

Outlook for FY23–24 corporate earnings

Quarterly Update

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Summary and major assumptions

Our analysts forecast FY23 sales growth of 1.7%, operating profit growth of 12.3%, recurring profit growth of 9.9%, net profit growth of 8.9%

We have aggregated FY23–24 earnings forecasts by Nomura analysts for constituents of the Russell/Nomura Large Cap Index (sales and operating profits exclude financials, same basis hereafter). Our analysts forecast FY23 sales growth of 1.7% y-y, operating profit growth of 12.3%, recurring profit growth of 9.9%, and net profit growth of 8.9%. Versus the previous such exercise, conducted on 1 June 2023, our analysts have raised their sales growth forecast by 1.4ppt, their operating profit growth forecast by 1.2ppt, their recurring profit growth forecast by 2.9ppt, and their net profit growth forecast by 3.1ppt. In absolute terms, the largest upward revision was for the automobiles sector, on greater-than-expected benefits from price hikes, product mix improvements, and increased output now that semiconductor shortages have been resolved.

Our analysts forecast FY24 sales growth of 2.3%, operating profit growth of 8.8%, recurring profit growth of 6.8%, net profit growth of 5.6%

Our analysts forecast FY24 sales growth of 2.3%, operating profit growth of 8.8%, recurring profit growth of 6.8%, and net profit growth of 5.6%. Versus the previous such exercise, they have lowered their sales growth forecast by 0.2ppt, their operating profit growth forecast by 0.3ppt, their recurring profit growth forecast by 1.7ppt, and their net profit growth forecast by 2.3ppt. However, these downward revisions to growth forecasts for FY24 stem from upward revisions to forecasts for FY23, and sales, operating profit, recurring profit, and net profit forecasts have all been raised in absolute terms. Our analysts expect economic recovery in the West to trigger recurring profit growth in FY24 at some companies where they expect recurring profits to decline in FY23, for example in the electrical machinery & precision equipment and chemicals sectors.

Upward revisions outnumber downward revisions at automobile sector and at domestic demand sectors

The Revision Index (RI) for the Russell/Nomura Large Cap Index (ex financials) (which shows the difference between the percentage of companies for which estimates were raised and the percentage for which estimates were lowered) is +10.4% for September 2023, indicating that upward revisions to FY23 forecasts (recurring profit basis) outstripped downward revisions in the period from 2 June through 1 September 2023. Downward revisions continued to predominate in basic materials sectors, but upward revisions outnumbered downward revisions in the automobiles sector, where output recovered steadily, and in domestic demand sectors, which benefited from the relaxation of COVID restrictions.

Rise in percentage of companies forecast to raise their dividends in FY23

The projected dividend payout ratio for FY23 is 35.5%, down slightly from 36.1% in the previous such exercise. However, this mainly reflects upward revisions to net profit forecasts. Moreover, our analysts now expect 61.2% of companies to restore or raise their dividends in FY23, up from 57.8% in the previous such exercise. While the demands for corporate value improvements that the TSE issued at end-March 2023 stated that it was not just looking for shareholder returns, these will nevertheless continue to attract attention alongside other measures as ways of achieving such improvements.

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

		No.	New					Old	
		of cos	FY20	FY21	FY22	FY23E	FY24E	FY21E	FY22E
Sales (% y-y)	Russell/Nomura Large Cap (ex financials)	266	-7.5	14.1	17.2	1.7	2.3	0.3	2.5
	Manufacturing	144	-8.0	15.2	17.4	4.3	3.2	2.3	3.3
	Basic materials	30	-12.1	28.8	24.2	-4.6	2.0	-2.8	0.5
	Processing	73	-7.7	13.3	16.4	7.6	3.5	3.9	4.3
	Nonmanufacturing (ex financials)	122	-6.8	12.8	16.9	-1.6	1.2	-2.2	1.4
	Russell/Nomura Small Cap (ex financials)	1,088	-6.1	7.3	11.0	4.8	3.8	4.7	3.5
Operating profits (% y-y)	Russell/Nomura Large Cap (ex financials)	266	-18.9	58.3	6.9	12.3	8.8	11.1	9.1
	Manufacturing	144	-3.4	58.2	3.9	9.5	11.0	7.9	10.8
	Basic materials	30	13.7	148.5	-6.4	-14.4	17.2	-7.5	14.2
	Processing	73	-8.6	52.9	6.9	18.6	9.4	13.2	9.1
	Nonmanufacturing (ex financials)	122	-36.2	58.5	13.3	17.7	4.8	17.2	6.3
	Russell/Nomura Small Cap (ex financials)	1,088	-12.5	37.8	3.5	17.1	12.7	15.9	11.7
Recurring profits (% y-y)	Russell/Nomura Large Cap	288	4.5	34.1	4.2	9.9	6.8	7.0	8.5
	Russell/Nomura Large Cap (ex financials)	266	5.6	34.5	7.7	6.9	6.7	4.2	8.4
	Manufacturing	144	7.6	56.9	2.7	9.7	9.4	6.0	10.9
	Basic materials	30	13.7	164.2	-7.2	-15.7	16.5	-9.1	14.9
	Processing	73	8.7	47.8	4.4	18.9	7.2	10.7	9.1
	Nonmanufacturing	144	2.0	14.7	5.8	10.2	4.0	8.1	6.0
	Nonmanufacturing (ex financials)	122	3.3	8.8	15.8	2.8	2.6	1.7	4.6
	Russell/Nomura Small Cap	1,176	-5.9	45.0	0.7	13.7	10.8	11.2	11.1
Russell/Nomura Small Cap (ex financials)	1,088	-7.0	50.1	0.4	14.1	11.0	11.2	11.4	
After-tax profits (% y-y)	Russell/Nomura Large Cap	288	16.3	38.9	3.1	8.9	5.6	5.8	7.9
	Russell/Nomura Large Cap (ex financials)	266	18.3	39.5	6.5	6.3	5.5	3.5	7.6
	Manufacturing	144	16.4	66.8	-3.1	12.8	7.4	7.8	9.9
	Basic materials	30	73.7	308.5	-18.8	-13.7	17.0	-5.5	15.2
	Processing	73	18.9	51.4	-1.4	20.5	5.9	10.5	9.3
	Nonmanufacturing	144	16.2	15.1	10.5	4.9	3.6	3.6	5.7
	Nonmanufacturing (ex financials)	122	20.7	7.6	23.0	-2.5	2.4	-2.4	4.1
	Russell/Nomura Small Cap	1,176	2.1	72.2	1.5	21.4	10.4	18.0	10.1
Russell/Nomura Small Cap (ex financials)	1,088	1.2	84.9	0.3	24.3	11.0	20.5	10.7	

