

Outlook for FY19-20 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of the FY19 corporate earnings outlook

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

For FY19, our analysts forecast sales growth of 1.1% y-y and recurring profit growth of 0.2% for companies in the Russell/Nomura Large Cap Index (ex financials). At this time, our analysts forecast recurring profits to remain roughly flat y-y, but with forecasts being revised down, we cannot rule out the possibility that our analysts' aggregate recurring profit forecast will swing to a profit decline. If recurring profits were to turn downward, it would mark the first recurring profit decline in eight years (since FY11).

The current sales and recurring profit growth forecasts are 1.5ppt and 4.2ppt lower, respectively, than our analysts' previous forecasts (announced in June 2019, based on analyst forecasts as of 27 May 2019). Our analysts' aggregate FY19 recurring profit forecast has been revised down by ¥1,770.1bn. Our revision index for recurring profits for the Russell/Nomura Large Cap Index (ex financials) stands at -26.1%, with downward revisions to analyst forecasts outnumbering upward revisions for a fourth straight quarter. The forex assumptions used for FY19 are USD/JPY of 107.72 (previously 111.00) and EUR/JPY of 121.62 (previously 125.00), which means that one factor behind the downward revisions is a change in forex assumptions in the direction of a stronger yen. On the other hand, the forex assumption changes only explain about 40% of the downward revisions to our analysts' recurring profit forecasts. Worsening global economic conditions (such as deterioration in the automobile and semiconductor markets and capex restraint) is another major factor behind the downward revisions.

In FY19 Q1, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) fell 5.0% y-y on a 1.2% increase in sales. Sales growth slowed for a fourth straight quarter, owing in part to a slowdown in overseas demand. Meanwhile, recurring profits were propped up significantly by one-time profits, and when excluding these one-time profits, the recurring profit decline swells to 15.2%.

Overview of the FY20 corporate earnings outlook

For FY20, our analysts look for sales growth of 1.9% y-y and recurring profit growth of 7.0% for companies in the Russell/Nomura Large Cap Index (ex financials). The forex assumptions used for FY20 are USD/JPY of 107.00 (previously 111.00) and EUR/JPY of 121.00 (previously 125.00).

The current FY20 sales growth forecast is 0.5ppt lower than our analysts' previous forecast. The current FY20 recurring profit growth forecast is 0.3ppt higher than the previous growth forecast, but this is largely due to the downward revision the FY19 recurring profit forecast, upon which the FY20 growth rate is based. Our analysts' aggregate FY20 recurring profit forecast was revised down by ¥1,766.5bn, which is roughly on par with the downward revision to the FY19 recurring profit forecast. The revision to the FY20 forecast appears to largely be an extension of the revision to analysts' FY19 forecast.

Our analysts forecast FY20 ROE of 9.0% for Russell/Nomura Large Cap companies. While our analysts' forecasts look for ROE to rise from 8.8% in FY19, ROE is not expected to reach the 9.2% level seen in FY18.

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

(% y-y, except where noted)

