

Outlook for FY18-19 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of the FY18 corporate earnings outlook

In this report, we collate and analyze earnings forecast data issued by our analysts.

For FY18, our analysts forecast sales growth of 6.8% y-y and recurring profit growth of 11.3% for companies in the Russell/Nomura Large Cap Index (ex financials). If these growth rates are realized, then FY18 will mark the seventh straight year of profit growth and also the second straight year of double-digit profit growth (for the first time since FY06).

These forecasts represent upward revisions of 3.8ppt for sales and 2.6ppt for recurring profits versus our previous forecasts issued in June 2018 (based on data collated on 28 May 2018). We revised upward our forecast for recurring profits by ¥1,056.5bn, for a revision rate of 2.4%. Our forex assumptions for FY18 are USD/JPY of 110.5 (previously 106.0) and EUR/JPY of 130.0 (previously 131.0). The changes to our forex assumptions appear to have pushed up our earnings forecasts, and the changes were fairly large, especially when considering how early in the fiscal year it still is.

In FY18 Q1, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) rose 16.9% y-y on an 8.4% increase in sales. In part owing to USD/JPY shifting to a weaker yen/stronger dollar than expected, FY18 Q1 recurring profit growth exceeded by a wide margin our previous forecast for FY18 H1 recurring profit growth of 4.3% y-y, and our upwardly revised forecast now calls for 8.1% y-y growth in FY18 H1 recurring profits. Nevertheless, our H1 forecasts continue to appear somewhat on the conservative side, and chances look high that H1 profits will surpass them.

We would note that FY17 Q4 and FY18 Q1 earnings were affected by accounting factors and other temporary factors, and we get the impression that the underlying picture for earnings is somewhat different to reported figures. After factoring out these temporary factors to the extent possible, we estimate that FY18 Q1 sales actually rose by a little more than 5% and that recurring profits were up nearly 13%. If we calculate FY17 Q4 earnings on the same basis, we come up with nearly 17% growth in recurring profits on sales growth of a little more than 6%, based on which we think it appears reasonable to view recurring profit growth as entering a moderate slowdown.

Overview of the FY19 corporate earnings outlook

For FY19, our analysts look for sales growth of 3.2% y-y and recurring profit growth of 9.9% for companies in the Russell/Nomura Large Cap Index (ex financials). Our forex assumptions for FY19 are USD/JPY of 111.0 (previously 106.0) and EUR/JPY of 130.0 (previously 131.0).

Compared with our previous forecast, this is a 0.1ppt upward revision to sales growth and a 0.9ppt downward revision for recurring profit growth. The upward revision of ¥745.6bn, or a revision rate of 1.5%, to our analysts' recurring profit forecast for FY19 is more limited than the upward revision for our FY18 forecasts.

The average ROE for Russell/Nomura Large Cap index stocks was 10.3% in FY17, and we forecast a slight decline to 10.0% in FY18 and 9.9% in FY19. After-tax profits in FY17 got a one-time boost from US tax reforms, so a y-y drop in ROE in FY18 looks all but unavoidable. That said, these forecasts do give the impression that ROE may be coming up against a ceiling.

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

(% y-y, except where noted)

		No. of cos	New					Old	
			FY15	FY16	FY17	FY18E	FY19E	FY18E	FY19E
Sales	Russell/Nomura Large Cap (ex financials)	303	-0.4	-3.3	8.2	6.8	3.2	3.0	3.1
	Manufacturing	181	0.2	-4.3	9.3	4.4	3.8	3.1	3.3
	Basic materials	41	-9.0	-5.6	17.1	9.2	1.1	6.3	1.5
	Processing	84	3.1	-4.4	7.9	3.2	4.2	2.2	3.9
	Nonmanufacturing (ex financials)	122	-1.2	-1.8	6.7	10.5	2.5	2.9	2.9
	Russell/Nomura Small Cap (ex financials)	1,133	1.8	-0.5	6.1	5.3	3.6	4.5	2.7
Operating profits	Russell/Nomura Large Cap (ex financials)	303	8.7	2.9	16.3	9.1	7.5	6.8	8.5
	Manufacturing	181	2.9	-0.5	17.8	11.4	9.5	8.4	9.9
	Basic materials	41	8.6	9.4	34.9	12.1	3.8	6.0	7.3
	Processing	84	-2.0	-3.6	15.9	12.6	11.0	9.5	11.2
	Nonmanufacturing (ex financials)	122	18.6	7.5	14.3	6.1	4.6	4.8	6.5
	Russell/Nomura Small Cap (ex financials)	1,133	10.5	7.2	6.8	9.3	8.4	9.5	6.3
Recurring profits	Russell/Nomura Large Cap	334	-0.6	1.4	15.3	9.9	9.0	8.1	10.0
	Russell/Nomura Large Cap (ex financials)	303	1.5	3.6	17.5	11.3	9.9	8.7	10.8
	Manufacturing	181	-1.9	0.2	21.6	12.3	8.5	8.6	9.3
	Basic materials	41	-7.4	12.1	43.6	13.8	3.8	8.1	7.3
	Processing	84	-4.2	-3.1	19.6	13.4	9.9	9.1	10.4
	Nonmanufacturing	153	0.6	2.5	9.7	7.4	9.6	7.6	10.7
	Nonmanufacturing (ex financials)	122	7.1	8.4	12.2	9.8	11.9	8.8	13.0
	Russell/Nomura Small Cap	1,227	3.7	5.8	9.0	8.1	6.9	8.4	5.0
	Russell/Nomura Small Cap (ex financials)	1,133	4.1	8.8	8.4	10.0	7.3	10.1	5.3
Net profits	Russell/Nomura Large Cap	334	-3.9	8.5	32.2	4.1	5.5	2.6	6.5
	Russell/Nomura Large Cap (ex financials)	303	-4.7	10.8	38.5	5.2	5.8	3.3	6.8
	Manufacturing	181	-4.8	-1.5	53.1	7.1	1.8	4.1	2.7
	Basic materials	41	-27.1	58.4	49.6	13.2	0.5	10.5	4.1
	Processing	84	-3.0	-14.0	68.5	6.8	0.8	2.9	1.4
	Nonmanufacturing	153	-3.0	18.2	15.1	0.9	9.8	1.0	10.9
	Nonmanufacturing (ex financials)	122	-4.6	30.9	20.4	2.3	12.5	2.0	13.5
	Russell/Nomura Small Cap	1,227	1.9	17.3	14.5	12.6	3.5	13.7	1.5
	Russell/Nomura Small Cap (ex financials)	1,133	0.0	21.7	10.1	17.0	5.1	18.0	2.9

