

Rakusui Research

Japan Market Monthly Report

December Edition

Summary

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Macro Environment: Japan's macroeconomic environment showed the characteristics of "three constants and one change": the weak recovery of the economy remains unchanged, inflation remains sticky at elevated levels, and the direction toward policy normalization remains unchanged. However, market expectations regarding the policy pace have marginally shifted from concerns about near-term tightening to expectations of a gradual, moderate transition in the medium term.

Capital Market: After the rapid rally in previous months, the Japanese equity market entered a consolidation phase at elevated levels in December. Supported by expectations of fiscal stimulus, continued foreign capital inflows, and improving corporate earnings outlooks, the market avoided a trend-level correction, with sector participation remaining relatively broad.

Sectors: The technology theme entered a digestion phase at high levels but its medium-term logic remains intact. Policy-driven themes continue to provide solid support, while financials and defensive sectors have become key rotation anchors. From an allocation perspective, a four-layer structure is recommended: "policy themes + financial recovery + defensive core holdings + selected growth."

Report Date

December 2025

Hot Topic: Mitsubishi Heavy Industries, Ltd.

This Month's Reading: Selected Business Case Studies

1. Japan's Macroeconomic and Policy Developments

1.1 Overview of Key Economic Data

Indicator	Latest Value / Most Recent Month or Quarter	Y/Y or M/M Change	Interpretation & Trend Analysis
GDP	-0.40% (QoQ, 2025 Q3)	Annualized -1.8%	Japan's economy contracted on a quarter-on-quarter basis in Q3 2025. Weak exports and subdued capex remain key drags. A Q4 improvement will depend more on fiscal support and marginal stabilization in external demand.
Unemployment Rate	2.6% (Oct)	MoM 0.0 ppts	The labor market remains tight but is plateauing. Momentum in employment improvement is limited, and the contribution to consumption remains modest.
CPI (Headline)	3.1% (Nov)	+0.1 ppts vs Oct (3.0%)	Inflation remains above 3%. Service prices are still resilient; core inflation is around 3.1%, keeping price pressures above the central bank's target.
PPI / CGPI	2.1% (Nov)	MoM -0.2 ppts	Upstream prices continue to ease, indicating marginal relief in input cost pressures. Pass-through to downstream/consumer prices remains limited.
Industrial Production	103.1 (Oct, index)	MoM +0.3%	Recovery continues but at a slower slope. External demand improvement is not yet firm, and corporate capex remains cautious.
Retail Sales	1.9% (Oct)	YoY +1.9%	Consumption is recovering moderately, supported by tourism and dining. Real purchasing power is still constrained by inflation and income dynamics.
Exchange Rate (USD/JPY)	149.5	Slight JPY appreciation vs Nov	A phase of USD weakness drove a technical rebound in JPY. Over the medium term, the yen remains in a relatively weak range.

Exchange Rate (USD/JPY)	~1.30%	Up ~0.02 ppts vs prior month	Markets continue to price in policy normalization. Long-end yields remain elevated and range-bound; the curve stays relatively steep.
10-Year JGB Yield	-0.40% (QoQ, 2025 Q3)	Annualized -1.8%	Japan's economy contracted on a quarter-on-quarter basis in Q3 2025. Weak exports and subdued capex remain key drags. A Q4 improvement will depend more on fiscal support and marginal stabilization in external demand.

1.2 Trends and Policy Background

Based on the latest macro data in December, Japan's economy is characterized by a combination of "growth under pressure but not stalling, sticky high-level inflation, and a front-loaded—but still measured—policy stance." The tension between the economic cycle and policy response has become more pronounced.

1.2.1 On the growth side, the Q3 contraction has been confirmed, with weak exports and subdued equipment investment still acting as the main drags. While industrial production recovered consecutively in September–October, the pace of recovery clearly slowed, suggesting external demand improvement is not yet secure and corporate capex remains cautious. The labor market remains at a low unemployment rate, but improvements are flattening; insufficient real wage growth limits the ability of consumption to lift the economy. Overall, Japan remains in a phase of low growth, weak domestic demand, and relatively high reliance on policy support.

1.2.2 On inflation, headline CPI rebounded above 3% in November and core inflation held around 3.1%, indicating resilience in service prices and cost pass-through. Although PPI/CGPI has continued to decline—signaling easing upstream input costs—the transmission to final prices remains slow, making the disinflation process "gradual and sticky." This inflation profile suggests Japan is moving away from a purely import-driven, short-lived inflation episode toward a more structural, moderate inflation regime.