		No. of cos	New					Old	
			FY16	FY17	FY18	FY19E	FY20E	FY19E	FY20E
Sales	Russell/Nomura Large Cap (ex financials)	307	-3.3	8.2	6.5	1.1	1.9	2.6	2.4
	Manufacturing	179	-4.3	9.3	3.0	0.3	2.0	2.7	2.5
	Basic materials	41	-5.6	17.1	7.0	0.9	-0.7	6.9	1.0
	Processing	83	-4.4	7.9	1.7	-1.0	3.0	0.7	3.2
	Nonmanufacturing (ex financials)	128	-1.8	6.7	11.5	2.1	1.7	2.5	2.1
	Russell/Nomura Small Cap (ex financials)	1,131	-0.5	6.1	4.6	3.0	3.0	3.7	2.2
Operating profits	Russell/Nomura Large Cap (ex financials)	307	2.9	16.3	3.6	-3.7	8.8	-0.4	9.3
	Manufacturing	179	-0.5	17.8	0.3	-5.1	14.6	2.2	12.4
	Basic materials	41	9.4	34.9	0.1	-13.4	13.2	4.0	6.0
	Processing	83	-3.6	15.9	0.2	-2.3	11.9	3.3	11.3
	Nonmanufacturing (ex financials)	128	7.5	14.3	8.0	-2.0	2.0	-3.5	5.4
	Russell/Nomura Small Cap (ex financials)	1,131	7.2	6.8	-2.4	7.8	9.3	11.9	6.9
Recurring profits	Russell/Nomura Large Cap	333	1.4	15.3	1.1	1.2	6.4	5.0	6.8
	Russell/Nomura Large Cap (ex financials)	307	3.6	17.5	3.1	0.2	7.0	4.4	6.7
	Manufacturing	179	0.2	21.6	-1.5	-5.1	15.7	3.3	12.8
	Basic materials	41	12.1	43.6	2.1	-14.9	13.2	3.1	6.0
	Processing	83	-3.1	19.6	-2.6	-1.2	13.5	5.6	11.7
	Nonmanufacturing	154	2.5	9.7	3.7	7.1	-1.4	6.5	1.3
	Nonmanufacturing (ex financials)	128	8.4	12.2	9.7	6.9	-3.0	5.7	-0.9
	Russell/Nomura Small Cap	1,227	5.8	9.0	-1.8	5.1	8.4	10.0	6.3
Russell/Nomura Small Cap (ex financials)	1,131	8.8	8.4	0.3	4.8	9.4	9.0	6.9	
Net profits	Russell/Nomura Large Cap	333	8.5	32.2	-4.5	-3.1	6.9	0.4	7.5
	Russell/Nomura Large Cap (ex financials)	307	10.8	38.5	-1.1	-6.6	8.0	-2.7	8.0
	Manufacturing	179	-1.5	53.1	-4.3	-14.7	18.6	-6.6	15.1
	Basic materials	41	58.4	49.6	0.9	-22.8	15.4	-1.0	4.6
	Processing	83	-14.0	68.5	-5.9	-12.3	15.2	-6.3	13.4
	Nonmanufacturing	154	18.2	15.1	-4.7	9.5	-2.9	8.0	0.4
	Nonmanufacturing (ex financials)	128	30.9	20.4	3.9	5.0	-4.2	2.9	-1.2
	Russell/Nomura Small Cap	1,227	17.3	14.5	-5.9	13.8	7.8	19.2	5.5
	Russell/Nomura Small Cap (ex financials)	1,131	21.7	10.1	-3.4	15.9	8.7	21.1	6.1

Note: Latest estimates as of 26 August 2019; previous estimates as of 27 May 2019.

Source: Nomura

Fig. 2: Major assumptions

As of 18 July 2019						As of 18 April 2019				
	Industrial production 2010 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg)		Industrial production 2010 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg)	
				USD/JPY	EUR/JPY				USD/JPY	EUR/JPY
FY18	0.1	-0.1	62.8	110.9	128.4	Estimate 0.1	-0.1	62.8	110.9	128.4
FY19E	-0.9	-0.1	60.0	107.7	121.6	-0.9	-0.1	65.0	111.0	125.0
FY20E	0.5	-0.1	60.0	107.0	121.0	0.7	-0.1	65.0	111.0	125.0
FY18 H1	0.5	-0.1	68.7	110.3	129.9	Estimate 0.5	-0.1	68.7	110.3	129.9
FY18 H2	-0.3	-0.1	56.9	111.5	126.9	-0.4	-0.1	56.9	111.5	126.9
FY19E H1	-0.5	-0.1	59.9	108.4	122.2	-0.9	-0.1	65.0	111.0	125.0
FY19E H2	-1.3	-0.1	60.0	107.0	121.0	-0.8	-0.1	65.0	111.0	125.0
FY20E H1	-0.2	-0.1	60.0	107.0	121.0	0.2	-0.1	65.0	111.0	125.0
FY20E H2	1.1	-0.1	60.0	107.0	121.0	1.3	-0.1	65.0	111.0	125.0

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 FY19 corporate earnings outlook

For FY19, our analysts expect recurring profits to increase in 12 of 19 sectors and decrease in 7.

Sectors expected to contribute substantially to profit growth include financials, telecommunications, trading companies, utilities, and automobiles.

