JIN (3046 / 3046 JP)

INITIATION

"UNIQLO of eyewear retailing" in early stages of growth

Rating	**OUTPERFORM* [V]**
Price (22 Aug 12, ¥)	1,651
Target price (¥)	2,100[1]
Chg to TP (%)	27.2
Market cap. (¥ bn)	33.81 (US$ 0.43)
Enterprise value (¥ bn)	31.86
Number of shares (mn)	20.48
Free float (%)	28.8
52-week price range	1,850 - 519

**Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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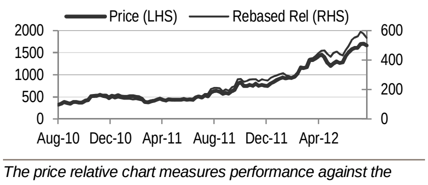
- **A growth stock that can be held for the long-term:** We initiate coverage on eyewear retailer JIN with an OUTPERFORM rating and ¥2,100 TP (+27% potential return).
- **Use of SPA model to identify new areas of demand:** JIN designs and sells eyewear combining fashion and functionality, employing a SPA business model and low-cost approach to store operations to achieve a price point far lower than rivals (estimated average price of ¥6,000 for FY8/12). JIN's core format is the J!NS chain. We see same-store sales growing roughly 30% in FY8/12, puncturing the idea that eyewear retailing is in decline. We expect JIN to end FY8/12 ranked third in value terms, but on level pegging with Megane Top (7541) on a volume basis. From FY8/13, the company plans to rapidly roll out new stores using the ¥5.3bn raised through a capital increase in early August. JIN also is taking a unique approach to corporate governance (management and personnel structures). At end-FY8/12 we expect JIN to have 162 domestic stores, which we see rising to 450–500 by FY8/16 (mostly inside shopping centers, where store-opening costs are limited to ¥30–40mn).
- **Catalysts/risks:** We anticipate share price gains on the back of earnings growth driven by higher same-store sales and new store rollout. Risk factors include supply disruptions caused by natural disasters, other companies emulating JIN's business model, and higher production costs in China.
- **Valuation:** We base our ¥2,100 TP on end-FY8/13E BPS and a 4.4x fair-value P/B referencing our longer-term ROE outlook (about 26%) and a 6% cost of capital.

Share price performance



The price relative chart measures performance against the TOPIX which closed at 762.73 on 22/08/12
On 22/08/12 the spot exchange rate was ¥79.29/US$1

Performance Over	1M	3M	12M
Absolute (%)	0.2	37.7	173.3
Relative (%)	-5.6	32.1	171.7

Financial and valuation metrics

Year	8/11A	8/12E	8/13E	8/14E
Revenue (¥ bn)	14.6	22.7	31.0	38.4
Operating profit (¥ bn)	1.1	2.7	4.7	6.3
Recurring profit (¥ bn)	1.1	2.6	4.6	6.2
Net income (¥ bn)	0.4	1.1	2.5	3.4
EPS (¥)	18.8	46.4	104.8	142.2
Change from previous EPS (%)	n.a.			
IBES Consensus EPS (¥)	n.a.	49.8	83.5	119.6
EPS growth (%)	65.1	147.6	125.9	35.6
P/E (x)	34.6	35.6	15.7	11.6
Dividend yield (%)	0.6	0.6	1.3	1.7
EV/EBITDA(x)	9.7	11.3	6.6	4.9
P/B (x)	5.2	4.4	3.5	2.8
ROE(%)	16.0	19.3	24.9	26.9
Net debt/equity (%)	50.8	net cash	net cash	net cash

Source: Company data, Thomson Reuters, IFIS, Credit Suisse estimates.

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"UNIQLO of eyewear retailing" in early stages of growth

Introduction: JIN a growth stock that can double as long-term holding

One of just a few retail stocks suited to long-term investing

We initiate coverage on eyewear retailer JIN with an OUTPERFORM rating and ¥2,100 TP (+27% potential return). Despite being a small-cap stock (it is listed on JASDAQ and has a market cap of ¥40bn and average daily trading turnover of less than ¥1bn), JIN is a rarity among Japanese retailers—namely, a growth stock in an industry where blue-chip stocks are increasingly hard to find. Before going into JIN's business model and earnings outlook, we will look at the company's highly appealing product lineup, which in our view underpins the company's strength.

Figure 1: **Air Frame MEN STREET (¥7,990, approx $100)**

Source: Company HP, Credit Suisse

Figure 2: **JINS PC for kids (¥3,990, approx $50)**

Source: Company HP, Credit Suisse

Figure 3: **JINS Golf (¥7,990, approx $100)**

Source: Company HP, Credit Suisse

Figure 4: **JINS Pollen Cut (¥3,990, approx $50)**

Source: Company HP, Credit Suisse

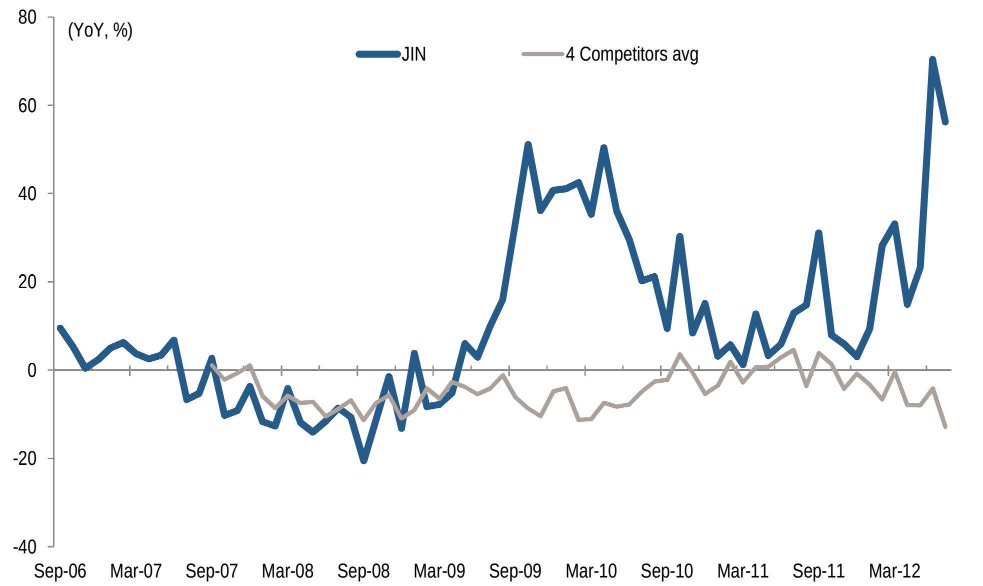
Eyewear offerings inexpensive yet highly innovative

The eyeglasses displayed above represent a mere fraction of JIN's lineup of roughly 1,200 items. With the eyeglasses shown in Figures 3 and 4, prescription lenses cost an additional ¥12,000 and ¥4,990, respectively. However the vast majority of JIN's eyeglasses (those without special functions, such as the item depicted in Figure 1) have all-inclusive pricing covering both prescription lenses and case. Figure 1 shows an item in the flagship Air Frame series of lightweight eyewear, first released in September 2009. This product line was instrumental in restoring the company's fortunes, which had been dwindling through FY8/08. Figure 2 shows a pair of children's eyeglasses, launched in May 2012 with special lenses protecting wearers from the blue light emitted by PC and smartphone displays. This product was originally developed for adults; the PC line first came out in September 2011 and also features lightweight frames. The item in Figure 3 is a pair of eyeglasses specifically designed for golfers. Launched in July 2011, the Golf line aids wearers in correctly judging slope variations. The eyeglasses in Figure 4, meanwhile, came out in January 2012 and protect the wearer from foreign substances like pollen.

Same-store sales growth far outstrips that of rivals

JIN's flagship product is the Air Frame series employing TR-90, a specialty resin from Switzerland's EMS-Grivory. After many modifications, the lightest item in the Air Frame line weighs a mere 10g. Since launching the Air Frame series, JIN has made continuous innovations aimed at differentiating its product from those of competitors, including the PC series offering protection from blue light. In July 2012 JIN began selling PC series eyeglasses without prescription through vending machines located in some shopping centers. It is also building up a wholesale business focusing on corporate clients, one of which is Microsoft Japan. With Kanjiro Masuda, Professor Emeritus at the University of Tokyo, in a supervisory role, JIN also enlisted the cooperation of medical research company M3 and five ophthalmologists from around Japan to study the efficacy of PC series eyeglasses in improving the symptoms of so-called "VDT syndrome" (eye fatigue caused by long hours in front of PC and other monitors). As is evident from the launch schedule for these headline products (which has been gaining momentum since 2011), JIN's highly innovative approach to product development is yielding results at an ever-accelerating rate, generating astounding growth in same-store sales in 2H FY8/12 (Figure 5).

