22%	21.7	18.9	16.0	21.7%	20.3%	18.0%	20.0%	3.7%	4.1%	5.5%	16.3	14.3	12.2	18.4	16.4	14.0	23.2	20.3	17.4	1.3%	1.5%	1.7%	
Dr Pepper Snapple	USD	38	54.2	EW	36	-5%	22.5	20.6	19.1	20.5%	8.9%	7.8%	12.2%	5.1%	4.9%	4.9%	14.8	13.6	12.7	18.0	16.5	15.3	23.5	21.2	19.8	2.0%	2.1%	2.2%	
Monster Beverages	USD	88	47.3	OW	109	23%	37.7	28.7	25.1	3.8%	31.2%	14.6%	16.0%	1.7%	3.1%	3.5%	25.4	19.4	16.8	26.5	20.2	17.5	34.7	26.4	22.9	0.0%	0.0%	0.0%	
Brown-Forman	USD	72	34.6	UW	66	-8%	36.6	33.7	31.3	23.1%	12.6%	7.4%	14.2%	2.5%	2.6%	2.8%	25.4	23.6	21.8	27.0	25.0	23.0	35.2	32.2	29.7	1.5%	1.2%	1.3%	
Boston Beer	USD	331	4.1	NC	NC	NC	37.8	29.4	22.5	NM	28.4%	30.6%	116.6%	4.2%	4.2%	NA	15.5	12.3	11.1	24.7	17.7	15.1	33.7	23.6	NA	0.0%	0.0%	0.0%	
MSCI World							15.7	14.8	13.8	10.9%	6.0%	7.8%	8.2%														2.2%	2.3%	2.5%
ROW*			693.5				33.0	28.6	24.3	19.9%	16.0%	17.3%	17.3%	2.4%	3.0%	3.4%	18.3	15.8	12.4	22.9	19.6	16.4	30.3	26.1	21.9	1.5%	1.7%	1.9%	
AmBev	BRL	15	47.4	UW	12	-26%	21.6	20.1	17.1	9.7%	7.3%	17.4%	11.4%	2.7%	4.0%	4.7%	10.4	9.6	8.5	13.9	12.8	11.2	15.1	14.5	12.8	2.5%	3.8%	3.6%	
Kweichow Moutai	CNY	1,875	343.1	OW	2,329	24%	38.2	32.7	27.8	23.6%	16.8%	17.6%	19.3%	1.7%	2.0%	2.4%	25.4	21.2	17.6	25.9	21.6	17.8	34.5	28.8	23.8	1.2%	1.3%	1.5%	
Wuliangye Yibin	CNY	162	91.5	OW	225	39%	23.7	20.3	16.8	19.4%	16.4%	21.2%	19.0%	3.1%	5.1%	5.4%	15.2	12.6	10.0	15.5	12.8	10.1	20.6	17.0	13.5	1.9%	2.1%	2.5%	
FEMSA	USD	65	23.4	OW	89	37%	16.4	13.3	11.2	14.1%	21.9%	16.9%	17.6%	9.8%	9.3%	9.6%	6.4	5.5	4.8	10.0	8.6	7.3	14.7	12.6	10.7	4.7%	4.6%	5.4%	
Kirin Holdings	JPY	2,236	14.6	NC	NC	NC	14.0	14.5	12.6	59.1%	-2.9%	14.5%	20.9%	6.6%	5.3%	6.1%	8.9	8.1	NA	NA	NA	NA	NA	NA	NA	3.0%	3.2%	3.4%	
Asahi Group Holdings	JPY	4,658	16.9	NC	NC	NC	15.8	13.4	12.0	-9.1%	18.1%	11.1%	6.1%	6.7%	9.0%	9.6%	11.0	9.3	NA	NA	NA	NA	NA	NA	NA	2.4%	2.7%	3.0%	
Coca-Cola FEMSA	MXN	122	103.6	EW	114	-7%	142.5	122.4	108.9	7.8%	16.4%	12.4%	12.2%	0.7%	0.8%	0.9%	52.0	47.5	43.7	74.7	67.9	61.9	113.1	102.7	93.7	0.7%	0.7%	0.8%	
Treasury Wine Estates	AUD	13	6.5	NC	NC	NC	26.2	22.1	19.9	22.1%	17.5%	10.8%	16.7%	3.4%	3.9%	4.6%	13.3	12.4	11.5	16.9	15.4	13.9	23.8	21.6	19.5	2.6%	3.1%	3.5%	
Tsingtao Brewery	CNY	102	16.5	UW	78	-24%	42.0	35.2	30.4	10.5%	19.4%	15.7%	15.1%	2.3%	3.0%	3.6%	22.8	18.7	15.8	28.7	22.6	18.6	38.2	30.1	24.8	1.2%	1.4%	1.6%	
United Spirits	INR	825	7.6	NC	NC	NC	59.8	50.4	44.0	29.9%	19.0%	14.2%	20.9%	1.6%	1.7%	2.2%	35.7	30.6	26.2	42.9	36.0	30.9	56.6	47.6	40.8	0.0%	0.0%	0.8%	
Cuervo	MXN	41	7.5	OW	79	91%	25.1	16.8	13.4	38.3%	49.7%	24.8%	37.2%	-0.4%	4.4%	5.7%	16.3	11.4	9.2	17.9	12.4	9.9	27.2	18.7	15.0	1.2%	3.0%	3.7%	
Coca-Cola Bottlers Japan Holdings Inc.	JPY	1,404	2.1	NC	NC	NC	NA	NA	243.4	NM	-59.8%	-134.2%	NM	-2.7%	1.4%	2.3%	9.3	7.7	NA	-23.6	NA	NA	-35.5	NA	NA	3.2%	3.3%	3.5%	
Suntory Beverage & Food	JPY	5,060	11.2	NC	NC	NC	20.0	19.2	17.9	5.8%	4.0%	7.1%	5.7%	5.9%	5.9%	6.2%	7.9	7.5	NA	12.3	NA	NA	17.1	NA	NA	1.5%	1.7%	1.7%	
Hite Jinro	KRW	29,600	1.5	EW	37,000	25%	16.7	14.1	13.5	75.1%	18.6%	4.4%	29.4%	1.9%	7.9%	7.6%	6.1	5.3	5.0	10.0	8.3	7.7	13.2	11.0	10.1	3.0%	3.4%	3.5%	
Global Beverages			1,783.5				25.8	23.3	20.7	21.1%	11.4%	12.5%	14.7%	NA	NA	NA	16.1	14.4	12.5	19.9	17.8	15.7	26.0	23.3	20.5	2.0%	2.1%	2.3%	

