

# **Outlook for FY16–17 corporate earnings**

## Quarterly Update

**28 February 2017**

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# Summary and major assumptions

## Overview of FY16 corporate earnings outlook

In this report, we collate and analyze earnings forecast data issued by our analysts. For FY16, our analysts forecast a sales decline of 3.7% y-y and recurring profit growth of 1.6% for companies in the Russell/Nomura Large Cap Index (ex financials). These forecasts represent upward revisions versus our previous forecasts issued in December 2016 (based on data collated on 24 November 2016) of 0.8ppt for sales and 1.6ppt for recurring profits. Combined upward revisions to our FY16 recurring profit forecasts came to ¥516.4bn.

Our forex assumptions for FY16 are USD/JPY of 108.4 (previously 104.1) and EUR/JPY of 118.5 (previously 116.0). Our WTI assumption is \$47.5/bbl (\$47.6/bbl). Our assumption is that the yen will be just under ¥12 stronger versus the US dollar in FY16 than in FY15.

In FY16 Q3, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) rose 6.9% y-y on a 2.6% decrease in sales. This follows a 9.0% decline in recurring profits on a 7.8% decline in sales in Q2. While the decline in sales was roughly two-thirds smaller, the trend of sales decline persists. At the same time, recurring profit growth improved by 15.9ppt, returning to positive growth for the first time in five quarters. In Q2, recurring profits increased in only eight of the 19 sectors in the Russell/Nomura Large Cap Index, but profits increased in 13 sectors in Q3. Profit improvement through Q2 was mainly centered in commodity sectors such as chemicals, steel & nonferrous metals, and trading companies, while in Q3, earnings began to improve in other sectors as well even as improvement continued in commodity sectors.

## Overview of the FY17 corporate earnings outlook

For FY17, our analysts look for sales growth of 5.4% y-y and recurring profit growth of 14.6% for companies in the Russell/Nomura Large Cap Index (ex financials). The current figures represent upward revisions of 2.1ppt for sales growth and 2.8ppt for recurring profit growth versus our previous forecasts. Combined upward revisions to our FY17 recurring profit forecasts came to ¥1,551.4bn. As discussed below, these upward revisions are larger than those to our FY16 forecasts as we expect a full-year contribution from the weaker yen.

Our forex assumptions for FY17 are USD/JPY of 114.0 (previously 103.0) and EUR/JPY of 120.0 (previously 114.0). Our WTI assumption is \$50.0/bbl (\$50.0/bbl). Our assumption is that the yen will be just under ¥11 weaker versus the US dollar in FY17 than in FY16.

The average ROE for Russell/Nomura Large Cap Index stocks was 7.7% in FY15, and we now forecast 8.3% in FY16 and 8.9% in FY17. Our FY16 ROE forecast is unchanged, but we revise up our FY17 ROE forecast by 0.3ppt.

Fig. 1: Overview of consolidated earnings forecasts for the Russell/Nomura Large Cap Index

(% y-y, except where noted)

		No. of cos	New					Old	
			FY13	FY14	FY15	FY16E	FY17E	FY16E	FY17E
Sales	Russell/Nomura Large Cap (ex financials)	298	12.5	4.6	-0.4	-3.7	5.4	-4.5	3.3
	Manufacturing	174	12.3	4.3	0.2	-4.5	6.6	-5.5	3.6
	Basic materials	44	13.2	0.6	-9.0	-6.3	11.4	-6.7	3.4
	Processing	79	13.2	5.7	3.1	-4.4	5.4	-5.7	3.8
	Nonmanufacturing (ex financials)	124	12.7	5.0	-1.2	-2.6	3.7	-3.1	3.0
	Russell/Nomura Small Cap (ex financials)	943	9.3	3.6	1.8	-0.6	4.1	0.2	3.5
Operating profits	Russell/Nomura Large Cap (ex financials)	298	34.3	5.2	8.7	-2.8	14.7	-3.4	10.9
	Manufacturing	174	37.1	5.8	2.9	-5.0	20.0	-5.4	13.8
	Basic materials	44	35.6	-14.0	8.6	8.8	18.7	-1.5	16.2
	Processing	79	44.4	14.7	-2.0	-10.4	25.5	-7.7	16.0
	Nonmanufacturing (ex financials)	124	29.6	4.2	18.6	0.1	7.8	-0.6	7.3
	Russell/Nomura Small Cap (ex financials)	943	28.4	4.3	10.5	4.4	10.8	4.0	10.0
Recurring profits	Russell/Nomura Large Cap	335	37.4	6.9	-0.6	0.8	12.7	-0.3	9.7
	Russell/Nomura Large Cap (ex financials)	298	39.7	7.0	1.5	1.6	14.6	0.0	11.8
	Manufacturing	174	43.3	7.2	-1.9	-3.5	21.0	-5.0	15.7
	Basic materials	44	33.5	-8.9	-7.4	10.7	24.2	1.2	20.0
	Processing	79	58.2	15.3	-4.2	-8.5	25.0	-7.5	17.2
	Nonmanufacturing	161	31.9	6.5	0.6	4.8	5.6	4.1	4.6
	Nonmanufacturing (ex financials)	124	34.0	6.6	7.1	9.0	6.6	7.1	6.9
	Russell/Nomura Small Cap	1,029	29.7	3.1	3.7	1.8	11.9	1.3	10.5
Net profits	Russell/Nomura Small Cap (ex financials)	943	27.3	5.0	4.1	4.1	13.4	3.6	12.7
	Russell/Nomura Large Cap	335	62.7	7.4	-3.9	9.8	11.6	9.4	8.2
	Russell/Nomura Large Cap (ex financials)	298	79.8	8.0	-4.7	11.1	15.2	10.8	11.2
	Manufacturing	174	80.9	10.2	-4.8	0.7	22.1	0.1	17.0
	Basic materials	44	85.9	-11.0	-27.1	53.3	25.0	37.8	21.0
	Processing	79	116.1	15.7	-3.0	-9.2	28.5	-7.0	20.1
	Nonmanufacturing	161	48.2	4.6	-3.0	18.5	2.8	18.4	0.8
	Nonmanufacturing (ex financials)	124	78.1	4.2	-4.6	28.0	6.2	28.3	3.8
Russell/Nomura Small Cap	1,029	74.2	2.2	1.9	11.7	18.9	14.4	12.5	
Russell/Nomura Small Cap (ex financials)	943	80.6	3.9	0.0	15.1	21.8	18.3	15.5	

Note: Latest estimates as of 20 February 2017. Previous estimates as of 24 November 2016.