Figure 5: **Same-store sales growth trend**



Note: 4 competitors include Megane Top, Paris Miki HD, Aigan, Megane Super
Source: Company data, Credit Suisse

Finally, an eyewear retailer that truly eclipses the rest

At end-FY8/12 we expect JIN to have 162 domestic stores, which we expect to increase to 450–500 by FY8/16. We expect most to be inside shopping centers, where store-opening costs are limited to ¥30–40mn. Founder and president Hitoshi Tanaka has put it on record that JIN plans to build a network of 500 stores (both domestic and overseas) by FY8/16. Whether or not the China business (currently seven stores) succeeds remains to be seen. Based purely on growth prospects for the domestic business, however, we see potential for the share price to advance to ¥3,000–4,000 over the longer term, driven by an increase in sales to around ¥60bn and OP to ¥9bn–10bn. Outlined next in this report, JIN's business model puts the company on a completely different footing to the discount chains that previously took the eyewear sector by storm. In our view, this marks the emergence at long last of an eyewear retailer that truly eclipses the rest. We base our ¥2,100 TP on end-FY8/13E BPS and a 4.4x fair-value P/B referencing our longer-term ROE outlook (about 26%) and a 6% cost of capital. The implied P/E on FY3/13E EPS is 20x, but we consider this premium justified given the outlook for rapid growth in earnings.

Business model: combination of SPA model and low-cost approach to store operations

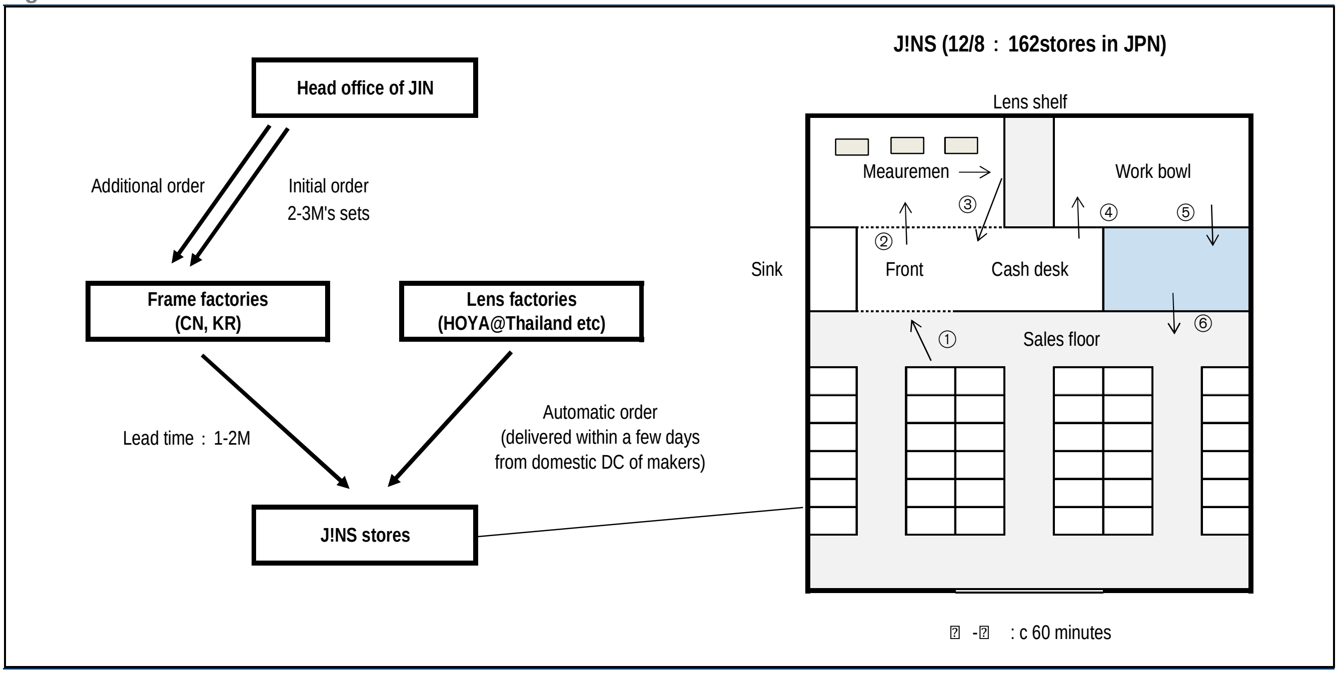
Business model sets JIN apart from rivals

If asked to highlight three of JIN's strengths, we would say: (1) SPA-style procurement, (2) commitment to low-cost store operations, and (3) outstanding product development. As we introduced some of JIN's eyewear offerings earlier in this report, we will devote no further space to (3). Instead, we outline below the company's unique approach to manufacturing (1) and sales (2).

Supply chain resembles UNIQLO's

From a procurement perspective, JIN's most distinguishing feature in our view is its limited roster of suppliers. As all of JIN's 1,200 products are sold under the company's own brand, lenses are procured from just three companies: 40% are supplied by Hoya (7741) subsidiary Holt Japan, with the remainder purchased from a company in China and another in Korea. Until FY8/11 the company mainly sourced its lenses from a single manufacturer, Holt Japan, but after the floods in Thailand it added two more suppliers with a view to spreading risk. Frame production is contracted out, mainly to five companies (five plants) in China. Frame design takes place internally, and the company receives volume discounts from manufacturers in appreciation of the sheer scale of orders placed for each item. Generally, JIN orders sufficient supplies for two to three months, only lodging additional orders once it has confirmed the product's consumer appeal (the lead time is two to three months). With lenses, on the other hand, the company avoids inventory risk through an automatic ordering system linking it with suppliers' distribution centers (lens stocks are replenished within two to three days). This ensures that store inventories never run out, and enables same-day delivery to customers. To our knowledge, JIN is the only eyewear retailer in Japan with a business model encompassing the entire length of the supply chain.

Figure 6: **Business model of JIN**



Source: Credit Suisse

Store design minimizes waste

The diagram at right in Figure 6 shows the typical layout for a J!NS store (about 100m^2), and illustrates the progression from eye examination to assembly and handover. Customers select eyewear from compartmentalized cases (Figure 7). They present these at the reception counter before entering the optometrist's eye examination room. If the customer already has a valid prescription, or wishes to buy non-prescription eyeglasses, the eye check can be bypassed. The next step is payment, and from that point it is only about 30 minutes until the frame and lenses are assembled. Thus even if there is a few minutes' wait for the eye examination, a customer looking to buy prescription eyewear can usually expect to take possession of the glasses within around 60 minutes of making a selection. Stores are also designed in such a way as to minimize movement by staff, whose productivity accordingly is much higher than at rivals (Figure 12).

Figure 7: Store fixture (Sunglasses specialty store "spectre J!NS Roppongi Hills"

[spectre JINS 六本木ヒルズ店]

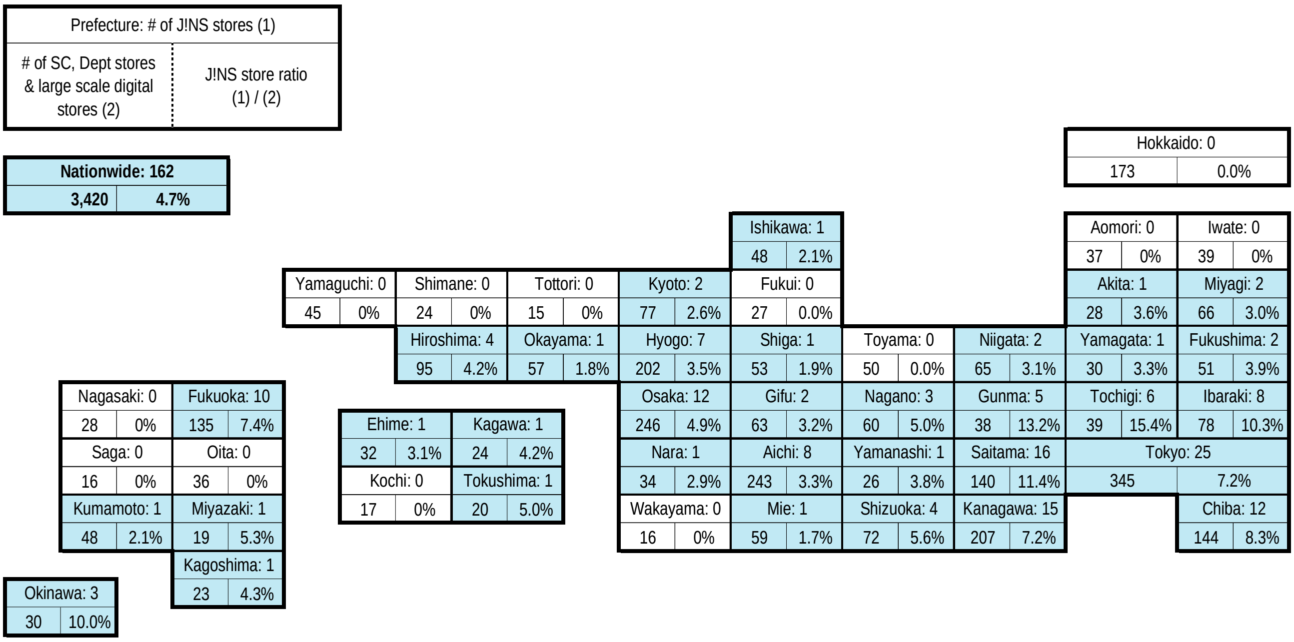
Source: Company HP, Credit Suisse

Store openings and outlook: Plans to triple number of stores in five years

Almost limitless potential for store openings

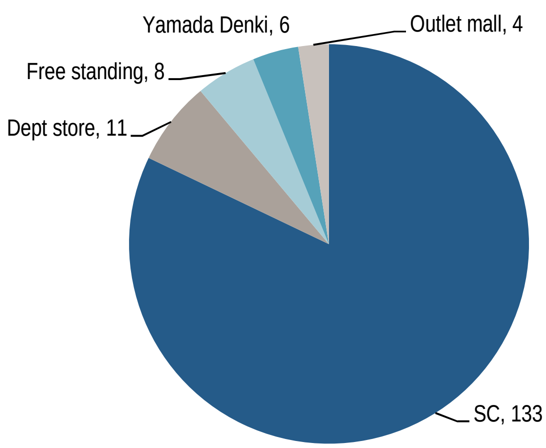
Figure 8 gives a breakdown of J!NS domestic stores by prefecture. The top box shows the current number of stores in each prefecture (as of August 2012), while the bottom left box gives the total number of shopping centers (3,090 nationwide), department stores (260) and major electronics retail stores (70) in each prefecture. J!NS stores are mainly located in those three types of retail facilities. The company's current target is to build a chain of 500 stores by FY8/16. We believe it could maintain a steady pace of store network expansion after FY8/16, assuming no significant growth in the size of trading area per store (which would nevertheless support a large improvement in store operating efficiency).