e = Morgan Stanley Research estimates; Source: Morgan Stanley Research; Note: **Please see the explanation of the Morgan Stanley ModelWare initiative later in this report. NC: Not covered, O:Overweight, E:Equal-weight, U:Underweight; Industry Views: North America=Beverage: In-Line, Food: Cautious, Tobacco: In-Line, Europe=Beverage: In-Line, Food: In-Line, Tobacco: Attractive, Asia/Pacific: Australian Consumer: Attractive, China Consumer: Attractive, India= Consumer: Cautious, S. Korea Consumer: In-Line, Latin America=Mexico Consumer: In-Line, Brazil Consumer: In-Line, Japan=Food: In-Line.

Global HPC Valuation Comparisons

2-Sep-22	Listed CCY	Price Close	Market cap (€bn)	MS Rating	Price Target	Upside	P/E (x)			EPS growth (%)			CAGR CY21-24e	FCF yield* (%)			EV/EBITDA (x)			EV/EBIT (x)			EV/NOPAT (x)			Dividend yield (%)					
							CY22	CY23	CY24	CY22	CY23	CY24		CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24
MSCI Europe							12.0	11.7	11.1	17.0%	2.2%	5.4%	8.0%															3.6%	3.7%	4.0%	
Europe*			453.0				22.0	20.5	18.5	7.2%	7.3%	11.7%	7.6%	3.3%	3.9%	4.7%	14.7	14.0	12.7	18.1	16.9	15.2	25.1	22.9	20.5	35.6	36.3	33.6	1.5%	1.7%	1.8%
L'Oréal	EUR	345	185.4	EW	385	12%	31.4	29.3	27.4	24.7%	7.1%	7.0%	12.6%	3.1%	2.5%	3.4%	20.9	20.7	19.6	26.3	25.5	23.6	35.6	36.3	33.6	1.5%	1.7%	1.8%			
Unilever	GBP	3,906	116.1	EW	3,800	-3%	17.9	17.4	15.5	-3.9%	3.3%	11.9%	3.6%	4.6%	5.5%	6.4%	12.5	12.0	11.0	14.6	13.9	12.6	19.6	18.3	16.6	3.8%	3.9%	4.1%			
Reckitt Benckiser	GBP	6,400	52.8	OW	7,500	17%	18.8	18.3	16.7	14.9%	2.4%	9.7%	8.9%	3.1%	4.4%	4.4%	14.7	13.9	12.7	16.8	15.7	14.4	20.7	19.4	17.8	2.7%	2.9%	3.1%			
Henkel	EUR	63	26.8	UW	58	-8%	17.5	15.3	11.6	-21.0%	14.0%	32.3%	6.0%	2.2%	5.3%	7.1%	9.6	8.9	6.9	13.0	11.6	8.5	18.6	16.5	12.2	3.0%	3.2%	3.3%			
Haleon	GBP	247	26.4	EW	285	15%	13.6	12.7	11.7	NM	7.5%	8.1%	NM	3.5%	7.4%	8.9%	12.2	10.8	9.8	13.6	12.0	10.9	27.4	17.2	15.1	1.2%	3.2%	3.8%			
Beiersdorf	EUR	101	23.0	UW	92	-9%	28.7	26.8	24.5	17.3%	7.0%	9.3%	11.1%	2.9%	3.5%	4.1%	14.8	13.5	12.1	19.2	17.6	15.6	27.5	25.1	22.2	0.7%	0.7%	0.7%			
Intercos S.p.A.	EUR	13	1.2	EW	15	16%	23.5	18.9	15.4	19.8%	24.7%	22.4%	22.3%	2.7%	5.5%	5.7%	11.0	9.0	7.6	17.9	14.1	11.3	24.4	19.2	15.4	0.0%	1.3%	1.7%			
Essity	SEK	234	15.3	NC	NC	NC	18.9	14.2	12.7	-3.1%	33.7%	11.8%	13.2%	NA	NA	NA	11.2	9.1	8.2	18.8	13.6	11.9	24.5	18.0	15.7	3.1%	3.3%	3.5%			
