

# **Outlook for FY17-18 corporate earnings**

## Quarterly Update

**December 2017**

**Equity Research Dept  
Nomura Securities Co Ltd, Tokyo**

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# Summary and major assumptions

## Overview of the FY17 corporate earnings outlook

In this report, we collate and analyze earnings forecast data issued by our analysts. For FY17, our analysts forecast sales growth of 7.3% y-y and recurring profit growth of 18.0% for companies in the Russell/Nomura Large Cap Index (ex financials). These forecasts represent upward revisions of 0.9ppt for sales and 1.7ppt for recurring profits versus our previous forecasts issued in September 2017 (based on data collated on 27 August 2017). Perhaps reflecting the relatively large size of the previous upward revision, the latest upward revision to our FY17 recurring profit forecast was comparatively modest at ¥593.5bn.

Our forex assumptions for FY17 are USD/JPY of 111.0 (previously 111.0) and EUR/JPY of 128.7 (previously 126.5). Our WTI assumption is \$49.1/bbl (\$45.8/bbl).

In FY17 Q2, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) rose 24.5% y-y on a 10.8% increase in sales, versus growth of 20.2% and 7.9%, respectively, in Q1 recurring profits and sales. H1 recurring profits came in 22.0% higher y-y, marking an overshoot of 5.3ppt versus our previous H1 forecast of 16.7% recurring profit growth. We think this reflects not only a boost from increased industrial production and a rise in corporate goods prices but also further yen depreciation compared with the prior-year period. Indeed, all 18 sectors achieved sales growth in Q2 and 16 sectors (excluding financials, telecommunications, and construction) achieved recurring profit growth. That said, based on the current macro environment, we think that profit growth may for now have reached the peak in its recovery phase after having hit bottom in FY15 Q4. In light of Q2 results announcements, we have lowered slightly our H2 y-y recurring profit growth forecast for the companies in the Russell/Nomura Large Cap Index (ex financials) from 15.1% to 13.8%.

## Overview of the FY18 corporate earnings outlook

For FY18, our analysts look for sales growth of 2.6% y-y and recurring profit growth of 8.1% for companies in the Russell/Nomura Large Cap Index (ex financials). The current forecasts represent upward revisions of 0.5ppt for sales growth and 0.6ppt for recurring profit growth. The upward revision of ¥889.5bn to our analysts' FY18 recurring profit forecasts is slightly larger than that for our FY17 forecasts.

Our forex assumptions for FY18 are USD/JPY of 111.0 (previously 111.0) and EUR/JPY of 131.0 (previously 128.0). Our WTI assumption is \$50.0/bbl (\$45.0/bbl).

As we indicated above, the factor driving corporate earnings growth in FY17 is sales growth, against the backdrop of an improved macroeconomic environment. That said, we expect the impact of that macroeconomic improvement to become slightly more muted through FY18, on which basis we forecast a correspondingly more modest level of sales growth. In order for companies to have any prospect of profit growth in the upper single digits, they will therefore need either increased sales growth on the back of continued economic momentum or further expansion of their profit margins. At this stage, given the likely decline in sales growth, we expect to see an even greater focus on what kinds of measures companies will adopt in order to further increase their profit margins.

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

(% y-y, except where noted)

		No. of cos	New					Old	
			FY14	FY15	FY16	FY17E	FY18E	FY17E	FY18E
Sales	Russell/Nomura Large Cap (ex financials)	302	4.6	-0.4	-3.3	7.3	2.6	6.4	2.1
	Manufacturing	176	4.3	0.2	-4.3	8.6	3.1	7.5	2.4
	Basic materials	39	0.6	-9.0	-5.6	15.4	3.1	14.0	1.2
	Processing	80	5.7	3.1	-4.4	7.5	3.1	6.3	2.6
	Nonmanufacturing (ex financials)	126	5.0	-1.2	-1.8	5.5	2.1	5.0	1.7
	Russell/Nomura Small Cap (ex financials)	1,032	3.6	1.8	-0.5	5.2	3.6	4.7	3.5
Operating profits	Russell/Nomura Large Cap (ex financials)	302	5.2	8.7	2.9	16.2	7.6	14.3	7.6
	Manufacturing	176	5.8	2.9	-0.5	19.7	9.5	17.4	8.8
	Basic materials	39	-14.0	8.6	9.4	34.3	4.5	24.5	6.8
	Processing	80	14.7	-2.0	-3.6	19.0	11.6	18.5	10.1
	Nonmanufacturing (ex financials)	126	4.2	18.6	7.5	11.8	5.1	10.4	6.2
	Russell/Nomura Small Cap (ex financials)	1,032	4.3	10.5	7.2	7.8	10.7	7.4	9.4
Recurring profits	Russell/Nomura Large Cap	334	6.9	-0.6	1.4	15.5	8.0	14.4	6.9
	Russell/Nomura Large Cap (ex financials)	302	7.0	1.5	3.6	18.0	8.1	16.3	7.5
	Manufacturing	176	7.2	-1.9	0.2	23.4	8.2	19.8	8.1
	Basic materials	39	-8.9	-7.4	12.1	42.2	4.2	31.0	6.3
	Processing	80	15.3	-4.2	-3.1	22.6	9.5	20.4	9.3
	Nonmanufacturing	158	6.5	0.6	2.5	8.4	7.8	9.6	5.8
	Nonmanufacturing (ex financials)	126	6.6	7.1	8.4	10.9	8.0	11.7	6.7
	Russell/Nomura Small Cap	1,126	3.1	3.7	5.8	9.1	9.5	8.1	8.7
Net profits	Russell/Nomura Small Cap (ex financials)	1,032	5.0	4.1	8.8	9.4	10.6	8.3	9.6
	Russell/Nomura Large Cap	334	7.4	-3.9	8.5	18.7	9.0	19.1	6.2
	Russell/Nomura Large Cap (ex financials)	302	8.0	-4.7	10.8	23.6	9.7	23.7	6.9
	Manufacturing	176	10.2	-4.8	-1.5	33.7	10.7	31.9	8.1
	Basic materials	39	-11.0	-27.1	58.4	44.2	4.9	31.0	6.7
	Processing	80	15.7	-3.0	-14.0	41.3	13.6	42.8	9.6
	Nonmanufacturing	158	4.6	-3.0	18.2	6.4	7.3	8.7	4.3
	Nonmanufacturing (ex financials)	126	4.2	-4.6	30.9	11.1	8.3	13.5	5.1
Russell/Nomura Small Cap	1,126	2.2	1.9	17.3	13.0	11.8	12.5	10.3	
Russell/Nomura Small Cap (ex financials)	1,032	3.9	0.0	21.7	12.7	13.8	12.2	12.0	