Figure 8: Number of stores by region (as of mid-August 2012)



Source: Company HP, Credit Suisse

Figure 9: Number of stores by location (as of mid-August 2012)



Source: Company HP, Credit Suisse

J!NS stores coveted by shopping center developers

Figure 9 gives a breakdown of current J!NS store locations. JIN only has six stores in electronics retailers, with all of them located inside Yamada Denki (9831) stores. We see this is a strong vote of confidence in JIN by Yamada Denki, which is generally renowned for its go-it-alone approach. Around 82% of J!NS domestic stores (133 out of a total of 162) are located in shopping centers. As mentioned above, we expect leading developers of shopping centers to ask JIN to open stores in their facilities, not just in regions where J!NS still lacks a presence.

Seven stores in China

JIN set up a wholly owned subsidiary in China in December 2011 and now has seven stores in the Chinese market. Of those seven, three are located in large Yamada Denki outlets (Yamada Denki only has three stores in China at present). JIN opened its first Chinese store in the Yamada Denki Shenyang store, which started business in December

2010, followed by four more in major shopping centers and other locations. JIN has not disclosed clear longer term targets for the Chinese market, but we view these stores as a positive first step to underpin future growth.

New wholesale business targeting eye clinics and drug stores

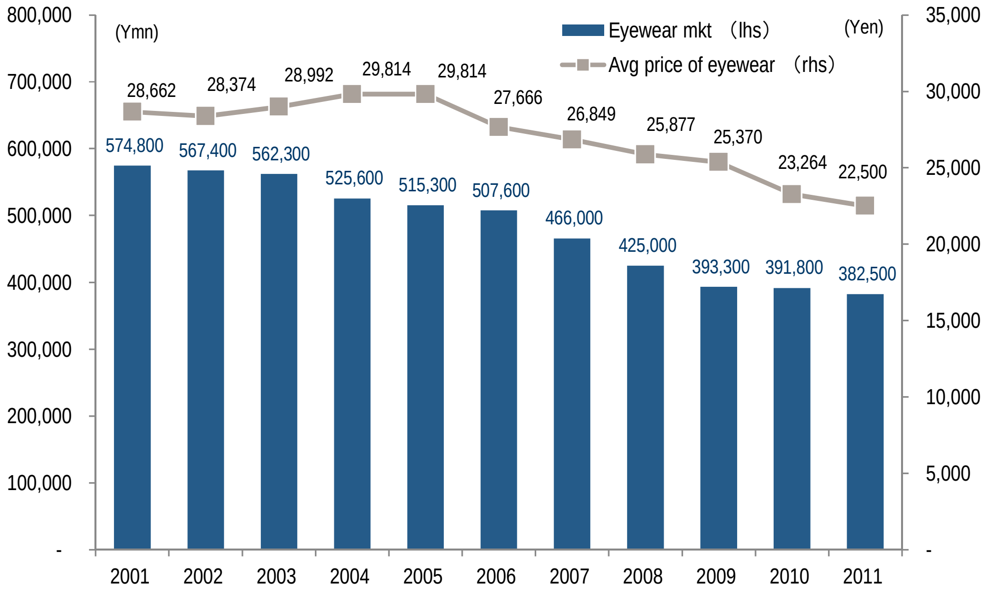
JIN launched a new wholesale business in FY8/12. This business mainly sells specialist glasses. such as products for PC users and glasses that help combat hay fever, to non-retail clients like eye clinics and drug stores. JIN has already concluded supply contracts with a large number of eye clinics. The potential for this business hinges on how many supply contracts it can sign with drug store chains ahead of next spring's hay fever season.

Sector trends: A breath of fresh air for the declining glasses retail sector

JIN's business vision is to revitalize the glasses market

The market for glasses in Japan has been shrinking due to falling unit prices, growing demand for contact lenses and wider use of corrective eye surgery (Figure 10). Against this backdrop, JIN's approach has been to generate new demand, rather than simply fight for a share of a slowing shrinking market. Specifically, it has sought to attract customers by reviving the image of glasses as a fashion item (targeting young people who wear glasses only for the look) and by selling models with specific functions. Japan's glasses market is currently worth just under ¥400bn and total demand is equivalent to 60–70mn people. However, JIN president Hitoshi Tanaka is aiming to grow the market to more than ¥1tn and 120mn people (equivalent to the total population of Japan) over the longer term.

Figure 10: **Glasses retailer market**



Source: Company data, Credit Suisse

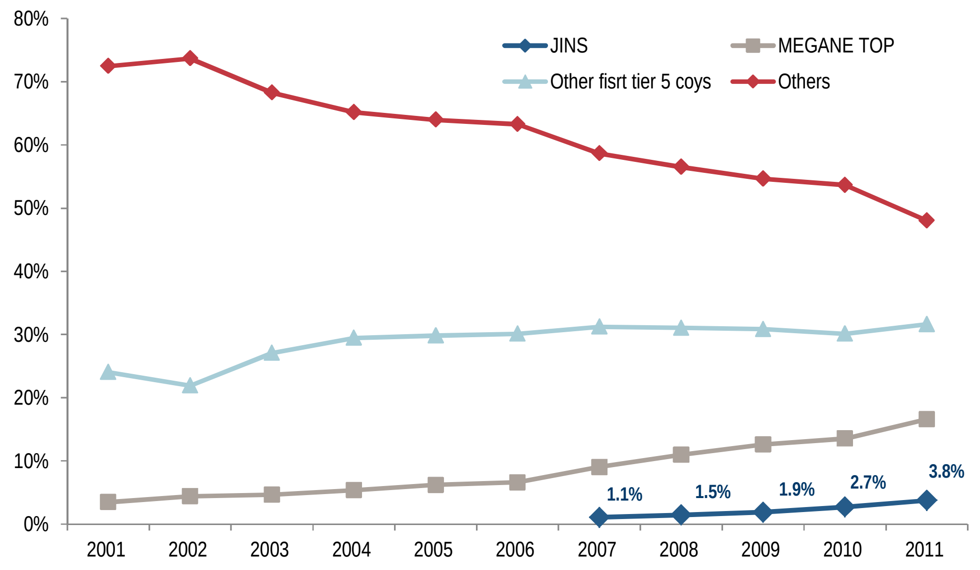
Retail market for glasses remains fragmented

The glasses retail market in Japan saw a period when low-cost formats held sway, but their reign was short-lived, and consolidation in the market has been slow to take off. Low-cost chains enjoyed success by developing competitively priced products using parts imported from overseas. However, product sourcing and operating cost control at these companies was no match for the levels JIN is achieving today, and although some of these companies did well in urban markets where customer traffic was high, none of them managed to build a nationwide chain. As a result, the Japanese glasses market is characterized by a large number of retail chains, and we see almost limitless potential for JIN to expand its market share from the current 4% (monetary basis, as of FY8/11) (Figure 11).

The battle to stay competitive is already under way. As Figure 12 shows, three major listed retail chains that are ahead of JIN on sales (FY8/11 for JIN versus FY11 for others) reported operating losses in FY11. Meganesuper (3318), the third-ranked company by market share in FY11, has started restructuring its business after accepting capital and management support from a private fund called Advantage Partners in December 2011.

Competition is intensifying

Figure 11: **Market share trend of major glasses retailers**



Note: Other first tier 5 coys include Paris Miki HD, Megane Super, Aigan, Tanaka Chain, Kikuchi Megane
Source: Company data, Credit Suisse estimates

JIN's strengths are its highly competitive pricing and much higher rate of repeat business (trending at around 80%) compared with rivals. We estimate repeat business at other companies is around 40–60%, so we think JIN is gradually winning market share from other low-cost glasses retailers (which add on lenses to the final price, making their products more than double the retail price of JIN's).

JIN comfortably leads rivals in repeat business

Comparison with peers: high productivity, large marketing outlays

Figure 12 compares the key business indicators of JIN with those of the four listed eyewear retailers. As JIN's fiscal year ends in August, the figure shows the company's data for 2H FY8/11 and 1H FY8/12 combined into a 12-month period that is roughly comparable with the fiscal periods of the other companies.

