

Japanese tech sees resurgent short interest

Consolidation and risk separation are trending among Japanese electronics manufacturers as firms with concentrated consumer exposure are facing strong pressure from component commoditisation and smartphones.

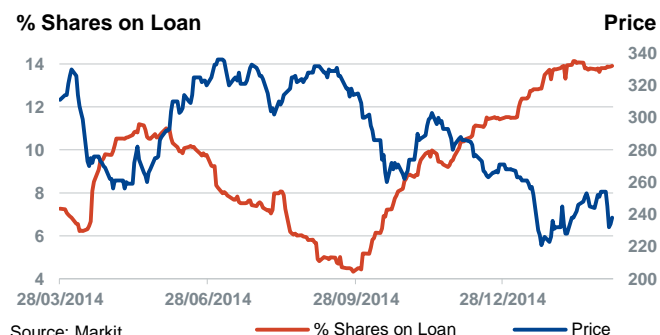
- Investors see risk as Sharp shares dive on weak demand and as firm snubs Japanese Display
- Nikon reports lower earnings driven by shrinking digital camera demand and lens sales
- Short sellers bet against diversified Casio despite firm delivering returns

Japanese exports

The most shorted stocks of the Nikkei 225 are previous giants of the 1990s consumer technology revolution. Sharp, Casio and Nikon are facing a wave of threats and currently make up the top three most shorted despite renewed government efforts to actively help the country's exporters by actively devaluing the yen.

Sharp Corporation has borne the brunt of the recent negative sentiment. Since the end of September 2014, the proportion of shares outstanding on loan for the Osaka based firm has tripled to 13.9% while its stock has retreated by a quarter.

Sharp Corp

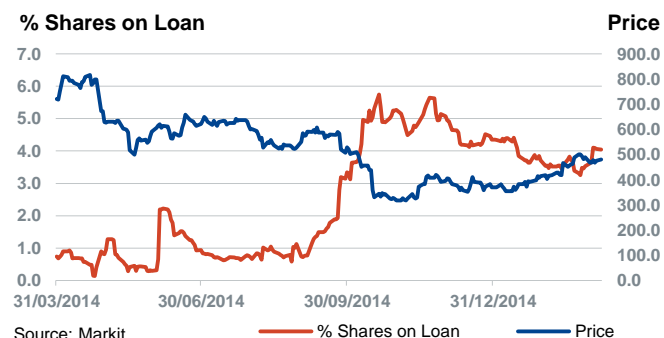


Since its formation in March 2014 by Sony, Toshiba and Hitachi, Japan Display has effectively rolled up underperforming display businesses across the industry; a move which mirrors steps taken by the banking industry in the wake of the financial crisis.

These industry movements have effectively left Sharp exposed to the weakening market for displays, developments which short sellers have capitalised on. This trend is set to continue in the near term as the company has **quashed** rumours of a potential tie-up with Japan Display.

Japan Display has struggled operationally recently, which has been reflected in its share price and rise in short interest. News flow coming from the firm has turned around as of late with the announcement that the firm was building a **new plant** under Apple's auspices to supply screens for iPhones from 2016. Short sellers have since retreated from their highs and the firm's shares have rebounded strongly.

Japan Display Inc

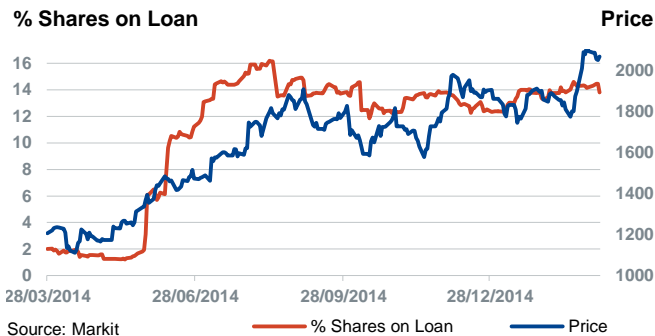


Japanese technology short sale targets

In comparison to Sharp, Casio Computer has delivered strong sales and earnings growth since 2013 with continued growth forecast up to 2016. But short sellers have not been convinced by Casio's recent performance translating into future success. Shares out on loan have increased from 2% in March of last year to 16% in August and have hovered around that mark since, despite a recent share price surge.

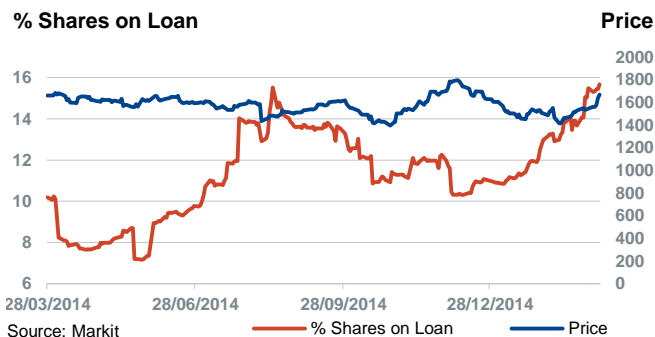
Short sellers are no doubt spurred on by the firm's over reliance on cameras which makes up the majority of its instruments division, responsible for 70% of its revenue. Nikon has recently announced that operating income in the instruments division was under pressure, and competitor Cannon has recently reported weakness in its camera division **caused** by the ever increasing appeal of smartphones. Short sellers continue to bet on the negative impact of smart phones on electronic component suppliers in Japan.

Casio Computer Co Ltd



The most short sold of the three firms is Nikon which has just under 16% of shares out on loan after the company announced guidance for the current financial year which missed analyst expectations.

Nikon Corp



Relte Stephen Schutte

Analyst
 Markit
 Tel: +44 207 064 6447
 Email: relte.schutte@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.