

Mitsubishi Corp. (8058)**Rating:**
(0011/9) 2+ → 1

Analyst : H. Sakurai

A steady rebound in earnings driven by streamlining initiatives and growth in new businesses. Expected to post another year of growth in core earnings.

Summary

Among Japan's general trading companies, Mitsubishi Corporation has been a leader in taking advantage of opportunities spawned by today's information society and laying the groundwork for new businesses. MC has also been upgrading its internal functions to reap the benefits of these actions. The company is now implementing MC2003, a plan aimed at making the company more selective in its business activities and stronger in its strategic fields. We believe this plan creates still greater potential for substantial growth in MC's earnings.

Business Forecasts (Consolidated)

Term	Sales		OP		RP		NP		EPS	CFPS
	¥ Mln	YoY	¥ Mln	YoY	¥ Mln	YoY	¥ Mln	YoY	¥	¥
01.3	13,995,300	6.7	78,138	42.9	131,898	325.0	92,105	253.9	58.77	101.99
02.3 M Rev.	14,300,000	2.2	85,500	9.4	135,000	2.4	85,000	-7.7	54.24	97.12
Com. Rev.	14,200,000	1.5	No data	-	110,000	-16.6	80,000	-13.1	51.05	-
03.3F	15,800,000	10.5	90,000	5.3	155,000	14.8	110,000	29.4	70.19	114.22

Business Forecasts (Non-consolidated)

	¥ Mln	YoY	¥ Mln	YoY	¥ Mln	YoY	¥ Mln	YoY	¥	¥
01.3	10,927,420	4.2	21,623	-22.9	80,583	3.8	28,760	Black	18.35	20.00
02.3M Rev.	10,350,000	-5.3	22,000	1.7	45,000	-44.2	25,000	-13.1	15.95	17.26
02.3 M Or	0	-100.0	0	-100.0	0	-100.0	0	-100.0	-	-
Com. New	10,300,000	-5.7	No data	-	40,000	-50.4	20,000	-30.5	12.76	-
03.3	12,000,000	15.9	28,000	27.3	50,000	11.1	50,000	100.0	31.90	33.72

Note: M. Revised: ABC revised forecast; ABC Or: ABC original forecast; Com. New: Company's revised forecast

Stock price	6/4	¥980
Year-high	5/28	¥993
Year-low	3/15	¥693
Shares outstanding	6/4	1567.18mln
Mkt. Value	6/4	1538.8bln
		N-con Con
P E R	(X)	02/3F 61.4 18.1
		03/3F 30.7 14.0
P C F R	(X)	02/3F 56.8 10.1
		03/3F 29.1 8.6
P B R	(X)	01/3A 2.0 1.6
R O E	(%)	01/3A 4.3 9.8

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1. MC's management strategy

In April 2001, MC embarked on new medium-term management plan called MC2003 that covers the two-year period ending in March 2003. The objective is switching to an offensive management stance. During MC2000, the three-year management plan that ended in March 2001, MC reached almost all its numerical targets. Progress was made in such areas as bolstering functions across the entire company, improving risk management, breaking away from MC's high-cost structure and upgrading the management of human resources.

Along with these actions, MC will now seek to heighten its offensive management stance by becoming more selective in its business portfolio and stronger in its strategic fields. Basically, this means that MC is embarking on a strategy of further expanding capabilities as a general trading company while restructuring its business portfolio. The company plans to build a new organization (new business G) capable of supporting the restructuring of its business portfolio and the development of new businesses. We believe that MC's actions are increasing the possibility that the company will be able to establish a base capable of generating more than ¥100 billion in net income in the fiscal year ending in March 2003.

MC has formed an organization called the New Business Initiative Group for the purpose of conducting actions that cut across the entire MC organization. This is a marked shift from MC's traditional vertically oriented structure. The new group's primary mission is opening up more opportunities for MC amid the rapid changes taking place in today's information society. MC is drawing on this group and the company's more sophisticated risk management system, one result of MC2000, to make steady progress in replacing and realigning existing businesses to create a portfolio of strong investments. We believe that this process will lead to still more improvements in returns in such powerful core businesses as energy, machinery and IT & electronics. Cash flows are expected to grow as a result. This will give MC funds to channel to new business sectors such as independent power producers (IPP), supply chain management (SCM), financial services, convenience stores and ITF (see below for details). It is highly likely that such investments will produce about ¥40 billion in new earnings. Half of this will come from replacing and realigning existing businesses to create a portfolio of high-performance assets. The other half of these new earnings will come from bolstering financial services, expanding the convenience store business and other actions.

2. The Lawson investment. The nucleus of MC's management strategy and driving force for new business development.

As was discussed earlier, MC2003 signals the adoption of an offensive management stance aimed at building a new business portfolio. Of particular interest is MC's efforts to strengthen its trading company functions through its investment in Lawson. Totalling ¥280 billion, this enormous investment made MC the largest shareholder of this company. As such, MC is determined to increase Lawson's value. Investors remain

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doubtful about the benefits of this investment, however. Taking a long-term view, we are of the opinion that the Lawson investment will make a significant contribution to MC's objective of enhancing its trading company functions.

We base this opinion on the belief that the convenience store business can help MC to achieve its management goals. First, the stores will improve MC's ability to gather information directly from consumers. Second, convenience stores themselves serve as excellent bases for expanding businesses that utilize broadband networks. We therefore believe that it is very likely that Lawson will have a positive effect on MC's earnings.

In parallel with steps to bolster its convenience store business, MC is establishing a presence, by forming companies and other means, in fields that are likely to be outsourced by companies. Expanding relationships with Lawson and other convenience store chains supports this drive. These stores serve far more consumers and ordinary retailers do. The stores thus represent effective channels to gather the kinds of information about consumers that will be most in demand in the broadband era. Convenience stores further provide a growing number of bases with direct links to consumers. Adding more of these bases will open the way to the installation of new information terminals, financial service devices and other types of equipment made possible by broadband networks. MC's lead over other general trading companies in the number of bases (stores) served will translate directly into the ability to tap more new business opportunities. As the number of convenience stores served climbs, both Lawson's and those of other companies, MC's will see its break-even point for new business ventures fall. We believe this will ultimately create an environment in which MC can more easily begin generating earnings from new businesses at an early stage of their development.

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