Note: Latest estimates as of 26 November 2017. Previous estimates as of 27 August 2017.

Source: Nomura

Fig. 2: Major assumptions

As of 18 October 2017						As of 20 July 2017					
	Industrial production 2010 base year	Overnight call rate / Policy rate (FY-end)	WTI	Exchange rate (avg)			Industrial production 2010 base year	Overnight call rate / Policy rate (FY-end)	WTI	Exchange rate (avg)	
	% y-y	%	\$/bbl	USD/JP Y	EUR/JP Y		% y-y	%	\$/bbl	USD/JP Y	EUR/JP Y
FY16	1.2	-0.1	47.9	108.3	118.8		1.2	-0.1	47.9	108.3	118.8
FY17	4.4	-0.1	49.1	111.0	128.7		3.0	-0.1	45.8	111.0	126.5
FY18	1.4	-0.1	50.0	111.0	131.0		0.9	-0.1	45.0	111.0	128.0
FY16 H1	-0.7	-0.1	45.3	105.2	118.1		-0.7	-0.1	45.3	105.2	118.1
FY16 H2	3.0	-0.1	50.6	111.5	119.5		3.0	-0.1	50.6	111.5	119.5
FY17 H1	Estimate 5.4	-0.1	48.2	111.0	126.3		4.4	-0.1	46.6	111.0	125.1
FY17 H2	3.5	-0.1	50.0	111.0	131.0		1.7	-0.1	45.0	111.0	128.0
FY18 H1	1.5	-0.1	50.0	111.0	131.0		0.6	-0.1	45.0	111.0	128.0
FY18 H2	1.2	-0.1	50.0	111.0	131.0		1.1	-0.1	45.0	111.0	128.0

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

Source: Nomura

# Contributions to recurring profit growth by sector

## Overview of the FY17 corporate earnings outlook

For FY17, we project that recurring profits will increase in 18 of the 19 sectors and decrease in one.

Sectors from which we expect particularly large contributions to overall profit growth are electrical machinery & precision equipment, chemicals, automobiles, trading companies, machinery, and steel & nonferrous metals. In the electrical machinery & precision equipment sector, businesses related to semiconductors, factory automation (FA), and IoT have been performing notably well. In H2 we expect continued strong demand across a broad range of applications, including data centers, automotive products, games, and air conditioners. With no signs of excessive inventories at this stage and supply-demand conditions remaining tight in much of the supply chain, we think that if anything procurement of raw materials is likely to be the biggest issue. In consumer electronics, we are seeing increasingly clear evidence of a recovery at home appliance operations thanks to manufacturers' high-value-added strategies. Growth at automotive and content businesses has also been bolstering earnings. The commodity-related sectors of chemicals, trading companies, and steel & nonferrous metals have seen a positive impact from higher prices of basic materials owing to a tighter supply-demand balance caused by global economic growth and production cutbacks in China against the backdrop of tougher environmental regulations. Besides commodity price-related factors, in the chemical sector we note that the electronic material subsector has been doing well amid buoyant wafer demand for industrial equipment applications, such as automobiles, where a growing shift to electronic parts is taking place, as well as robotics. In the trading company sector, we note a healthy picture for nonresource fields, such as machinery, leasing, food, and consumer-related businesses. The automobile sector has been reaping the fruits of both increased market share in Europe, the US, and China and stronger emerging economy currencies versus the yen. For 2017 our forecast calls for new auto sales in the US of 17.20mn vehicles (down 2% y-y), but replacement demand following hurricane damage resulted in sales topping 18.00mn vehicles on an annualized basis for two straight months in September and October. Under the machinery heading, the recovery has become more widespread in terms of both geographical location and sector. Against the backdrop of a global economic recovery, we note a recovery in demand for construction and mining machinery and increased FA demand owing to the need for greater automation. Concerns over a slowdown in the wake of the National Congress of the Communist Party of China have not materialized thus far.

Meanwhile, we expect profits to decline in the utilities sector. This mainly reflects deterioration in gains/losses under the fuel cost adjustment system stemming from higher crude oil prices.

## Overview of the FY18 corporate earnings outlook

For FY18, we project that recurring profits will increase in 18 of the 19 sectors and decrease in one. We look for more muted profit growth in many sectors as the tailwinds in the macro environment calm slightly. Particularly in sectors such as trading companies and steel & nonferrous (where commodity prices are a major factor behind our projections for FY17 recurring profit growth), we expect recurring profit growth to slow notably in FY18 versus the levels we forecast for FY17.