AAK	SEK	161	3.9	NC	NC	NC	20.5	18.3	16.7	25.7%	11.9%	9.7%	15.5%	NA	NA	NA	13.1	11.5	10.4	16.6	14.1	12.8	22.3	18.5	16.8	1.6%	1.8%	1.9%			
Corbion	EUR	29	1.7	NC	NC	NC	19.5	18.3	NA	19.0%	6.5%	NM	NM	NA	NA	NA	11.9	10.6	NA	19.8	18.6	NA	26.5	25.0	NA	2.0%	2.0%	NA			
Ontex	EUR	6	0.5	NC	NC	NC	144.4	8.4	NA	-91.8%	NM	NM	NM	NA	NA	NA	11.5	6.8	NA	39.8	11.5	NA	51.6	15.7	NA	0.0%	1.5%	NA			
MSCI US							19.1	17.7	16.2	7.9%	8.0%	8.9%	8.3%															1.5%	1.6%	1.7%	
US*			606.1				24.7	22.5	21.0	12.2%	10.5%	10.0%	9.9%	3.9%	4.5%	4.8%	16.9	15.2	14.1	20.3	18.1	16.5	29.0	26.6	24.1	2.3%	2.4%	2.6%			
Procter & Gamble	USD	137	347.1	OW	177	29%	23.9	22.1	20.3	11.7%	8.6%	8.8%	9.7%	4.0%	4.5%	5.0%	17.9	16.2	14.7	20.8	18.7	16.9	32.9	30.4	27.4	2.4%	2.6%	2.7%			
Colgate Palmolive	USD	78	65.7	EW	82	5%	25.8	24.1	22.1	7.8%	7.4%	8.8%	8.0%	3.6%	4.3%	4.6%	16.8	15.5	14.1	19.5	17.9	16.2	25.6	23.6	21.3	2.3%	2.3%	2.4%			
Kimberly-Clark	USD	126	43.0	EW	137	8%	22.6	19.4	17.6	3.7%	16.5%	10.4%	10.1%	4.1%	6.3%	5.5%	14.7	12.7	11.6	19.0	15.9	14.3	24.3	20.6	18.5	3.6%	3.8%	4.4%			
Estee Lauder	USD	248	90.3	OW	320	29%	33.8	29.9	25.9	18.2%	15.2%	15.2%	16.2%	2.3%	2.8%	3.6%	21.0	18.3	16.0	25.6	22.3	19.3	32.9	28.9	24.9	1.0%	1.2%	1.3%			
Clorox	USD	143	17.8	UW	130	-9%	33.5	28.5	22.7	-17.3%	24.1%	23.4%	8.2%	3.2%	4.1%	4.7%	19.1	16.7	14.6	24.2	20.6	17.6	30.6	26.0	22.3	3.2%	3.4%	3.5%			
Newell Rubbermaid	USD	18	7.3	EW	25	43%	9.6	9.9	9.0	14.9%	-2.8%	9.8%	7.0%	5.5%	10.3%	11.2%	8.1	7.7	7.1	10.2	9.6	8.7	12.1	12.6	11.4	5.3%	5.3%	5.3%			
Coty	USD	8	7.0	EW	9	20%	24.1	17.3	NA	147.4%	32.5%	NM	NM	17.8%	10.0%	NA	9.0	8.0	NA	15.6	12.9	NA	16.6	18.4	NA	0.0%	0.0%	NA			
Energizer Holdings	USD	28	2.0	EW	35	25%	9.0	8.4	8.1	4.1%	6.5%	4.1%	4.9%	18.1%	18.7%	18.9%	8.3	7.5	6.9	10.6	9.5	8.7	14.6	12.5	11.4	4.4%	4.5%	4.7%			
WW International	USD	5	0.4	EW	9	75%	5.0	4.5	4.2	6.0%	10.7%	7.9%	8.2%	27.6%	29.5%	31.9%	7.1	6.2	5.4	8.7	7.5	6.6	11.1	9.7	8.5	0.0%	0.0%	0.0%			
Church & Dwight	USD	84	20.9	UW	82	-3%	27.9	25.4	23.5	14.1%	9.9%	8.0%	10.6%	3.4%	3.8%	4.0%	17.9	16.2	15.0	21.8	19.5	17.8	28.4	25.3	23.1	1.2%	1.3%	1.4%			
Tupperware Brands	USD	11	0.5	NC	NC	NC	7.5	5.2	NA	-50.3%	42.4%	NM	NM	8.8%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0.0%	0.0%	NA			