Note: Latest estimates as of 1 September 2023; previous estimates as of 1 June 2023.

Source: Nomura

Fig. 2: Key earnings estimate assumptions

As of 18 Jul 2023						As of 17 Apr 2023					
	Industrial production 2015se year	Policy rate (FY-end)	WTI	Exchange rate (avg)		Industrial production 2015 base year	Policy rate (FY-end)	WTI	Exchange rate (avg)		
				% y-y	%				\$/bbl	USD/JPY EUR/JPY	% y-y
FY20E	-0.2	-0.10	89.7	135.50	140.93	-0.6	-0.10	89.7	135.50	140.93	
FY21E	1.6	-0.10	73.2	135.57	151.37	2.4	-0.10	80.0	130.00	145.00	
FY22E	2.5	0.00	70.0	135.00	152.00	3.0	0.00	73.0	130.00	145.00	
FY20 H1	0.3	-0.10	100.0	134.07	138.68	0.3	-0.10	100.0	134.07	138.68	
FY20E H2	-0.7	-0.10	79.4	136.92	143.18	-1.5	-0.10	79.4	136.92	143.18	
FY21E H1	0.3	-0.10	73.9	136.15	150.74	0.9	-0.10	81.5	130.00	145.00	
FY21E H2	3.0	-0.10	72.5	135.00	152.00	3.8	-0.10	78.5	130.00	145.00	
FY22E H1	2.8	0.00	70.0	135.00	152.00	2.9	0.00	74.5	130.00	145.00	
FY22E H2	2.3	0.00	70.0	135.00	152.00	3.2	0.00	71.5	130.00	145.00	

Note: WTI is the term-average WTI crude oil futures price. The above assumptions are not Nomura forecasts but the assumptions on which Nomura analysts base their earnings forecasts.

Source: Nomura

Contributions to recurring profit growth by sector

Overview of the corporate earnings outlook for FY23

For FY23, our analysts expect recurring profits to increase in 12 out of 19 sectors and fall in 7.

Sectors that our analysts expect to make large positive contributions to overall profits include automobiles, financials, utilities, and telecommunications. In the automobiles sector, our analysts think automakers will be able to increase production substantially as the semiconductor shortage is resolved, and also look for improvement in the product mix. They also expect demand to remain high even in the event of an economic recession given the pent-up demand in the US. In the financials sector, profits were hit in FY22 by substantial accounting costs arising from the sale of subsidiary company shares and by insurance benefit payouts for hospitalizations owing to a resurgence in COVID-19 infections in Japan. These effects should fall out of the picture, and our analysts also expect solid overhead controls and a positive turn in earnings from customer-facing operations at major banks. At utilities companies, gains/losses related to the fuel cost adjustment scheme should improve, and our analysts also expect profits to be boosted by electricity rate hikes and a fall in fuel costs as a result of the restart of nuclear reactors. At telecommunications companies, they expect an improvement in gains/losses on investment at SoftBank Group [9984] to boost sector profits.

Sectors that our analysts expect to make large negative contributions to profits include transportation, trading companies, and chemicals. The shipping subsector accounts for a large portion of the prospective profit decline in the transportation sector. Containership spot rates have been falling, and our analysts expect rates to fall at Ocean Network Express (ONE), the equity-method affiliate of the three major Japanese shipping companies. At trading companies, they expect profits to decline mainly in resource fields, as a result of a decline in market prices for resources such as crude oil. In the chemicals sector, our analysts see multiple factors depressing profits, such as deterioration in inventory valuation gains/losses stemming from the decline in crude oil prices, sluggish demand for petrochemicals stemming from the stalled economic recovery in China, and weak demand for semiconductor materials and wafers stemming from inventory adjustments at semiconductor manufacturers.

Overview of the corporate earnings outlook for FY24

For FY24, our analysts expect recurring profits to increase in 16 out of 19 sectors and fall in 3. They expect a wide range of industries (especially manufacturers) to benefit from economic recovery in the West.

Sectors expected to make large contributions to overall profit growth include electric machinery and precision equipment, chemicals, financials, telecoms, machinery, and transportation. In electrical machinery & precision equipment, our analysts forecast a wide-ranging recovery in demand, with recovery and expansion in the market for semiconductor production equipment stemming from an increase in demand for semiconductors for generative AI applications, and a recovery in shipments of electronic parts for automotive applications. In chemicals our analysts expect contributions to profit growth from improvement in electronic material demand with the recovery in the semiconductor market and a pickup in petrochemical business in addition to valuation losses on crude oil inventories dropping out of the picture. Factors boosting profit growth for the finance sector are multifarious, including increases in earnings from market-related operations and transactions with large corporations, a recovery in subsidiary profits, and ongoing controls on overheads. In the telecommunications sector, our analysts forecast improvement in mobile phone operations. In the machinery sector they forecast a recovery in FA equipment for applications such as semiconductors. For the transportation sector, they expect a recovery in passenger demand for railways and airlines and improvement in market conditions for shippers.