For the telecommunications, machinery, food, software, and household goods sectors, our recurring profit growth forecasts look at first sight to be set at high levels. However, this basically reflects the substantial profit growth that we forecast for specific sector companies and does not necessarily mean that we are forecasting high profit growth across the entire sectors in question. Conversely, although the level of recurring profit growth that we forecast for the electrical machinery & precision equipment sector does not at first glance seem particularly high, our forecast excluding Toshiba calls for y-y growth of 14.4%. We look for continued earnings growth at consumer electronics companies, which have completed their restructuring programs but where the level of earnings is still low. For electronic parts, the outlook for automotive demand is buoyant and we also expect a positive impact from tougher environmental restrictions in China. For semiconductor production equipment (SPE), the timeline for TSMC resuming investment is unclear, but semiconductor manufacturers' appetite for investment in memory appears to be growing and we expect buoyant overall market conditions to continue.

Sectors from which we expect particularly large contributions to overall profit growth include automobiles, telecommunications, electrical machinery & precision equipment, and machinery, while we expect a negative profit contribution from the media sector.

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

FY17E			
Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)
18 sectors			
Electrical machinery, precision equipment	37.8	23.5	24.3
Chemicals	31.2	14.4	14.9
Automobiles	10.3	10.6	11.0
Trading companies	28.9	9.8	10.1
Machinery	33.8	9.5	9.8
Steel, nonferrous metals	101.2	8.7	8.9
Financials	2.9	3.1	-
Telecommunications	5.7	3.0	3.1
Software	45.0	2.7	2.8
Retailing	11.6	2.6	2.7
Transportation	7.4	2.6	2.7
Housing, real estate	8.4	2.4	2.5
Services	10.0	2.3	2.3
Food	9.0	2.2	2.3
Household goods	17.1	1.7	1.7
Pharmaceuticals, healthcare	4.3	1.0	1.1
Construction	5.1	0.5	0.5
Media	4.1	0.2	0.2
Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)
1 sector			
Utilities	-5.6	-0.9	-0.9
FY18E			
Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)
18 sectors			
Automobiles	9.7	18.4	21.3
Telecommunications	15.9	14.8	17.1
Financials	7.4	13.6	-
Electrical machinery, precision equipment	7.9	11.4	13.2
Machinery	12.4	7.8	9.1
Food	10.8	4.8	5.5
Transportation	7.5	4.8	5.5
Chemicals	4.7	4.7	5.5
Retailing	8.9	3.8	4.4
Software	23.1	3.4	4.0
Services	7.8	3.3	3.8
Household goods	11.8	2.2	2.6
Housing, real estate	4.0	2.1	2.5
Utilities	7.0	1.7	2.0
Pharmaceuticals, healthcare	3.9	1.6	1.9
Steel, nonferrous metals	2.6	0.8	0.9
Trading companies	1.0	0.7	0.8
Construction	1.3	0.2	0.3
Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)
1 sector			
Media	-2.1	-0.2	-0.2

Source: Nomura

# Revisions to recurring profit estimates (versus old estimates)

## Overview of the FY17 corporate earnings outlook

We have raised our FY17 recurring profit forecasts for 11 of the 19 sectors and lowered them for seven.

The largest upward revisions to our estimates are for the chemical, electrical machinery & precision equipment, and machinery sectors, among others. Under the chemicals heading, the oil product subsector has benefited from both an increase in inventory valuation gains caused by higher oil prices and better-than-expected refining margins in Japan owing to reductions in the surplus capacity seen to date. Supply-demand for various basic materials has also tightened owing to strong global demand and tougher environmental regulations in China and margins on polyolefins and MMA have improved. Growth in sales of semiconductors has been outpacing forecasts. Our analysts also forecast strong demand for polarizing film for such applications as tablets and OLED smartphones. In the electrical machinery & precision equipment sector, shipments of semiconductors are strong for automotive, industrial machinery, and game console applications. There has also been rapid growth in the SPE markets for the applications of NAND flash memory and DRAM. We also see healthy demand for FA systems against the backdrop of a strong need for automation. In the machinery sector global machinery demand is showing increasingly clear signs of broadening in terms of both region and industrial sector. Against the backdrop of stable growth in the Chinese economy and infrastructure investment in the country we made sizable upward revisions particularly in the construction machinery subsector, on prospects of a recovery in demand for construction equipment from emerging economies as well as global mining equipment demand. Although there had been strong concerns over a slowdown in the wake of the National Congress of the Communist Party of China, so far these have proved groundless.

Sectors for which we have made substantial downward revisions include the telecommunications, financial, and utilities sectors. For the telecom sector derivative-related losses at a sector company resulted in a sizable overall downward revision but on an underlying basis we revised up our forecasts. We note that the aforementioned losses are expected to be offset on the settlement date in FY19. In the financial sector, we revised down our forecasts for the insurance subsector owing to the impact of the hurricanes in North America and the earthquake in Mexico. For the utilities sector our downward revision reflects deterioration in gains/losses under the fuel cost adjustment system stemming from higher crude oil prices, as well as a rise in miscellaneous expenses related to regulatory reform in the electric power industry.

## Overview of the FY18 corporate earnings outlook

We have raised our FY18 recurring profit forecasts for 15 of the 19 sectors and lowered them for three.

The largest upward revisions to our estimates are for the chemical, electrical machinery & precision equipment, and machinery sectors. These are the same as the sectors for which we have made the largest upward revisions to our FY17 forecasts and our upward revisions to our FY18 forecasts indeed basically reflect our upward revisions for FY17. In several subsectors, though, there are some instances where our upward revisions to our FY18 forecasts exceed those for FY17. In the chemical sector, for example, the paper & pulp subsector has been hit hard in FY17 by higher prices of main input wastepaper. However, supply-demand conditions for wastepaper in Japan look poised to ease, owing to restrictions on wastepaper imports in China following the toughening of environmental regulations. At the same time we project an increase in Japanese exports of containerboard, a final product. We also project an earnings contribution from electric vehicle-related materials. Under the machinery heading, the robots & pneumatic machinery subsector has contributed to labor-saving efforts and automation. In China, labor-saving investment and investment in automation are aimed at tackling structural issues and as such likely to be long lasting. We therefore forecast a major contribution to earnings in FY18 as well. In the electrical machinery & precision equipment sector, we expect the electronic part subsector to reap the benefits of the drive toward automation, energy efficiency, and environmental initiatives led by China and Europe. In the precision equipment & photographic film subsector, we expect the boost from structural reforms to be felt.