Comparing JIN with its competitors

In addition to achieving much stronger sales growth than peers, JIN has held average pricing down to one-third that of its rivals, and we see this as its greatest strength. JIN and Megane Top are both well ahead of the rest of the industry for sales per employee. However, when factoring in differences in average prices, JIN stands out for productivity per man-hour on a volume basis. Although JIN's stores are almost entirely staffed by full-time employees, high productivity and a young average employee age have ensured a much lower ratio of personnel costs to sales than at competitors. Leveraging this advantage, JIN has opened stores in favorable locations (such as popular shopping-malls) where it is easy to attract customers, and has effectively invested in aggressive marketing campaigns, with around 10% of sales spent on advertising. This in turn has led to a virtuous cycle of sales and profit growth. As mentioned above, JIN applies the specialty-store retailer of private-label apparel (SPA) business model, enabling it to achieve the highest GPM in the industry, despite setting prices at very low levels. In our view, it will not be long before JIN overtakes the top chains in terms of OP margin too.

High productivity per man-hour, ample spending on marketing

Figure 12: **Key indicators of major glasses retailers**

(Consolidated)		JIN FY11/8	MEGANE TOP FY12/3	MEGANE SUPER FY12/4	Miki HD FY12/3	Aigan FY12/3
Sales	(Ymn)	17,311	63,455	19,174	59,547	17,914
YoY	-	40.1%	19.6%	-14.7%	-1.0%	-5.9%
# of stores (FY avg)	(Stores)	141	536	380	814	288
Sales / store	(Ymn)	123	109	50	69.3	196
Avg price	(JPY)	C6,000	c17,000	c21,000	c27,000	c16,000
Total sloor space (FY avg, RC)	(㎡)	14,434	71,469	32,859	c100,000	38,393
Sales floor / store	(㎡)	102	124	86	124.0	133
Sales / Sq.m	(Y,000)	1,199	815	584	c460	467
# of employee (FY avg)	-	1,123	3,511	1,544	5788	3,033
Avg yrs old	(Yrs old)	27.5	34.1	37.5	43.1	39.8
Part timer ratio	-	2.4%	48.6%	20.0%	28.7%	0.1
Sales / capita	(Ymn)	15.4	16.6	12.4	10.3	5.9
Gross profit	(Ymn)	12,940	43,442	12,768	34,795	12,163
Gross margin	-	74.8%	68.5%	66.6%	58.4%	67.9%
SG&A	(Ymn)	11,185	34,612	14,058	39910	12771
to sales	-	64.6%	54.5%	73.3%	67.0%	71.3%
Labot	-	21.3%	25.7%	26.9%	33.5%	27.6%
Advertisement	-	10.0%	6.4%	5.4%	6.9%	na
Rent	-	13.1%	9.0%	21.3%	16.4%	16.0%
Depreciation	-	3.4%	1.8%	1.5%	2.2%	2.5%
Other cost	-	16.8%	11.6%	18.2%	8.0%	na
Operating Profit	(Ymn)	1,755	8,830	(1,289)	(114)	(607)
OP Margin	-	10.1%	13.9%	-6.7%	-0.2%	-3.4%

Note: The figure for JIN shows its data for 2H FY8/11 and 1H FY8/12 combined into a 12-month period that is roughly comparable with the fiscal periods of the other companies.

Source: Company data, company hearings, Credit Suisse estimates

Eyewear retailers typically run high margin/low turnover businesses (the reverse of the low margin/high turnover business model)

Figure 13 shows how companies compare in terms of GPM multiplied by inventory turnover ratio. Clearly, the closer a company is to the top right of the graph, the better the condition of its business. Eyewear retailers tend to have low inventory turnovers but high GPM, with business models based on a careful balancing of corporate finances. Hence, a slump in sales can make a large dent in profits, and even though merchandise does not become obsolete quickly, a build-up of unneeded inventory has an inevitably negative impact on cash flow.

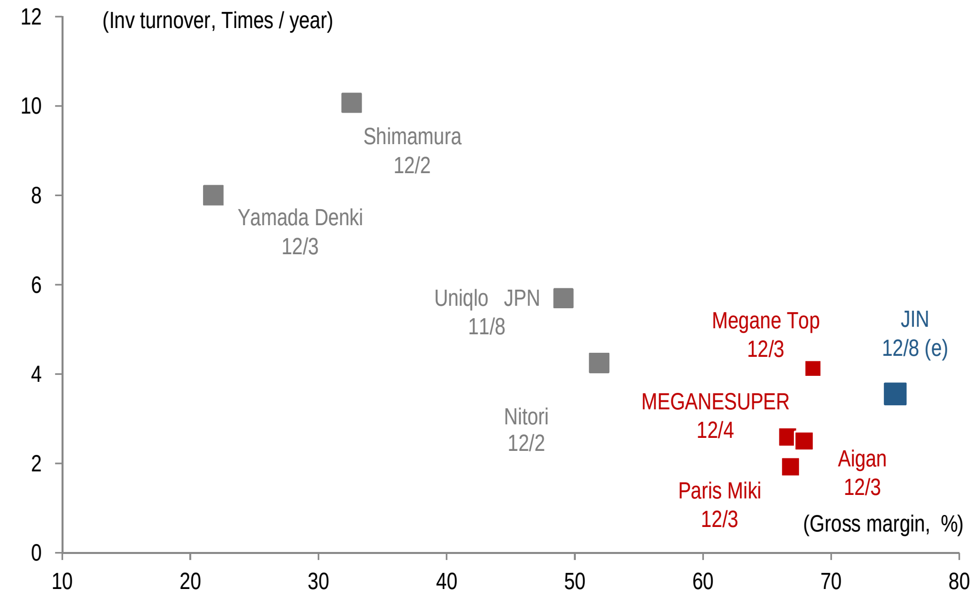
JIN and Megane Top lead the industry, but JIN has the edge in terms of differentiation

JIN's GPM-inventory turnover ratio is roughly 270%, as high as that for Megane Top, a suburban chain that ranks top in the eyewear industry. This ratio is above the 150–200% tolerated by other peers. In typical large specialty stores, where margins are lower and turnover higher than at eyewear retailers, GMP-inventory turnover ratios are 200–300%. This suggests that JIN's business model already ranks in top position, from the standpoint of margins and inventory control. Hereon, we expect JIN and Megane Top to dominate the eyewear industry and continue securing greater market shares. JIN mainly operates leased stores in commercial facilities and targets mostly customers in their 20s and 30s. In contrast, Megane Top focuses on roadside stores in suburban areas aimed at middle-aged and elderly customers. We believe JIN can fend off challenges from other chains and is likely to see continued profit growth, given its business model, management strategy, development expertise, and product differentiation based on price. Talk of low-cost formats may bring to mind Zoff, an eyewear chain that previously took Japan by storm. Zoff’s frames may be cheap, however customers must pay extra for the thin aspherical lenses offered as a matter of course by J!NS. In real terms, Zoff therefore is considerably more expensive than J!NS. Zoff also has far fewer people accessing its Facebook page (a quarter of JIN's Facebook views), and its FY11 sales were just ¥10.5bn (+14% YoY).

Collaborative collections also successful

In terms of marketing strategy, JIN has also had great success with collections resulting from creative tie-ups with other (non-eyewear) companies. Recent hits include eyeglasses based on the popular animation series One Piece, and tie-ups with women's clothing store earth music & ecology, and major internet retailer ZOZOTOWN. JIN also brought out a line of children's eyeglasses based on the Pokemon media franchise. In this manner, too, JIN resembles apparel giant Uniqlo.

Figure 13: **GPM-inventory turnover ratio –achieving almost the same level as Uniqlo**



Source: Company data, Credit Suisse

Financial position: positive FCF unlikely soon, given accelerated store openings

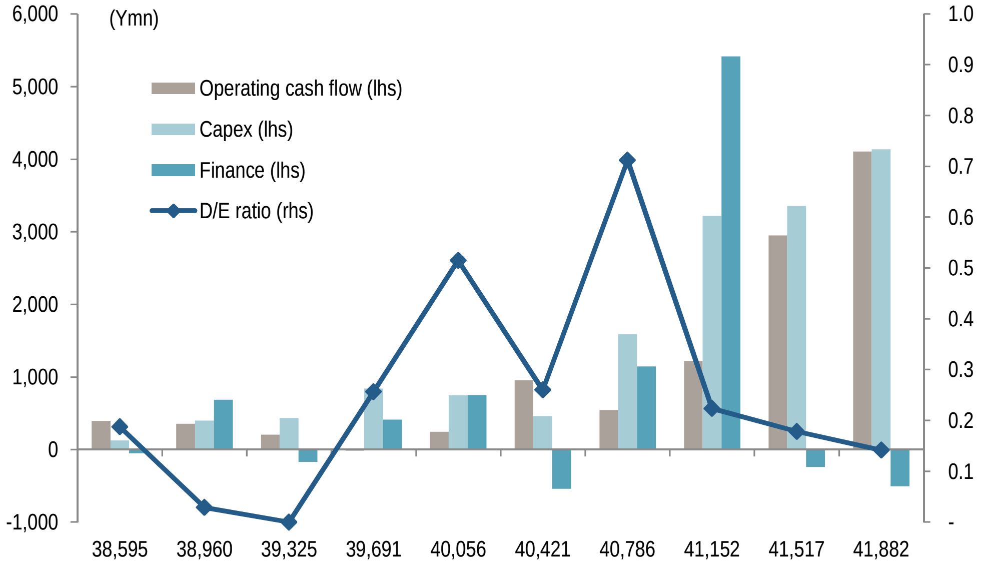
Spending on store openings likely to mean no free cash flow for 2–3 years

Opening tenant stores in shopping centers should hold down store opening costs to ¥30–40mn. However, new stores require new inventory, and we believe that JIN, which currently operates only 162 stores, will be unable to generate free cash flow in the near future, if it continues to open 50–60 stores per year. That said, funds from a capital increase (roughly ¥5.3bn) that were fully paid-in in early August could be used to cover investment costs over the next two to three years (i.e., pay for capex when operating cash flow is insufficient). Management expects free cash flow to turn positive from FY8/15.