In the financials sector, the profit growth stems in part from low profits in FY18, when the market environment was harsh, but earnings have also been bottoming in banks' non-retail client-facing operations. Meanwhile, there were also a large number of natural disasters in Japan in FY18, and earnings at nonlife insurers are expected to recover in FY19 based on the assumption that natural disasters will be on par with that of a typical year. For trading companies, the high price of iron ore due to supply constraints since the collapse of the Vale dam in Brazil is expected to drive profit growth. While operations such as autos and chemicals are expected to be hit by overseas economic slowdowns, trading companies' non-resource businesses are expected to achieve stable growth as well. In the utilities sector, gains/losses under the fuel cost adjustment scheme are expected to improve based on a lower assumption for the price of crude oil. The automobiles sector is expected to face a harsh business environment in 2019, with global autos demand expected to fall 3.8% y-y, but profits are expected to increase due to factors such as lower costs, favorable sales at some automakers, and a dropping out of the unrealized losses on equity securities recorded in the previous fiscal year.

Sectors expected to contribute substantially to profit declines include chemicals, steel & nonferrous metals, electrical machinery & precision equipment, food, and pharmaceuticals & healthcare.

In the chemicals sector, demand for commodity petrochemicals is expected to fall as a result of US-China trade friction and an economic slowdown. Meanwhile, in the oil products subsector, refining margins in Japan are expected to worsen on the negative time-lag effect from falling oil prices. In the steel & nonferrous metals sector, profits are expected to fall due to a deterioration in the steel spread. High input prices, including a rise in the price of iron ore is also expected to weigh on earnings, and steel demand is expected to be weak throughout Asia. Earnings in the nonferrous metals subsector are also expected to be weighed down by a slowdown in the automobile market and weak demand for electronic materials. In the electrical machinery & precision equipment sector, memory businesses are weak due to a deterioration in semiconductor prices, and SPE capex is expected to fall. Weak home electronics sales and escalating US-China trade friction is also expected to cool capex sentiment in the manufacturing industry. In the food sector, factors such as impairments at subsidiaries are expected to have a major impact on earnings. Earnings in the pharmaceuticals & healthcare sector are being impacted substantially by acquisition-related costs, and excluding these costs, profits are expected to increase thanks to healthy growth in pharmaceutical sales.

Overview of the FY20 corporate earnings outlook

For FY20, our analysts expect recurring profits to increase in 15 of 19 sectors and decrease in 4.

Sectors expected to contribute substantially to profit growth include electrical machinery & precision equipment, pharmaceuticals & healthcare, and automobiles.

The electrical machinery & precision equipment sector is expected to benefit from a recovery in currently harsh business conditions, major investments by Chinese memory manufacturers, and a rise in 5G-related demand. In the pharmaceuticals & healthcare sector, the bulk of profit growth is expected to come from the dropping out of acquisition-related costs incurred in FY19, but profit growth is expected to be solid throughout the sector even when excluding this factor. In the automobiles sector, global sales volumes are expected to recover, particularly in emerging markets, and companies are also expected to make headway with initiatives such as cost cutting as well.

Sectors expected to contribute substantially to profit declines are telecommunications, utilities, trading companies, and construction.

The telecommunications sector is expected to take a major hit from the dropping out of one-time profits booked in FY19, but excluding this factor, profits are expected to increase on contributions from telecoms operations in Japan and overseas data centers. In the utilities sector, earnings are expected to be weighed down by the dropping out of gains under the fuel cost adjustment scheme, and by increased competition and switching driven by the deregulation of the retail electric power and gas markets.