1.2.3 Policy signals show a clearer division of labor between fiscal and monetary policy. On the fiscal side, the government is inclined to act early via subsidies, investment and industrial support to cushion downside risks—especially in energy

security, defense, semiconductors and broader industrial upgrading. On the monetary side, the Bank of Japan remains cautious despite inflation being above target, and is not rushing to tighten. The market consensus is shifting toward “normalization remains the direction, but the pace is pushed out,” i.e., maintaining the status quo in the near term and adjusting around late-2025 or early-2026 depending on incoming data.

1.2.4 Financial markets have started to reflect this policy mix. Long-end JGB yields stayed elevated and range-bound in December, with a relatively steep curve—consistent with ongoing normalization expectations while pricing of near-term hikes has cooled. On FX, the yen’s technical rebound was driven by a softer USD, but the medium-term bias remains toward yen weakness given the still-wide US–Japan rate differential, which is unlikely to fundamentally disrupt exporters’ earnings structure in the near term.

1.3 Conclusion

Overall, Japan’s December macro backdrop can be summarized as “three constants and one change”: the underlying weak recovery remains, inflation’s sticky high level remains, and the direction of policy normalization remains; however, market expectations for the timing/pace of policy have shifted on the margin—from concern about near-term tightening to an expectation of a more gradual transition over the medium term. This provides a relatively stable policy environment for risk assets, and pushes equity performance further toward structural opportunities rather than a one-way index rally.

2. Overview of Japan's Stock Market

2.1 Overview

Index	Reference Level	Description
TOPIX	3,310	TOPIX held a high-level, mildly bullish range in November–December, supported by fiscal stimulus expectations, sustained foreign inflows and incremental participation by domestic institutions. Market breadth remained healthy.
Nikkei 225	49,800	After reaching record highs, Nikkei 225 entered a technical consolidation but stayed in a strong range. Technology, financials and energy continued to provide core support.
JPX-Nikkei 400	30,200	The quality-factor index continued its steady uptrend. Institutional capital kept rotating into constituents with better governance and stable cash flows, deepening the valuation re-rating.

Overall performance: In December, following a rapid rally earlier, Japanese equities entered a high-level digestion phase and traded in a range with a mild upward bias. Backed by fiscal stimulus expectations, continued foreign inflows, and improving earnings expectations, the market avoided a trend reversal and maintained broad participation. Compared with prior, more theme-driven structural rallies, December saw improved breadth, with rotation support from steadier sectors (financials, energy, utilities) alongside growth/technology.

In short, Japan is in a post-rally consolidation phase: the uptrend has not been broken, but volatility is higher and performance is increasingly driven by fundamentals and policy expectations rather than one-way momentum.

2. 2 Sector and style rotation

Sector Category	Valuation Status	Description
AI / Semiconductors / Advanced Manufacturing	High valuation premium (cooling at the margin)	The long-term growth thesis is intact, but the sector is digesting gains at elevated levels. Capital is shifting from concentrated positioning to internal rotation and selective holding.
Defense / Energy Security	Mid-to-high valuations	Policy certainty remains strong. Fiscal stimulus expectations provide a floor, but the short-term rally slope has moderated—more suitable for steady allocations.
Financials (Banks/Insurance)	Re-rating ongoing	Elevated long-end yields and a relatively steep curve support net interest margin improvement, making the sector a key rotation recipient in December.
Utilities / Traditional capital-intensive sectors	Low valuation (re-rating in progress)	High dividend yields and stable cash flows are favored in a choppy market, increasing their defensive allocation value.
Healthcare / Pharma	Mid-to-low valuations (defensive)	Rigid demand and stable cash flows make the sector a defensive choice as macro uncertainty rises.
Small caps	Systematic discount	Governance improvements and earnings visibility are key filters; performance dispersion remains high.

2.3 Capital Flow Analysis

December fund flows continued the structural evolution seen in recent months, but with clearer phase changes. Overall, the market is moving from “foreign-led single-handed driving” toward a framework in which foreign flows remain dominant, domestic institutions incrementally follow, and internal rotation accelerates.

2.3.1 Foreign Capital:

Foreign flows stayed net positive in December, but the pace slowed versus October–November. The trend-following inflow that had been concentrated in technology/AI/semiconductors cooled at elevated levels, replaced by more rebalancing and rotation-oriented allocations. Some investors took profits after new highs, while long-horizon allocators continued to view Japan as a relative beneficiary of a weak yen, governance reform and policy stability. The key feature in December was a shift from “chasing a single theme” to “diversifying into high-quality sectors.”

2.3.2 Domestic institutions:

Domestic institutional presence increased notably in December. Pension and insurance capital, along with some long-term institutions, began to add exposure or adjust portfolios during high-level consolidation, focusing mainly on cash-flow-stable and dividend-oriented sectors such as financials, utilities, energy and healthcare. This indicates a marginal improvement in domestic participation, though positioning remains primarily defensive rather than aggressively pro-cyclical.