Note: Latest estimates as of 27 August 2018; previous estimates as of 28 May 2018.

Source: Nomura

Fig. 2: Major assumptions

As of 19 July 2018						As of 19 April 2018				
	Industrial production 2010 base year	Policy rate (FY-end)	WTI	Exchange rate (avg)		Industrial production 2010 base year	Policy rate (FY-end)	WTI	Exchange rate (avg)	
	% y-y	%	\$/bbl	USD/JPY	EUR/JPY	% y-y	%	\$/bbl	USD/JPY	EUR/JPY
FY17	4.1	-0.1	53.7	110.8	129.7	Estimate 4.7	-0.1	53.7	110.8	129.7
FY18E	1.6	-0.1	69.5	110.5	130.0	2.4	-0.1	70.0	106.0	131.0
FY19E	1.2	-0.1	70.0	111.0	130.0	1.2	-0.1	70.0	106.0	131.0
FY17 H1	4.8	-0.1	48.2	111.0	126.3	4.8	-0.1	48.2	111.0	126.3
FY17 H2	3.4	-0.1	59.1	110.6	133.0	Estimate 4.6	-0.1	59.1	110.6	133.0
FY18E H1	1.8	-0.1	68.9	110.1	130.0	3.0	-0.1	70.0	106.0	131.0
FY18E H2	1.4	-0.1	70.0	111.0	130.0	1.7	-0.1	70.0	106.0	131.0
FY19E H1	1.2	-0.1	70.0	111.0	130.0	1.3	-0.1	70.0	106.0	131.0
FY19E H2	1.2	-0.1	70.0	111.0	130.0	1.0	-0.1	70.0	106.0	131.0

Note: WTI is the 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 FY18 corporate earnings outlook

For FY18, we project that recurring profits will increase in 15 of the 19 sectors and decrease in four.

Sectors from which we expect particularly large contributions to overall profit growth include electrical machinery and precision equipment, telecommunications, chemicals, and trading companies.

In the electrical machinery & precision equipment sector we expect earnings to be driven by higher demand from data centers (cloud-related), automotive products (shift to electric power trains, autonomous driving, connectivity), and industrial machinery (automation, shift to smart devices, energy efficiency). While there is some evidence of companies curbing investment in electrical machinery & precision equipment on concerns over US/China trade friction, we expect a high contribution by the sector to overall high profit growth as some factors drop out, including restructuring costs and impairment losses, and on company-specific factors such as changes in depreciation methods applied and the booking of equity-method gains.

In telecommunications, the dropout of one-time expenses will have a large impact. We think earnings at chemicals companies will get a boost from a rise in selling prices for products including semiconductor wafers, graphite electrodes, and MMA. In addition, in the subsector of oil products, we forecast improved refining margins in Japan and higher selling prices in oil and gas development operations. At trading companies, we think earnings will grow in resource-related businesses because prices for commodities such as crude oil and coal remain at high levels. In addition, we expect growth in non-resource businesses as well, supported by general merchandise and machinery businesses.

Sectors from which we expect negative profit contributions are utilities, services, and media.

With the deregulation of electric power, sales volume at the electric power companies is likely to decrease as customers switch to other providers. A major factor behind our forecast for a drop in profits in services is the expected profit decline at Japan Post Holdings, which has a banking subsidiary. Excluding Japan Post Holdings, we forecast profit growth, supported by human resource related services and theme park businesses. In the media sector, restructuring expenses at Dentsu are a major factor underlying our expectation for a decline in profits, in addition to which we also forecast declines in profits at the broadcasters and movie/amusement companies because of weak market prices for spot advertisements and disappointing box office revenues from live-action Japanese films.

Overview of the FY19 corporate earnings outlook

For FY19, we project that recurring profits will increase in all 19 sectors.

Sectors from which we expect particularly large contributions to overall profit growth include telecommunications, automobiles, and electrical machinery & precision equipment.