Source: Nomura

Fig. 2: Major assumptions

As of 17 January 2017						As of 12 October 2016					
	Industrial production 2010 base year % y-y	Overnight call rate / Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg) USD/JPY EUR/JPY			Industrial production 2010 base year % y-y	Overnight call rate / Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg) USD/JPY EUR/JPY	
FY15	-1.0	-0.10	45.0	120.0	132.5		-1.0	-0.10	45.0	120.0	132.5
FY16E	0.8	-0.10	47.5	108.4	118.5		-0.2	-0.20	47.6	104.1	116.0
FY17E	2.2	-0.10	50.0	114.0	120.0		1.3	-0.20	50.0	103.0	114.0
FY15 H1	-0.4	0-0.10	52.2	121.7	135.1		-0.4	0-0.10	52.2	121.7	135.1
FY15 H2	-2.2	-0.10	37.8	118.4	129.9		-2.2	-0.10	37.8	118.4	129.9
FY16 H1	-1.1	-0.20	45.3	105.2	118.1		-1.1	-0.20	45.3	105.2	118.1
FY16E H2	2.3	-0.10	49.6	111.7	119.0		0.7	-0.20	50.0	103.0	114.0
FY17E H1	2.9	-0.10	50.0	114.0	120.0		1.6	-0.20	50.0	103.0	114.0
FY17E H2	1.6	-0.10	50.0	114.0	120.0		1.1	-0.20	50.0	103.0	114.0

Note: We use the call rate for interest rate data through FY15 H1 and the policy rate for FY15 H2 and beyond since the BOJ introduced a negative interest rate component in its policy on 29 January 2016. Call rate is the overnight uncollateralized call rate target, WTI is term-average WTI crude oil futures price (near-term delivery). The above assumptions are not Nomura estimates but the assumptions on which Nomura analysts base their earnings estimates.

Source: Nomura

# Contributions to recurring profit growth by sector

## Overview of the FY16 corporate earnings outlook

For FY16, we project that recurring profits will increase in 10 of the 19 sectors and decline in nine.

Sectors from which we expect large contributions to overall profit growth include trading companies, chemicals, housing & real estate, and telecommunications. For many of the sectors where we expect sharp growth, the growth is largely due to a rebound from earnings deterioration in FY15. For chemicals, we forecast roughly flat earnings in FY16 when excluding the oil sector, which has recorded weak earnings over the past two years. In the housing & real estate sector, housing demand has been gradually recovering against a backdrop of low interest rates. At the same time, while some companies in the telecommunications sector have seen an impact from scaled-back spending on sales promotions in response to policies by the Ministry of Internal Affairs and Communications and from the growing presence of competitors offering discounted rates, many companies are shoring up earnings with cost cuts and expansion in non-telecoms business. As some internet services companies have been investing aggressively in other companies, fluctuations in the value of these investments can now have a major impact on earnings for the entire sector.

Sectors that we expect to make large negative contributions to profit growth include autos, utilities, machinery, and transportation. While the yen weakened versus the dollar from late 2016, we assume USD/JPY of 108.4 for full-year FY16 versus 120.0 for FY15, representing a severe headwind for external demand-oriented sectors. In the automobiles sector, global automobile demand increased 4.9% y-y in 2016, but increased only 1.5% when excluding China. Sales growth in the US was sluggish at only 0.4%. We expect some degree of profit boost from cost savings and increased selling volumes in Europe and the US, but we do not think these will be sufficient to offset the negative impact from yen appreciation. In the utilities sector, we expect fallout from delays in restarting nuclear power stations and electricity rate cuts triggered by the full deregulation of the electricity retail market. In the machinery sector, shipbuilding and heavy machinery companies are being impacted by reduced production and delays in reducing costs in commercial aircraft businesses, and ship & offshore structure businesses are being burdened by additional expenses. At the same time, while we had seen major disparities in business conditions for machinery by region, we now see improvement both in terms of the regional breakdown and in terms of earnings. In the transportation sector, we expect the marine transport subsector to swing to losses as we expect containership rates to deteriorate further due to excess supply.

## Overview of the FY17 corporate earnings outlook

For FY17, we project that recurring profits will increase in 17 of the 19 sectors and decrease in two.

Sectors from which we expect large contributions to overall profit growth include electrical machinery & precision equipment, automobiles, steel & nonferrous metals, chemicals, and machinery. We expect the rapid appreciation of the yen seen in FY16 to quiet down in FY17, with the yen weakening by ¥5.6 y-y versus the dollar. The US and Chinese economies remain strong, and we expect a positive boost to the Japanese economy from the government's large-scale economic stimulus package. Against this backdrop, we expect the negative effects of yen appreciation to drop off and expect a return to profit growth, particularly in the manufacturing sector.

We expect profits to decline in the utilities and media sectors. We expect earnings in the utilities sector to be hobbled by a rise in fixed costs, which sector companies have been working to keep down, and by deterioration in gains/losses under the fuel cost adjustment system stemming from the weaker yen.