2.3.3 Retail investors:

Retail activity remained dominated by short-term trading and theme rotation. Compared with November, appetite for chasing high-volatility tech cooled, with more participation in defensive sectors and selective small/mid-cap opportunities. Retail flows have not become a sustained incremental support for the index; instead, they tend to accelerate rotation across sectors.

2.3.4 Sector flow structure:

Technology and semiconductors moved into a digestion phase as net inflow intensity declined; financials became a key destination supported by a steep yield curve and valuation recovery; utilities, energy and healthcare attracted steady incremental allocations as macro hedges; selected small caps with visible governance improvements drew episodic interest but remained highly dispersed.

2.4 Valuation and Risk Premium

In December, Japan’s equity market remained at the higher end of its historical valuation range, but not yet at an imbalanced level. The valuation structure is clearly segmented. After the rapid rally, the aggregate P/E for TOPIX and Nikkei

225 moved from a neutral range early in the year to a richer range, reflecting policy stability, improving earnings expectations and continued foreign allocation. Unlike bubble conditions, the re-rating appears to be driven more by earnings upgrades and risk premium compression than pure sentiment.

The equity risk premium (ERP) stayed low in December. The elevated long-end JGB yield increases the risk-free rate, while improving earnings expectations and reduced policy uncertainty offset the valuation headwind from higher rates. As a result, ERP has compressed versus mid-year but has not broken to historical extreme lows—suggesting the market remains “richly valued but still explainable by fundamentals.”

2.5 Market Outlook

Compared with October–November, the market has transitioned from “trend acceleration” to “high-level digestion and structural rebalancing.” After reaching new highs, indices entered a range, making the market increasingly reliant on earnings delivery and policy implementation to sustain the upward slope. Near-term volatility rises while directionality declines—a typical strong-market consolidation pattern.

2.5.1 Upside Drivers:

- (1) Fiscal stimulus and industrial policy remain the core support variable. As long as the package size and implementation pace are not materially below expectations, policy themes (defense, energy security, semiconductors and industrial upgrading) should continue to provide a floor and sustain structural opportunities.
- (2) Liquidity remains broadly supportive: foreign medium-term allocation logic has not been impaired and “exit-style outflows” are not evident; domestic pensions/insurers show increasing interest in high-dividend, cash-flow-stable sectors, reducing downside convexity.
- (3) Earnings resilience remains: a weak yen and governance reform still support profit expectations; if guidance does not deteriorate meaningfully, valuation pressure is more likely to be absorbed through time and rotation rather than a sharp drawdown.

2.5.2 Downside Risks:

- (1) Policy disappointment is the most direct trigger. If fiscal package details, size

or execution speed underdeliver, prior theme sectors may see concentrated profit-taking and drag indices.

(2) Sticky inflation and uncertainty around BOJ normalization remain. CPI above 3% makes it difficult to fully rule out earlier or more hawkish normalization; a sharp rise in long-end yields would pressure high-valuation growth sectors.

(3) Tail risk of rapid FX reversal: if the USD weakens and Japan's official FX stance turns more forceful, the yen could appreciate sharply, compressing exporter earnings expectations.

(4) External risk appetite: a valuation compression in US tech or weaker global macro expectations could transmit to Japan's tech and export chains.

2.5.3 Base-case judgement:

December is more likely to remain “range-bound with a mild bullish bias, driven by structural opportunities,” rather than a continuation of November’s fast one-way rally. Strategy should shift from “chasing trend” to “capturing rotation and defending drawdowns”: maintain medium-term exposure to policy themes and quality growth while reducing single-theme concentration; build core holdings in financials, utilities, energy and healthcare to hedge volatility; and approach high-valuation tech with more selectivity and staged entry around earnings and pullback windows.

3. Key Sectors for This Month

After the market moved into a high-level consolidation and structural rebalancing phase in December, the leadership framework further evolved from a “single-theme-driven” structure into a composite mix: policy themes anchoring the downside, financials and defensives absorbing rotation, and technology digesting gains at elevated levels with more selective holding. Sector opportunities this month are less about broad-based strength and more about rotation timing, valuation-to-earnings alignment, and marginal confirmation of demand through policy implementation.

3.1 AI / Semiconductors / Advanced manufacturing: Still the most certain medium-term theme, but December’s key change is a shift from strong trend to high-level digestion. After heavy foreign positioning and rapid re-rating in October–November, performance now depends more on earnings delivery and order guidance. Capital behavior has shifted from momentum-driven additions to selective holding and internal rotation. While the global AI capex cycle has not rolled over, elevated valuations increase sensitivity to US tech volatility, short-term yen rebounds and discount-rate moves. Strategy is better suited to a structure of “high-conviction leaders + selective second-tier re-rating at lower valuations,” with reduced single-track concentration and tighter risk management around earnings/guidance windows.