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

FY19E				FY20E			
Increase in profits		Growth		Contribution		Contribution (ex financials)	
				Contribution (ex financials)			
12 sectors				15 sectors			
Financials	7.7	86.0	-	Electrical machinery, precision equipment	19.8	33.2	35.7
Telecommunications	9.3	76.5	546.4	Pharmaceuticals, healthcare	53.5	23.1	24.8
Trading companies	7.5	41.3	295.1	Automobiles	9.8	20.3	21.8
Utilities	22.8	39.7	283.3	Chemicals	12.7	15.2	16.3
Automobiles	3.4	37.7	268.9	Machinery	9.7	7.5	8.1
Retailing	8.6	23.3	166.6	Financials	3.2	6.9	-
Housing, real estate	6.2	22.5	160.8	Transportation	7.8	6.5	7.0
Software	13.6	16.2	115.5	Food	12.5	5.9	6.4
Services	4.4	13.2	94.1	Software	21.7	5.3	5.7
Household goods	5.0	7.3	52.3	Services	8.9	5.0	5.4
Transportation	0.7	3.4	24.0	Retailing	8.2	4.3	4.7
Construction	1.0	1.3	9.6	Housing, real estate	5.2	3.6	3.9
Decrease in profits				Decrease in profits			
				Contribution (ex financials)			
7 sectors				4 sectors			
Media	-22.3	-14.2	-101.7	Construction	-2.1	-0.5	-0.5
Machinery	-3.2	-14.3	-102.1	Trading companies	-0.8	-0.8	-0.9
Pharmaceuticals, healthcare	-9.8	-25.9	-185.0	Utilities	-11.6	-4.5	-4.8
Food	-9.1	-26.2	-186.9	Telecommunications	-23.6	-38.6	-41.4
Electrical machinery, precision equipment	-5.5	-54.3	-387.4				
Steel, nonferrous metals	-37.0	-60.0	-428.5				
Chemicals	-10.0	-73.5	-525.0				

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of the FY19 corporate earnings outlook

Our analysts have raised their FY19 recurring profit forecasts for 5 of 19 sectors and lowered them for 14.

We have raised our forecasts for the telecommunications, utilities, pharmaceuticals & healthcare, construction, and services sectors.

For the telecommunications sector, our full-year earnings forecast was revised to reflect actual fund business profits in Apr-Jun 2019 as well as increases in mobile telecom revenues and low churn rates in mobile phone businesses. For the utilities sector, our fuel cost adjustment assumption was revised based on a change in our crude oil price assumption from \$65.0/bbl to \$60.0/bbl. For the pharmaceuticals & healthcare sector, our forecast was raised to reflect favorable pharmaceutical sales at sector companies in Apr-Jun. That said, we did lower our profit forecasts for medical equipment manufacturers based on changes to our forex assumptions to reflect the stronger yen and on progress with cost cutting to date. For the construction and services sectors, we raised our forecasts, but only made minor adjustments to our recurring profit forecasts.

Downward revisions were largest for sectors including chemicals, automobiles, electrical machinery & precision equipment, and steel & nonferrous metals.

For the chemicals sector, we have factored in deterioration in refining margins in Japan based on negative time lag effects associated with the aforementioned change in our crude oil price assumption. Business conditions are growing increasingly harsh in areas such as petrochemical production and semiconductor materials due to economic slowdowns and US-China trade friction. For the automobile sector, some automakers are making better-than-expected progress with lowering COGS, cutting fixed costs, and improving margins, but we revised our forex assumptions to reflect yen appreciation and expect harsh sales due to weak auto demand. For electrical machinery & precision equipment, we factored in harsh conditions for memory businesses due to a deterioration in semiconductor prices, Japanese and South Korean memory producers holding off on resuming major investment, and a full-fledged recovery in the SPE market taking place later than envisioned. We also lowered our demand forecasts for automotive and industrial machinery applications. For steel & nonferrous metals, we factored in a further rise in input prices, including for iron ore, as well as weak steel demand throughout Asia. We also factored in increased competitiveness for Chinese steel exports as a result of the weaker Chinese yuan.

Overview of the FY20 corporate earnings outlook

Our analysts have raised their FY20 recurring profit forecasts for 4 of 19 sectors and lowered them for 15.

We revised up our forecasts for telecommunications, pharmaceuticals & healthcare, services, and housing & real estate. Our downward revisions were largest for automobiles, financials, steel & nonferrous metals, chemicals, and electrical machinery & precision equipment. The lineups and the reasons behind upward and downward revisions to sector forecasts for FY20 are similar to those for FY19.

As per FY19, our analysts have revised down their forecasts for a wide range of sectors, but the extent of the downward revisions to our FY20 forecasts for the chemicals and electrical machinery & precision equipment sectors is less than that for FY19. This is, however, largely an artifact of the substantial downward revision to our FY19 forecasts for the chemicals sector (on negative time lag effects from the drop in the price of crude oil) and electrical machinery & precision equipment sector (on earnings deterioration in memory businesses).