Fig. 3: Contributions to recurring profit growth by sector for the Russell/Nomura Large Cap Index

FY16E				FY17E			
Increase in profits (%)				Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
<b>10 sectors</b>				<b>17 sectors</b>			
Trading companies	242.7	481.4	295.1	Electrical machinery, precision equipment	45.3	28.1	29.5
Chemicals	15.7	123.1	75.4	Automobiles	16.2	20.7	21.8
Housing, real estate	17.5	79.7	48.9	Steel, nonferrous metals	87.8	8.6	9.1
Telecommunications	7.1	72.6	44.5	Chemicals	13.4	7.8	8.2
Food	7.2	29.9	18.3	Machinery	21.6	7.7	8.1
Software	24.5	20.8	12.8	Retailing	18.1	5.0	5.3
Construction	13.3	19.0	11.6	Financials	3.5	4.9	-
Electrical machinery, precision equipment	1.7	16.4	10.1	Telecommunications	6.8	4.8	5.0
Household goods	5.9	10.1	6.2	Transportation	7.6	3.0	3.2
Media	0.3	0.3	0.2	Trading companies	6.8	3.0	3.1
				Housing, real estate	7.4	2.5	2.7
<b>Decrease in profits (%)</b>				Software	28.4	2.2	2.3
				Food	5.7	1.7	1.8
<b>9 sectors</b>				Household goods	10.5	1.2	1.3
Retailing	-2.6	-11.3	-6.9	Pharmaceuticals, healthcare	1.9	0.5	0.6
Steel, nonferrous metals	-11.4	-20.0	-12.2	Construction	3.7	0.4	0.4
Pharmaceuticals, healthcare	-4.3	-20.1	-12.3	Services	0.7	0.2	0.2
Services	-7.0	-33.7	-20.7				
Financials	-2.8	-63.2	-	<b>Decrease in profits (%)</b>			
Transportation	-9.8	-68.8	-42.1				
Machinery	-15.5	-103.1	-63.2	<b>2 sectors</b>			
Utilities	-38.7	-189.9	-116.4	Media	-1.9	-0.1	-0.1
Automobiles	-10.6	-243.5	-149.2	Utilities	-11.6	-2.2	-2.3

Source: Nomura

# Revisions to recurring profit estimates (versus old estimates)

## Overview of the FY16 corporate earnings outlook

We have raised our FY16 recurring profit forecasts for 14 of the 19 sectors and lowered them for 5. We have revised our USD/JPY assumption for FY16 from 104.1 to 108.4, and the weaker yen tends to push up earnings forecasts for external demand-oriented sectors.

Upward revisions were comparatively large in the automobiles, chemicals, and trading companies sector. Upward revisions to automobiles sector forecasts mainly reflected the change in forex assumptions. In Chemicals, yen depreciation and higher oil prices accounted for most of the upward revisions in the oil subsector, and these upward revisions accounted for slightly under 80% of the upward revisions for the entire sector. Trading companies' Q3 earnings were strong, mainly on a rise in resource prices, including for coking coal and iron ore.

Sectors for which we have made large downward revisions include electrical machinery & precision equipment. While there were more upward revisions in some subsectors such as electronic parts, even when excluding one-time factors such as gains on the sale of businesses by some companies, some industrial electronics and consumer electronics companies were hit hard by impairment.

## Overview of the FY17 corporate earnings outlook

We have raised our FY17 recurring profit forecasts for 13 of the 19 sectors and lowered them for six. We revised our USD/JPY assumption for FY17 from 103.0 to a weaker 114.0. This is a further move toward a weaker yen than seen in FY16, and this implies higher upward revisions in external demand-related sectors.

The largest upward revisions were for our estimates for sectors such as automobiles, chemicals, trading companies, and steel & nonferrous metals. Most of the upward revisions in the automobiles and trading companies sectors were extensions of the upward revisions we made to our FY16 forecasts. In chemicals as well, most of the upward revisions stemmed from market price factors in the oil subsector, but we also saw upward revisions in electronic materials from higher prices or alleviation of downward pressure on prices. In steel & nonferrous metals, much of the downward revisions to FY16 forecast for nonferrous metals and wire & cable stemmed from temporary factors such as impairment, so the winding down of these factors pushed up forecasts for FY17 by a comparatively large amount across the sector.

The utilities sector saw comparatively large downward revisions. These stem mainly from deterioration in gains/losses under the fuel cost adjustment system resulting from yen depreciation.

Fig. 4: Revisions to recurring profit estimates (versus old estimates) for the Russell/Nomura Large Cap Index

FY16E					FY17E				
[Upward revisions] 14 sectors					[Upward revisions] 13 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Automobiles	6,779	6,419	360	5.6	Automobiles	7,742	7,089	653	9.2
Chemicals	3,012	2,727	284	10.4	Chemicals	3,429	3,022	407	13.5
Trading companies	2,253	2,062	191	9.2	Trading companies	2,407	2,146	261	12.1
Telecommunications	3,627	3,559	69	1.9	Financials	7,432	7,215	216	3.0
Pharmaceuticals, healthcare	1,479	1,417	62	4.4	Steel, nonferrous metals	962	846	116	13.8
Machinery	1,867	1,842	25	1.3	Machinery	2,250	2,150	99	4.6
Steel, nonferrous metals	515	495	20	4.0	Retailing	1,712	1,661	51	3.1
Housing, real estate	1,771	1,754	17	1.0	Food	1,637	1,607	30	1.8
Household goods	605	591	14	2.3	Housing, real estate	1,929	1,902	27	1.4
Services	1,477	1,464	13	0.9	Electrical machinery, precision equipment	4,697	4,672	24	0.5
Media	323	316	6	2.0	Telecommunications	3,894	3,872	22	0.6
Software	351	345	6	1.7	Media	316	313	4	1.2
Construction	536	531	5	0.9	Construction	545	543	3	0.5
Retailing	1,418	1,413	5	0.3					
[Downward revisions] 5 sectors					[Downward revisions] 6 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Food	1,472	1,474	-1	-0.1	Pharmaceuticals, healthcare	1,554	1,559	-5	-0.3
Utilities	998	1,023	-25	-2.4	Household goods	679	688	-9	-1.4
Transportation	2,097	2,129	-32	-1.5	Transportation	2,240	2,250	-10	-0.4
Financials	7,333	7,443	-111	-1.5	Software	515	533	-18	-3.4
Electrical machinery, precision equipment	3,169	3,670	-502	-13.7	Services	1,492	1,519	-27	-1.8
					Utilities	865	941	-76	-8.1