D/E ratio likely to improve to 0.2x due to capital increase in August.

Although the company's D/E ratio was relatively high at 0.7x until FY8/11, we expect it to drop sharply to around 0.2x, owing to the capital increase mentioned above. Management is targeting a payout ratio of roughly 20%, and we regard this as anything but low, given that the company is a specialty retailer undergoing a rapid growth phase (retailers such as Fast Retailing, Nitori and Shimamura have payout ratios of 10–30%).

Figure 14: **Operating cash flow and D/E ratio**



Source: Company data, Credit Suisse

Earnings trends: poised for sharp growth in FY8/13

FY8/12 guidance raised in July

JIN raised FY8/12 guidance in July, and we do not expect major surprises at the full-year results announcement scheduled for early October. Although current sales trends appear to suggest scope for another upward revision, we note that the company incurred marketing costs associated with its PC product line in Jun–Jul, and therefore anticipate earnings to largely finish in line with July guidance.

Forecasting 77% YoY increase in FY3/18 OP to ¥4.7bn

We see consolidated OP rising a sharp 77% YoY to ¥4.7bn driven by same-store sales growth (our estimate: +10%) and an aggressive strategy for rolling out new stores. The pace of same-store sales growth picked up from 2H FY8/12 (Mar–Aug 2012) and we expect a carryover effect to kick in from FY8/13. We therefore see ample scope for same-store sales growth to outpace our current forecast of +10%. However, as JIN's start-of-year guidance typically assumes conservative same-store sales growth, we doubt the company's projection will match our bullish figure. If it issues a conservative target that prompts investors to sell the stock and lock in profits, we would consider this a unique opportunity to accumulate the shares.

We expect JIN to add 50–60 new stores annually in FY8/14 and subsequent years, which should support steady expansion in earnings. Figure 15 shows the various assumptions behind our forecasts.

Figure 15: Earnings forecast assumptions

(Ymn)	FY06/8	FY07/8	FY08/8	FY09/8	FY10/8	FY11/8	FY12/8 CS e	FY13/8 CS e	FY14/8 CS e	FY12/8 Co. e
Sales	3,940	5,102	6,222	7,434	10,604	14,575	22,700	31,000	38,400	22,500
yoy	36.6%	29.5%	22.0%	19.5%	42.6%	37.4%	55.7%	36.6%	23.9%	54.4%
Total floor space (,000 sqm)	10.1	12.3	13.1	15.8	20.2	25.6	32.5	40.5	49.9	-
yoy	59.7%	21.4%	6.8%	20.1%	27.9%	26.8%	27.0%	24.7%	23.2%	-
J!NS sales	2,699	3,839	4,772	6,005	8,977	12,667	20,600	28,790	35,831	-
# of J!NS store	21	33	52	64	75	116	162	218	288	160
ESS growth rate of J!NS store	na	2.2%	-5.6%	-1.9%	35.5%	10.0%	31.0%	10.0%	3.0%	28.9%
On line sales	-	-	12	128	147	497	700	1,000	1,400	-
Other format store sales	1,240	1,261	1,436	1,298	1,478	1,410	1,400	1,210	1,169	-
Gross Profit	2,610	3,519	4,395	5,333	7,522	10,688	16,980	23,374	29,069	-
Gross Margin	66.2%	69.0%	70.6%	71.7%	70.9%	73.3%	74.8%	75.4%	75.7%	-
GPM of J!NS	na	na	na	75.2%	73.4%	75.2%	76.0%	76.2%	76.3%	-
GPM of other format stores	na	na	na	55.3%	55.5%	56.1%	56.0%	55.0%	55.0%	-
SG&A	1,920	2,839	4,172	5,189	6,901	9,605	14,330	18,674	22,769	-
yoy	52.4%	47.9%	46.9%	24.4%	33.0%	39.2%	49.2%	30.3%	21.9%	-
% to sales	48.7%	55.6%	67.0%	69.8%	65.1%	65.9%	63.1%	60.2%	59.3%	-
Labor	921	1,327	1,765	2,017	2,359	3,225	4,427	5,862	7,424	-
# of full time employee	297	433	515	577	796	1,096	1,496	1,974	2,494	-
# of part time employee	4	6	37	51	31	27	29	30	32	-
Advertisement expense	59	81	105	187	1,005	1,435	2,901	3,255	3,840	-
Rent	369	571	973	1,278	1,507	1,957	2,700	3,324	4,060	-
Depreciation	72	107	182	261	275	458	680	1,092	1,595	-
Leasing cost	76	140	236	259	257	276	290	300	310	-
Outsourcing fee	-	-	307	298	409	640	953	1,271	1,536	-
Supplies expense	-	-	-	209	289	466	678	842	1,048	-
Others	418	578	561	636	754	1,094	1,701	2,728	2,956	-
Operating Profit	690	680	223	144	620	1,084	2,650	4,700	6,300	2,600
yoy	19.0%	-1.5%	-67.2%	-35.4%	330.4%	74.7%	144.6%	77.4%	34.0%	139.9%
Margin	17.5%	13.3%	3.6%	1.9%	5.9%	7.4%	11.7%	15.2%	16.4%	11.6%

Source: Company data, Credit Suisse estimates

Catalysts and risk factors

Catalysts: sustained growth and enhanced liquidity

We anticipate share price gains in the event sharp growth in same-store sales continues in 1H FY8/13, coupling with new store rollout to generate earnings improvement. Also, JIN had just 996 shareholders as at end-February 2012. As a means of enhancing liquidity, the company may consider lowering the minimum trading lot from 1,000 shares to 100. This would likely have a positive impact on the share price, as it should attract more individual investors, most of whom are from the younger demographic that favors JIN eyeglasses.

Risks: natural disasters and sharply higher production costs

In our view the main risk factors for JIN are: (1) natural disasters like last year's Thai floods, which could cause supply bottlenecks; (2) other companies emulating JIN's business model (although this would be extremely difficult, we think); (3) sharply higher production costs at contract manufacturers in China and elsewhere (such increases are currently offset by economies of scale, but would likely have minimal impact in any case, due to eyeglasses' low COGS); (4) JIN's store network being unable to meet a nationwide spike in demand, causing earnings to deteriorate and shaking investors' faith; (5) trouble training sufficient staff to keep pace with new store rollout; and (6) yen depreciation versus the US dollar, we estimate ¥1 decline would depress OP by about 1% (supplies from China and Korea are USD-denominated).

Valuation

TP based on 4.4x fair-value P/B, for implied P/E of 20x

We base our ¥2,100 TP on end-FY8/13E BPS and a 4.4x fair-value P/B referencing our longer-term ROE outlook (about 26%) and a 6% cost of capital. The implied P/E is about 20x FY8/13E EPS. These valuations are higher than average for Japan's retail sector, but are not unreasonable in our view, given JIN's medium- to long-term growth prospects. As outlined earlier, though, JIN's strategy of heavy spending on store openings is likely to mean no free cash flow for 2–3 years. Value-oriented institutional investors could therefore find limited appeal in JIN from the standpoint of cash flow-based valuation metrics (DCF, free cash flow yield). We also think it more than likely that JIN's initial guidance for FY8/13 will be lower than our forecast. When FY8/12 results are announced in early October investors may therefore form the impression that ROE will remain below the levels we are projecting. In our view this would present an ideal opportunity to accumulate JIN shares.

Reference: HOLT analysis

Our HOLT valuation model yields a theoretical share price of ¥2,400, assuming sales continue growing at 10–20% per annum over the medium to long term.

Figure 16: HOLT valuation

HOLT - Credit Suisse Analyst Scenario Data

JIN CO., LTD.(C) (3046) Powered by HOLT™

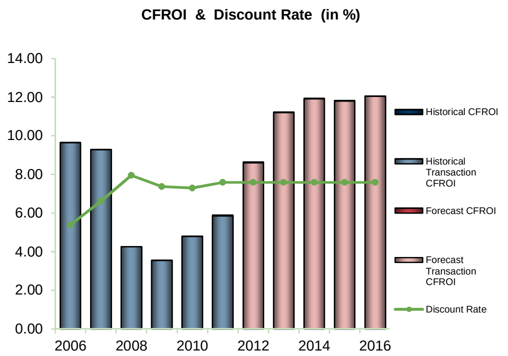
Current Price: JPY 1651.00 Warranted Price: JPY 2397.68 Valuation date: 22-Aug-12

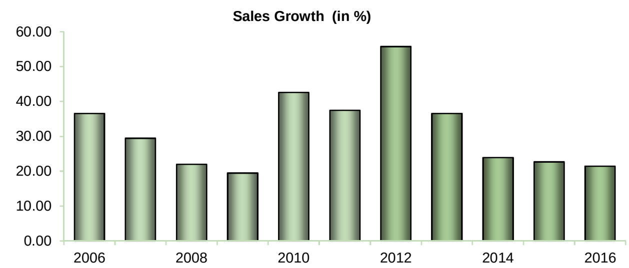
Sales Growth (parallel % point change to forecasts)