3.2 Defense / Energy security: Continued to perform steadily and remains one of the most policy-certain directions. Unlike the earlier “event-driven rapid repricing,” this month resembles “policy theme support + trend continuation at mid-to-high valuations.” Fiscal stimulus and industrial policy expectations reinforce order visibility in defense modernization, energy security and critical infrastructure. With a slower short-term slope, allocation should shift from headline chasing to stock selection based on order certainty, cash-flow quality and implementation cadence. This theme is suitable for medium-term holding with staged buying around policy windows or volatility spikes.

3.3 Financials (banks/insurance): One of the most representative rotation recipients in December, supported by a steep curve, valuation recovery and shifting investor preference. Elevated long-end yields improve the visibility of net interest margin expansion, and insurers benefit from a more favorable rate

backdrop and asset reallocation space. Compared with high-valuation growth, financials offer a better valuation cushion and risk premium advantage, attracting both foreign and domestic flows. Strategically, the sector can serve as a “steady offensive sleeve” within a portfolio, generating stable returns during index consolidation and hedging some valuation volatility from growth exposure.

3.4 Utilities / traditional capital-intensive sectors: Their importance rose meaningfully in December as high dividends and stable cash flows became scarce attributes in a volatile tape. As the market shifts from trend to range, institutional investors increase defensive cores, accelerating re-rating in utilities and select traditional heavy-asset companies. Energy security policy and improving price pass-through mechanisms provide additional support. Opportunities are mainly driven by risk-premium repricing rather than high growth; focus on names with better governance, stronger capital discipline and clearer shareholder return policies.

3.5 Healthcare / pharma: Delivered stable defensive performance and served as a high-quality shock absorber amid rising macro uncertainty and market volatility. Rigid demand, stable cash flows and lower earnings volatility support sustained allocation, while demographics and long-term healthcare spending provide structural tailwinds. Relative to utilities, healthcare offers a blend of “low volatility + structural growth,” suitable as a defensive growth sleeve to smooth portfolio returns.

3.6 Consumption (tourism/airlines/retail): Still offers structural opportunities, but with clear internal divergence. Inbound demand continues to support hotels, duty-free retail and travel-related subsectors under a weak yen and recovering tourism, while domestic discretionary spending remains constrained by real purchasing power. Strategy should be “high-momentum subsectors + event-driven timing,” avoiding blanket exposure. If the yen rebounds materially, watch for inbound-demand cooling and valuation pullback risk.

3.7 Small caps: Still trade at a systemic discount, but dispersion has increased and structural opportunities remain selective. TSE governance reforms continue to push some firms toward higher capital efficiency and shareholder returns, drawing flows to names with clear governance improvements and earnings visibility. However, broad small-cap rallies are unlikely under cautious aggregate

risk-taking. A bottom-up approach is preferred, screening for governance upgrades, ROE improvement, stronger shareholder returns and operational certainty.

In summary, December's sector opportunity set is defined by: technology themes digesting gains while maintaining intact medium-term logic; policy themes providing steady support; and financials plus defensives acting as key rotation receivers. Portfolio construction is best approached via a four-layer structure: "policy themes + financial re-rating + defensive core + selective growth."

4. Hot Topic: Mitsubishi Heavy Industries, Ltd. (MHI)

Recently, Mitsubishi Heavy Industries has become a focal point in the Japanese market, primarily driven by a three-way resonance among policy support, order momentum and market expectations.

4.1 Why it is in Focus

First, Japan continues to signal medium- to long-term spending commitments in defense and energy security. The direction toward expanding the defense budget is clear, and policy debate has reinforced the market's view that demand for defense equipment and systems engineering will be sustained. As one of Japan's core defense and advanced engineering contractors, MHI is viewed as a direct beneficiary of policy implementation, and its share-price performance has become a bellwether for whether policy expectations remain priced in.

Second, in energy, Japan is accelerating its transition under an "energy security first" framework. Demand is increasing for high-efficiency thermal power, nuclear-related equipment, hydrogen solutions, and carbon capture (CCUS). MHI's deep technical capabilities and project track record in these areas keep it frequently referenced in policy and industry discussions. Unlike pure-play renewables, MHI's advantage lies in providing system-level solutions—particularly valuable amid rising global energy uncertainty.

Third, as Japanese equities entered a high-level consolidation phase, capital rotated from high-valuation growth toward names with higher policy certainty and stronger order visibility. MHI has therefore become a core allocation target for both foreign and domestic institutions, with noticeably higher trading activity and improved fund flow dynamics.

