

### # 3408 SAKAI OVEX (A BARRELL?) (\$125ml):

This afternoon the Nippon Active Value Fund, the £100ml London listed Investment Trust with the rather disconcerting ability to launch a hostile take-over, declared a 5% stake in Sakai Ovex (3408), the dangerously overcapitalized 129 year old synthetic fiber business that's teetering on the edge of TSE1 demotion (Sakai Ovex's free float adjusted market cap is Y9.7bn - just below the mooted April 2021 Y10bn TSE1 demotion cut off). If Sakai Ovex knows what's good for them they will pay heed to their first ever activist shareholder, because with Y21.9bn of tangible book, Y5.85bn of hard net cash, a redundant Y1.2bn share portfolio, Y1.2bn of forecast net earnings and Y2.66bn in 3/20 Ebitda, there really is no need for Sakai Ovex to suffer the ignominy of its Y12.6bn treasury adjusted cap (which puts it on 0.58x tangible book and 10x earnings) nor the embarrassment of having a real EV of Y6.54bn or just 2.5x Ebitda. I don't know what will happen next, but given that Sakai Ovex currently generates a thoroughly underwhelming 2.44% dividend yield for a contemptable sub 25% payout (which is unnecessarily curmudgeonly given that the business has generated a consistent 6% plus operating margin over the last decade and only lost money once this century) a dividend hike would be a rather obvious start. I would **buy Sakai Ovex (3408)** before the NAVF make something happen and as to what happened last time the Nippon Active Value Fund bought a 5% stake...

### # 6328 JUITSU WITH EBARA JITSUGYO (\$240ml):

Nippon Active Value Fund's first 5% activation was of Ebara Jitsugyo (6328). NAVF acquired their 5% stake in the waste treatment specialist before the end of September and after some behind closed doors jujitsu this autumn, two weeks ago Ebara Jitsugyo announced a 66% increase in its dividend to Y100 a share, since when Ebara Jitsugyo's share price has risen 23% closing today at an all-time record high. I don't know for sure what the NAVF has already made playing Jujitsu with Ebara Jitsugyo, but given that the fund was launched at the end of February they must have made close to 66% on their now \$12.25ml position...so far.

Unfortunately Ebara Jitsugyo now has the considerable (dis)pleasure of hosting not just the NAVF with 5.03% but Hikari Tsushin (9435) with 9.12% and Sparx with 1.25% on their shareholder register - not something I would relish, given that all 3 of them can be quite outspoken and have 17.94% of the vote between them (Ebara Jitsugyo has 6.41% in its treasury sewer). Despite closing today at an all-time record high, Ebara Jitsugyo still has a treasury adjusted market cap of

Y23.85bn; which puts it on a PTBR of 1.54x, a PSR of 0.8x and a PER of 11.9x and it still has a treasury share and other shareholdings adjusted EV of Y10.8bn or just 3.5x Ebitda. That's not at all expensive for a company which despite a static top line has increased its OP 20 fold in 13 years and which has consistently grown its operating margin from just 0.45% in 2007 to over 9% now! As to its so called 'shareholder returns' – until NAVF got involved it had a payout of just a fifth, and although it has now increased its dividend by two thirds to Y100, it's still on a room for improvement payout of third. As to buybacks, although Ebara Jitsugyo opportunely bought back 4.57% of outstanding during the worst of the Covid crisis, that was in fact the first meaningful buyback for 12 years.

I don't know what the NAVF are now proposing to management, but further improvement in those inadequate returns would be an obvious start, particularly given the Y7.8bn in hard net cash plus the Y4.6bn of redundant equity holdings are still equivalent to over 50% of market cap! I would still **buy Ebara Jitsugyo (6328)** before NAFV and those other two alarming shareholders have any more of an impact. And while I'm at it, I would still **buy the Nippon Active Value Fund (NAFV LN)** which is trading today at a 5.22% discount to its £108ml NAV.

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John Seagram

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