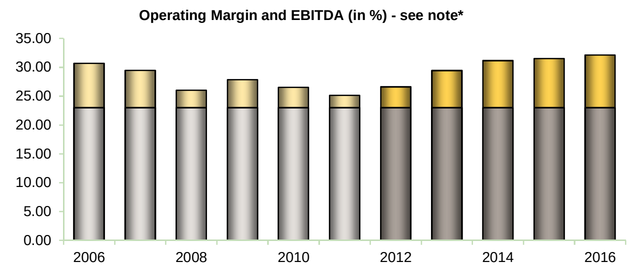
EBITDA Margin (parallel % point change to forecasts)	-2.0%	-1.0%	0.0%	1.0%	2.0%
-2.0%	-11%	0%	13%	27%	42%
-1.0%	4%	15%	29%	44%	61%
0.0%	18%	31%	45%	61%	79%
1.0%	32%	46%	61%	78%	97%
2.0%	46%	61%	77%	96%	115%

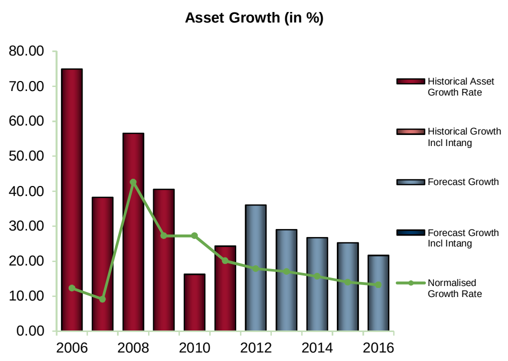
More than 10% downside | Within 10% | More than 10% upside

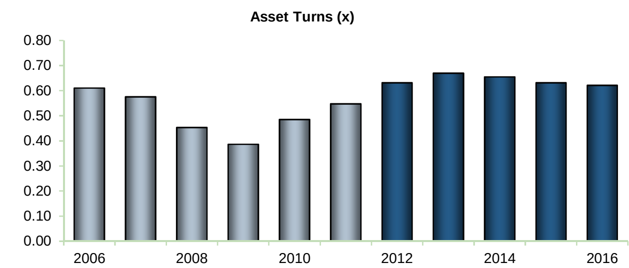
	Aug-10A	Aug-11A	Aug-12E	Aug-13E	Aug-14E
Sales Growth, %	42.6	37.4	55.7	36.6	23.9
EBITDA Mgn, %	8.4	10.4	14.7	18.7	20.6
Asset Turns, x	0.49	0.55	0.63	0.67	0.65
CFROI®, %	4.8	5.9	8.6	11.2	11.9
Disc Rate, %	7.3	7.6	7.6	7.6	7.6
Asset Grth, %	16.2	24.3	36.1	29.0	26.7
Value/Cost, x	1.4	1.5	1.8	1.5	1.3
Economic PE, x	29.3	25.9	20.6	13.6	11.1
Leverage, %	59.5	58.0	35.8	40.3	44.8











Source: Credit Suisse HOLT®. CFROI, HOLT, and ValueSearch are trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.
* Operating margin (yellow) is EBITDA (grey) plus rental expense and R&D expense

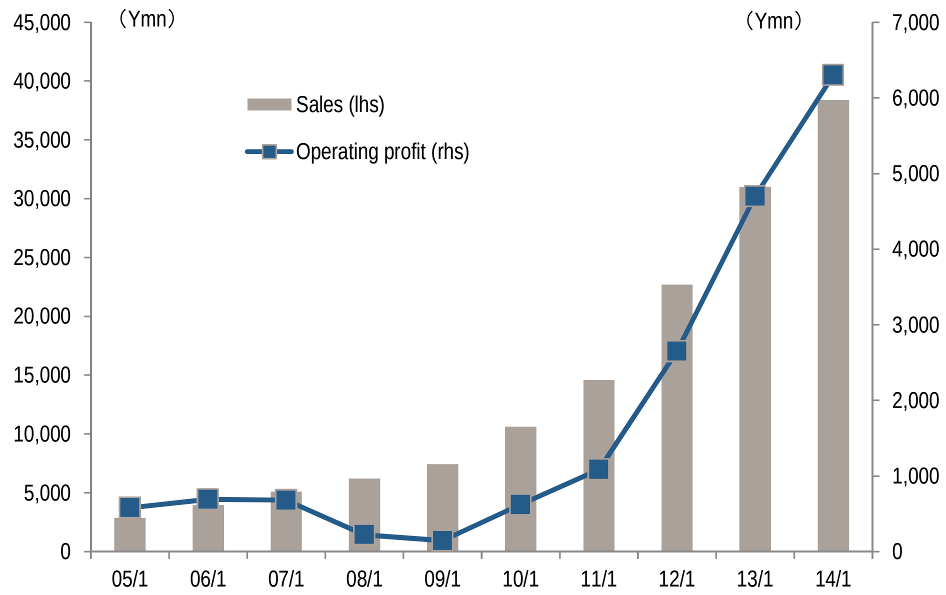
Source: Company data, Credit Suisse estimates

Company profile: progressive corporate governance structure

Corporate history

JIN was founded as a limited liability company in 1988 by Hitoshi Tanaka (a native of Maebashi, Gunma Prefecture; 49 years of age as of August 2012) who has served as CEO since. JIN originally sold clothing accessories. After transferring its manufacturing operations overseas in 1999, the company started launching its distinctive J!NS stores from 2001. In August 2006, the company's shares were listed on the JASDAQ. Earnings suffered a downturn in FY8/08–09 but subsequently embarked on a growth trajectory supported by management reforms initiated in FY8/09 and the hit product line Air Frame.

Figure 17: **Sales and operating profits trend**



Source: Company data, Credit Suisse estimates

Management structure

The company is led by a small group of highly capable individuals, with the board consisting of only three members: president and CEO Hitoshi Tanaka, senior managing director Yutaka Nakamura, and external director Noboru Kotani. In addition, the management team also includes three managing officers (all of whom are close to or in their forties). Although the company does not have a compliance committee, it has established clear internal ethical guidelines. There is no remuneration committee, but FY8/11 financial statements disclosed ¥62bn in compensation for two board members. Also, senior managing director Yutaka Nakamura concurrently serves as an external director for Yamada Denki.

Employee structure

At end-FY8/11, JIN's work force comprised 1,096 employees and only 27 part-time staff. The current average age among employees is 27.5, and from spring 2011 the company started year-round recruitment of new graduates, receiving a constant flow of applications on a monthly basis. Prospective applicants that have been turned down in the past are eligible to reapply. New graduates are defined as people who have graduated within the last three years. In other words, the company welcomes young talent that, due to specific circumstances, has been unable to find employment, and this reflects the management vision of a company that is eager to give back to society, not just a mere venture business.

At the company's head office in Aoyama, Tokyo, employees are not assigned a fixed desk. Similar to Fast Retailing, the company adheres to the so-called "free address" system, under which employees are free to change desks.

Shareholder composition

The company held a public stock offering in August, at which time CEO Hitoshi Tanaka sold 500,000 shares. As a result, we expect the founder's stake in the company to grow smaller over time, which should boost liquidity of the shares. It remains unclear at present whether taxation on accumulated earnings would be reduced or exempted once the CEO's stake drops below 50%.

Figure 18: **Shareholder composition**

Name	# of share held (share)	Shareholding ratio as % of total # of share issued (%)
Hitoshi Tanaka	11,964,000	58.42
Japan Trustee Services Bank Ltd. (Trust Account)	1,201,000	5.86
Yutaka Nakamura	660,000	3.22
The Master Trust Bnak of Japan Ltd. (Trust Account)	554,000	2.71
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	394,000	1.92
Tokyo Small and Medium Business Investment & Consultation Co.	280,000	1.37
JIN Client Stock Ownership Association	265,000	1.29
Yuka Tanaka	224,000	1.09
Trust & Custody Services Bank Ltd. (Trust Account)	204,000	1.00
Mao Hara	200,000	0.98
Ryo Tanaka	200,000	0.98
Total	16,146,000	78.84
# of share issued as of end-Feb 2012	20,480,000	

Source: Company data, Credit Suisse estimates

Figure 19: JIN (3046) – Consolidated earnings forecast summary (1)

Profit & Loss

(Y mn)	FY8/05	FY8/06	FY8/07	FY8/08	FY8/09	FY8/10	FY8/11	FY8/12(e)	FY8/13(e)	FY8/14(e)
Sales	2,885	3,940	5,102	6,222	7,434	10,604	14,575	22,700	31,000	38,400
COGS	1,045	1,330	1,583	1,827	2,100	3,082	3,886	5,720	7,626	9,331
Gross profit	1,840	2,610	3,519	4,395	5,333	7,522	10,688	16,980	23,374	29,069
SG&A	1,260	1,920	2,839	4,172	5,189	6,901	9,605	14,330	18,674	22,769
Operating profit	580	690	680	223	144	620	1,084	2,650	4,700	6,300
Interests & dividends	6	9	3	4	28	24	25	30	40	40
Other non-operating income / expense	-14	-24	-9	-48	-45	-44	-56	-130	-150	-150
Recurring profit	572	675	673	179	127	601	1,053	2,550	4,590	6,190
Extraordinaries (net)	-500	-670	9	-298	-81	-85	-191	-450	-100	-100
Pretax profit	501	683	682	-119	47	515	862	2,100	4,490	6,090
Taxes	214	305	294	-6	65	283	478	987	1,976	2,680
Minority interests	0	0	0	0	0	0	0	0	0	0
Net profit	287	378	388	-113	-19	233	384	1,113	2,514	3,410