For the telecommunications sector, much of the growth is likely to come from one-time gains in the form of gains on derivatives and gains on the sale of stocks. In the autos sector, we think the growth in vehicle sales and margin improvements that we forecast for FY18 will continue into FY19. We expect global automobile sales to show continued steady growth from +1.9% in 2018 to +2.1% in 2019, and think this growth will be primarily driven by emerging economies such as India and ASEAN countries. We expect continued growth in demand from data centers, automotive products, and industrial equipment to continue to boost earnings in the electrical machinery & precision equipment sector in FY19, as in FY18. We think earnings will grow in most subsectors, with the exception of consumer electronics, where the y-y dropout of equity-method gains looks likely to push down profits.

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

FY18E				FY19E			
Increase in profits		(%)		Increase in profits		(%)	
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
15 sectors				19 sectors			
Electrical machinery, precision equipment	24.1	26.2	26.9	Telecommunications	24.8	22.7	24.1
Telecommunications	25.9	18.9	19.5	Automobiles	10.1	16.8	17.8
Chemicals	13.9	11.6	11.9	Electrical machinery, precision equipment	9.8	13.2	14.0
Trading companies	18.2	11.0	11.3	Financials	3.8	5.8	-
Automobiles	5.6	8.7	9.0	Machinery	9.2	5.3	5.6
Machinery	15.1	7.7	7.9	Chemicals	4.4	4.2	4.4
Retailing	12.1	3.7	3.8	Services	12.4	4.1	4.4
Steel, nonferrous metals	13.6	3.2	3.3	Pharmaceuticals, healthcare	11.2	4.0	4.3
Software	26.1	2.9	3.0	Retailing	10.4	3.6	3.8
Financials	1.8	2.7	-	Utilities	15.8	3.4	3.6
Household goods	14.5	2.4	2.4	Transportation	6.2	3.3	3.5
Transportation	4.6	2.4	2.4	Housing, real estate	7.0	3.2	3.4
Pharmaceuticals, healthcare	7.0	2.4	2.4	Software	22.5	3.2	3.4
Housing, real estate	3.2	1.4	1.5	Food	7.4	2.7	2.8
Food	1.7	0.6	0.6	Household goods	10.5	2.0	2.1
				Trading companies	1.5	1.1	1.2
				Construction	4.6	0.7	0.7
				Media	9.5	0.6	0.6
				Steel, nonferrous metals	1.6	0.4	0.4
Decrease in profits							
			(%)				
	Growth	Contribution	Contribution (ex financials)				
4 sectors							
Construction	-2.6	-0.4	-0.4				
Media	-15.7	-1.2	-1.2				
Services	-4.8	-1.7	-1.8				
Utilities	-10.5	-2.5	-2.6				

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of the FY18 corporate earnings outlook

We have raised our FY18 recurring profit forecasts for 10 of the 19 sectors and lowered them for nine. We revise our USD/JPY assumption for FY18 in the direction of a weaker yen from 106.0 to 110.5, and many of the sectors for which we have raised our forecasts are those with high forex sensitivity.

The largest upward revisions were for our estimates for sectors such as autos, telecommunications, chemicals, electrical machinery & precision equipment, and trading companies.

In the autos sector, sales volumes in Europe, North America, and Asia were stronger than we had expected. In the telecommunications sector, we factored in higher one-time profits from subsidiary JVs and unrealized gains on investments. For chemicals, PVC margins have been high on lower prices for raw material ethylene, and margins improved for products such as acrylonitrile on tighter supply-demand.

In the electrical machinery & precision equipment sector, demand has been particularly strong for automotive products. We have factored in the rise in prices for multilayer ceramic capacitors (MLCC) and the possibility of growth in shipments of automotive motors with the accelerated shift to electric power trains in Europe and China. These upward revisions also include one-time factors such as equity-method gains and unrealized gains on stakes in other companies.

Earnings in trading companies' resource businesses are now expected to surpass our previous assumptions as a result of steadily high commodity prices. Nonresource business has also been doing well. Specifically, we expect earnings to surpass our forecasts in pulp business on the rise in pulp prices and in machinery business on the recovery in auto demand in Thailand and Indonesia.

The largest downward revisions were for the finance, services, and utilities sectors.

For the finance industry, one reason for our downward revisions may have been that our previous forecasts were overly optimistic. In the service industry as well, we lowered our forecasts for Japan Post Holdings' banking subsidiary. We have also factored in higher costs in the human resources and staffing fields stemming from heightened competition. For utilities, we have reflected the decline in electric power sales volume stemming from new entrants to the electric power market and deterioration in earnings under the fuel cost adjustment system from changes in oil price and forex assumptions.

We have also lowered our forecasts for the machinery sector, although the revisions were not large. We lowered our forecasts for the robots & pneumatic machinery subsector in light of the slowdown in Chinese demand since June.

Overview of the FY19 corporate earnings outlook

We have raised our FY19 recurring profit forecasts for 10 of the 19 sectors and lowered them for nine.

Sectors for which we have made large upward revisions include automobiles, electrical machinery & precision equipment, chemicals, and trading companies, while sectors for which we have made large downward revisions include finance and services. That said, with FY18 having only just gotten under way, the lineup of sectors in both our upward and downward FY19 forecast revisions were similar to those in our FY18 forecast revisions.

Our downward revisions to forecasts for the machinery sector are larger than those to our FY18 forecasts. While we expect the adverse impact on FY18 earnings from the slowdown in Chinese demand since June to be limited by the high order backlog, we think more caution is warranted regarding the impact on FY19 earnings.