4.2 Data Analysis

FY	Revenue	YoY (%)	Operating Profit	YoY (%)	Recurring Profit	YoY (%)	Operating Cash Flow	YoY (%)	Total Asset Change (%)
2021	3,699,946	-8.5	54,081	—	49,355	—	-94,948	—	-3.51

2022	3,860,283	4.3	160,240	196.2	173,684	251.9	285,563	—	6.35
2023	4,202,797	8.8	193,324	20.6	191,126	10.0	80,888	-71.7	7.00
2024	4,657,147	10.8	282,541	46.1	315,187	64.9	331,186	309.4	14.27
2025	5,027,176	7.9	383,198	35.6	374,531	18.8	530,459	60.1	6.43
2026E	4,800,000	-4.6	390,000	1.7	370,000	-1.3	—	—	—
2027E	5,488,000	14.3	450,000	15.3	430,000	16.2	—	—	—

4.3 Data Takeaways

Across revenue, profit and cash flow, MHI has gradually shifted from an early-stage “revenue recovery phase” into an “earnings quality improvement phase.” Profit growth has consistently outpaced revenue growth, operating cash flow has turned positive and expanded, and the pace of asset expansion has stabilized. Together, these point to an operating model evolving from the high volatility typical of traditional heavy industry toward a more stable medium- to long-term growth model centered on high-end engineering, defense and energy systems.

Peer Comparison: Japan Heavy Industry Leaders (MHI / IHI / KHI)

Company	Revenue	Operating Profit	Operating Margin	Growth & Profitability Characteristics
Mitsubishi Heavy Industries (MHI)	5,027	383	7.60%	Largest scale; profitability base rising; cash flow materially improved; high order visibility.
IHI	1,627	144	8.80%	Smaller scale but highest margin; aerospace engines and defense are key drivers; strong earnings leverage.
Kawasaki Heavy Industries (KHI)	2,129	143	6.70%	Mid-scale; stable revenue growth but profits are more sensitive to FX and cost volatility.

Overall, MHI demonstrates the strongest combination of stability and

medium-term visibility among Japan's three heavy-industry leaders. Its scale is meaningfully larger, and its order sources span multiple policy themes (defense, energy, infrastructure), reducing reliance on any single industry cycle. Improving margins and operating cash flow suggest a transition toward a higher value-added, system-engineering-driven profitability profile. IHI offers higher earnings elasticity and margin upside in aerospace/defense, while KHI's earnings are more sensitive to FX and cost swings. In the current market phase, where allocations are shifting from theme momentum toward certainty and structural positioning, MHI better fits the profile of a medium- to long-term core holding, with IHI and KHI as more tactical complements.

4.4 Implications for the Japanese Equity Market

MHI's expansion in defense, energy and high-end engineering creates meaningful spillovers across Japan's industrial chain, benefiting upstream materials and critical components, midstream equipment and system integration, and downstream energy and infrastructure operations. Beneficiary companies tend to share higher order visibility and strong alignment with national policy themes.

Supply Chain Beneficiaries – Illustrative List

Value Chain Segment	Listed Company	Key Business / Products	Linkage to MHI	How It Benefits
Upstream materials & core components	IHI	Aero engines; aerospace systems	Subcontracting and collaboration with MHI in defense and aerospace	More defense/aerospace orders lift demand for joint projects
Upstream materials & core components	Kawasaki Heavy Industries	Aerospace; vessels; energy equipment	Part of Japan's defense and advanced equipment ecosystem	Industrial resonance from higher defense/energy investment
Upstream materials & core components	Japan Steel Works	High-end steel; forgings; key nuclear components	Core supplier for nuclear and heavy equipment materials	Nuclear/energy project recovery boosts demand
Upstream	JFE Holdings	Steel and	Steel for	Project expansion

materials & core components		engineering materials	large-scale engineering and infrastructure	raises materials demand
Midstream equipment & systems	Tokyo Keiki	Control systems; precision instruments	Supporting systems for defense and industrial solutions	Higher defense/industrial orders drive volumes
Midstream equipment & systems	SMC	Pneumatics; automation	Automation for industrial systems and equipment	Manufacturing and project expansion supports demand
Midstream equipment & systems	Yokogawa Electric	Industrial automation and control	Energy and industrial system solutions	Benefits from energy systems and infrastructure investment
Downstream engineering & infrastructure	ENEOS Holdings	Energy supply and infrastructure	Aligned with energy security and infrastructure build-out	Energy investment expansion increases related engineering demand
Downstream engineering & infrastructure	TEPCO Holdings	Power system and nuclear operations	Nuclear equipment maintenance and upgrades	Nuclear-related engineering and equipment renewal
Related systems & services	Mitsubishi Electric	Power electronics; control systems	High synergy within Mitsubishi group systems	Rising demand for energy/defense system components
Related systems & services	Mitsubishi Materials	Industrial materials; metal products	Supplies high-end manufacturing and engineering materials	Project progress lifts materials demand

4.5 Three-Year Financial Outlook

From a medium-term perspective, MHI's next three years will be driven by: (i)

the sustainability of defense orders, (ii) execution cadence of energy projects, and (iii) ongoing optimization of its profit mix.