Balance sheet

(Y mn)	FY8/05	FY8/06	FY8/07	FY8/08	FY8/09	FY8/10	FY8/11	FY8/12(e)	FY8/13(e)	FY8/14(e)
Cash & equivalents	443	1,058	668	224	475	427	527	3,944	3,299	2,767
Notes & accounts receivable	276	367	460	519	583	780	1,106	1,650	2,250	2,950
Inventory	147	280	531	633	597	550	1,011	2,300	3,600	5,000
Other current assets	27	46	84	182	249	212	396	500	600	750
Total current assets	893	1,750	1,743	1,559	1,904	1,968	3,041	8,394	9,749	11,467
Tangible fixed assets	369	601	748	1,001	1,339	1,402	2,115	3,992	5,470	7,045
Intangible fixed assets	4	3	14	19	39	40	163	220	240	270
Investments & others	124	275	406	831	884	1,061	1,415	2,054	2,839	3,805
Total fixed assets	496	878	1,167	1,851	2,262	2,502	3,693	6,266	8,549	11,120
Total assets	1,389	2,629	2,910	3,409	4,167	4,470	6,734	14,660	18,299	22,587
Notes & accounts payable	85	131	142	202	236	355	537	760	1,010	1,310
Short-term debt	77	57	0	439	586	314	922	1,000	1,000	1,000
Other current liabilities	306	431	480	613	546	992	1,347	2,406	3,370	4,252
Total current liabilities	468	619	622	1,255	1,368	1,662	2,806	4,167	5,381	6,563
Long-term debt	65	0	0	90	457	268	915	1,000	1,000	1,000
Accrued retirement benefits	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	100	60	29	6	317	305	435	550	700	900
Total long-term liabilities	165	60	29	96	775	573	1,350	1,550	1,700	1,900
Minority interests & others	0	0	0	0	0	0	0	0	0	0
Shareholders equity	756	1,962	2,268	2,063	2,024	2,236	2,578	8,943	11,218	14,125
Total liabilities & shareholders equity	1,389	2,641	2,919	3,413	4,167	4,470	6,734	14,660	18,299	22,587

Source: Company data, Credit Suisse estimates

Figure 20: JIN (3046) – Consolidated earnings forecast summary (2)

Cash flow

(Y mn)	FY8/05	FY8/06	FY8/07	FY8/08	FY8/09	FY8/10	FY8/11	FY8/12(e)	FY8/13(e)	FY8/14(e)
Cash flow from operating activities										
Pretax income	501	683	682	-119	47	515	862	2,100	4,490	6,090
Depreciation	58	72	107	182	261	276	422	680	1,092	1,595
Appraisal losses	71	2	3	0	0	-33	43	450	100	100
Increase of allowance reserve	4	-9	-3	0	2	-3	0	0	0	0
Working capital (incr) decr	-129	-179	-332	-92	0	-30	-607	-1,289	-1,300	-1,400
Tax payment	-160	-267	-305	-294	-48	-27	-380	-732	-1,482	-2,328
Other	553	735	734	189	31	770	1,066	11	50	50
Subtotal (1)	396	356	205	-15	246	953	545	1,220	2,950	4,107
Cash flow from investing activities										
Capital expenditure	-94	-312	-273	-503	-619	-297	-1,117	-2,557	-2,570	-3,170
Increase of guaranty money deposited (net)	-42	-114	-168	-343	-135	-181	-369	-662	-785	-966
Expenditure for purchase of securities (net)	0	0	0	0	0	0	-64	0	0	0
Disposal of fixed assets	22	5	0	0	3	13	0	0	0	0
Other	-12	19	8	3	3	3	-41	0	0	0
Subtotal (2)	-126	-402	-434	-843	-748	-462	-1,591	-3,219	-3,355	-4,136
Cash flow from financing activities										
Net increase of interest-bearing debt	-50	-119	-87	506	502	-461	1,258	163	0	0
Dividend payment	-18	-55	-82	-92	-21	-21	-41	-82	-240	-504
Share Issues	18	0	0	0	0	0	-1	5,334	0	0
Other	-44	830	-30	-23	252	-63	-71	0	0	0
Subtotal (3)	-50	689	-168	415	752	-540	1,147	5,415	-240	-504
Cash and cash equivalents										
Net increase of cash (1)+(2)+(3)	220	644	-397	-444	251	-48	101	3,417	-645	-532
Exchange difference	0	0	11	0	0	0	0	0	0	0
Balance at end of year	410	1,054	668	224	475	427	527	3,944	3,299	2,767

Financial indicator

	FY8/05	FY8/06	FY8/07	FY8/08	FY8/09	FY8/10	FY8/11	FY8/12(e)	FY8/13(e)	FY8/14(e)
Fixed asset turnover (x)	-	5.7	5.0	4.1	3.6	4.5	4.7	4.6	4.2	3.9
Current asset turnover (x)	-	3.0	2.9	3.8	4.3	5.5	5.8	4.0	3.4	3.6
Inventory turnover (days)	-	25.6	37.5	36.6	28.9	18.7	25.0	104.2	139.2	165.9
Receivables turnover (days)	-	29.4	29.2	28.3	26.7	23.1	23.3	21.9	22.6	24.4
Payables turnover (days)	-	26.6	26.8	32.1	38.2	35.1	37.0	33.3	35.7	38.9
Equity / assets (%)	54.4	74.3	77.7	60.4	48.6	50.0	38.3	61.0	61.3	62.5
Interest cover (x)	80.8	81.5	472.4	-37.8	2.7	22.8	35.9	-	-	-
Net debt (cash) (Y mn)	-301	-1,001	-668	305	568	155	1,310	-1,944	-1,299	-767
Net gearing (x)	-0.4	-0.5	-0.3	0.1	0.3	0.1	0.5	-0.2	-0.1	-0.1
OP margin (%)	20.1	17.5	13.3	3.6	1.9	5.9	7.4	11.7	15.2	16.4
Asset turnover (x)	-	2.0	1.8	2.0	2.0	2.5	2.6	2.1	1.9	1.9
Return on assets (%)	-	34.2	24.5	7.1	3.8	14.4	19.3	24.8	28.5	30.8
Pretax profit / OP (x)	0.9	1.0	1.0	-0.5	0.3	0.8	0.8	0.8	1.0	1.0
Tax burden (x)	0.6	0.6	0.6	0.9	-0.4	0.5	0.4	0.5	0.6	0.6
Financial leverage (x)	-	1.5	1.3	1.5	1.9	2.0	2.3	1.9	1.6	1.6
Return on equity (%)	-	27.8	18.3	-5.2	-0.9	10.9	16.0	19.3	24.9	26.9
Gross margin (%)	63.8	66.2	69.0	70.6	71.7	70.9	73.3	74.8	75.4	75.7
SG&A ratio (%)	43.7	48.7	55.6	67.0	69.8	65.1	65.9	63.1	60.2	59.3
Financial balance (Y mn)	-6	-8	0	-2	-27	-23	-24	-30	-40	-40
Recurring margin (%)	19.8	17.1	13.2	2.9	1.7	5.7	7.2	11.2	14.8	16.1
Effective tax rate (%)	42.8	44.6	43.2	5.1	139.6	54.9	55.4	-	-	-
Net margin (%)	9.9	9.6	7.6	-1.8	-0.2	2.2	2.6	4.9	8.1	8.9
EBITDA (Y mn)	638	762	787	406	405	896	1,505	3,330	5,792	7,895
EBITDA margin (%)	22.1	19.3	15.4	6.5	5.5	8.4	10.3	14.7	18.7	20.6

Source: Company data, Credit Suisse estimates

Figure 21: JIN (3046) – Earnings forecasts

As of Aug-22		Sales		Operating profit		Recurring profit		Net profit		EPS		DPS	P/E
		¥bn	YoY (%)	¥bn	YoY (%)	¥bn	YoY (%)	¥bn	YoY (%)	¥	YoY (%)	¥	(x)
Consolidated													
10/8	Actual	10.6	42.6	0.6	330.4	0.6	371.2	0.2	N/A	11.4	N/A	2.0	29.3
11/8	Actual	14.6	37.4	1.1	74.7	1.1	75.3	0.4	65.1	18.8	65.1	4.0	34.6
12/8	**CS E**	**22.7**	**55.7**	**2.7**	**144.6**	**2.6**	**142.2**	**1.1**	**189.9**	**46.4**	**147.6**	**10.0**	**35.6**
	CoE	22.5	54.4	2.6	139.9	2.5	140.3	1.0	168.2	50.3	168.3	8.0	32.8
	IBES E	21.7	48.9	2.6	137.2	-	-	1.0	165.6	49.8	165.7	9.5	33.1
13/8	**CS E**	**31.0**	**36.6**	**4.7**	**77.4**	**4.6**	**80.0**	**2.5**	**125.9**	**104.8**	**125.9**	**21.0**	**15.7**
	IBES E	27.3	26.0	3.8	46.3	-	-	1.7	67.6	83.5	67.6	15.3	19.8
14/8	**CS E**	**38.4**	**23.9**	**6.3**	**34.0**	**6.2**	**34.9**	**3.4**	**35.6**	**142.2**	**35.6**	**28.0**	**11.6**
	IBES E	32.9	20.5	5.3	39.9	-	-	2.5	43.3	119.6	43.2	21.0	13.8

