Profit from Shinzo Abe's governance reforms

A professional investor tells us where he'd put his money. This week: Joe Bauernfreund of the AVI Japan Opportunity Trust highlights three favourites

The recent assassination of former prime minister Shinzo Abe was a shocking tragedy, yet he leaves behind an important legacy. The trend of increased activism in Japan, due largely to Abe's resolve in pushing through corporate-governance reforms, continues to build momentum and offers increasingly fertile territory for active managers.

We look for high-quality firms that are under-researched and undervalued, where through our engagement we feel we can unlock significant value. We want to be constructive partners, sharing ideas with management on how to rectify the share-price undervaluation. In our view, low valuations, growing shareholder value and engagement are a powerful combination for generating high returns.

"Wacom is involved in big data, virtual reality and artificial intelligence"

Drawing strength from digital pens

With a market share of almost 60%, **Wacom (Tokyo: 6727)** is a global leader in digital pens and related computing devices. It is benefiting from the growing adoption of digital drawing and writing. Wacom's dominant position allows it to be at the forefront of technological innovation, developing solutions that utilise big data, artificial intelligence and virtual reality. Its leading technology is used in Samsung devices: the Galaxy S22 Ultra, launched at the start of 2022, boasts an embedded Wacom pen.

Investors underappreciate the growth potential of Wacom's technology, but we think that will soon change. We have built a good rapport with management and under the leadership of CEO Nobutaka Ide, Wacom has improved its communication with investors and grown its operating earnings by an annualised 39% since 2018.

A flavour-and-fragrance favourite

T Hasegawa (Tokyo: 4958) is a top-ten global flavour and fragrance (F&F) company. The investment merits of F&F companies are not lost on international investors, with the group's global peers trading on an average EV/Ebitda multiple of 22 compared with T Hasegawa's 11. T Hasegawa's comparatively low EV/Ebitda does not reflect the quality of the business and offers an attractive opportunity in a rapidly growing industry characterised by high customer retention, strong barriers to entry and pricing power.

T Hasegawa has responded positively to our suggestions, and we are excited about the changes under way. The firm has established a new overseas investor relations team and brought in dynamism and fresh perspectives with new appointments. Led by a Western-leaning president intent on changing the conservative managerial culture, T Hasegawa is set for bold new growth.

Cashing in on carrying chips

Shin-Etsu Polymer (Tokyo: 7970) is a listed subsidiary of Shin-Etsu Chemical. It focuses on PVC and silicone-rubber processing. Driven by successful price increases and strong volume growth in its division producing wafer carrier cases (used for storing semiconductor wafers), Shin-Etsu Polymer grew sales and operating profits by an annual 20% and 55% respectively over the last quarter, with a five-year annual operating-earnings growth rate of 12%. On an EV/EBIT ratio of just 5.7, the stock is a good opportunity to generate attractive returns from a high-quality, growing business – not to mention the prospect of a buyout by its parent company, Shin-Etsu Chemical.

If only you'd invested in...

Shares in **Yellow Cake (Aim: YCA)** have soared thanks to the rising price of uranium, says The Motley Fool. The company buys and holds physical uranium, which has appreciated as high oil and gas prices caused by the war in Ukraine have prompted a rise in demand for alternative fuels. Many countries are now restarting nuclear-energy programmes in an effort to divest from traditional energy sources. Yellowcake saw the value of its holdings rise by 203% in the year to 31 March 2022. The company also launched a $3m share buyback scheme in April. In the past year the shares have risen by 43%.

Be glad you didn't buy...

Online-clothing retailer **ASOS (LSE: ASC)** has just seen its share price hit a ten-year low, says Shares. According to The Sunday Times, ASOS privately told City analysts that annual profits will be at the lower end of the £20m-£60m range forecast in June (at that stage the City had pencilled in £92m). Inflation is raising costs and customers battling the cost-of-living crisis have cut back on spending. In addition to a series of profit warnings, ASOS has faced a Competition and Markets Authority (CMA) probe into complaints from suppliers over cancelled orders. The stock has fallen by 79% in 12 months.