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

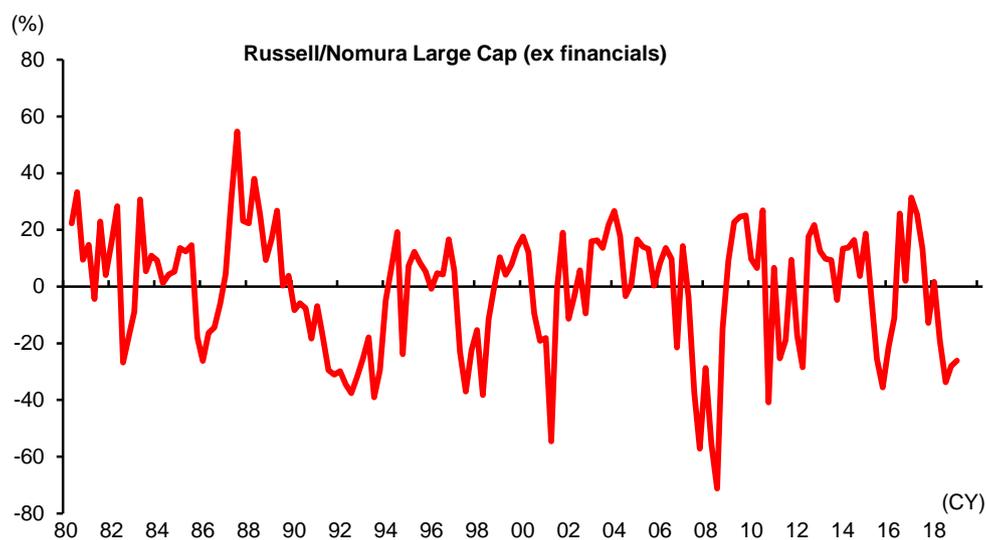
FY19E					FY20E				
[Upward revisions] 5 sectors					[Upward revisions] 4 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Telecommunications	5,146	4,895	251	5.1	Telecommunications	3,930	3,879	50	1.3
Utilities	1,218	1,114	104	9.3	Pharmaceuticals, healthcare	2,092	2,065	26	1.3
Pharmaceuticals, healthcare	1,362	1,296	66	5.1	Services	1,935	1,922	12	0.6
Construction	738	730	8	1.0	Housing, real estate	2,297	2,296	1	0.0
Services	1,777	1,771	6	0.3					
[Downward revisions] 14 sectors					[Downward revisions] 15 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Housing, real estate	2,183	2,185	-3	-0.1	Transportation	2,852	2,855	-3	-0.1
Retailing	1,681	1,686	-5	-0.3	Software	937	946	-9	-1.0
Media	282	302	-20	-6.5	Media	310	334	-24	-7.2
Software	769	795	-26	-3.2	Construction	722	748	-26	-3.4
Household goods	872	899	-27	-3.0	Household goods	981	1,009	-28	-2.8
Transportation	2,646	2,676	-30	-1.1	Retailing	1,818	1,856	-38	-2.0
Financials	6,856	6,919	-63	-0.9	Food	1,682	1,737	-55	-3.2
Trading companies	3,384	3,463	-79	-2.3	Utilities	1,077	1,141	-64	-5.7
Food	1,494	1,599	-105	-6.5	Trading companies	3,359	3,458	-99	-2.9
Machinery	2,462	2,593	-132	-5.1	Machinery	2,699	2,840	-141	-5.0
Steel, nonferrous metals	582	941	-359	-38.1	Electrical machinery, precision equipment	6,351	6,587	-236	-3.6
Electrical machinery, precision equipment	5,303	5,719	-417	-7.3	Chemicals	4,253	4,562	-309	-6.8
Automobiles	6,549	6,990	-441	-6.3	Steel, nonferrous metals	678	1,032	-354	-34.3
Chemicals	3,775	4,338	-563	-13.0	Financials	7,073	7,446	-373	-5.0
					Automobiles	7,189	7,659	-470	-6.1

Note: Latest estimates as of 26 August 2019; previous estimates as of 27 May 2019.