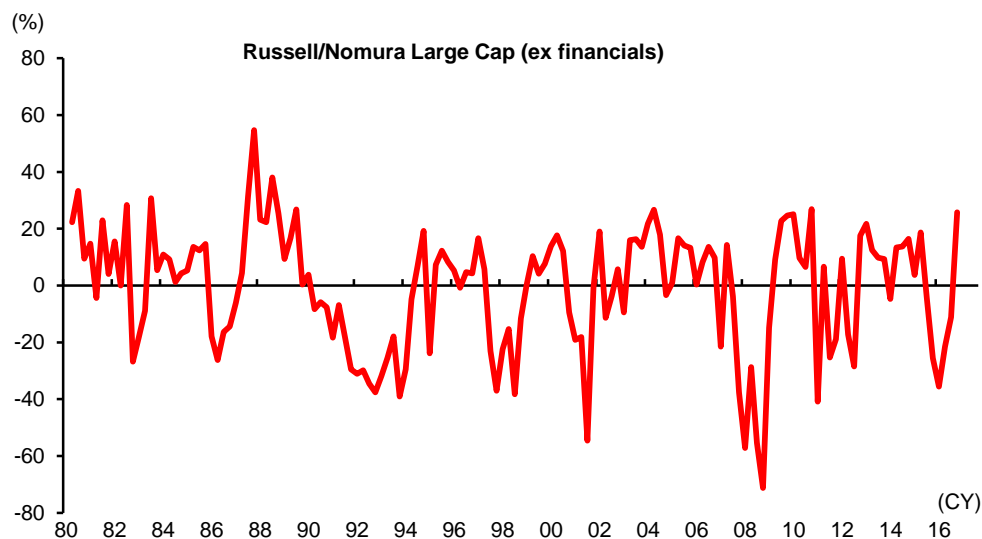
Note: Latest estimates as of 20 February 2017, previous estimates as of 24 November 2016.

Source: Nomura



**Fig. 5: Revision index for the Russell/Nomura Large Cap Index**

	(yy/m)	15/6	15/9	15/12	16/3	16/6	16/9	16/12	17/3 (%)
Russell/Nomura Large Cap		4.2	21.8	-3.6	-24.0	-36.4	-22.1	-9.6	26.0
Russell/Nomura Large Cap (ex financials)		3.7	18.7	-4.3	-25.6	-35.6	-21.5	-11.1	25.8
Manufacturing		0.0	19.4	-19.4	-38.5	-41.4	-33.9	-18.4	40.1
Basic materials		28.3	19.6	-17.4	-27.3	-29.5	-20.5	-13.6	32.5
Processing		-12.6	-1.1	-35.6	-75.9	-73.4	-59.5	-22.8	61.3
Nonmanufacturing (ex financials)		9.2	17.5	18.3	-7.3	-27.4	-4.0	-0.8	5.6



Note: (1) Calculated by Nomura based on revisions to recurring profit forecasts. Excludes consolidated subsidiaries. (2) Revision index = (number of upward revisions – number of downward revisions) ÷ number of constituent companies.

Source: Nomura

# Russell/Nomura Large Cap Index: earnings indicators

Fig. 6: Percentage change in sales by sector

(% y-y, except where noted)