Under a base-case scenario, defense and energy orders should support steady revenue growth, with an expected mid- to high-single-digit CAGR. More importantly, as higher-margin businesses expand, profit growth should outpace revenue and operating margins may further improve—implying a rising earnings base rather than purely cyclical swings.

Key positives include the durability of Japan's defense policy and budget trajectory, the growing importance of energy security globally, and MHI's technical barriers in system engineering and advanced manufacturing. A weaker yen also provides marginal support via translation of overseas project profits.

Risks are mainly about timing rather than direction. Delays in large project confirmations can cause fiscal-year volatility, and shifts in the macro environment or fiscal spending pace may disturb expectations. However, under the current framework, these are more likely to affect near-term results than to alter MHI's medium-term growth path.

Overall, MHI appears to be in a policy- and industry-trend-driven multi-year upcycle, characterized more by "steady growth + improving earnings quality" than the high cyclicalities often associated with traditional heavy industry. This supports its candidacy as a long-term, allocation-grade core asset in the current Japanese market environment.

5. Selected Business Case Studies

5.1 Basic Information

ONO SOKKI Co., Ltd. (ONO SOKKI, 6858.T) primarily manufactures and sells measurement equipment. The company operates through three segments. The Measurement Instruments segment provides various sensors; rotation and speed measurement devices; dimension and displacement measurement devices; sound and vibration measurement devices; torque measurement devices; vehicle performance measurement systems; as well as software, data R&D, manufacturing and sales for analysis systems built from these instruments. The Special Order Testing Equipment and Services segment offers special test equipment and services for R&D and quality control, including consulting related to sound and vibration, customer support and engineering services. The Other segment includes non-life insurance agency services and property management operations.

Item	Information
Stock Code	6858.T
Company Name	ONO SOKKI Co., Ltd.
English Name	Electrical Machinery
Industry	January 1954
Date of Establishment	August 15, 1983
Listing Date	Nishi-ku, Yokohama
Registered Address	623
Number of Employees	6858.T

5.2 Key Data

5.2.1 Major Indicators

JPY

Metric	Value	Metric	Value
Market cap	72.96 bn	Shares outstanding	12.20 mn
Revenue	13.8 bn	Share price	598
Net profit (ex-NRI)	0.8 bn	Net profit attributable to owners	0.55 bn
Free float ratio	%	PE (TTM)	13.9
Forward PER (2026)	12.72	Forward PER (2027)	15.55

PB (MRQ)	0.4	EBITDA	0.775 bn
Dividend yield (2026)	3.34	Dividend yield (2027)	3.48%
Net debt / equity	0.8	EPS (TTM)	52.8
Forecast EPS (2026)	52.8	Forecast EPS (2027)	-

5.2.2 Peer Comparison

Market	Company	Positioning	Market Cap	PE	PB	Valuation Commentary
Japan	ONO SOKKI (6858.T)	Acoustics/Vibration; NVH; Vehicle testing	¥7.0 bn	13	0.4	Small cap and low PB; earnings volatility has led to a persistent discount.
Japan	RION (6823.T)	Acoustics/vibration measurement	¥35.0 bn	20	1.5	Category leader; stable earnings command a valuation premium.
Japan	Yokogawa Electric (6841.T)	Industrial measurement & control	¥800.0 bn	18	2.0	Platform leader; clear scale premium.
Japan	Anritsu (6754.T)	Electronic/telecom test & measurement	¥400.0 bn	25	2.5	High R&D and growth expectations; expensive valuation.
US	Keysight (KEYS)	Global electronic T&M leader	US\$40.0 bn	20	6.0	Platform leader with a significant valuation premium.
US	Fortive (FTV)	Industrial test (Fluke)	US\$65.0 bn	20	4.0	Stable cash flows; diversified industrial platform.
US	Emerson (EMR, incl. NI)	Automation + test platform	US\$55.0 bn	20	3.0	Software/system premium within an automation platform.
China	Rigol Technologies (688337.SH)	Electronic T&M	RMB 35.0 bn	35	4.0	Growth expectations priced in; significantly higher valuation than Japan peers.