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

FY18E					FY19E				
[Upward revisions] 10 sectors					[Upward revisions] 10 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Automobiles	7,873	7,435	439	5.9	Automobiles	8,672	8,184	488	6.0
Telecommunications	4,354	4,054	301	7.4	Electrical machinery, precision equipment	7,020	6,798	222	3.3
Chemicals	4,489	4,232	257	6.1	Chemicals	4,688	4,532	157	3.5
Electrical machinery, precision equipment	6,393	6,141	252	4.1	Trading companies	3,424	3,298	126	3.8
Trading companies	3,372	3,213	159	4.9	Pharmaceuticals, healthcare	1,899	1,861	39	2.1
Retailing	1,623	1,588	36	2.2	Housing, real estate	2,333	2,297	36	1.6
Steel, nonferrous metals	1,257	1,223	34	2.7	Retailing	1,793	1,767	26	1.4
Household goods	886	863	24	2.7	Household goods	979	954	25	2.6
Media	294	293	2	0.6	Media	322	314	8	2.6
Housing, real estate	2,180	2,178	1	0.1	Transportation	2,689	2,686	2	0.1

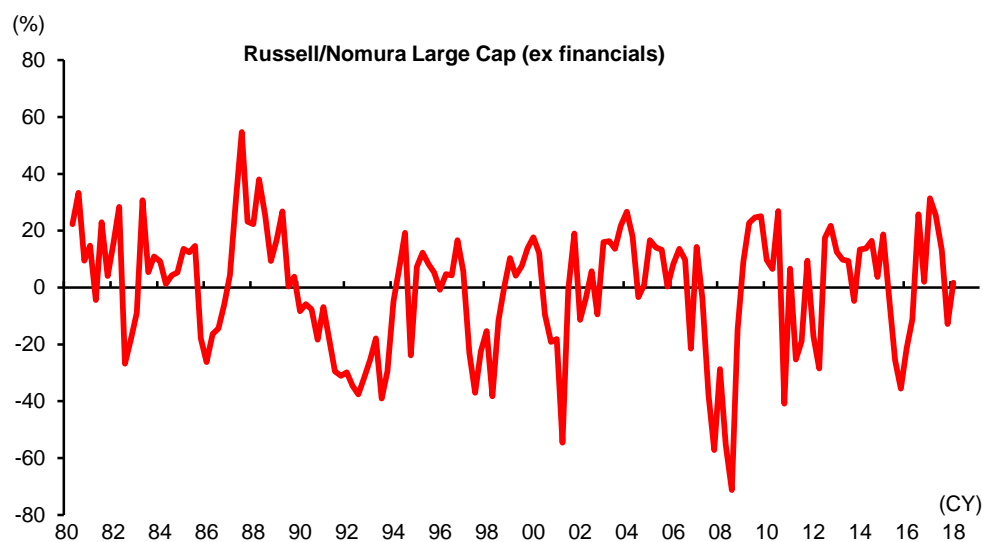
[Downward revisions] 9 sectors					[Downward revisions] 9 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Transportation	2,533	2,544	-12	-0.5	Utilities	1,179	1,183	-4	-0.3
Construction	686	706	-20	-2.8	Construction	718	738	-21	-2.8
Machinery	2,765	2,797	-33	-1.2	Telecommunications	5,434	5,476	-42	-0.8
Pharmaceuticals, healthcare	1,708	1,743	-35	-2.0	Steel, nonferrous metals	1,276	1,321	-45	-3.4
Food	1,720	1,762	-42	-2.4	Food	1,847	1,904	-56	-3.0
Software	670	720	-50	-7.0	Software	821	883	-61	-6.9
Utilities	1,018	1,125	-106	-9.5	Machinery	3,018	3,088	-70	-2.3
Services	1,591	1,739	-148	-8.5	Services	1,787	1,871	-84	-4.5
Financials	7,244	7,483	-239	-3.2	Financials	7,521	7,868	-347	-4.4

Note: Latest estimates as of 27 August 2018; previous estimates as of 28 May 2018..

Source: Nomura

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

	(yy/m)	16/12	17/3	17/6	17/9	17/12	18/3	18/6	18/9
Russell/Nomura Large Cap		-9.6	26.0	1.5	27.5	23.7	14.4	-11.4	0.9
Russell/Nomura Large Cap (ex financials)		-11.1	25.8	2.0	31.5	25.5	13.2	-12.9	1.7
Manufacturing		-18.4	40.1	-6.8	42.6	24.4	13.3	-23.8	7.2
Basic materials		-13.6	32.5	5.1	56.4	28.2	26.8	-17.1	9.8
Processing		-22.8	61.3	-26.3	53.8	26.3	17.9	-33.3	14.3
Nonmanufacturing (ex financials)		-0.8	5.6	14.3	15.9	27.0	13.1	3.3	-6.6