		No. of cos	FY11	FY12	FY13	FY14	FY15	FY16E Old	FY16E New	FY17E Old	FY17E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	298	1.4	2.7	12.5	4.6	-0.4	-4.5	-3.7	3.3	5.4
	Manufacturing	174	0.2	3.0	12.3	4.3	0.2	-5.5	-4.5	3.6	6.6
	Basic materials	44	4.8	-0.5	13.2	0.6	-9.0	-6.7	-6.3	3.4	11.4
	Processing	79	-2.0	4.8	13.2	5.7	3.1	-5.7	-4.4	3.8	5.4
	Nonmanufacturing (ex financials)	124	3.0	2.2	12.7	5.0	-1.2	-3.1	-2.6	3.0	3.7
Broad sectors	Materials	44	4.8	-0.5	13.2	0.6	-9.0	-6.7	-6.3	3.4	11.4
	Machinery, autos	46	-0.1	10.0	15.4	7.8	5.7	-5.4	-3.8	4.5	6.4
	Electronics	33	-4.3	-1.6	10.1	2.7	-0.9	-6.2	-5.3	2.5	3.8
	Consumer, distribution	93	3.3	0.8	11.2	3.7	-1.4	-3.9	-3.1	2.8	3.7
	Information	22	1.5	3.4	20.1	9.6	5.7	0.3	0.6	5.5	5.9
	Utilities, infrastructure	60	2.2	5.3	10.0	5.2	-1.3	-2.8	-3.1	2.2	3.4
Sectors	Chemicals	36	6.5	0.8	12.5	-1.1	-9.9	-7.1	-6.8	1.7	10.5
	Steel, nonferrous metals	8	0.7	-4.3	15.1	4.7	-6.8	-6.0	-5.2	7.7	13.8
	Machinery	24	5.0	2.2	15.4	11.1	3.3	-4.3	-3.5	5.0	5.8
	Autos	22	-1.6	12.5	15.5	6.9	6.5	-5.8	-3.9	4.4	6.5
	Electrical machinery, precision equipment	33	-4.3	-1.6	10.1	2.7	-0.9	-6.2	-5.3	2.5	3.8
	Pharmaceuticals, healthcare	22	3.0	2.0	7.8	0.6	5.2	-2.9	-2.4	2.9	3.3
	Food products	16	-0.9	3.3	5.4	6.7	1.6	-1.0	-1.9	2.3	6.5
	Household goods	13	2.9	4.4	9.9	11.5	6.0	-4.9	-5.1	4.5	4.0
	Trading companies	7	6.1	-1.0	14.0	2.7	-9.7	-9.6	-7.1	2.9	3.3
	Retailing	22	-2.5	3.7	10.0	5.7	7.3	1.2	1.1	3.8	4.6
	Services	13	-2.4	1.5	3.5	-0.4	4.1	-1.1	-1.1	1.4	1.3
	Software	9	-14.9	-4.0	3.6	1.4	-0.1	3.8	1.9	13.6	15.5
	Media	5	1.9	4.8	10.5	5.1	12.0	0.0	-0.8	1.6	2.2
	Telecommunications	8	3.5	3.8	24.4	10.9	5.5	0.0	0.7	5.0	5.3
	Construction, engineering	5	7.7	7.5	6.8	7.2	1.7	-0.6	-0.7	2.8	3.0
	Housing, real estate	17	2.7	6.1	14.5	7.9	4.3	5.0	5.1	3.3	3.4
	Transportation	25	-0.7	3.4	7.2	3.4	0.3	-2.7	-3.2	1.6	2.4
Utilities	13	3.4	5.9	11.0	4.7	-7.7	-9.3	-9.8	1.5	4.7	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 20 February 2017, previous estimates as of 24 November 2016.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY11	FY12	FY13	FY14	FY15	FY16E Old	FY16E New	FY17E Old	FY17E New
Industrial groups	Russell/Nomura Large Cap	335	-12.1	12.8	37.4	6.9	-0.6	-0.3	0.8	9.7	12.7
	Russell/Nomura Large Cap (ex financials)	298	-19.5	7.7	39.7	7.0	1.5	0.0	1.6	11.8	14.6
	Manufacturing	174	-17.9	10.3	43.3	7.2	-1.9	-5.0	-3.5	15.7	21.0
	Basic materials	44	-7.1	-19.2	33.5	-8.9	-7.4	1.2	10.7	20.0	24.2
	Processing	79	-29.3	36.4	58.2	15.3	-4.2	-7.5	-8.5	17.2	25.0
	Nonmanufacturing	161	-5.9	15.2	31.9	6.5	0.6	4.1	4.8	4.6	5.6
	Nonmanufacturing (ex financials)	124	-21.7	3.5	34.0	6.6	7.1	7.1	9.0	6.9	6.6
Broad sectors	Materials	44	-7.1	-19.2	33.5	-8.9	-7.4	1.2	10.7	20.0	24.2
	Machinery, autos	46	-11.5	42.5	47.6	16.2	1.9	-15.6	-11.7	13.5	17.4
	Electronics	33	-54.9	19.7	92.9	13.0	-19.7	17.9	1.7	25.2	45.3
	Consumer, distribution	93	5.9	-4.1	15.7	-9.0	-7.6	16.4	21.0	7.0	6.9
	Information	22	0.0	7.3	16.2	8.0	4.3	5.8	7.8	10.0	8.2
	Utilities, infrastructure	60	-70.2	30.2	102.6	28.3	37.3	-8.4	-8.9	4.2	3.6
	Financials	37	33.7	34.8	29.3	6.5	-8.6	-1.3	-2.8	-0.1	3.5
Sectors	Chemicals	36	1.8	-19.2	16.3	-21.7	21.6	4.7	15.7	10.7	13.4
	Steel, nonferrous metals	8	-34.3	-18.9	119.5	24.0	-54.6	-14.8	-11.4	71.8	87.8
	Machinery	24	7.9	-5.1	31.9	23.7	-6.6	-16.6	-15.5	17.6	21.6
	Autos	22	-20.8	72.8	53.0	13.9	4.7	-15.3	-10.6	12.3	16.2
	Electrical machinery, precision equipment	33	-54.9	19.7	92.9	13.0	-19.7	17.9	1.7	25.2	45.3
	Pharmaceuticals, healthcare	22	-9.0	-4.9	14.0	-15.3	39.2	-8.9	-4.3	6.3	1.9
	Food products	16	5.2	9.1	13.0	4.9	-0.5	5.1	7.2	4.4	5.7