Source: Nomura

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

	(yy/m)	17/12	18/3	18/6	18/9	18/9	19/3	19/6	19/9 (%)
Russell/Nomura Large Cap		23.7	14.4	-11.4	0.9	-17.4	-31.4	-27.6	-24.6
Russell/Nomura Large Cap (ex financials)		25.5	13.2	-12.9	1.7	-19.1	-33.8	-28.0	-26.1
Manufacturing		24.4	13.3	-23.8	7.2	-26.0	-47.8	-34.1	-46.4
Basic materials		28.2	26.8	-17.1	9.8	-36.6	-42.9	-31.7	-63.4
Processing		26.3	17.9	-33.3	14.3	-29.8	-57.8	-41.0	-50.6
Nonmanufacturing (ex financials)		27.0	13.1	3.3	-6.6	-9.0	-14.1	-19.5	2.3



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	FY16	FY17E	FY18	FY19E Old	FY19E New	FY20E Old	FY20E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	307	-3.3	8.2	6.5	2.6	1.1	2.4	1.9
	Manufacturing	179	-4.3	9.3	3.0	2.7	0.3	2.5	2.0
	Basic materials	41	-5.6	17.1	7.0	6.9	0.9	1.0	-0.7
	Processing	83	-4.4	7.9	1.7	0.7	-1.0	3.2	3.0
	Nonmanufacturing (ex financials)	128	-1.8	6.7	11.5	2.5	2.1	2.1	1.7
Broad sectors	Materials	41	-5.6	17.1	7.0	6.9	0.9	1.0	-0.7
	Machinery, autos	45	-3.1	9.0	2.2	1.3	-0.5	3.3	2.9
	Electronics	38	-6.3	6.0	0.8	-0.2	-1.8	3.2	3.2
	Consumer, distribution	98	-2.2	6.7	15.5	3.7	3.0	2.3	1.9
	Information	23	0.1	6.3	3.7	1.5	1.5	2.3	2.6
	Utilities, infrastructure	62	-2.5	6.0	3.8	2.0	2.2	1.6	1.1
Sectors	Chemicals	33	-5.8	18.0	8.0	8.4	1.7	1.2	-0.5
	Steel, nonferrous metals	8	-5.1	15.0	4.7	3.1	-1.3	0.2	-1.1
	Machinery	26	-2.9	13.9	3.0	3.1	1.7	3.5	2.9
	Autos	19	-3.2	7.7	2.0	0.7	-1.1	3.2	2.9
	Electrical machinery, precision equipment	38	-6.3	6.0	0.8	-0.2	-1.8	3.2	3.2
	Pharmaceuticals, healthcare	22	-2.7	3.2	3.5	9.0	9.5	1.8	1.7
	Food products	20	-1.8	6.7	2.5	1.1	1.4	0.8	0.9
	Household goods	13	-4.1	7.5	3.5	3.7	2.1	5.5	5.6
	Trading companies	7	-4.6	13.1	45.0	4.0	2.1	1.4	0.7
	Retailing	20	2.2	5.1	3.1	3.6	3.4	4.5	3.8
	Services	16	-2.7	0.7	1.9	1.0	0.9	2.5	2.5
	Software	11	2.9	20.8	9.5	5.9	4.6	8.5	8.3
	Media	5	-1.3	5.3	6.4	2.2	1.2	2.6	2.5
	Telecommunications	7	0.0	4.7	2.7	0.8	1.0	1.3	1.8
	Construction, engineering	7	0.2	1.9	8.0	3.1	4.4	1.0	-1.0
	Housing, real estate	19	5.1	5.1	5.4	3.1	3.2	2.6	2.7
	Transportation	25	-3.1	5.8	-1.1	2.4	2.1	2.2	2.3
Utilities	11	-8.2	8.5	6.6	0.1	0.6	0.4	-1.0	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 26 August 2019; previous estimates as of 27 May 2019.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY16	FY17E	FY18	FY19E Old	FY19E New	FY20E Old	FY20E New
Industrial groups	Russell/Nomura Large Cap	333	1.4	15.3	1.1	5.0	1.2	6.8	6.4
	Russell/Nomura Large Cap (ex financials)	307	3.6	17.5	3.1	4.4	0.2	6.7	7.0