Edgewell Personal care	USD	38	2.1	EW	40	4%	14.7	13.1	NA	1.1%	13.2%	NM	NM	4.6%	7.4%	NA	9.6	8.8	NA	13.3	11.9	NA	17.8	14.4	NA	1.6%	1.6%	NA			
Elf Beauty	USD	38	2.1	OW	42	10%	36.2	36.0	33.1	31.4%	12.9%	8.7%	17.3%	2.1%	2.8%	3.0%	21.8	21.4	19.4	28.6	25.2	21.7	53.5	45.3	37.6	0.0%	0.0%	0.0%			
MSCI World							15.7	14.8	13.8	10.9%	6.0%	7.8%	8.2%															2.2%	2.3%	2.5%	
ROW*			194.7				41.5	32.9	28.9	-1.3%	33.9%	13.9%	10.7%	1.9%	2.8%	3.3%	20.8	17.8	10.9	33.5	27.6	23.7	48.7	39.9	34.4	1.4%	1.6%	1.8%			
Hengan	HKD	37	5.6	EW	42	13%	14.7	11.9	11.2	-15.9%	22.8%	6.5%	3.2%	5.4%	7.5%	8.5%	10.0	8.6	7.8	12.8	10.9	9.8	18.2	15.6	14.0	4.1%	5.1%	5.4%			
Shiseido	JPY	5,107	14.6	NC	NC	NC	59.8	30.2	23.6	-8.3%	98.4%	27.7%	32.5%	1.8%	2.9%	3.3%	19.1	13.5	NA	NA	NA	NA	NA	NA	NA	1.9%	1.4%	1.5%			
Kao	JPY	6,001	20.4	NC	NC	NC	25.4	21.9	20.7	-12.3%	16.2%	5.7%	2.5%	3.2%	4.2%	4.4%	11.1	10.0	NA	NA	NA	NA	NA	NA	NA	2.5%	2.6%	2.7%			
Natura	BRL	15	4.0	EW	21	41%	35.1	12.8	9.8	-70.7%	175.4%	30.0%	1.7%	-4.5%	2.1%	6.9%	7.6	5.8	4.6	28.5	13.7	9.2	43.2	20.8	13.9	1.3%	0.0%	1.0%			
Hindustan Unilever	INR	2,604	77.1	EW	2,230	-14%	61.7	58.7	52.4	12.4%	13.3%	11.9%	12.5%	1.7%	2.0%	2.2%	43.1	40.7	36.4	47.1	44.4	39.5	71.3	67.2	59.8	1.3%	1.5%	1.7%			
KOSE	JPY	13,120	5.7	NC	NC	NC	46.1	35.2	29.3	15.2%	31.0%	20.2%	22.0%	1.0%	1.3%	5.4%	20.8	15.2	NA	NA	NA	NA	NA	NA	NA	1.1%	1.3%	1.4%			
Unicharm	JPY	4,727	21.0	NC	NC	NC	34.7	30.5	27.1	-4.2%	13.5%	12.5%	6.9%	2.6%	3.1%	3.5%	16.2	14.4	NA	NA	NA	NA	NA	NA	NA	0.8%	0.9%	1.0%			
Amorepacific	KRW	119,500	5.2	OW	200,000	67%	36.9	21.8	18.2	3.1%	69.0%	19.8%	27.8%	0.9%	4.1%	4.9%	12.0	8.9	7.5	22.2	13.7	10.8	29.3	18.1	14.2	0.8%	1.2%	1.4%			
LG Household & Health Care	KRW	691,000	8.0	OW	880,000	27%	21.2	13.7	12.7	-38.2%	54.7%	8.3%	1.2%	3.2%	6.8%	6.8%	9.5	6.7	5.9	11.7	7.9	6.9	15.4	10.4	9.2	1.7%	2.0%	2.3%			
Dabur	INR	571	12.7	EW	537	-6%	53.6	47.5	41.2	9.9%	16.5%	15.0%	13.8%	1.3%	1.9%	2.4%	43.0	37.9	32.7	48.8	42.7	36.6	73.5	64.3	55.2	1.0%	1.0%	1.1%			
Marico	INR	524	8.5	OW	605	16%	50.2	43.7	37.5	16.1%	17.8%	16.5%	16.8%	1.5%	2.1%	2.5%	35.7	31.2	26.9	38.9	33.9	29.1	58.9	51.4	44.1	1.7%	2.0%	2.3%			
Godrej Consumer Products	INR	916	11.8	OW	1,101	20%	47.6	42.3	35.3	11.7%	20.8%	19.5%	17.3%	1.6%	2.2%	2.6%	33.5	29.1	24.4	36.6	31.5	26.2	54.6	47.0	39.1	0.0%	0.5%	1.3%			
ROW			1,253.9				25.2	22.8	20.9	9.0%	11.7%	11.2%	9.0%	NA	NA	NA															