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	FY15	FY16	FY17E	FY18E Old	FY18E New	FY19E Old	FY19E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	303	-0.4	-3.3	8.2	3.0	6.8	3.1	3.2
	Manufacturing	181	0.2	-4.3	9.3	3.1	4.4	3.3	3.8
	Basic materials	41	-9.0	-5.6	17.1	6.3	9.2	1.5	1.1
	Processing	84	3.1	-4.4	7.9	2.2	3.2	3.9	4.2
	Nonmanufacturing (ex financials)	122	-1.2	-1.8	6.7	2.9	10.5	2.9	2.5
Broad sectors	Materials	41	-9.0	-5.6	17.1	6.3	9.2	1.5	1.1
	Machinery, autos	46	5.7	-3.1	9.0	2.1	3.5	3.5	3.7
	Electronics	38	-0.9	-6.3	6.0	2.4	2.7	4.6	5.2
	Consumer, distribution	95	-1.4	-2.2	6.7	3.4	14.4	3.4	3.4
	Information	23	5.7	0.1	6.3	2.9	3.7	3.1	3.4
	Utilities, infrastructure	60	-1.3	-2.5	6.0	2.0	2.3	2.3	2.3
Sectors	Chemicals	31	-9.9	-5.8	18.0	7.5	10.0	1.0	0.7
	Steel, nonferrous metals	10	-6.8	-5.1	15.0	3.4	7.5	2.5	1.8
	Machinery	26	3.3	-2.9	13.9	4.2	4.5	3.9	3.9
	Autos	20	6.5	-3.2	7.7	1.4	3.3	3.4	3.6
	Electrical machinery, precision equipment	38	-0.9	-6.3	6.0	2.4	2.7	4.6	5.2
	Pharmaceuticals, healthcare	24	5.2	-2.7	3.2	1.2	0.9	3.1	9.8
	Food products	19	1.6	-1.8	6.7	3.4	2.5	2.9	2.7
	Household goods	13	6.0	-4.1	7.5	3.2	3.5	4.9	4.7
	Trading companies	7	-9.7	-4.6	13.1	4.1	41.2	3.4	1.4
	Retailing	18	7.3	2.2	5.1	5.4	5.9	3.9	4.3
	Services	14	4.1	-2.7	0.7	1.4	0.8	2.8	2.1
	Software	9	-0.1	2.9	20.8	19.0	12.8	8.0	10.4
	Media	5	12.0	-1.3	5.3	3.2	4.1	3.0	2.5
	Telecommunications	9	5.5	0.0	4.7	0.8	2.6	2.4	2.6
	Construction, engineering	6	1.7	0.2	1.9	3.2	6.7	3.4	2.3
	Housing, real estate	19	4.3	5.1	5.1	5.5	5.5	3.4	3.8
	Transportation	24	0.3	-3.1	5.8	-2.0	-2.1	1.7	1.8
	Utilities	11	-7.7	-8.2	8.5	2.8	2.8	1.4	1.4

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 27 August 2018; previous estimates as of 28 May 2018.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY15	FY16	FY17E	FY18E Old	FY18E New	FY19E Old	FY19E New
Industrial groups	Russell/Nomura Large Cap	334	-0.6	1.4	15.3	8.1	9.9	10.0	9.0
	Russell/Nomura Large Cap (ex financials)	303	1.5	3.6	17.5	8.7	11.3	10.8	9.9
	Manufacturing	181	-1.9	0.2	21.6	8.6	12.3	9.3	8.5
	Basic materials	41	-7.4	12.1	43.6	8.1	13.8	7.3	3.8
	Processing	84	-4.2	-3.1	19.6	9.1	13.4	10.4	9.9
	Nonmanufacturing	153	0.6	2.5	9.7	7.6	7.4	10.7	9.6
	Nonmanufacturing (ex financials)	122	7.1	8.4	12.2	8.8	9.8	13.0	11.9
Broad sectors	Materials	41	-7.4	12.1	43.6	8.1	13.8	7.3	3.8
	Machinery, autos	46	1.9	-13.0	16.5	3.8	7.9	10.2	9.9
	Electronics	38	-19.7	27.8	26.1	19.2	24.1	10.7	9.8
	Consumer, distribution	95	-7.6	19.8	14.8	8.7	8.6	6.8	7.6
	Information	23	4.3	0.2	6.1	16.8	22.6	31.7	23.7
	Utilities, infrastructure	60	37.3	-3.8	9.6	2.8	0.7	5.4	7.8
	Financials	31	-8.6	-8.1	4.4	4.9	1.8	5.1	3.8
Sectors	Chemicals	31	21.6	16.1	34.2	7.4	13.9	7.1	4.4
	Steel, nonferrous metals	10	-54.6	-5.5	93.4	10.6	13.6	8.0	1.6
	Machinery	26	-6.6	-17.9	29.3	16.5	15.1	10.4	9.2
	Autos	20	4.7	-11.6	12.9	-0.3	5.6	10.1	10.1
	Electrical machinery, precision equipment	38	-19.7	27.8	26.1	19.2	24.1	10.7	9.8
	Pharmaceuticals, healthcare	24	39.2	-5.4	5.9	9.2	7.0	6.8	11.2
	Food products	19	-0.5	8.3	4.8	4.2	1.7	8.0	7.4
	Household goods	13	3.3	5.8	20.8	11.5	14.5	10.6	10.5
	Trading companies	7	-62.2	233.4	31.2	12.6	18.2	2.6	1.5
	Retailing	18	13.4	-1.4	12.4	9.5	12.1	11.3	10.4
	Services	14	-5.6	-9.6	10.9	4.1	-4.8	7.6	12.4
	Software	9	-11.4	21.1	44.2	35.5	26.1	22.5	22.5
	Media	5	10.4	-1.0	9.6	-16.2	-15.7	7.4	9.5
	Telecommunications	9	5.6	-1.4	1.4	17.2	25.9	35.1	24.8
	Construction, engineering	6	92.4	30.5	9.8	0.3	-2.6	4.5	4.6
	Housing, real estate	19	11.3	22.4	9.9	3.2	3.2	5.5	7.0
	Transportation	24	13.3	-5.2	9.0	5.1	4.6	5.6	6.2
	Utilities	11	146.7	-36.2	10.2	-1.1	-10.5	5.1	15.8
	Financials	31	-8.6	-8.1	4.4	4.9	1.8	5.1	3.8