China	SIGLENT (688112.SH)	Electronic T&M	RMB 25.0 bn	30	3.0	Domestic substitution narrative; elevated valuation.
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5.3 Fundamental Highlights

5.3.1 Clear business logic and strong core competitiveness. ONO SOKKI is a major digital measurement instrument manufacturer and is a leading player in tachometers, acoustic measurement instruments, and vibration meters. Its customer base is centered on the automotive industry, while it is also actively expanding into Asia.

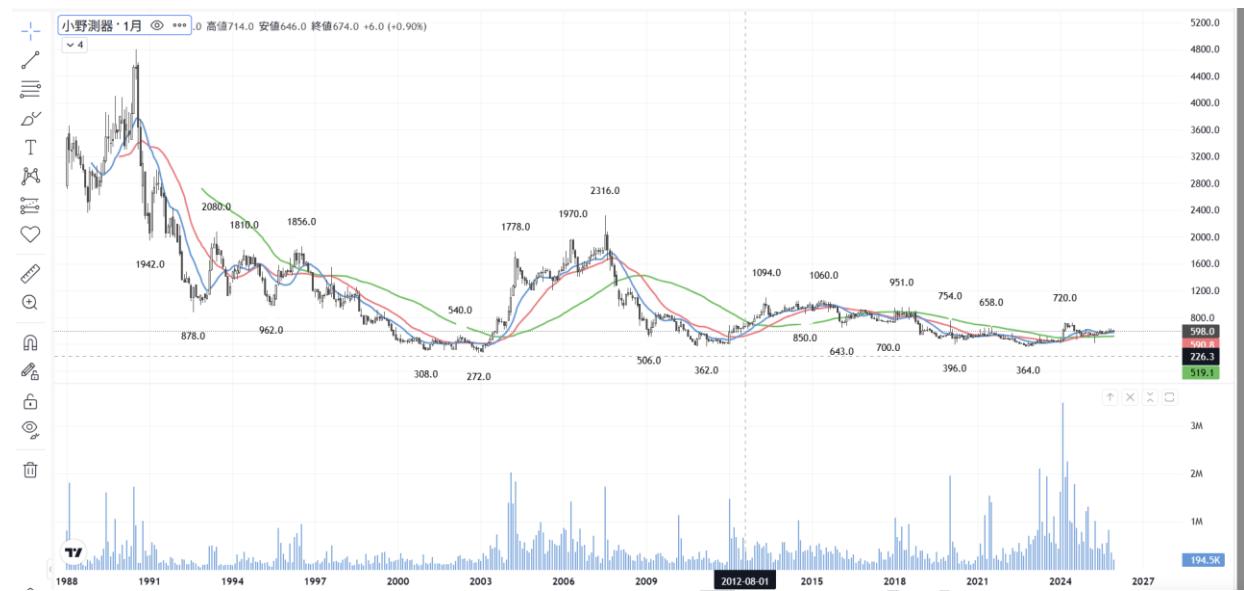
5.3.2 A sound balance sheet with healthy asset-liability structure. In the first half, sales of measurement instruments to Asia underperformed expectations; however, shipments of custom testing systems increased materially as the company worked through its order backlog. Orders for HEV motor test systems remained strong, and sales of acoustic/vibration sensors for HVAC testing performed well. Second-half results rebounded clearly, driving a significant increase in operating profit. Emerging demand in HEV motor testing, HVAC NVH testing, and ADAS functional evaluation increases the technical content and average ticket size of projects, supporting medium-term profitability improvement.

5.3.3 Founded in 1954, the company has a long operating history and has navigated multiple industrial and financial cycles, contributing to defensive characteristics.

Overall, ONO SOKKI represents a clear PB “value pocket” in a specialized measurement niche, with long-term technical accumulation and strong leverage to automotive upgrading, while still in a “small but specialized, undervalued” phase.