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley MUFG Securities Co., Ltd. and its affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Haruka Miyake.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflict/policies. A Portuguese version of the policy can be found at www.morganstanley.com.br

Important Regulatory Disclosures on Subject Companies

As of July 29, 2022, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Kirin Holdings, KOSE, Shiseido.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Ajinomoto, Kirin Holdings.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Ajinomoto, Asahi Group Holdings, Calbee, Kirin Holdings.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Ajinomoto, Asahi Group Holdings, Calbee, Japan Tobacco, Kao, Kikkoman, Kirin Holdings, KOSE, Shiseido, Suntory Beverage & Food, Unicharm, Yakult Honsha.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Ajinomoto, Asahi Group Holdings, Japan Tobacco, Kao, Kikkoman, Kirin Holdings, KOSE, Shiseido, Suntory Beverage & Food, Unicharm.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Asahi Group Holdings, Kao, Kirin Holdings.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues. Equity Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Morgan Stanley trades or may trade as principal in the debt securities (or in related derivatives) that are the subject of the debt research report.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover.

Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of August 31, 2022)

The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm.

For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1356	38%	304	41%	22%	596	39%
Equal-weight/Hold	1589	45%	349	47%	22%	716	47%
Not-Rated/Hold	0	0%	0	0%	0%	0	0%
Underweight/Sell	610	17%	90	12%	15%	225	15%
TOTAL	3,555		743			1537	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Important Disclosures for Morgan Stanley Smith Barney LLC & E*TRADE Securities LLC Customers

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at www.morganstanley.com/online/researchdisclosures. For Morgan Stanley specific disclosures, you may refer to www.morganstanley.com/researchdisclosures.