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 27 August 2018; previous estimates as of 28 May 2018.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY15	FY16	FY17	FY18E Old	FY18E New	FY19E Old	FY19E New
Industrial groups	Russell/Nomura Large Cap	334	39,670	41,339	47,681	51,838	52,655	57,021	57,420
	Russell/Nomura Large Cap (ex financials)	303	32,151	34,408	40,521	44,355	45,411	49,153	49,898
	Manufacturing	181	19,524	19,641	23,855	26,196	27,091	28,641	29,400
	Basic materials	41	3,177	3,551	4,971	5,455	5,746	5,853	5,965
	Processing	84	12,880	12,524	14,790	16,373	17,031	18,070	18,710
	Nonmanufacturing	153	20,146	21,698	23,826	25,642	25,565	28,380	28,020
	Nonmanufacturing (ex financials)	122	12,627	14,766	16,666	18,159	18,321	20,512	20,499
Broad sectors	Materials	41	3,177	3,551	4,971	5,455	5,746	5,853	5,965
	Machinery, autos	46	9,835	8,528	9,755	10,232	10,638	11,272	11,690
	Electronics	38	3,045	3,996	5,035	6,141	6,393	6,798	7,020
	Consumer, distribution	95	6,048	8,630	10,162	10,907	10,899	11,653	11,729
	Information	23	4,087	3,999	4,317	5,066	5,319	6,672	6,577
	Utilities, infrastructure	60	5,959	5,704	6,280	6,553	6,417	6,904	6,918
	Financials	31	7,519	6,931	7,160	7,483	7,244	7,868	7,521
Sectors	Chemicals	31	2,583	3,002	3,911	4,232	4,489	4,532	4,688
	Steel, nonferrous metals	10	594	549	1,061	1,223	1,257	1,321	1,276
	Machinery	26	2,264	1,813	2,336	2,797	2,765	3,088	3,018
	Autos	20	7,571	6,716	7,419	7,435	7,873	8,184	8,672
	Electrical machinery, precision equipment	38	3,045	3,996	5,035	6,141	6,393	6,798	7,020
	Pharmaceuticals, healthcare	24	1,578	1,465	1,616	1,743	1,708	1,861	1,899
	Food products	19	1,383	1,487	1,723	1,762	1,720	1,904	1,847
	Household goods	13	507	613	755	863	886	954	979
	Trading companies	7	657	2,192	2,852	3,213	3,372	3,298	3,424
	Retailing	18	1,386	1,435	1,545	1,588	1,623	1,767	1,793
	Services	14	538	1,437	1,671	1,739	1,591	1,871	1,787
	Software	9	352	341	564	720	670	883	821
	Media	5	322	318	349	293	294	314	322
	Telecommunications	9	3,414	3,339	3,404	4,054	4,354	5,476	5,434
	Construction, engineering	6	462	617	664	706	686	738	718
	Housing, real estate	19	1,604	1,845	2,054	2,178	2,180	2,297	2,333
	Transportation	24	2,267	2,204	2,450	2,544	2,533	2,686	2,689
	Utilities	11	1,627	1,038	1,112	1,125	1,018	1,183	1,179
	Financials	31	7,519	6,931	7,160	7,483	7,244	7,868	7,521