Sectors that our analysts expect to make large negative contributions to profits include utilities and trading companies. Gains under the fuel cost adjustment scheme should drop out in the utilities sector. For trading companies, our analysts have revised their forecasts on the assumption that prices for resources such as crude oil will fall from FY23 levels.

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

FY23E				FY24E			
Increase in profits (%)				Increase in profits (%)			
12 sectors	Growth	Contribution	Contribution (ex financials)	16 sectors	Growth	Contribution	Contribution (ex financials)
Automobiles	43.1	61.3	99.4	Electrical machinery, precision equipment	12.8	22.7	26.8
Financials	36.2	38.3	-	Chemicals	16.0	15.6	18.3
Utilities	1,250.6	31.8	51.6	Financials	7.9	15.1	-
Telecommunications	45.9	18.7	30.3	Telecommunications	12.7	10.0	11.7
Machinery	8.4	4.3	7.0	Machinery	10.7	7.9	9.3
Food	8.3	2.5	4.1	Transportation	12.2	7.6	9.0
Pharmaceuticals, healthcare	5.9	2.4	3.9	Pharmaceuticals, healthcare	13.0	7.3	8.6
Software	7.2	1.6	2.5	Automobiles	2.6	6.9	8.1
Retailing	4.5	1.5	2.5	Housing, real estate	10.1	6.2	7.3
Household goods	9.4	1.1	1.8	Steel, nonferrous metals	18.1	5.1	6.0
Services	2.8	0.9	1.5	Services	8.7	3.7	4.4
Media	9.9	0.4	0.6	Food	8.1	3.5	4.1
				Retailing	7.2	3.4	4.0
				Household goods	16.8	2.9	3.4
				Construction	30.9	2.9	3.4
				Media	17.4	0.9	1.1
Decrease in profits (%)				Decrease in profits (%)			
7 sectors	Growth	Contribution	Contribution (ex financials)	3 sectors	Growth	Contribution	Contribution (ex financials)
Construction	-4.0	-0.3	-0.5	Software	-4.5	-1.4	-1.6
Housing, real estate	-4.9	-2.4	-3.9	Trading companies	-7.2	-9.1	-10.7
Electrical machinery, precision equipment	-2.2	-3.0	-4.8	Utilities	-24.7	-11.2	-13.2
Steel, nonferrous metals	-22.7	-6.2	-10.1				
Chemicals	-13.4	-11.4	-18.4				
Trading companies	-13.5	-14.9	-24.1				
Transportation	-36.2	-26.7	-43.3				

Note: SP = switch to profits; SL = switch to losses; LS = losses shrinking.

Source: Nomura

Revisions to recurring profit forecasts (versus old forecasts)

Overview of the corporate earnings outlook for FY23

Our analysts have raised their FY23 recurring profit forecasts for 11 out of 19 sectors, lowered them for seven, and left them unchanged for food.

They have made substantial upward revisions for sectors including automobiles, financials, utilities, trading companies, and software. They now see larger benefits for automobiles from price hikes, product mix improvements, and increased output now that semiconductor shortages have been resolved. They also now assume a weaker yen than before. For financials, they have factored in an upturn in core income at major banks, for example in corporate banking both in Japan and overseas. For utilities, they have factored in electricity rate hikes and a fall in fuel costs following the restart of nuclear reactors. For trading companies, they have factored in strong performance in multiple segments, including automotive operations, plus higher-than-expected prices for resources such as iron ore. For software, they note better-than-expected sales of hardware and software at Nintendo [7974] following the release of a hit movie featuring Nintendo IP.

Conversely, our analysts have made substantial downward revisions for sectors including chemicals and transportation. For chemicals, they have factored in big hits from slower demand for petrochemicals, the expiry of patents at healthcare (pharmaceutical) businesses, and higher R&D spending. For transportation, they note the lack of recovery in shipping rates.

Overview of the corporate earnings outlook for FY24

Our analysts have raised their FY24 recurring profit forecasts for nine out of 19 sectors, lowered them for nine, and left them unchanged for construction.

They have made substantial upward revisions for sectors including automobiles, financials, trading companies, and electrical machinery & precision equipment. The reasons for the upward revisions for automobiles, financials, and trading companies are the same as for FY23. For electrical machinery & precision equipment, they have raised their demand outlook for advanced semiconductors for use in applications such as generative AI, and also now assume a weaker yen than before.

Conversely, our analysts have made substantial downward revisions for sectors including chemicals, telecommunications, and transportation. They have lowered their forecasts for chemicals and transportation for broadly the same reasons as for FY23. The downward revision for telecommunications mainly reflects new investment forecasts.