Sectors for which we have made substantial downward revisions include the telecommunications and utilities sectors. Again these largely reflect our downward revisions for FY17.

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

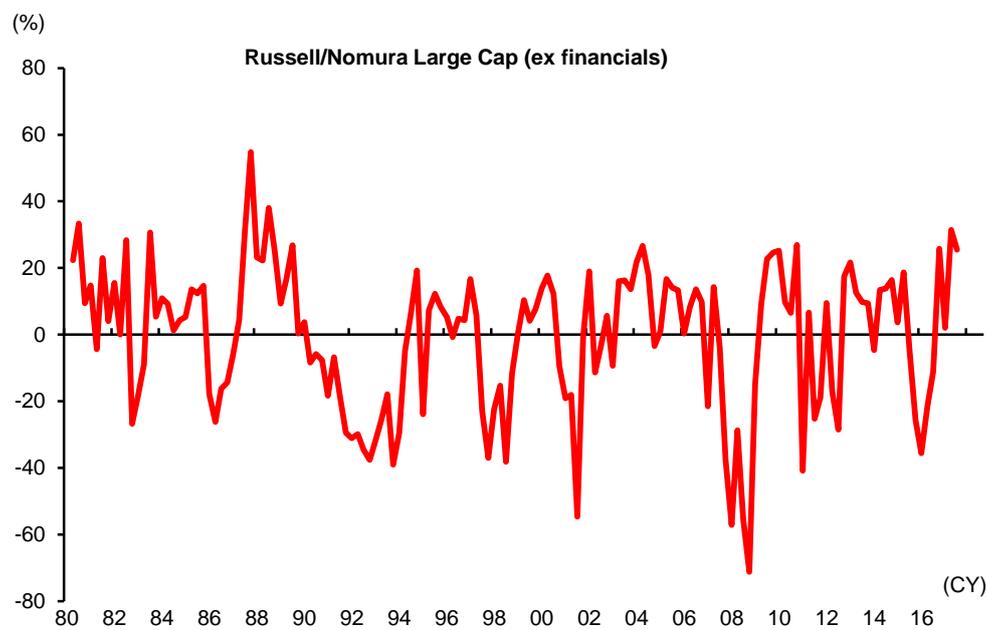
<b>FY17E</b>				
[Upward revisions] 11 sectors				
	<b>New</b>	<b>Old</b>	<b>Revision</b>	<b>Change</b>
	¥bn	¥bn	¥bn	%
Chemicals	3,877	3,527	350	9.9
Electrical machinery, precision equipment	5,499	5,305	194	3.7
Machinery	2,416	2,312	104	4.5
Trading companies	2,804	2,711	93	3.4
Transportation	2,415	2,365	50	2.1
Housing, real estate	2,026	1,979	46	2.3
Steel, nonferrous metals	1,103	1,061	42	4.0
Food	1,700	1,666	34	2.1
Household goods	727	707	20	2.8
Construction	636	625	11	1.7
Retailing	1,616	1,612	4	0.2
[Downward revisions] 7 sectors				
	<b>New</b>	<b>Old</b>	<b>Revision</b>	<b>Change</b>
	¥bn	¥bn	¥bn	%
Software	567	572	-4	-0.8
Pharmaceuticals, healthcare	1,583	1,598	-15	-0.9
Services	1,584	1,601	-17	-1.1
Automobiles	7,264	7,285	-20	-0.3
Utilities	953	1,007	-54	-5.4
Financials	7,053	7,199	-145	-2.0
Telecommunications	3,548	3,790	-243	-6.4
<b>FY18E</b>				
[Upward revisions] 15 sectors				
	<b>New</b>	<b>Old</b>	<b>Revision</b>	<b>Change</b>
	¥bn	¥bn	¥bn	%
Chemicals	4,057	3,765	292	7.8
Electrical machinery, precision equipment	5,935	5,736	199	3.5
Machinery	2,715	2,583	132	5.1
Financials	7,573	7,471	102	1.4
Food	1,883	1,807	76	4.2
Retailing	1,760	1,700	59	3.5
Trading companies	2,831	2,777	54	1.9
Transportation	2,597	2,543	54	2.1
Housing, real estate	2,107	2,065	42	2.0
Household goods	812	777	36	4.6
Pharmaceuticals, healthcare	1,645	1,609	35	2.2
Software	698	666	33	4.9
Steel, nonferrous metals	1,132	1,110	22	2.0
Automobiles	7,967	7,963	4	0.0
Construction	644	643	2	0.2
[Downward revisions] 3 sectors				
	<b>New</b>	<b>Old</b>	<b>Revision</b>	<b>Change</b>
	¥bn	¥bn	¥bn	%
Services	1,709	1,722	-13	-0.8
Utilities	1,020	1,045	-25	-2.4
Telecommunications	4,112	4,223	-112	-2.6

Note: Latest estimates as of 26 November 2017. Previous estimates as of 27 August 2017.