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 27 August 2018; previous estimates as of 28 May 2018.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY17 Q2-FY18 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	-	-	-	-	-	-	-	-	19.3	19.5	2.3	14.5	9.3	52.0	39.5	22.5
	Russell/Nomura Large Cap (ex financials)	10.8	9.3	5.6	8.4	22.6	26.8	-0.2	11.3	24.5	23.4	0.2	16.9	14.4	65.6	42.0	26.9
	Manufacturing	12.8	10.1	6.3	6.1	28.7	44.3	-9.6	12.6	36.3	33.8	-8.8	16.7	25.9	93.0	50.1	36.8
	Basic materials	21.6	19.0	12.5	11.3	63.4	29.7	11.8	29.7	72.8	27.4	13.5	31.5	61.2	47.8	8.8	40.6
	Processing	11.4	8.0	4.5	5.2	24.1	67.7	-20.5	13.0	34.4	48.7	-20.1	18.8	25.6	142.5	65.6	52.7
	Nonmanufacturing	-	-	-	-	-	-	-	-	6.8	8.3	19.5	12.3	-2.6	23.3	26.6	7.8
	Nonmanufacturing (ex financials)	8.1	8.1	4.6	11.6	16.0	9.0	18.5	9.8	11.8	11.6	20.9	17.3	2.2	36.2	27.0	11.5
Broad sectors	Basic materials	21.6	19.0	12.5	11.3	63.4	29.7	11.8	29.7	72.8	27.4	13.5	31.5	61.2	47.8	8.8	40.6
	Machinery, autos	12.8	10.5	4.9	5.6	15.4	28.3	11.7	8.2	22.5	16.1	8.9	9.4	25.8	74.8	4.9	6.3
	Electronics	9.1	4.0	4.0	4.4	39.4	304.9	-52.2	23.1	57.9	242.2	-50.0	40.1	25.2	5,476.2	384.5	160.0
	Consumption, distribution	10.0	7.8	4.4	15.9	24.6	8.7	12.9	7.4	23.3	9.4	13.0	7.7	19.8	27.9	83.8	6.7
	Information	6.1	9.5	3.0	3.0	15.8	6.5	29.2	18.9	-2.2	11.5	64.1	46.7	-35.3	130.9	-50.9	51.8
	Utilities, infrastructure	5.4	7.5	6.1	2.7	6.4	12.3	25.7	-6.2	9.0	10.8	27.6	-6.0	19.7	-7.7	140.8	-21.5
	Financials	-	-	-	-	-	-	-	-	-4.1	1.1	16.6	1.6	-12.7	-1.3	25.9	0.7
Sectors	Chemicals	22.9	19.8	13.9	12.2	63.7	24.5	12.8	41.7	73.9	19.8	12.9	45.4	66.2	33.6	25.2	58.4
	Steel, nonferrous metals	18.5	17.0	9.5	9.2	61.9	60.7	8.4	-7.3	67.9	72.7	15.8	-4.2	40.9	142.7	-43.8	5.1
	Machinery	15.8	17.8	9.6	7.1	50.1	44.9	8.6	16.0	62.8	16.2	1.3	18.5	94.3	21.0	-8.9	15.0
	Automobiles	12.0	8.6	3.5	5.1	6.3	23.5	12.9	5.7	12.7	16.1	11.4	6.8	11.9	90.4	10.1	3.9
	Electrical machinery, precision equipment	9.1	4.0	4.0	4.4	39.4	304.9	-52.2	23.1	57.9	242.2	-50.0	40.1	25.2	5,476.2	384.5	160.0
	Pharmaceuticals, healthcare	5.1	4.5	3.2	2.2	14.7	17.1	72.7	-11.8	10.1	1.6	73.9	-12.7	-0.6	29.8	64.9	-9.1
	Food products	8.7	10.1	7.3	2.5	11.4	-1.5	5.6	-6.9	13.0	0.4	11.6	-5.4	14.5	22.5	18.0	-24.4
	Household goods	11.1	8.1	7.3	5.3	24.1	22.8	37.1	23.4	27.5	28.3	33.1	24.7	-20.6	66.9	42.9	26.9
	Trading companies	20.7	14.4	5.7	46.6	65.0	3.3	22.6	30.2	46.9	16.7	18.5	27.0	53.9	22.8	4.7	30.8
	Retailing	7.4	4.9	4.5	5.4	16.9	10.6	0.2	13.8	23.3	7.5	-1.2	14.4	105.2	20.4	-7.2	26.3
	Services	0.9	1.1	0.2	0.6	11.0	12.6	-6.5	3.0	11.2	10.7	-7.1	3.2	-18.8	32.5	SP	12.6
	Software	27.9	30.1	3.3	1.2	69.0	45.8	18.9	-3.3	69.0	9.6	-2.3	-1.4	-16.3	-4.8	44.4	1.1
	Media	4.5	4.5	3.5	5.2	-2.6	13.7	-9.8	29.0	1.5	22.9	1.8	-7.8	-8.2	29.3	-2.0	-22.9
	Telecommunications	3.9	7.5	2.9	3.0	13.4	-0.0	36.0	20.4	-7.9	10.6	119.3	57.1	-39.2	190.8	-58.0	67.0
	Construction, engineering	2.2	4.9	-2.4	2.5	-9.2	2.2	13.1	-25.7	-5.9	-2.1	16.8	-23.0	1.6	-4.1	16.7	-21.2
	Housing, real estate	1.1	5.6	8.7	7.1	0.5	3.4	18.3	0.5	1.5	1.2	26.0	1.2	-6.5	2.5	44.2	-0.6
	Transportation	6.3	7.3	4.0	-0.4	12.5	9.1	-3.2	0.9	14.7	4.3	-13.0	-2.6	104.6	7.8	-17.5	-15.5
	Utilities	9.2	10.7	9.4	2.5	8.7	76.3	1,611.8	-22.1	14.4	145.0	SP	-15.6	-10.5	-54.9	SP	-50.2
	Financials	-	-	-	-	-	-	-	-	-4.1	1.1	16.6	1.6	-12.7	-1.3	25.9	0.7