	Household goods	13	1.9	0.1	20.3	11.0	3.3	2.9	5.9	14.6	10.5
	Trading companies	7	22.6	-15.1	25.9	-20.6	-62.2	213.7	242.7	4.1	6.8
	Retailing	22	7.9	-2.5	5.6	-4.8	13.4	-2.9	-2.6	14.9	18.1
	Services	13	-14.7	16.6	12.8	-2.4	-5.6	-7.9	-7.0	3.5	0.7
	Software	9	-53.5	8.4	14.9	22.6	-11.4	22.4	24.5	35.0	28.4
	Media	5	14.5	7.6	10.8	11.0	10.4	-1.7	0.3	-1.1	-1.9
	Telecommunications	8	6.2	7.2	16.8	6.5	5.6	5.1	7.1	8.2	6.8
	Construction, engineering	5	49.0	-1.0	25.3	38.4	92.4	12.2	13.3	4.2	3.7
	Housing, real estate	17	-0.9	20.8	29.5	4.6	11.3	16.4	17.5	7.1	7.4
	Transportation	25	-18.9	30.9	15.1	10.4	13.3	-8.4	-9.8	6.4	7.6
	Utilities	13	SL	LI	SP	1,682.0	146.7	-37.1	-38.7	-5.5	-11.6
Financials	37	33.7	34.8	29.3	6.5	-8.6	-1.3	-2.8	-0.1	3.5	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as 20 February 2017, previous estimates as of 24 November 2016. (2) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY11	FY12	FY13	FY14	FY15	FY16E Old	FY16E New	FY17E Old	FY17E New
Industrial groups	Russell/Nomura Large Cap	335	23,168	26,521	36,708	38,488	39,670	40,675	41,081	44,529	46,296
	Russell/Nomura Large Cap (ex financials)	298	18,302	20,556	28,994	30,350	32,151	33,232	33,748	37,313	38,864
	Manufacturing	174	11,132	12,917	18,323	19,085	19,524	18,637	18,898	21,634	22,950
	Basic materials	44	3,588	3,101	3,931	3,325	3,177	3,222	3,527	3,868	4,392
	Processing	79	5,052	7,167	11,295	12,834	12,880	11,932	11,815	13,912	14,688
	Nonmanufacturing	161	12,037	13,604	18,385	19,403	20,146	22,038	22,183	22,895	23,346
	Nonmanufacturing (ex financials)	124	7,170	7,639	10,671	11,265	12,627	14,595	14,851	15,679	15,915
Broad sectors	Materials	44	3,588	3,101	3,931	3,325	3,177	3,222	3,527	3,868	4,392
	Machinery, autos	46	3,731	5,480	8,052	9,213	9,835	8,262	8,646	9,240	9,992
	Electronics	33	1,321	1,687	3,243	3,621	3,045	3,670	3,169	4,672	4,697
	Consumer, distribution	93	5,869	5,829	6,841	6,151	6,048	8,421	8,704	9,181	9,481
	Information	22	2,783	3,039	3,645	3,841	4,087	4,220	4,301	4,717	4,725
	Utilities, infrastructure	60	1,010	1,419	3,281	4,198	5,959	5,436	5,402	5,635	5,579
	Financials	37	4,867	5,965	7,714	8,138	7,519	7,443	7,333	7,215	7,432
Sectors	Chemicals	36	2,959	2,606	2,851	2,059	2,583	2,727	3,012	3,022	3,429
	Steel, nonferrous metals	8	629	495	1,080	1,266	594	495	515	846	962
	Machinery	24	1,472	1,416	1,855	2,306	2,264	1,842	1,867	2,150	2,250
	Autos	22	2,260	4,064	6,197	6,908	7,571	6,419	6,779	7,089	7,742
	Electrical machinery, precision equipment	33	1,321	1,687	3,243	3,621	3,045	3,670	3,169	4,672	4,697
	Pharmaceuticals, healthcare	22	1,215	1,170	1,314	1,113	1,578	1,417	1,479	1,559	1,554
	Food products	16	938	1,107	1,306	1,341	1,383	1,474	1,472	1,607	1,637
	Household goods	13	338	371	477	471	507	591	605	688	679
	Trading companies	7	1,993	1,706	2,026	1,740	657	2,062	2,253	2,146	2,407
	Retailing	22	1,071	1,110	1,277	1,087	1,386	1,413	1,418	1,661	1,712
	Services	13	313	364	441	399	538	1,464	1,477	1,519	1,492
	Software	9	148	173	245	324	352	345	351	533	515
	Media	5	239	227	251	271	322	316	323	313	316
	Telecommunications	8	2,396	2,639	3,150	3,246	3,414	3,559	3,627	3,872	3,894
	Construction, engineering	5	123	122	181	212	462	531	536	543	545
	Housing, real estate	17	737	956	1,264	1,363	1,604	1,754	1,771	1,902	1,929
	Transportation	25	1,049	1,406	1,799	1,963	2,267	2,129	2,097	2,250	2,240
	Utilities	13	-898	-1,065	37	660	1,627	1,023	998	941	865
Financials	37	4,867	5,965	7,714	8,138	7,519	7,443	7,333	7,215	7,432	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as 20 February 2017, previous estimates as of 24 November 2016.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY15 Q4–FY16 Q3)