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

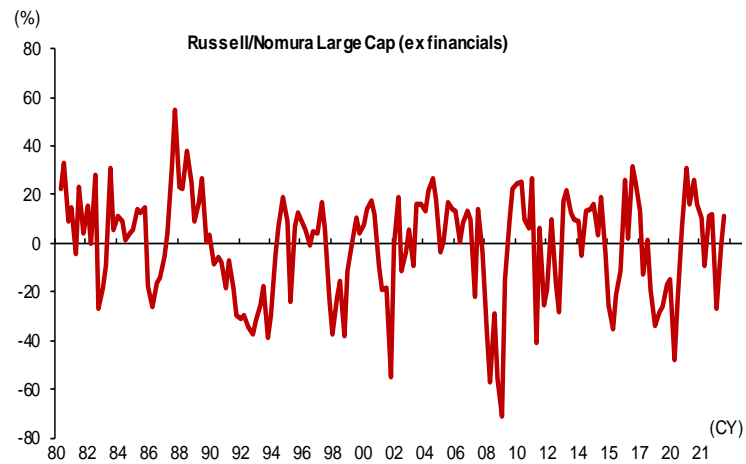
FY23E					FY24E				
[Upward revisions] 11 sectors					[Upward revisions] 9 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Automobiles	11,390	9,975	1,415.5	14.2	Automobiles	11,682	10,727	955.2	8.9
Financials	8,080	7,746	334.5	4.3	Financials	8,717	8,509	208.1	2.4
Utilities	1,924	1,653	271.1	16.4	Trading companies	4,954	4,795	159.4	3.3
Trading companies	5,339	5,115	223.5	4.4	Electrical machinery, precision equipment	8,487	8,373	114.0	1.4
Software	1,297	1,189	108.1	9.1	Machinery	3,455	3,345	109.9	3.3
Telecommunications	3,323	3,241	82.6	2.5	Utilities	1,449	1,424	24.4	1.7
Machinery	3,122	3,051	70.9	2.3	Household goods	859	843	15.9	1.9
Steel, nonferrous metals	1,187	1,128	59.0	5.2	Software	1,239	1,232	6.9	0.6
Retailing	1,978	1,946	32.7	1.7	Housing, real estate	2,861	2,859	2.0	0.1
Housing, real estate	2,599	2,581	18.0	0.7					
Household goods	735	728	7.8	1.1					
					[Downward revisions] 9 sectors				
[Downward revisions] 7 sectors						New ¥bn	Old ¥bn	Revision ¥bn	Change %
	New ¥bn	Old ¥bn	Revision ¥bn	Change %	Media	270	272	-2.5	-0.9
Construction	392	410	-18.0	-4.4	Retailing	2,122	2,139	-17.1	-0.8
Media	230	256	-26.0	-10.2	Food	1,970	1,997	-26.5	-1.3
Pharmaceuticals, healthcare	2,387	2,413	-26.2	-1.1	Steel, nonferrous metals	1,402	1,445	-43.5	-3.0
Electrical machinery, precision equipment	7,526	7,553	-26.4	-0.4	Services	1,988	2,040	-52.1	-2.6
Services	1,829	1,911	-82.3	-4.3	Pharmaceuticals, healthcare	2,697	2,820	-123.5	-4.4
Transportation	2,638	2,997	-359.6	-12.0	Transportation	2,960	3,101	-141.0	-4.5
Chemicals	4,112	4,582	-469.9	-10.3	Telecommunications	3,744	3,898	-153.9	-3.9
					Chemicals	4,771	5,117	-346.1	-6.8

Note: Latest estimates as of 1 September 2023, previous estimates as of 1 June 2023. No changes to FY23 estimates for food and FY24 estimates for construction.

Source: Nomura

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

	(yy/m)	21/12	22/3	22/6	22/9	22/12	23/3	23/6	23/9
Russell/Nomura Large Cap		17.1	11.5	-8.7	11.5	9.1	-24.7	-0.7	10.4
Russell/Nomura Large Cap (ex financials)		16.1	10.2	-9.1	13.2	11.7	-27.1	-1.1	10.9
Manufacturing		20.8	6.2	-13.1	22.1	4.1	-43.1	-1.4	0.7
Basic materials		47.2	48.3	-17.2	44.8	0.0	-30.0	-40.0	-46.7
Processing		24.1	2.7	-10.8	10.8	2.7	-50.7	12.3	23.3
Nonmanufacturing (ex financials)		10.2	15.0	-4.2	2.5	20.8	-8.2	-0.8	23.0



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)

		No. of cos	FY19	FY20	FY21	FY22	FY23E FY24E (% y-y)			
							FY23E Old	FY23E New	FY24E Old	FY24E New
						E	E	E	E	
Industrial groups	Russell/Nomura Large Cap (ex financials)	266	-2.5	-7.5	14.1	17.2	0.3	1.7	2.5	2.3
	Manufacturing	144	-2.7	-8.0	15.2	17.4	2.3	4.3	3.3	3.2
	Basic materials	30	-2.0	-12.1	28.8	24.2	-2.8	-4.6	0.5	2.0
	Processing	73	-4.5	-7.7	13.3	16.4	3.9	7.6	4.3	3.5
	Nonmanufacturing (ex financials)	122	-2.3	-6.8	12.8	16.9	-2.2	-1.6	1.4	1.2
Broad sectors	Materials	30	-2.0	-12.1	28.8	24.2	-2.8	-4.6	0.5	2.0
	Machinery, autos	40	-4.4	-10.4	13.9	19.7	8.0	13.1	5.2	4.1
	Electronics	33	-4.8	-3.0	12.5	11.4	-3.2	-2.0	2.6	2.2
	Consumer, distribution	84	-0.6	-4.4	15.6	14.6	-3.6	-2.8	1.2	1.3
	Information	22	-7.4	-0.6	6.0	7.2	2.0	2.4	3.8	3.5
	Utilities, infrastructure	57	0.2	-12.2	6.0	23.6	1.5	1.9	1.6	1.1
Sectors	Chemicals	25	-1.2	-12.4	27.8	26.3	-5.0	-8.1	2.6	2.9
	Steel, nonferrous metals	5	-3.9	-11.3	31.5	18.2	3.7	5.7	-5.0	-0.3
	Machinery	23	-3.6	-5.5	17.8	18.0	2.8	3.6	3.5	4.1
	Autos	17	-4.6	-11.8	12.8	20.2	9.6	16.0	5.6	4.1
	Electrical machinery, precision equipment	33	-4.8	-3.0	12.5	11.4	-3.2	-2.0	2.6	2.2
	Pharmaceuticals, healthcare	16	9.7	-2.1	7.4	10.9	2.0	2.8	2.6	3.1
	Food products	14	0.7	-3.9	2.0	12.3	5.6	5.6	3.4	3.3
	Household goods	11	-0.8	-7.4	9.2	10.2	3.1	3.8	3.8	4.3
	Trading companies	8	-5.0	-5.8	30.3	19.4	-11.0	-10.2	-0.9	-1.4
	Retailing	17	2.5	-3.4	13.7	15.0	2.0	2.8	3.0	3.5
	Services	18	-2.5	-4.0	3.1	5.5	0.4	1.5	0.9	2.1
	Software	11	7.5	9.2	3.8	3.3	1.8	5.9	4.9	2.2
	Media	3	0.8	-12.9	19.7	12.2	3.9	4.2	4.8	4.8
	Telecommunications	8	-10.7	-0.6	5.4	7.5	1.9	1.6	3.5	3.7
	Construction, engineering	5	5.1	-9.8	5.8	11.8	5.2	6.2	4.3	5.2
	Housing, real estate	19	2.3	-4.3	8.4	8.7	4.0	4.4	4.4	4.3
	Transportation	25	-2.2	-28.2	15.5	25.5	2.9	4.2	2.9	2.7
Utilities	8	-0.9	-3.1	-4.1	44.1	-3.1	-3.8	-3.4	-4.9	