5.4 Technical Analysis (Results of the proprietary model testing)

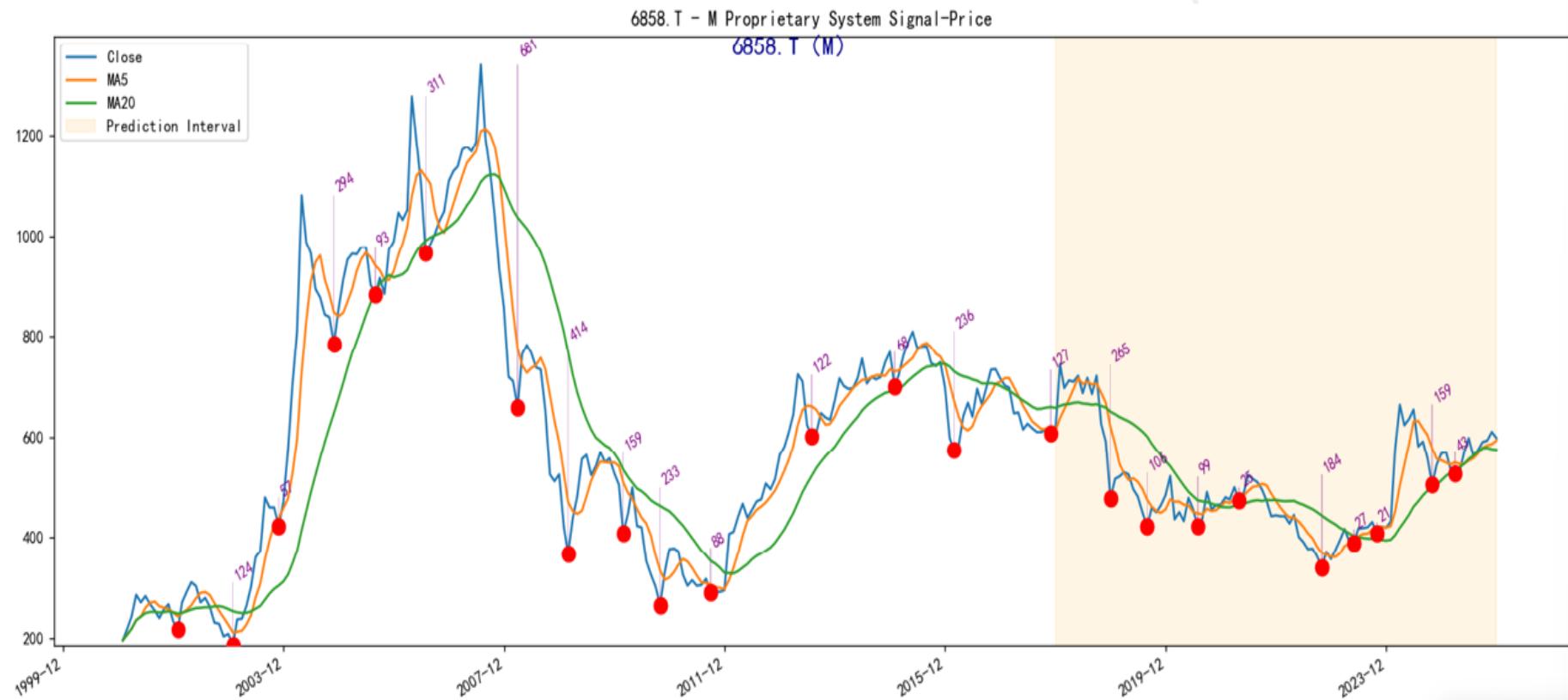
5.4.1 Historical price performance



Date resource: Japan Company Handbook (Shikiho)

5.4.2 Quantitative Model

Figure : Monthly Chart (Since Listing)



5.4.3 Conclusion

ONO SOKKI is a specialized measurement-instrument company with long-standing expertise in acoustics and vibration measurement (NVH). It holds a leading position in Japan for key products such as tachometers, sound level meters and vibration meters. With a long history and a clear technical trajectory, the company has built meaningful professional barriers in automotive performance testing, with roughly 70% of revenue coming from automotive customers—allowing it to participate deeply in OEM validation processes.

The company's edge extends beyond general-purpose instruments to customized large-scale testing systems and integrated solutions for automakers. By building vehicle-level test facilities and strengthening system integration capabilities, ONO SOKKI is evolving from a standalone instrument supplier into a high value-added test solutions provider. This evolution positions the company to benefit from new demands in EV/HEV motor testing, HVAC NVH testing and ADAS evaluation, increasing project value and customer stickiness.

Financially, the company exhibits project-based and seasonal characteristics. Long delivery cycles for customized systems concentrate shipments into certain quarters, creating quarterly volatility. However, over the medium term, backlog conversion and a higher mix of high-end equipment can provide meaningful earnings leverage. Recent operating data show that operating profit improves materially when high-end deliveries ramp, indicating strong sensitivity of profitability to business mix.

From a valuation perspective, ONO SOKKI appears clearly undervalued. Relative to Japanese and global peers, it trades at smaller scale with PE at the lower end of the range and PB persistently below 1, reflecting market caution around earnings stability, customer concentration and overseas expansion. This pricing resembles an “asset-like + cyclical” framework and does not fully reflect its NVH niche advantages and medium-term demand logic.

Key risks include high dependence on the automotive cycle, limited near-term contribution from overseas (especially Asia), and inherent volatility from project-based deliveries—an important reason for the long-standing valuation discount. Overall, ONO SOKKI is a classic “small but specialized, technology-driven, undervalued niche name.”

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