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	-23.6	-18.9	-5.6	6.9	-40.0	-20.5	1.4	21.9
	Russell/Nomura Large Cap (ex financials)	-5.3	-6.6	-7.8	-2.6	-16.3	-8.8	-9.9	-2.7	-26.5	-16.7	-9.0	6.9	-51.0	-19.8	-2.9	23.1
	Manufacturing	-5.3	-7.9	-8.9	-3.8	-12.3	-10.6	-17.7	-17.2	-18.4	-21.5	-16.3	-5.0	-11.8	-22.5	-15.5	8.1
	Basic materials	-12.2	-14.4	-12.3	-2.2	-11.1	-28.1	-2.0	36.8	-30.2	-43.4	0.1	68.0	SL	-47.5	12.2	200.8
	Processing	-4.2	-7.1	-9.1	-4.3	-26.0	-13.4	-22.7	-34.1	-29.0	-23.3	-21.1	-22.6	-10.9	-24.8	-19.7	-20.7
	Nonmanufacturing	-	-	-	-	-	-	-	-	-28.6	-16.7	4.2	18.6	-69.7	-18.8	17.7	33.8
	Nonmanufacturing (ex financials)	-5.2	-4.9	-6.3	-0.9	-22.8	-6.6	0.2	18.4	-39.6	-10.3	0.5	25.0	SL	-16.1	15.0	44.5
Broad sectors	Basic materials	-12.2	-14.4	-12.3	-2.2	-11.1	-28.1	-2.0	36.8	-30.2	-43.4	0.1	68.0	SL	-47.5	12.2	200.8
	Machinery, autos	-1.4	-6.0	-8.4	-3.1	-11.7	-12.0	-29.0	-21.2	-11.5	-20.5	-24.7	-9.8	-21.6	-26.0	-26.4	-12.9
	Electronics	-8.4	-8.9	-10.1	-6.2	-58.4	-17.7	-7.6	-64.8	-82.1	-31.3	-12.6	-57.0	55.0	-20.9	-1.8	-87.8
	Consumption, distribution	-5.2	-5.1	-7.4	-1.6	-27.1	-1.0	-6.5	21.8	-63.3	-5.7	-2.8	22.1	SL	-8.1	-3.9	50.3
	Information	5.3	2.1	-1.8	-1.2	17.3	17.3	6.3	12.7	18.7	4.6	1.1	32.5	39.5	17.0	65.8	27.1
	Utilities, infrastructure	-6.1	-5.6	-4.7	-1.3	-2.0	-14.2	-2.9	4.5	-2.7	-13.9	-2.9	9.2	-95.9	-26.9	-12.3	39.9
	Financials	-	-	-	-	-	-	-	-	-11.0	-27.5	12.9	6.9	15.6	-23.4	23.4	17.7
Sectors	Chemicals	-12.4	-14.5	-12.9	-2.1	22.3	-19.3	8.3	48.4	-2.0	-32.7	9.2	64.6	LS	-31.3	36.7	182.7
	Steel, nonferrous metals	-11.6	-14.2	-10.5	-2.7	-59.1	-65.8	-34.1	-8.3	-75.2	-84.2	-28.9	93.1	SL	-95.9	-30.1	452.3
	Machinery	-4.5	-6.3	-6.6	-3.3	-5.6	-19.6	-35.0	-20.2	-9.3	-39.7	-30.0	0.3	0.0	-34.6	-38.9	0.9
	Automobiles	-0.4	-5.9	-8.9	-3.1	-14.2	-9.8	-27.3	-21.4	-12.4	-15.1	-23.4	-12.6	-28.0	-23.7	-23.3	-16.2
	Electrical machinery, precision equipment	-8.4	-8.9	-10.1	-6.2	-58.4	-17.7	-7.6	-64.8	-82.1	-31.3	-12.6	-57.0	55.0	-20.9	-1.8	-87.8
	Pharmaceuticals, healthcare	4.7	0.4	-4.3	-3.4	SP	42.0	-29.3	-5.5	SP	31.2	-28.6	4.3	34.3	38.4	-19.3	9.7
	Food products	1.1	-2.8	-1.7	-2.9	24.8	2.2	-0.7	11.0	11.6	0.6	-2.4	12.4	7.1	-8.3	-25.6	148.0
	Household goods	-1.8	-2.7	-3.8	-7.6	16.9	4.5	10.5	-14.0	12.1	-5.9	18.0	-8.9	45.3	19.3	29.1	-13.0
	Trading companies	-14.9	-14.3	-15.2	-1.0	SL	-23.4	10.4	193.3	SL	-23.3	26.3	133.8	SL	-28.5	22.6	282.9
	Retailing	3.3	1.4	-0.6	2.9	-3.6	5.8	10.0	6.7	-10.3	-0.4	6.3	13.0	-21.4	-7.8	-22.4	20.0
	Services	5.1	0.3	-7.0	-3.9	13.3	-25.9	-18.9	-5.5	20.3	-26.3	-18.4	-4.3	57.0	-31.0	17.0	-4.3
	Software	0.4	1.4	-4.4	0.9	-0.7	21.0	-19.4	28.4	-7.7	-64.5	-0.1	71.9	49.0	-48.3	154.9	103.2
	Media	7.0	5.2	1.3	-7.0	51.0	44.2	-4.8	-2.8	51.1	46.5	-2.3	-7.0	90.9	63.5	-1.6	-8.9
	Telecommunications	5.5	1.8	-1.9	-0.6	16.4	15.8	9.0	12.9	18.5	7.1	1.4	33.1	33.1	19.2	63.3	21.2
	Construction, engineering	-4.6	-2.0	-3.9	-2.7	144.3	44.6	47.8	27.9	130.9	23.7	53.9	33.8	287.2	25.9	67.8	35.0
	Housing, real estate	-1.1	4.1	1.7	8.5	-9.1	11.1	7.6	24.2	-18.9	25.3	7.3	29.2	-30.7	25.3	6.7	28.6
	Transportation	-3.7	-4.8	-6.2	-2.6	-3.4	-11.6	-10.8	1.5	2.9	-14.5	-11.5	5.9	SL	-19.0	-49.4	20.4
	Utilities	-12.4	-13.8	-8.3	-6.9	-19.1	-31.5	-10.6	-36.3	-14.7	-31.9	-11.2	-45.0	SL	-53.4	7.9	162.2
	Financials	-	-	-	-	-	-	-	-	-11.0	-27.5	12.9	6.9	15.6	-23.4	23.4	17.7