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 27 August 2018. (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			
		FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY17	FY18E	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	13.6	12.9	12.3	-	-	-	1.41	1.33	2.19	2.33	2.48	10.3	10.0	9.9	9.8
	Russell/Nomura Large Cap (ex loss-making cos)	13.6	12.9	12.3	-	-	-	1.42	1.33	2.19	2.33	2.48	10.5	10.0	9.9	9.8
	Russell/Nomura Large Cap (ex financials)	14.2	13.4	12.8	8.2	7.8	7.5	1.60	1.49	2.11	2.26	2.40	11.2	10.9	10.8	10.5
	Manufacturing	14.0	13.7	12.7	8.7	8.4	7.9	1.69	1.58	2.16	2.33	2.51	11.9	11.7	11.1	11.2
	Basic materials	11.0	11.0	10.4	5.9	5.8	5.5	1.14	1.08	2.54	2.62	2.80	9.7	10.1	9.5	9.3
	Processing	12.3	12.2	11.3	7.9	7.7	7.2	1.60	1.48	2.24	2.46	2.67	12.8	12.5	11.7	11.7
	Nonmanufacturing	13.2	12.0	11.8	-	-	-	1.17	1.10	2.22	2.33	2.45	9.0	8.6	8.9	8.5
	Nonmanufacturing (ex financials)	14.5	12.9	13.0	7.6	7.1	7.0	1.48	1.37	2.02	2.13	2.24	10.2	9.7	10.2	9.5
Broad sectors	Basic materials	11.0	11.0	10.4	5.9	5.8	5.5	1.14	1.08	2.54	2.62	2.80	9.7	10.1	9.5	9.3
	Machinery, autos	11.7	10.7	9.8	7.4	6.8	6.4	1.34	1.26	2.79	3.07	3.35	12.5	11.2	11.4	11.6
	Electronics	13.2	14.8	13.7	8.6	9.1	8.6	2.10	1.88	1.56	1.71	1.82	13.3	15.1	12.1	12.0
	Consumption, distribution	19.4	18.1	16.8	12.7	12.0	11.3	1.90	1.80	1.95	2.05	2.15	9.6	9.6	9.7	9.8
	Information	15.5	12.1	14.2	7.1	6.1	6.6	1.91	1.76	2.02	2.21	2.37	13.3	11.7	13.8	10.9
	Utilities, infrastructure	12.8	12.0	11.3	6.2	6.0	5.8	1.28	1.19	1.87	1.96	2.03	10.1	9.6	9.6	9.4
	Financials	9.9	9.6	9.0	-	-	-	0.68	0.65	2.94	3.04	3.20	7.2	6.7	6.7	6.7
Sectors	Chemicals	11.6	11.4	10.8	6.7	6.4	6.2	1.31	1.23	2.38	2.51	2.69	11.0	11.0	10.4	10.2
	Steel, nonferrous metals	9.3	9.8	9.3	4.1	4.1	3.9	0.75	0.73	3.18	3.07	3.24	6.8	8.0	7.2	7.2
	Machinery	16.4	15.0	13.9	10.4	9.7	9.2	1.75	1.65	2.05	2.21	2.35	9.9	10.4	10.6	10.7
	Automobiles	10.1	9.2	8.5	6.4	5.9	5.5	1.19	1.12	3.19	3.52	3.88	13.4	11.4	11.7	11.9
	Electrical machinery, precision equipment	13.2	14.8	13.7	8.6	9.1	8.6	2.10	1.88	1.56	1.71	1.82	13.3	15.1	12.1	12.0
	Pharmaceuticals, healthcare	27.6	26.1	24.3	18.6	17.7	16.9	2.68	2.61	1.63	1.67	1.72	9.6	9.6	9.8	10.0
	Food products	19.1	17.7	16.4	11.9	11.1	10.5	2.13	2.05	2.47	2.71	2.89	13.0	11.0	11.2	11.4
	Household goods	27.9	25.1	22.9	19.6	17.8	16.3	4.38	3.99	1.22	1.35	1.47	14.1	14.9	15.2	15.3
	Trading companies	7.1	7.1	6.8	5.1	5.0	4.9	0.95	0.86	4.05	4.10	4.25	12.0	12.7	11.7	11.2
	Retailing	27.2	24.0	21.1	14.4	13.4	12.2	2.56	2.39	1.30	1.41	1.51	8.7	9.0	9.6	10.2
	Services	27.2	23.3	21.9	17.4	15.6	14.6	1.31	1.28	1.62	1.68	1.74	5.2	4.8	5.4	5.5
	Software	26.7	21.8	19.2	22.0	18.6	16.7	3.81	3.67	1.97	2.38	2.72	12.0	14.2	16.1	16.8
	Media	19.2	18.0	16.7	13.1	12.3	11.7	1.20	1.15	1.64	1.62	1.62	7.7	6.1	6.3	6.5
	Telecommunications	13.2	10.1	12.8	5.4	4.7	5.2	1.70	1.55	2.08	2.22	2.32	14.5	12.1	14.6	10.6
	Construction	9.1	8.7	8.5	8.0	7.7	7.5	1.37	1.19	2.38	2.55	2.63	16.8	13.6	13.0	12.3
	Housing, real estate	12.9	12.1	11.8	9.4	8.9	8.6	1.44	1.33	2.29	2.41	2.50	11.1	10.7	10.6	10.1
	Transportation	14.4	13.7	12.6	6.8	6.6	6.3	1.47	1.36	1.32	1.39	1.46	9.6	9.8	9.6	9.7
	Utilities	11.2	10.0	9.4	3.0	2.9	2.8	0.77	0.74	2.30	2.35	2.37	8.2	6.8	7.2	7.3
	Financials	9.9	9.6	9.0	-	-	-	0.68	0.65	2.94	3.04	3.20	7.2	6.7	6.7	6.7
Russell/Nomura Small Cap		15.7	15.2	14.8	-	-	-	1.25	1.20	1.74	1.80	1.84	7.4	7.9	7.7	7.5
Russell/Nomura Small Cap (ex financials)		16.5	15.7	15.3	9.4	9.1	8.9	1.40	1.34	1.66	1.72	1.76	7.6	8.4	8.3	8.0

Note: Share prices and forecasts are as of 27 August 2018.

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 June 2018.

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