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 1 September 2023, previous estimates as of 1 June 2023.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector (% y-y)

		No. of cos	(% y-y)							
			FY19	FY20	FY21	FY22	FY23E Old	FY23E New	FY24E Old	FY24E New
							E	E	E	E
Industrial groups	Russell/Nomura Large Cap	288	-20.5	4.5	34.1	4.2	7.0	9.9	8.5	6.8
	Russell/Nomura Large Cap (ex financials)	266	-22.3	5.6	34.5	7.7	4.2	6.9	8.4	6.7
	Manufacturing	144	-27.2	7.6	56.9	2.7	6.0	9.7	10.9	9.4
	Basic materials	30	-52.0	13.7	164.2	-7.2	-9.1	-15.7	14.9	16.5
	Processing	73	-24.5	8.7	47.8	4.4	10.7	18.9	9.1	7.2
	Nonmanufacturing	144	-14.3	2.0	14.7	5.8	8.1	10.2	6.0	4.0
	Nonmanufacturing (ex financials)	122	-16.0	3.3	8.8	15.8	1.7	2.8	4.6	2.6
Broad sectors	Materials	30	-52.0	13.7	164.2	-7.2	-9.1	-15.7	14.9	16.5
	Machinery, autos	40	-23.9	-7.0	57.8	3.9	19.5	33.9	8.0	4.3
	Electronics	33	-25.3	34.8	36.0	5.3	-1.8	-2.2	10.9	12.8
	Consumer, distribution	84	-9.5	-12.0	56.6	11.5	-3.6	-2.5	5.0	3.5
	Information	22	-35.2	157.0	-60.0	0.3	26.7	31.2	15.3	8.3
	Utilities, infrastructure	57	-2.6	-68.8	137.7	33.9	3.3	1.9	3.4	3.0
	Financials	22	-9.1	-1.4	31.9	-18.3	30.5	36.2	9.8	7.9
Sectors	Chemicals	25	-34.2	-11.6	119.1	-5.2	-3.5	-13.4	11.7	16.0
	Steel, nonferrous metals	5	SL	SP	555.9	-13.0	-26.6	-22.7	28.1	18.1
	Machinery	23	-30.0	-5.0	61.7	6.6	5.9	8.4	9.6	10.7
	Autos	17	-21.5	-7.7	56.5	2.9	24.4	43.1	7.5	2.6
	Electrical machinery, precision equipment	33	-25.3	34.8	36.0	5.3	-1.8	-2.2	10.9	12.8
	Pharmaceuticals, healthcare	16	8.0	11.8	6.5	18.2	7.1	5.9	16.9	13.0
	Food products	14	-15.6	0.6	10.0	17.7	8.3	8.3	9.5	8.1
	Household goods	11	-7.5	-23.6	30.0	-14.6	8.3	9.4	15.9	16.8
	Trading companies	8	-27.9	-26.8	208.6	18.6	-17.1	-13.5	-6.3	-7.2
	Retailing	17	4.1	-17.7	20.0	20.5	2.8	4.5	9.9	7.2
	Services	18	1.7	-14.3	36.1	-12.8	7.4	2.8	6.7	8.7
	Software	11	20.1	39.6	14.4	-5.8	-1.7	7.2	3.7	-4.5
	Media	3	-57.5	SL	SP	-36.1	22.4	9.9	6.4	17.4
	Telecommunications	8	-41.4	207.6	-74.9	9.9	42.2	45.9	20.3	12.7
	Construction, engineering	5	0.6	-13.4	-22.8	2.1	0.5	-4.0	25.2	30.9
	Housing, real estate	19	5.4	-10.8	24.1	10.2	-5.5	-4.9	10.8	10.1
	Transportation	25	-17.4	SL	SP	92.2	-27.2	-36.2	3.5	12.2
	Utilities	8	17.7	-15.3	-61.2	SL	1,060.3	1,250.6	-13.8	-24.7
	Financials	22	-9.1	-1.4	31.9	-18.3	30.5	36.2	9.8	7.9

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 1 September 2023, previous estimates as of 1 June 2023. (3) SP = switch to profits, SL = switch to losses. LS = losses shrinking. LI = losses increasing.