Source: Company data, I/B/E/S, Credit Suisse estimates

Figure 22: JIN (3046) – Financial summary

In JPY bn, unless otherwise stated

Profit & Loss	8/11A	8/12E	8/13E	8/14E
Sales revenue	**14.6**	**22.7**	**31.0**	**38.4**
COGS	3.9	5.7	7.6	9.3
SGA	9.6	14.3	18.7	22.8
R&D	0.0	0.0	0.0	0.0
Other op income(expense)	-0.4	-0.7	-1.1	-1.6
EBITDA	**1.5**	**3.3**	**5.8**	**7.9**
Depr. & Amort.	0.4	0.7	1.1	1.6
Goodwill amort.	0.0	0.0	0.0	0.0
EBIT	**1.1**	**2.7**	**4.7**	**6.3**
Net interest expense	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0
Net other non-op income(exp.)	-0.1	-0.1	-0.1	-0.1
Recurring profit	**1.1**	**2.6**	**4.6**	**6.2**
Extraordinary gain & loss	-0.2	-0.5	-0.1	-0.1
Profit before tax	**0.9**	**2.1**	**4.5**	**6.1**
Income tax	0.5	1.0	2.0	2.7
Minorities	0.0	0.0	0.0	0.0
Net Income	**0.4**	**1.1**	**2.5**	**3.4**
Balance Sheet	**8/11A**	**8/12E**	**8/13E**	**8/14E**
Cash & equivalents	0.5	3.9	3.3	2.8
Receivables	1.1	1.7	2.3	3.0
Inventories	1.0	2.3	3.6	5.0
Other current assets	0.4	0.5	0.6	0.8
Current assets	**3.0**	**8.4**	**9.7**	**11.5**
Property, plant & equipments	2.1	4.0	5.5	7.0
Intangibles	0.2	0.2	0.2	0.3
Other non-current assets	1.4	2.1	2.8	3.8
Non-current assets	**3.7**	**6.3**	**8.5**	**11.1**
Total assets	**6.7**	**14.7**	**18.3**	**22.6**
Payables	0.5	0.8	1.0	1.3
Short term debt	0.9	1.0	1.0	1.0
Other current liability	1.3	2.4	3.4	4.3
Total current liability	**2.8**	**4.2**	**5.4**	**6.6**
Long term debt	0.9	1.0	1.0	1.0
Other non-current liability	0.4	0.6	0.7	0.9
Total liabilities	**4.2**	**5.7**	**7.1**	**8.5**
Shareholders equity	2.6	8.9	11.2	14.1
Minority interests	0.0	0.0	0.0	0.0
Total shareholder funds	**6.7**	**14.7**	**18.3**	**22.6**
Cashflow	**8/11A**	**8/12E**	**8/13E**	**8/14E**
EBIT	1.1	2.7	4.7	6.3
Depr & Amortisation	0.4	0.7	1.1	1.6
Chage in working capital	-0.6	-1.3	-1.3	-1.4
Other	-0.4	-0.8	-1.5	-2.4
Operating cashflow	**0.5**	**1.2**	**3.0**	**4.1**
Capex	-1.1	-2.6	-2.6	-3.2
Disposal of PPE	0.0	0.0	0.0	0.0
Acquisitions & Investments	0.0	0.0	0.0	0.0
Asset sale proceeds	0.0	0.0	0.0	0.0
Other	-0.5	-0.7	-0.8	-1.0
Investing cashflow	**-1.6**	**-3.2**	**-3.4**	**-4.1**
Equity raised	0.0	5.3	0.0	0.0
Dividends paid	0.0	-0.1	-0.2	-0.5
Net borrowings	1.3	0.2	0.0	0.0
Other	-0.1	0.0	0.0	0.0
Financing cashflow	**1.1**	**5.4**	**-0.2**	**-0.5**
Effect of exchange rates	0.0	0.0	0.0	0.0
Net Change in Cash	0.1	3.4	-0.6	-0.5
Free cash flow	**-1.0**	**-2.0**	**-0.4**	**0.0**

Key Financials	8/11A	8/12E	8/13E	8/14E
Growth(%)				
Sales	37.4	55.7	36.6	23.9
EBIT	74.7	144.6	77.4	34.0
Net Income	65.1	189.9	125.9	35.6
EPS	65.1	147.6	125.9	35.6
Margins(%)				
EBITDA	10.3	14.7	18.7	20.6
EBIT	7.4	11.7	15.2	16.4
Pretax profit	5.9	9.3	14.5	15.9
Net income	2.6	4.9	8.1	8.9
Valuation(x)				
EV/Sales	1.0	1.7	1.2	1.0
EV/EBITDA	9.7	11.3	6.6	4.9
EV/EBIT	13.5	14.2	8.1	6.2
PER	34.6	35.6	15.7	11.6
PBR	5.2	4.4	3.5	2.8
ROE analysis(%)				
ROE	16.0	19.3	24.9	26.9
ROIC	15.4	25.8	31.1	30.3
Asset turnover	216.4	154.8	169.4	170.0
Tax burden	55.4	47.0	44.0	44.0
Financial leverage(x)	2.6	1.6	1.6	1.6
Credit ratio(%)				
Net debt/Equity	0.5	net cash	net cash	net cash
Net debt/EBITDA	0.9	-0.6	-0.2	-0.1
Interest converage ratio(x)	9.2	14.9	19.7	19.9
Per share data	**8/11A**	**8/12E**	**8/13E**	**8/14E**
No. of shares(millions)	20.5	24.0	24.0	24.0
EPS(¥)	**18.8**	**46.4**	**104.8**	**142.2**
BPS(¥)	125.9	373.0	467.8	589.0
DPS(¥)	4.0	10.0	21.0	28.0
Dividend payout ratio(%)	21.3	21.5	20.0	19.7
Quarterly analysis	**8/11A**	**8/12E**	**8/13E**	**8/14E**
Sales 1Q	3.0	4.2		
Sales 2Q	3.8	5.3		
Sales 3Q	3.8	5.6		
Sales 4Q	4.1	-		
Sales 1H	6.7	9.5		
Sales 2H	7.8	-		
Operating Income 1Q	-0.2	0.2		
Operating Income 2Q	0.6	0.9		
Operating Income 3Q	0.3	0.6		
Operating Income 4Q	0.4	-		
Operating Income 1H	0.4	1.0		
Operating Income 2H	0.7	-		
Recurring Profit 1Q	-0.2	0.2		
Recurring Profit 2Q	0.6	0.8		
Recurring Profit 3Q	0.3	0.6		
Recurring Profit 4Q	0.4	-		
Recurring Profit 1H	0.4	1.0		
Recurring Profit 2H	0.7	-		
Net Income 1Q	-0.2	0.1		
Net Income 2Q	0.3	0.4		
Net Income 3Q	0.2	0.2		
Net Income 4Q	0.1	0.0		
Net Income 1H	0.1	0.4		
Net Income 2H	0.3	0.2		

Note : Reported year may include estimated data

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 22 Aug 12)*
Aigan Co, Ltd. (9854, ¥317)
Fast Retailing (9983, ¥18,190, UNDERPERFORM, TP ¥12,900, MARKET WEIGHT)
Hoya Corp. (7741, ¥1,843)
JIN (3046, ¥1,651, OUTPERFORM, TP ¥2,100)
Megane Top (7541, ¥894)
Meganesuper Co, Ltd. (3318, ¥105)
Nitori Holdings (9843, ¥7,650, OUTPERFORM, TP ¥9,800, MARKET WEIGHT)
Paris Miki (7455, ¥504)
Shimamura (8227, ¥9,270)
Yamada Denki (9831, ¥4,245, OUTPERFORM, TP ¥8,200, MARKET WEIGHT)

Disclosure Appendix

Important Global Disclosures

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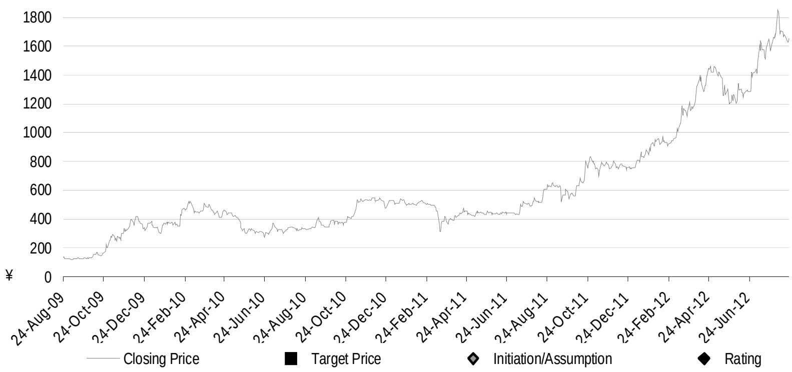
3-Year Price, Target Price and Rating Change History Chart for 3046

3046 Date	Closing Price (¥)	Target Price (¥)	Rating	Initiation/ Assumption



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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Price Target: (12 months) for (3046)
Method: We base our ¥2,100 target price for JIN on end-FY8/13E BPS and a 4.4x fair-value P/B referencing our longer-term ROE outlook (about 26%) and a 6% cost of capital.
Risks: Risks to our ¥2,100 target price for JIN include supply disruptions caused by natural disasters, other companies emulating JIN's business model, and higher production costs in China.

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23 August 2012
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