Source: Nomura

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

	(yy/m)	16/3	16/6	16/9	16/12	17/3	17/6	17/9	17/12
Russell/Nomura Large Cap		-24.0	-36.4	-22.1	-9.6	26.0	1.5	27.5	23.7
Russell/Nomura Large Cap (ex financials)		-25.6	-35.6	-21.5	-11.1	25.8	2.0	31.5	25.5
Manufacturing		-38.5	-41.4	-33.9	-18.4	40.1	-6.8	42.6	24.4
Basic materials		-27.3	-29.5	-20.5	-13.6	32.5	5.1	56.4	28.2
Processing		-75.9	-73.4	-59.5	-22.8	61.3	-26.3	53.8	26.3
Nonmanufacturing (ex financials)		-7.3	-27.4	-4.0	-0.8	5.6	14.3	15.9	27.0



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, except where noted)

		No. of cos	FY14	FY15	FY16	FY17E Old	FY17E New	FY18E Old	FY18E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	302	4.6	-0.4	-3.3	6.4	7.3	2.1	2.6
	Manufacturing	176	4.3	0.2	-4.3	7.5	8.6	2.4	3.1
	Basic materials	39	0.6	-9.0	-5.6	14.0	15.4	1.2	3.1
	Processing	80	5.7	3.1	-4.4	6.3	7.5	2.6	3.1
	Nonmanufacturing (ex financials)	126	5.0	-1.2	-1.8	5.0	5.5	1.7	2.1
Broad sectors	Materials	39	0.6	-9.0	-5.6	14.0	15.4	1.2	3.1
	Machinery, autos	43	7.8	5.7	-3.1	6.8	7.8	3.2	3.6
	Electronics	37	2.7	-0.9	-6.3	5.5	7.1	1.7	2.2
	Consumer, distribution	100	3.7	-1.4	-2.2	4.3	4.9	2.9	3.1
	Information	24	9.6	5.7	0.1	5.9	6.4	3.4	4.0
	Utilities, infrastructure	59	5.2	-1.3	-2.5	5.0	5.3	-0.5	-0.3
Sectors	Chemicals	31	-1.1	-9.9	-5.8	13.4	14.8	1.6	3.8
	Steel, nonferrous metals	8	4.7	-6.8	-5.1	15.4	16.9	0.4	1.5
	Machinery	24	11.1	3.3	-2.9	10.0	11.6	3.2	4.3
	Autos	19	6.9	6.5	-3.2	6.0	6.7	3.2	3.4
	Electrical machinery, precision equipment	37	2.7	-0.9	-6.3	5.5	7.1	1.7	2.2
	Pharmaceuticals, healthcare	25	0.6	5.2	-2.7	2.1	2.1	2.0	2.0
	Food products	20	6.7	1.6	-1.8	5.8	5.9	3.1	3.5
	Household goods	12	11.5	6.0	-4.1	3.1	4.6	3.9	4.2
	Trading companies	7	2.7	-9.7	-4.6	7.6	9.8	2.3	2.1
	Retailing	22	5.7	7.3	2.2	4.8	5.3	3.6	4.3
	Services	14	-0.4	4.1	-2.7	-0.8	-2.3	3.3	3.6
	Software	10	1.4	-0.1	2.9	19.3	20.5	11.4	15.5
	Media	5	5.1	12.0	-1.3	4.4	4.4	1.7	1.7
	Telecommunications	9	10.9	5.5	0.0	4.5	4.9	2.5	2.8
	Construction, engineering	5	7.2	1.7	0.2	3.8	4.5	2.4	2.0
	Housing, real estate	18	7.9	4.3	5.1	4.9	5.2	3.4	3.1
	Transportation	25	3.4	0.3	-3.1	5.5	5.6	-4.8	-4.7
	Utilities	11	4.7	-7.7	-8.2	4.8	5.4	0.0	1.2