Source: Nomura

Fig. 8: Recurring profits by sector (absolute amount, ¥1bn)

			(¥bn)							
		No. of cos	FY19	FY20	FY21	FY22	FY23E Old E	FY23E New E	FY24E Old E	FY24E New E
Industrial groups	Russell/Nomura Large Cap	288	38,542	40,173	53,958	55,567	60,297	61,912	65,449	66,139
	Russell/Nomura Large Cap (ex financials)	266	32,757	34,590	46,630	49,619	52,551	53,832	56,940	57,422
	Manufacturing	144	17,180	18,613	29,038	29,102	31,252	32,283	34,667	35,323
	Basic materials	30	2,453	2,721	7,020	6,195	5,710	5,299	6,562	6,172
	Processing	73	10,942	12,114	17,723	18,300	20,579	22,039	22,445	23,624
	Nonmanufacturing	144	21,362	21,560	24,920	26,464	29,045	29,630	30,782	30,816
	Nonmanufacturing (ex financials)	122	15,578	15,977	17,592	20,516	21,299	21,549	22,273	22,099
Broad sectors	Materials	30	2,453	2,721	7,020	6,195	5,710	5,299	6,562	6,172
	Machinery, autos	40	6,745	6,492	10,244	10,594	13,026	14,512	14,072	15,137
	Electronics	33	4,197	5,622	7,479	7,706	7,553	7,526	8,373	8,487
	Consumer, distribution	84	9,397	8,260	13,236	14,424	13,936	14,092	14,633	14,590
	Information	22	3,728	9,589	3,820	3,709	4,686	4,850	5,403	5,253
	Utilities, infrastructure	57	6,236	1,906	4,831	6,990	7,641	7,552	7,897	7,783
	Financials	22	5,785	5,583	7,328	5,948	7,746	8,080	8,509	8,717
Sectors	Chemicals	25	2,758	2,425	5,218	4,715	4,582	4,112	5,117	4,771
	Steel, nonferrous metals	5	-305	296	1,802	1,480	1,128	1,187	1,445	1,402
	Machinery	23	1,781	1,670	2,637	2,853	3,051	3,122	3,345	3,455
	Autos	17	4,964	4,822	7,608	7,741	9,975	11,390	10,727	11,682
	Electrical machinery, precision equipment	33	4,197	5,622	7,479	7,706	7,553	7,526	8,373	8,487
	Pharmaceuticals, healthcare	16	1,632	1,810	1,983	2,253	2,413	2,387	2,820	2,697
	Food products	14	1,387	1,373	1,533	1,660	1,823	1,823	1,997	1,970
	Household goods	11	765	596	778	694	728	735	843	859
	Trading companies	8	2,271	1,663	5,203	6,172	5,115	5,339	4,795	4,954
	Retailing	17	1,612	1,310	1,651	1,824	1,946	1,978	2,139	2,122
	Services	18	1,731	1,509	2,086	1,821	1,911	1,829	2,040	1,988
	Software	11	813	1,172	1,381	1,214	1,189	1,297	1,232	1,239
	Media	3	154	-2	327	209	256	230	272	270
	Telecommunications	8	2,761	8,419	2,112	2,286	3,241	3,323	3,898	3,744
	Construction, engineering	5	734	636	501	408	410	392	513	513
	Housing, real estate	19	2,165	1,878	2,509	2,706	2,581	2,599	2,859	2,861
	Transportation	25	2,170	-1,573	1,446	4,011	2,997	2,638	3,101	2,960
	Utilities	8	1,167	965	375	-135	1,653	1,924	1,424	1,449
	Financials	22	5,785	5,583	7,328	5,948	7,746	8,080	8,509	8,717

Note: Figures exclude listed consolidated subsidiaries. Index composition for period through FY21 differs from index composition from FY22 onwards. Accordingly, prior-year comparison base for y-y changes has been altered, thereby resulting in different y-y figures than before. Latest estimates as of 1 September 2023, previous estimates as of 1 June 2023.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY22 Q2–FY23 Q1)