Each Morgan Stanley research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC and E*TRADE Securities LLC. This review and approval is conducted by the same person who reviews the research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley & Co. International PLC and its affiliates have a significant financial interest in the debt securities of Japan Tobacco.

Morgan Stanley Research policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. In addition, certain Research publications are intended to be updated on a regular periodic basis (weekly/monthly/quarterly/annual) and will ordinarily be updated with that frequency, unless the Research Analyst and Research Management determine that a different publication schedule is appropriate based on current conditions.

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock.

This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Matrix at

<http://www.morganstanley.com/matrix>.

Morgan Stanley Research is provided to our clients through our proprietary research portal on Matrix and also distributed electronically by Morgan Stanley to clients. Certain, but not all, Morgan Stanley Research products are also made available to clients through third-party vendors or redistributed to clients through alternate electronic means as a convenience. For access to all available Morgan Stanley Research, please contact your sales representative or go to Matrix at <http://www.morganstanley.com/matrix>.

Any access and/or use of Morgan Stanley Research is subject to Morgan Stanley's Terms of Use (<http://www.morganstanley.com/terms.html>). By accessing and/or using Morgan Stanley Research, you are indicating that you have read and agree to be bound by our Terms of Use (<http://www.morganstanley.com/terms.html>). In addition you consent to Morgan Stanley processing your personal data and using cookies in accordance with our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html), including for the purposes of setting your preferences and to collect readership data so that we can deliver better and more personalized service and products to you. To find out more information about how Morgan Stanley processes personal data, how we use cookies and how to reject cookies see our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html).

If you do not agree to our Terms of Use and/or if you do not wish to provide your consent to Morgan Stanley processing your personal data or using cookies please do not access our research.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

The "Important Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies.

For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is

not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil; and is regulated by the Comissão de Valores Mobiliários; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V which is regulated by Comisión Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Bank Asia Limited; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Bank Asia Limited, Singapore Branch (Registration number T14FC0118J); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany and the European Economic Area where required by Morgan Stanley Europe S.E., authorised and regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin) under the reference number 149169; in the US by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. RMB Morgan Stanley Proprietary Limited is a member of the JSE Limited and A2X (Pty) Ltd. RMB Morgan Stanley Proprietary Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited. The information in Morgan Stanley Research is being disseminated by Morgan Stanley Saudi Arabia, regulated by the Capital Market Authority in the Kingdom of Saudi Arabia, and is directed at Sophisticated investors only.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client. A distribution of the different MS Research ratings or recommendations, in percentage terms for Investments in each sector covered, is available upon request from your sales representative.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided exclusively to persons based on their risk and income preferences by the authorized firms. Comments and recommendations stated here are general in nature. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Indicators and trackers referenced in Morgan Stanley Research may not be used as, or treated as, a benchmark under Regulation EU 2016/1011, or any other similar framework.

The issuers and/or fixed income products recommended or discussed in certain fixed income research reports may not be continuously followed. Accordingly, investors should regard those fixed income research reports as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or individual fixed income products.

Morgan Stanley may hold, from time to time, material financial and commercial interests regarding the company subject to the Research report.

INDUSTRY COVERAGE: Food

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/05/2022)
Haruka Miyake		
Ajinomoto (2802.T)	E (07/26/2022)	¥3,812
Asahi Group Holdings (2502.T)	O (07/26/2022)	¥4,574
Calbee (2229.T)	U (07/26/2022)	¥2,728
Coca-Cola Bottlers Japan Holdings Inc. (2579.T)	U (07/26/2022)	¥1,381
Japan Tobacco (2914.T)	O (07/26/2022)	¥2,365
Kikkoman (2801.T)	U (07/26/2022)	¥8,590
Kirin Holdings (2503.T)	E (07/26/2022)	¥2,220
Suntory Beverage & Food (2587.T)	O (07/26/2022)	¥4,960
Yakult Honsha (2267.T)	E (07/26/2022)	¥8,050

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

INDUSTRY COVERAGE: Household & Personal Care Products

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/05/2022)
Haruka Miyake		
Kao (4452.T)	O (07/26/2022)	¥5,942
KOSE (4922.T)	E (07/26/2022)	¥13,030
Shiseido (4911.T)	E (07/26/2022)	¥5,079
Unicharm (8113.T)	O (07/26/2022)	¥4,665

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.