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 26 November 2017; previous estimates as of 27 August 2017.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY14	FY15	FY16	FY17E Old	FY17E New	FY18E Old	FY18E New
Industrial groups	Russell/Nomura Large Cap	334	6.9	-0.6	1.4	14.4	15.5	6.9	8.0
	Russell/Nomura Large Cap (ex financials)	302	7.0	1.5	3.6	16.3	18.0	7.5	8.1
	Manufacturing	176	7.2	-1.9	0.2	19.8	23.4	8.1	8.2
	Basic materials	39	-8.9	-7.4	12.1	31.0	42.2	6.3	4.2
	Processing	80	15.3	-4.2	-3.1	20.4	22.6	9.3	9.5
	Nonmanufacturing	158	6.5	0.6	2.5	9.6	8.4	5.8	7.8
	Nonmanufacturing (ex financials)	126	6.6	7.1	8.4	11.7	10.9	6.7	8.0
Broad sectors	Materials	39	-8.9	-7.4	12.1	31.0	42.2	6.3	4.2
	Machinery, autos	43	16.2	1.9	-13.0	14.4	15.4	9.9	10.4
	Electronics	37	13.0	-19.7	27.8	32.9	37.8	8.1	7.9
	Consumer, distribution	100	-9.0	-7.6	19.8	12.9	14.3	5.0	6.2
	Information	24	8.0	4.3	0.2	15.4	9.3	11.1	15.5
	Utilities, infrastructure	59	28.3	37.3	-3.8	4.3	5.2	5.3	5.6
	Financials	32	6.5	-8.6	-8.1	5.0	2.9	3.8	7.4
Sectors	Chemicals	31	-21.7	21.6	16.1	19.4	31.2	6.8	4.7
	Steel, nonferrous metals	8	24.0	-54.6	-5.5	93.5	101.2	4.6	2.6
	Machinery	24	23.7	-6.6	-17.9	28.1	33.8	11.7	12.4
	Autos	19	13.9	4.7	-11.6	10.6	10.3	9.3	9.7
	Electrical machinery, precision equipment	37	13.0	-19.7	27.8	32.9	37.8	8.1	7.9
	Pharmaceuticals, healthcare	25	-15.3	39.2	-5.4	5.3	4.3	0.7	3.9
	Food products	20	4.9	-0.5	8.3	6.8	9.0	8.5	10.8
	Household goods	12	11.0	3.3	5.8	13.9	17.1	9.8	11.8
	Trading companies	7	-20.6	-62.2	233.4	24.7	28.9	2.4	1.0
	Retailing	22	-4.8	13.4	-1.4	11.3	11.6	5.5	8.9
	Services	14	-2.4	-5.6	-9.6	11.2	10.0	7.5	7.8
	Software	10	22.6	-11.4	21.1	46.1	45.0	16.4	23.1
	Media	5	11.0	10.4	-1.0	4.1	4.1	-2.1	-2.1
	Telecommunications	9	6.5	5.6	-1.4	12.9	5.7	11.4	15.9
	Construction, engineering	5	38.4	92.4	30.5	3.4	5.1	2.8	1.3
	Housing, real estate	18	4.6	11.3	22.4	5.9	8.4	4.3	4.0
	Transportation	25	10.4	13.3	-5.2	5.2	7.4	7.5	7.5
Utilities	11	1,682.0	146.7	-36.2	-0.2	-5.6	3.8	7.0	
Financials	32	6.5	-8.6	-8.1	5.0	2.9	3.8	7.4	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as 26 November 2017; previous estimates as of 27 August 2017.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY14	FY15	FY16	FY17E Old	FY17E New	FY18E Old	FY18E New
Industrial groups	Russell/Nomura Large Cap	334	38,488	39,670	41,339	47,253	47,701	50,528	51,520
	Russell/Nomura Large Cap (ex financials)	302	30,350	32,151	34,408	40,055	40,648	43,058	43,947
	Manufacturing	176	19,085	19,524	19,641	23,460	24,169	25,351	26,147
	Basic materials	39	3,325	3,177	3,551	4,589	4,980	4,876	5,190
	Processing	80	12,834	12,880	12,524	14,901	15,179	16,282	16,617
	Nonmanufacturing	158	19,403	20,146	21,698	23,793	23,532	25,177	25,373
	Nonmanufacturing (ex financials)	126	11,265	12,627	14,766	16,594	16,479	17,707	17,800
Broad sectors	Materials	39	3,325	3,177	3,551	4,589	4,980	4,876	5,190
	Machinery, autos	43	9,213	9,835	8,528	9,596	9,680	10,546	10,682
	Electronics	37	3,621	3,045	3,996	5,305	5,499	5,736	5,935
	Consumer, distribution	100	6,151	6,048	8,630	9,894	10,013	10,391	10,639
	Information	24	3,841	4,087	3,999	4,694	4,447	5,213	5,134
	Utilities, infrastructure	59	4,198	5,959	5,704	5,977	6,029	6,295	6,367
	Financials	32	8,138	7,519	6,931	7,199	7,053	7,471	7,573
Sectors	Chemicals	31	2,059	2,583	3,002	3,527	3,877	3,765	4,057
	Steel, nonferrous metals	8	1,266	594	549	1,061	1,103	1,110	1,132
	Machinery	24	2,306	2,264	1,813	2,312	2,416	2,583	2,715
	Autos	19	6,908	7,571	6,716	7,285	7,264	7,963	7,967
	Electrical machinery, precision equipment	37	3,621	3,045	3,996	5,305	5,499	5,736	5,935
	Pharmaceuticals, healthcare	25	1,113	1,578	1,465	1,598	1,583	1,609	1,645
	Food products	20	1,341	1,383	1,487	1,666	1,700	1,807	1,883
	Household goods	12	471	507	613	707	727	777	812
	Trading companies	7	1,740	657	2,192	2,711	2,804	2,777	2,831
	Retailing	22	1,087	1,386	1,435	1,612	1,616	1,700	1,760
	Services	14	399	538	1,437	1,601	1,584	1,722	1,709
	Software	10	324	352	341	572	567	666	698
	Media	5	271	322	318	332	332	325	325
	Telecommunications	9	3,246	3,414	3,339	3,790	3,548	4,223	4,112
	Construction, engineering	5	212	462	617	625	636	643	644
	Housing, real estate	18	1,363	1,604	1,845	1,979	2,026	2,065	2,107
	Transportation	25	1,963	2,267	2,204	2,365	2,415	2,543	2,597
Utilities	11	660	1,627	1,038	1,007	953	1,045	1,020	
Financials	32	8,138	7,519	6,931	7,199	7,053	7,471	7,573	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as 26 November 2017; previous estimates as of 27 August 2017.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY16 Q3-FY17 Q2)