		%y-y																
		Sales				Operating profits				Recurring profits				Net profits				
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	30.8	-12.2	26.1	33.5	35.0	-22.7	54.0	50.4	
	Russell/Nomura Large Cap (ex financials)	23.7	17.1	11.2	5.6	3.6	3.4	15.8	10.2	44.2	-12.5	26.6	31.8	51.9	-23.7	46.2	47.5	
	Manufacturing	23.9	18.8	12.4	9.0	11.3	2.7	-2.8	-1.9	15.6	-8.0	-4.8	2.0	5.2	-9.2	-6.5	12.9	
	Basic materials	32.8	21.9	8.3	-4.6	4.4	-39.5	-39.7	-46.1	8.2	-51.2	-41.0	-43.5	-12.2	-63.9	-47.1	-44.7	
	Processing	23.1	18.8	14.9	14.7	19.8	14.6	10.8	26.1	23.6	1.8	8.0	28.8	14.8	1.2	6.6	39.8	
	Nonmanufacturing (ex financials)	-	-	-	-	-	-	-	-	46.7	-16.4	90.5	89.7	68.1	-35.2	233.3	132.6	
	Nonmanufacturing (ex financials)	23.5	14.9	9.8	1.3	-11.3	4.7	63.6	34.9	87.9	-18.7	125.2	115.8	129.0	-42.5	305.4	179.1	
Broad sectors	Basic materials	32.8	21.9	8.3	-4.6	4.4	-39.5	-39.7	-46.1	8.2	-51.2	-41.0	-43.5	-12.2	-63.9	-47.1	-44.7	
	Machinery, autos	26.9	24.0	18.8	20.5	18.4	27.6	22.6	58.0	25.1	7.6	8.3	50.6	12.7	11.7	16.5	60.9	
	Electronics	17.4	11.2	8.8	4.6	21.4	0.6	-0.9	-13.0	21.9	-5.7	7.7	-6.8	17.1	-10.5	-4.1	6.7	
	Consumption, distribution	21.6	12.9	6.0	-0.7	-1.4	16.7	5.3	2.5	5.6	13.4	-2.7	-10.3	8.1	12.7	-6.3	-6.4	
	Information	8.3	7.1	7.0	4.5	-18.6	-6.3	21.2	4.5	362.9	-68.5	SP	SP	837.3	SL	SP	SP	
	Utilities, infrastructure	29.9	22.8	17.3	7.8	-17.5	14.6	234.1	97.5	10.0	-12.0	62.2	29.0	23.9	-53.1	100.2	17.5	
	Financials	-	-	-	-	-	-	-	-	-43.9	-10.0	22.3	44.1	-56.1	-16.7	123.7	69.4	
Sectors	Chemicals	36.5	23.6	7.9	-9.0	5.0	-42.5	-37.4	-49.7	9.8	-58.1	-38.4	-45.7	-9.7	-75.2	-55.9	-47.5	
	Steel, nonferrous metals	21.9	16.8	9.4	8.6	2.4	-32.1	-47.1	-35.3	2.2	-33.6	-50.4	-36.5	-19.3	-40.1	-25.6	-37.1	
	Machinery	25.3	19.6	15.9	11.1	36.5	11.9	14.2	18.5	45.9	-2.1	5.5	11.4	49.7	-9.0	10.5	13.4	
	Automobiles	27.4	25.4	19.8	23.4	11.5	33.6	27.2	76.0	18.4	10.8	9.5	65.5	0.7	19.2	19.4	79.3	
	Electrical machinery, precision equipment	17.4	11.2	8.8	4.6	21.4	0.6	-0.9	-13.0	21.9	-5.7	7.7	-6.8	17.1	-10.5	-4.1	6.7	
	Pharmaceuticals, healthcare	10.5	16.7	5.3	9.7	2.8	37.1	19.8	18.5	5.4	40.0	32.2	8.1	6.6	48.5	23.5	60.0	
	Food products	17.2	12.3	11.3	6.8	11.0	27.1	29.9	-6.1	18.1	21.0	19.1	-4.7	2.8	15.7	24.3	-5.0	
	Household goods	15.5	11.3	6.5	3.4	-37.6	10.9	-27.0	-20.2	-34.5	-3.1	-32.6	-20.1	-29.5	6.9	-35.4	-21.9	
	Trading companies	32.4	12.7	3.7	-10.1	42.8	7.7	-3.9	-12.8	18.8	10.7	-12.8	-23.1	19.1	13.3	-14.1	-22.7	
	Retailing	22.0	14.1	10.8	7.8	16.9	11.9	22.5	9.1	31.5	5.6	17.7	-0.6	20.6	-4.4	14.6	-5.3	
	Services	4.1	9.7	3.9	6.0	-28.6	2.5	-21.0	12.2	-27.2	3.2	-16.8	9.0	-0.9	-8.9	-32.0	-16.0	
	Software	11.4	2.2	4.9	25.0	3.3	-13.9	-4.2	46.4	18.3	-29.2	-10.9	32.9	22.7	-29.5	-4.1	32.7	
	Media	9.4	13.7	7.3	4.9	-70.6	-7.8	-29.4	-65.7	-70.2	-32.5	-36.8	-56.3	-59.8	-23.8	-55.6	-56.9	
	Telecommunications	7.6	7.8	7.4	0.9	-15.4	-2.2	47.9	-4.4	608.9	-88.4	SP	SP	2,469.6	SL	SP	SP	
	Construction, engineering	18.8	14.1	7.6	12.7	48.8	-12.6	3.0	-21.5	47.1	-13.3	-4.8	-18.4	34.3	-18.0	13.4	4.4	
	Housing, real estate	8.4	5.1	8.1	2.9	-3.2	-3.0	18.2	-8.5	-0.1	-6.6	13.6	-12.4	7.6	-5.4	18.0	-1.4	
	Transportation	33.3	18.7	19.4	8.5	SP	58.2	SP	41.1	228.1	-4.6	-9.2	-37.2	203.6	-15.8	-31.2	-48.9	
	Utilities	57.5	52.6	28.8	10.8	SL	LI	SP	SP	SL	LI	SP	69,375.9	SL	LI	SP	SP	
		Financials	-	-	-	-	-	-	-	-	-43.9	-10.0	22.3	44.1	-56.1	-16.7	123.7	69.4

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 1 September 2023. (3) Excludes listed consolidated subsidiaries. (4) SP = switch to profits; SL = switch to losses; LS = losses shrinking; LI = losses increasing.

