

Key Themes for June Shareholders' Meetings are Corporate Governance and Shareholder Dialogue

Japanese stocks can improve in the medium to long term. Shareholders will focus on governance and dialogue.

TOKYO, JAPAN, May 15, 2024 /EINPresswire.com/ -- [QUICK Market Eyes] Despite the somewhat unstable performance of the Nikkei 225 since hitting recent record highs, Japanese stocks still have room to improve in the medium to long term. The focus is on two themes: corporate governance, and dialogue between companies and shareholders. These two themes are expected to receive increased attention as corporate earnings results for the year ending March are announced, and as general shareholders' meetings are held by many major corporations in June.

Corporate governance progressing

Japanese corporate governance reforms have been gradually progressing. Chisa Kobayashi, a strategist at UBS SuMi TRUST Wealth Management, says that Japanese corporate governance improvements are likely to accelerate on both the macro and micro levels. She suggests that Return on Equity (ROE)—which has been relatively low compared to overseas markets—will improve over the long term, increasing the attractiveness of the Japanese market as a whole. Thus, there is room for many investors to evaluate Japanese companies more favorably.

On the macro level, Japan is exiting years of deflation and stands on the verge of an inflationary phase, accompanied by rising wages. In addition, the U.S. economy remains strong, and corporate earnings in Japan are growing due to the weaker yen. On the micro level, the Tokyo Stock Exchange (TSE) has been calling for companies to take "Action to Implement Management that is Conscious of Cost of Capital and Stock Price." Pressure from institutional investors is also intensifying.

Until now, share buybacks have been the main focus of attention as a way for Japanese companies to improve low P/B ratios in response to the TSE's request. The next focus will be on structural reforms, including optimization of companies' business portfolios. Ms. Kobayashi notes: "Low ROE has clearly reduced the overall attractiveness of the Japanese market." She believes that corporate reform efforts will improve ROE and increase its appeal among investors.

Over 100 shareholder proposals in 2023, more expected going forward

Dialogue between investors and companies is a second theme for upcoming shareholders' meetings of companies with fiscal year ending March 31. According to Daiwa Institute of Research (DIR), up until 2014 only around 30 to 40 companies received proposals from shareholders, but in 2023, the number was over 100.

The Japanese Stewardship Code (Code of Conduct for Investors), formulated in 2014, has led to Japanese institutional investors placing more emphasis on corporate value. Hidenori Yoshikawa, a chief consultant at DIR, expects the number of shareholder proposals to increase further going forward.

On April 4, Oasis Management, a Hong Kong-based fund known to be an activist investor, launched a campaign against Kao (4452). At a press conference on April 8, Oasis' Chief Investment Officer (CIO) Seth Fischer, gave a detailed explanation of the campaign over 45 minutes, holding up Kao products in his hands.

While Fischer highly rated Kao's skincare brands, he expressed strong reservations regarding Kao's marketing capabilities compared to those of its competitors; he said that Kao's profitability could be increased by improving its marketing. After speaking, he took time to respond to questions from reporters. Kao's 2023 general shareholders' meeting was already held in March, but Fischer said there was no reason that Oasis could not present its proposal at next year's meeting, or at interim extraordinary shareholders' meetings.

To date there has been no meeting between Kao's management team and Fischer, and he expressed frustration that he has not yet been "welcomed" by the company. Still, he said, "Japanese companies are changing, and we are increasing our investment in Japanese stocks."

According to a Japanese securities company, there are indications in the market that companies are gradually beginning to take a more positive attitude toward engaging in dialogue with investors. Many foreign investors, like Oasis, have high expectations for change in Japanese companies. As these expectations grow, the ability of each company to meet them is being tested.

(Reported on April 10)

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