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	6.1	51.4	18.1	19.3	20.7	110.9	27.3	9.3
	Russell/Nomura Large Cap (ex financials)	-2.6	3.8	7.9	10.8	-3.6	55.1	15.0	22.5	5.9	71.6	20.2	24.5	21.5	161.8	29.7	14.4
	Manufacturing	-3.9	4.3	8.8	12.8	-18.7	63.8	17.3	28.7	-6.7	80.1	32.5	36.3	5.4	61.3	41.8	25.9
	Basic materials	-2.3	8.8	16.5	21.6	29.1	60.4	42.4	63.4	59.3	88.3	75.4	72.8	179.1	SP	87.3	61.3
	Processing	-4.3	3.8	7.7	11.4	-34.9	87.3	18.3	24.1	-23.4	105.2	33.2	34.4	-22.2	30.5	45.2	25.6
	Nonmanufacturing	-	-	-	-	-	-	-	-	18.6	20.6	6.6	6.8	33.8	257.2	15.4	-2.6
	Nonmanufacturing (ex financials)	-0.9	3.1	6.7	8.1	18.4	40.0	12.3	15.9	25.0	55.0	5.9	11.7	44.6	SP	14.9	2.2
Broad sectors	Basic materials	-2.3	8.8	16.5	21.6	29.1	60.4	42.4	63.4	59.3	88.3	75.4	72.8	179.1	SP	87.3	61.3
	Machinery, autos	-3.1	5.4	8.7	12.8	-21.2	4.7	4.1	15.4	-9.8	10.8	18.5	22.5	-12.9	44.9	36.3	25.8
	Electronics	-6.3	1.2	6.1	9.1	-68.5	748.4	62.7	39.4	-60.1	1,532.1	80.5	57.9	SL	-11.8	71.8	25.2
	Consumption, distribution	-1.6	3.3	6.4	10.0	21.8	104.5	14.3	24.3	22.1	187.7	18.3	23.1	50.3	SP	22.7	19.5
	Information	-1.2	2.7	6.5	6.1	12.7	-2.2	16.7	15.8	32.5	-50.3	-8.3	-2.2	27.1	157.9	-17.4	-35.3
	Utilities, infrastructure	-1.3	1.4	5.5	5.4	4.5	-10.8	-3.3	6.4	9.2	-5.7	-0.9	9.0	39.9	796.8	26.4	19.7
	Financials	-	-	-	-	-	-	-	-	6.9	-20.6	8.2	-4.1	17.7	-7.2	16.5	-12.7
Sectors	Chemicals	-2.1	9.4	16.7	22.9	38.6	54.3	19.2	63.7	54.8	73.8	35.1	73.9	159.7	SP	29.4	66.4
	Steel, nonferrous metals	-2.7	7.3	16.1	18.5	-8.3	88.4	285.4	61.9	93.1	180.5	759.4	67.9	452.3	2,865.4	4,389.9	40.9
	Machinery	-3.3	4.0	13.9	15.8	-20.2	-8.0	24.3	50.1	0.3	-2.4	62.4	62.8	0.9	31.4	60.8	94.3
	Automobiles	-3.1	5.9	7.3	12.0	-21.4	10.4	-0.9	6.3	-12.6	15.9	9.7	12.7	-16.2	50.5	30.8	11.9
	Electrical machinery, precision equipment	-6.3	1.2	6.1	9.1	-68.5	748.4	62.7	39.4	-60.1	1,532.1	80.5	57.9	SL	-11.8	71.8	25.2
	Pharmaceuticals, healthcare	-3.4	-1.0	0.8	5.1	-5.5	-36.9	-14.6	14.7	4.3	-33.2	-5.4	10.1	9.7	-7.4	1.2	-0.5
	Food products	-2.9	-0.3	6.6	8.7	11.0	-6.6	16.1	11.4	12.4	-2.4	16.5	13.0	148.0	7.8	31.5	14.5
	Household goods	-7.6	1.6	5.3	11.1	-14.0	12.5	4.4	24.1	-8.9	19.6	16.8	27.5	-13.0	5.7	-3.2	-20.6
	Trading companies	-1.0	7.4	12.7	20.7	193.3	SP	53.6	65.0	133.8	SP	46.7	46.9	282.9	SP	51.9	53.9
	Retailing	2.9	4.2	6.6	7.5	6.7	9.5	6.1	15.8	13.0	17.0	7.2	21.9	20.0	21.2	10.0	87.7
	Services	-3.9	0.1	0.8	0.9	-5.5	11.2	30.8	11.0	-4.3	11.6	31.9	11.2	-4.3	SL	29.1	-18.8
	Software	0.9	13.6	24.6	27.9	28.4	23.4	65.5	69.0	71.9	79.1	263.2	69.0	103.2	53.6	218.2	-16.3
	Media	-7.0	4.8	6.5	4.5	-2.8	-7.9	-19.2	-2.6	-6.8	-12.4	-8.8	1.5	-8.6	-6.9	-10.0	-8.2
	Telecommunications	-0.6	1.3	4.6	3.9	12.9	-4.0	15.6	13.4	33.1	-65.9	-17.4	-7.9	21.2	193.1	-28.1	-39.2
	Construction, engineering	-2.7	8.0	4.2	2.2	27.9	10.6	35.2	-9.2	33.8	16.2	43.6	-5.9	35.0	35.0	52.0	1.6
	Housing, real estate	8.5	5.7	6.5	1.1	24.2	25.1	15.1	0.5	29.2	31.9	18.0	1.5	28.6	127.3	23.7	-6.5
	Transportation	-2.6	1.1	5.8	6.3	1.5	-0.2	16.7	12.5	5.9	4.5	21.6	14.7	20.4	SP	32.6	104.6
	Utilities	-6.9	-3.8	4.7	9.2	-36.3	-91.5	-42.9	8.7	-45.0	SL	-45.0	14.4	162.2	LI	14.4	-10.5
	Financials	-	-	-	-	-	-	-	-	6.9	-20.6	8.2	-4.1	17.7	-7.2	16.5	-12.7