Source: Nomura

Fig. 10: Valuation indicators

		P/E			P/CF			P/B		Dividend yield			ROE		
		FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	15.7	14.8	13.9	-	-	-	1.55	1.45	2.22	2.38	2.54	9.5	9.5	9.6
	Russell/Nomura Large Cap (ex loss-making cos)	15.2	14.5	13.6	-	-	-	1.59	1.46	2.25	2.41	2.57	9.9	9.8	9.8
	Russell/Nomura Large Cap (ex financials)	16.3	15.5	14.5	9.3	8.9	8.5	1.68	1.56	2.08	2.23	2.37	9.9	9.8	9.9
	Manufacturing	16.4	15.3	14.1	9.7	9.1	8.6	1.73	1.61	2.08	2.28	2.45	10.2	10.3	10.4
	Basic materials	13.4	11.5	10.5	6.2	5.6	5.3	1.08	1.02	2.77	2.96	3.15	7.8	8.6	8.9
	Processing	15.4	14.6	13.6	9.6	9.1	8.6	1.74	1.61	1.92	2.15	2.33	10.8	10.7	10.7
	Nonmanufacturing	14.9	14.3	13.5	-	-	-	1.37	1.28	2.40	2.51	2.65	8.9	8.7	8.8
	Nonmanufacturing (ex financials)	16.3	15.9	15.0	8.8	8.6	8.3	1.62	1.49	2.08	2.15	2.25	9.5	9.1	9.1
Broad sectors	Basic materials	13.4	11.5	10.5	6.2	5.6	5.3	1.08	1.02	2.77	2.96	3.15	7.8	8.6	8.9
	Machinery, autos	12.0	11.7	11.1	7.9	7.6	7.3	1.38	1.28	2.53	2.84	3.06	11.0	10.6	10.5
	Electronics	21.4	19.4	17.4	12.1	11.2	10.3	2.34	2.19	1.31	1.47	1.60	10.5	10.9	11.2
	Consumption, distribution	19.5	19.2	18.0	12.0	11.8	11.3	2.06	1.93	2.00	2.07	2.17	10.2	9.8	9.9
	Information	24.5	21.2	19.2	10.1	9.5	9.0	2.08	1.88	2.18	2.18	2.28	8.0	8.7	9.2
	Utilities, infrastructure	11.2	11.2	10.7	6.1	6.1	5.9	1.11	1.04	2.36	2.57	2.70	9.5	9.0	8.8
	Financials	11.2	10.5	9.9	-	-	-	0.87	0.85	3.59	3.83	4.13	7.7	7.9	8.0
Sectors	Chemicals	14.8	12.7	11.8	6.8	6.1	5.8	1.19	1.13	2.60	2.72	2.88	7.8	8.7	8.8
	Steel, nonferrous metals	9.6	8.1	7.1	4.5	4.1	3.8	0.76	0.70	3.52	4.00	4.31	7.7	8.4	9.1
	Machinery	18.9	17.1	15.9	11.5	10.6	10.0	1.83	1.67	1.80	2.01	2.19	9.2	9.5	9.6
	Automobiles	10.1	10.0	9.6	6.8	6.7	6.4	1.22	1.14	2.91	3.26	3.51	11.6	11.0	10.8
	Electrical machinery, precision equipment	21.4	19.4	17.4	12.1	11.2	10.3	2.34	2.19	1.31	1.47	1.60	10.5	10.9	11.2
	Pharmaceuticals, healthcare	23.2	23.0	20.6	14.3	14.2	13.4	2.39	2.28	2.03	2.10	2.16	10.1	9.7	10.3
	Food products	18.9	17.4	16.1	11.7	11.0	10.4	1.98	1.91	2.92	3.18	3.47	10.3	10.7	11.0
	Household goods	32.1	27.4	24.7	18.5	16.7	15.5	3.22	3.06	1.49	1.56	1.64	9.8	10.9	11.3
	Trading companies	10.2	11.0	10.7	7.0	7.3	7.1	1.41	1.26	2.95	2.97	3.03	13.0	11.0	10.5
	Retailing	26.9	25.1	23.0	13.2	12.4	11.7	2.90	2.56	1.32	1.37	1.46	9.8	9.9	10.1
	Services	35.0	30.3	28.7	20.0	18.3	17.6	1.97	2.01	1.09	1.13	1.17	5.8	6.5	6.7
	Software	23.7	24.8	23.1	20.2	21.0	19.7	4.29	3.88	2.11	1.95	2.12	17.1	15.0	14.9
	Media	20.2	17.2	16.9	11.9	10.8	10.6	1.68	1.61	2.44	2.48	2.52	8.1	9.1	8.8
	Telecommunications	25.3	20.0	17.8	7.9	7.3	6.9	1.64	1.48	2.20	2.28	2.36	6.1	7.3	8.0
	Construction	14.8	11.2	10.3	11.3	9.1	8.4	1.06	1.04	2.94	3.38	3.65	7.1	9.1	9.4
	Housing, real estate	11.8	11.1	10.4	8.2	7.8	7.5	1.17	1.11	2.91	3.14	3.30	9.7	9.7	9.7
	Transportation	14.1	13.0	12.3	6.9	6.6	6.4	1.27	1.21	1.94	2.13	2.22	8.8	9.0	8.9
	Utilities	5.7	7.7	7.7	2.7	3.0	3.0	0.72	0.62	2.09	2.21	2.32	11.4	7.8	7.3
Financials	11.2	10.5	9.9	-	-	-	0.87	0.85	3.59	3.83	4.13	7.7	7.9	8.0	
	Russell/Nomura Small Cap	15.2	13.8	13.4	-	-	-	1.11	1.08	2.32	2.39	2.43	7.2	7.6	7.5
	Russell/Nomura Small Cap (ex financials)	15.9	14.4	14.0	8.4	7.9	7.8	1.23	1.19	2.26	2.33	2.37	7.7	8.1	7.9

Note: As of 1 September 2023.

Source: Nomura

What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by Nomura Fiduciary Research & Consulting Co., Ltd. and Frank Russell Company.

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

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As at 30 June 2023.

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In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥11,000 (tax included) per issue transferred depending on volume. No account fee will be charged for marketable securities or monies deposited.

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