Note: (1) Q1 = Feb–Apr, Mar–May, or Apr–Jun; Q2 = May–Jul, Jun–Aug, or Jul–Sep; Q3 = Aug–Oct, Sep–Nov, or Oct–Dec; Q4 = Nov–Jan, Dec–Feb, or Jan–Mar. (2) Figures are for companies that had announced results (either full year, Q1, Q2, or Q3) by 20 February 2017. (3) Excludes consolidated subsidiaries. (4) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 10: Valuation indicators

		P/E			P/CF			P/B		Dividend yield			ROE			
		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY15	FY16E	FY16E	FY17E	FY18E	FY15	FY16E	FY17E	FY18E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	16.7	15.0	13.8	-	-	-	1.45	1.36	1.95	2.10	2.23	7.7	8.3	8.9	9.1
	Russell/Nomura Large Cap (ex loss-making cos)	15.8	14.7	13.5	-	-	-	1.50	1.36	1.97	2.13	2.27	8.8	8.8	9.0	9.1
	Russell/Nomura Large Cap (ex financials)	18.2	15.8	14.3	8.9	8.3	7.8	1.63	1.52	1.89	2.05	2.19	7.9	8.5	9.5	9.8
	Manufacturing	19.8	16.1	14.5	10.2	9.0	8.4	1.66	1.62	1.94	2.13	2.30	8.1	8.3	9.8	10.2
	19.0	14.3	12.8	7.7	6.6	6.1	1.22	1.19	1.65	1.85	1.98	3.8	6.3	8.1	8.4	7.2
	18.5	14.4	12.9	9.7	8.3	7.6	1.60	1.54	2.05	2.28	2.50	9.3	8.5	10.4	10.9	10.4
	Nonmanufacturing	14.2	13.9	13.0	-	-	-	1.25	1.14	1.96	2.06	2.15	7.3	8.2	8.2	8.2
	Nonmanufacturing (ex financials)	16.1	15.2	14.1	7.4	7.3	6.9	1.58	1.38	1.81	1.91	2.01	7.6	8.8	8.9	9.1
Broad sectors	Basic materials	19.0	14.3	12.8	7.7	6.6	6.1	1.22	1.19	1.65	1.85	1.98	3.8	6.3	8.1	8.4
	Machinery, autos	14.7	12.6	11.3	8.6	7.6	7.0	1.46	1.41	2.40	2.65	2.92	11.0	9.8	10.9	11.4
	Electronics	31.2	18.4	16.3	12.1	9.5	8.8	1.87	1.81	1.51	1.73	1.88	5.8	6.0	9.6	10.1
	Consumption, distribution	21.2	19.6	18.5	12.6	11.9	11.4	1.97	1.64	1.97	2.06	2.15	6.2	7.9	8.3	8.4
	Information	14.3	15.5	14.1	6.2	6.6	6.2	1.97	1.85	1.76	1.86	2.02	10.8	13.2	11.7	12.0
	Utilities, infrastructure	15.5	14.3	13.1	6.5	6.3	6.0	1.38	1.31	1.56	1.68	1.75	8.9	8.6	9.0	9.2
	Financials	10.8	11.0	10.7	-	-	-	0.81	0.79	2.36	2.47	2.55	7.0	7.4	7.0	6.8
Sectors	Chemicals	17.3	14.6	13.0	8.0	7.2	6.6	1.36	1.30	1.80	1.79	1.89	4.0	7.7	8.7	9.1
	Steel, nonferrous metals	29.1	13.6	12.2	6.8	5.2	4.9	0.91	0.90	1.15	2.02	2.30	3.4	3.1	6.5	6.9
	Machinery	22.8	18.8	17.1	12.6	11.2	10.4	1.82	1.80	1.61	1.75	1.87	9.0	8.0	9.3	9.5
	Automobiles	12.5	10.8	9.6	7.4	6.6	6.1	1.33	1.27	2.79	3.10	3.44	11.8	10.4	11.4	12.0
	Electrical machinery, precision equipment	31.2	18.4	16.3	12.1	9.5	8.8	1.87	1.81	1.51	1.73	1.88	5.8	6.0	9.6	10.1
	Pharmaceuticals, healthcare	27.3	27.1	26.1	17.1	17.1	16.9	2.28	2.29	1.94	2.00	2.03	8.6	8.5	8.3	8.3
	Food products	21.3	21.6	20.2	13.2	13.4	12.8	2.61	2.53	1.94	2.17	2.32	10.4	12.0	11.0	11.0
	Household goods	24.3	23.1	21.1	16.0	15.2	14.2	2.86	2.82	1.34	1.36	1.49	10.0	11.8	12.6	12.7
	Trading companies	9.4	8.7	8.3	6.0	5.6	5.4	0.96	0.91	2.99	3.19	3.31	0.8	9.9	10.1	9.8
	Retailing	32.8	22.3	20.1	14.5	12.0	11.1	2.09	2.13	1.54	1.57	1.69	7.7	6.5	9.7	10.1
	Services	25.8	25.0	23.9	14.6	14.2	13.6	2.45	0.99	2.04	2.05	2.10	6.1	3.9	4.0	4.1
	Software	26.1	25.0	22.1	19.1	18.8	17.2	2.98	2.52	1.81	1.94	2.16	7.8	10.0	10.5	11.2
	Media	18.2	18.6	18.2	12.7	12.8	12.5	1.32	1.34	1.51	1.48	1.48	7.4	7.3	6.8	6.4
	Telecommunications	12.6	13.8	12.5	5.0	5.3	5.0	1.92	1.81	1.77	1.88	2.04	11.9	14.8	12.8	13.0
	Construction	9.9	9.8	9.3	8.5	8.4	8.1	1.64	1.38	2.02	2.23	2.33	13.4	14.7	14.2	13.4
	Housing, real estate	15.8	14.5	13.9	11.1	10.4	10.0	1.65	1.58	1.83	1.96	2.06	8.4	10.3	10.6	10.3
	Transportation	18.8	15.1	14.1	7.5	6.8	6.5	1.54	1.48	1.20	1.36	1.40	8.0	8.0	9.5	9.4
	Utilities	12.2	14.4	11.3	2.8	2.9	2.7	0.81	0.77	1.79	1.71	1.76	9.5	6.4	5.2	6.4
Financials	10.8	11.0	10.7	-	-	-	0.81	0.79	2.36	2.47	2.55	7.0	7.4	7.0	6.8	
	Russell/Nomura Small Cap	18.4	15.7	15.1	-	-	-	1.30	1.25	1.70	1.77	1.81	6.5	6.9	7.3	7.2
	Russell/Nomura Small Cap (ex financials)	19.2	16.1	15.5	10.0	8.6	8.4	1.42	1.37	1.67	1.74	1.77	6.6	7.3	7.9	7.8

Note: Estimates and share prices as of 20 February 2017 close.

Source: Nomura

# What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by Frank Russell Company and the Global Research Division, Financial Engineering & Technology Research Center, Nomura Securities Co., Ltd.

Russell/Nomura Japan Equity Indexes should be useful in:

- Determining investment strategies (strategic asset allocation)
- Determining manager structures
- Devising asset management benchmarks
- Supporting portfolio management activities
- Evaluating the performance of various investment styles
- Managing risk

Russell/Nomura Japan Equity Indexes have the following characteristics:

- They are share price indexes that are weighted by free-float adjusted market capitalization and cover the top 98% of all listed stocks in terms of float-adjusted market capitalization, thereby offering broad market coverage
- In addition to stocks listed on the First Section of the Tokyo Stock Exchange (TSE-1), they include stocks listed on other exchanges
- Because the indexes take into consideration the stable shareholding ratio, they reflect the stocks that are actually available for investment
- There are style indexes for large and small companies and for value and growth stocks
- The Prime Index consists of the top 1,000 stocks in the Total Market Index by market cap excluding stable shareholdings
- Stocks are selected quantitatively based on clearly defined criteria
- The composition of each index is reviewed once a year.

Complete details of rules for the Russell/Nomura Japan Equity Index can be found in the Russell/Nomura Japan Equity Index Rulebook.

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As at 31 December 2016.

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