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 26 November 2017. (3) Excludes 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			
		FY17 E	FY18E	FY19E	FY17E	FY18E	FY19E	FY16	FY17E	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	16.3	14.9	13.6	-	-	-	1.54	1.48	1.93	2.06	2.20	8.2	9.4	9.6	9.8
	Russell/Nomura Large Cap (ex loss-making cos)	16.1	14.8	13.6	-	-	-	1.62	1.48	1.93	2.08	2.22	9.3	9.5	9.6	9.8
	Russell/Nomura Large Cap (ex financials)	17.2	15.7	14.2	9.4	8.8	8.2	1.76	1.67	1.85	1.99	2.14	8.5	10.0	10.3	10.6
	Manufacturing	17.9	16.1	14.9	10.4	9.6	9.1	1.92	1.81	1.89	2.03	2.20	8.2	10.5	10.8	10.9
	Basic materials	13.9	13.3	12.4	7.2	6.8	6.4	1.37	1.26	1.88	2.02	2.12	6.5	9.5	9.2	9.2
	Processing	16.8	14.8	13.6	9.9	9.0	8.5	1.87	1.76	1.95	2.12	2.32	8.1	10.9	11.5	11.6
	Nonmanufacturing (ex financials)	14.6	13.6	12.3	-	-	-	1.23	1.20	1.98	2.10	2.20	8.2	8.4	8.5	8.9
Broad sectors	Basic materials	13.9	13.3	12.4	7.2	6.8	6.4	1.37	1.26	1.88	2.02	2.12	6.5	9.5	9.2	9.2
	Machinery, autos	14.1	12.7	11.8	8.7	8.0	7.5	1.59	1.49	2.36	2.59	2.85	9.7	11.0	11.3	11.5
	Electronics	22.5	18.8	17.1	12.2	10.8	10.1	2.47	2.31	1.41	1.51	1.64	4.7	10.6	11.8	11.8
	Consumption, distribution	20.4	19.4	18.1	12.9	12.5	11.8	1.84	1.78	1.90	1.99	2.10	7.5	9.0	8.9	9.0
	Information	20.6	17.0	12.5	8.4	7.6	6.5	2.18	2.08	1.61	1.79	1.98	15.0	10.5	11.8	14.6
	Utilities, infrastructure	13.6	13.2	12.7	6.5	6.4	6.2	1.40	1.33	1.64	1.77	1.82	8.8	10.1	9.7	9.4
	Financials	10.9	10.3	9.9	-	-	-	0.75	0.74	2.62	2.70	2.78	7.1	6.9	6.9	6.9
Sectors	Chemicals	14.4	13.6	12.8	8.0	7.5	7.1	1.58	1.44	1.78	1.94	2.02	7.8	10.5	10.2	10.0
	Steel, nonferrous metals	12.3	12.2	11.0	5.2	5.0	4.7	0.88	0.85	2.26	2.32	2.50	3.6	7.1	6.8	7.2
	Machinery	21.3	18.9	17.3	13.2	12.1	11.4	2.21	2.04	1.61	1.77	1.92	8.1	10.0	10.4	10.6
	Automobiles	11.8	10.7	10.0	7.3	6.7	6.3	1.37	1.29	2.79	3.05	3.38	10.3	11.3	11.7	11.8
	Electrical machinery, precision equipment	22.5	18.8	17.1	12.2	10.8	10.1	2.47	2.31	1.41	1.51	1.64	4.7	10.6	11.8	11.8
	Pharmaceuticals, healthcare	28.0	28.2	27.0	17.5	18.4	17.9	2.55	2.43	1.81	1.84	1.92	8.9	8.9	8.5	8.5
	Food products	22.5	20.9	19.3	14.1	13.3	12.6	2.81	2.55	1.96	2.14	2.30	12.2	12.0	11.8	12.0
	Household goods	30.3	25.2	22.8	20.0	17.5	16.2	3.65	3.78	1.20	1.28	1.37	12.1	12.9	14.4	14.6
	Trading companies	7.9	7.9	7.6	5.4	5.4	5.2	0.94	0.85	3.50	3.65	3.81	9.9	11.4	10.4	10.0
	Retailing	27.0	23.9	21.6	14.0	12.9	12.0	2.36	2.35	1.38	1.46	1.55	6.6	9.0	9.5	9.8
	Services	25.1	23.1	21.3	16.1	15.1	14.1	1.14	1.14	1.81	1.88	1.96	2.0	4.6	4.9	5.1
	Software	34.1	28.7	22.9	26.7	23.2	19.3	4.00	4.08	1.39	1.75	2.24	10.3	12.2	13.7	15.9
	Media	17.9	17.0	16.6	12.3	11.7	11.3	1.24	1.19	1.66	1.66	1.66	7.4	6.8	6.8	6.7
	Telecommunications	18.2	14.7	10.5	6.5	5.9	5.0	2.01	1.87	1.69	1.81	1.91	17.2	10.8	12.2	15.6
	Construction	11.3	11.2	10.7	9.9	9.9	9.5	1.87	1.81	2.03	2.17	2.29	16.5	17.0	15.3	14.4
	Housing, real estate	15.6	14.8	14.2	11.2	10.7	10.3	1.72	1.63	1.89	1.97	2.07	10.6	10.8	10.6	10.2
	Transportation	14.6	13.7	13.1	6.9	6.6	6.4	1.54	1.44	1.23	1.33	1.36	7.4	10.2	10.1	9.8
	Utilities	9.7	10.4	10.2	2.7	2.7	2.7	0.77	0.72	2.01	2.33	2.33	6.9	7.6	6.7	6.5
	Financials	10.9	10.3	9.9	-	-	-	0.75	0.74	2.62	2.70	2.78	7.1	6.9	6.9	6.9
Russell/Nomura Small Cap		18.7	16.7	16.2	-	-	-	1.49	1.32	1.55	1.60	1.63	7.3	7.2	7.7	7.5
Russell/Nomura Small Cap (ex financials)		19.8	17.4	16.8	10.6	9.8	9.6	1.66	1.49	1.49	1.52	1.56	7.7	7.8	8.3	8.1

Note: Share prices as of 24 November 2017. Earnings forecasts as of 26 November 2017.

Source: Nomura

# What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by FTSE Russell Indexes 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.

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As at 30 September 2017.

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