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The Japanese Elevator That's Ready to Climb

Fujitec is a case study of a cheap Japanese company under outside pressure to overhaul

Nowhere to go but up.

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By Mike Bird

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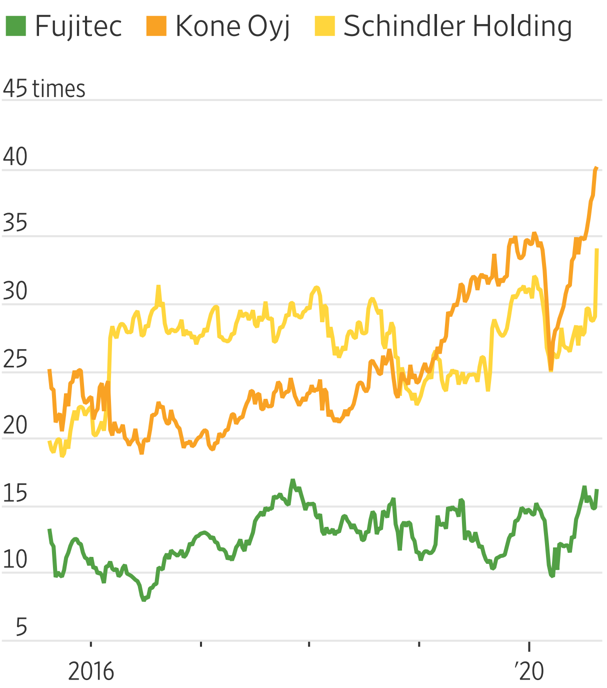
You likely haven't heard of Japan's Fujitec. 6406 **-0.90%** ▼ In fact, that's part of the company's appeal. But the maker of elevators and escalators has become an enticing test case for a more activist-friendly stock market.

Fujitec is one of a handful of large companies in the industry, and the increasingly lucrative market for maintenance contracts. But it is barely covered by analysts, and is priced far below its listed peers: 16 times its past 12 months' earnings, versus 34 times for Switzerland's Schindler Holding and 40 times for Finland's Kone. That difference has widened considerably over the past eight years.

Price-to-earnings ratio, 12 months trailing



Source: FactSet

That could be about to change. Even the expectation that Fujitec could narrow the competitiveness gap a little could spark a meaningful increase in its share price.

Of course, the same could be said about many companies in Japan, the land where valuations go to die. Investors are used to missed opportunities and limited corporate ambitions.

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But Fujitec's board has come under outside pressure. London-based Asset Value Investors has mounted a public campaign, in both Japanese and English, for greater efficiencies in capital allocation and operations, and stronger governance.

The activist investors note that Fujitec has remitted just 29% of its cashflows over the past decade to investors, compared with 56% for Shindler and 70% for Kone. Its operating margins are persistently lower than its competitors', and it has relied more heavily on relatively expensive equity funding.

Less-aggressive campaigns like AVI's have worked in Japan in recent years to boost shareholder payouts and change old habits. Changes to the country's corporate-governance and stewardship codes have helped, and many companies have unwound complex cross-shareholdings. Buybacks have surged, and Japanese companies are cash-rich.

A punchier attack on the status quo came from Oasis Management Company Ltd., which at Fujitec's annual shareholders' meeting in June proposed canceling the company's treasury shares—those shares held by the company itself—and got 33% support. Last year shareholders across Japan voted on 54 such outside initiatives, a record number and roughly twice as many as when Shinzo Abe became prime minister in 2012.

The Oasis gambit failed, but Fujitec's board may act first to avoid the risk of defeats in the future. A multipronged campaign from activists will likely draw the company to the attention of more international investors—already a formidable 37.7% chunk of Fujitec shareholders at the time of its 2019 annual report.

Fujitec has shown signs of a more conciliatory approach. A week ago it promised announcements this fiscal year on "a new direction for business strategy and capital policies," and cited, among other things, discussions with stakeholders.

The Japanese investment landscape has become less conservative in recent years, and sustained pressure from outside has worked to change habits. Fujitec is turning into a solid potential case study for the benefits—and that isn't yet priced into the stock.

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