	Manufacturing	179	0.2	21.6	-1.5	3.3	-5.1	12.8	15.7
	Basic materials	41	12.1	43.6	2.1	3.1	-14.9	6.0	13.2
	Processing	83	-3.1	19.6	-2.6	5.6	-1.2	11.7	13.5
	Nonmanufacturing	154	2.5	9.7	3.7	6.5	7.1	1.3	-1.4
	Nonmanufacturing (ex financials)	128	8.4	12.2	9.7	5.7	6.9	-0.9	-3.0
Broad sectors	Materials	41	12.1	43.6	2.1	3.1	-14.9	6.0	13.2
	Machinery, autos	45	-13.0	16.5	-8.9	8.0	1.5	9.6	9.7
	Electronics	38	27.8	26.1	9.3	1.9	-5.5	15.2	19.8
	Consumer, distribution	98	19.8	14.8	2.8	3.2	1.8	12.4	12.3
	Information	23	0.2	6.1	33.1	4.2	7.8	-13.9	-16.5
	Utilities, infrastructure	62	-3.8	9.6	-2.5	4.7	6.0	5.0	2.4
	Financials	26	-8.1	4.4	-10.5	8.7	7.7	7.6	3.2
Sectors	Chemicals	33	16.1	34.2	4.5	3.4	-10.0	5.2	12.7
	Steel, nonferrous metals	8	-5.5	93.4	-7.3	1.8	-37.0	9.7	16.4
	Machinery	26	-17.9	29.3	9.6	2.0	-3.2	9.5	9.7
	Autos	19	-11.6	12.9	-14.6	10.4	3.4	9.6	9.8
	Electrical machinery, precision equipment	38	27.8	26.1	9.3	1.9	-5.5	15.2	19.8
	Pharmaceuticals, healthcare	22	-5.4	5.9	-3.5	-14.2	-9.8	59.3	53.5
	Food products	20	8.3	4.8	-3.7	-2.7	-9.1	8.6	12.5
	Household goods	13	5.8	20.8	6.9	8.3	5.0	12.2	12.6
	Trading companies	7	233.4	31.2	10.4	10.0	7.5	-0.2	-0.8
	Retailing	20	-1.4	12.4	3.3	8.9	8.6	10.1	8.2
	Services	16	-9.6	10.9	0.0	4.1	4.4	8.6	8.9
	Software	11	21.1	44.2	16.7	17.4	13.6	19.0	21.7
	Media	5	-1.0	9.6	4.1	-17.0	-22.3	10.8	9.8
	Telecommunications	7	-1.4	1.4	38.5	3.9	9.3	-20.7	-23.6
	Construction, engineering	7	30.5	9.8	-1.1	0.0	1.0	2.4	-2.1
	Housing, real estate	19	22.4	9.9	-2.7	6.4	6.2	5.1	5.2
	Transportation	25	-5.2	9.0	2.2	1.9	0.7	6.7	7.8
	Utilities	11	-36.2	10.2	-12.8	12.4	22.8	2.4	-11.6
Financials	26	-8.1	4.4	-10.5	8.7	7.7	7.6	3.2	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 26 August 2019; previous estimates as of 27 May 2019.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY16	FY17	FY18	FY19E Old	FY19E New	FY20E Old	FY20E New
Industrial groups	Russell/Nomura Large Cap	333	41,339	47,681	48,162	50,911	49,079	54,372	52,233
	Russell/Nomura Large Cap (ex financials)	307	34,408	40,521	41,796	43,993	42,223	46,926	45,160
	Manufacturing	179	19,641	23,855	23,510	24,376	22,399	27,491	25,924
	Basic materials	41	3,551	4,971	4,963	5,279	4,357	5,594	4,931
	Processing	83	12,524	14,790	14,552	15,303	14,313	17,086	16,239
	Nonmanufacturing	154	21,698	23,826	24,652	26,535	26,680	26,881	26,309
	Nonmanufacturing (ex financials)	128	14,766	16,666	18,286	19,617	19,824	19,435	19,235
Broad sectors	Materials	41	3,551	4,971	4,963	5,279	4,357	5,594	4,931
	Machinery, autos	45	8,528	9,755	8,911	9,583	9,010	10,499	9,888
	Electronics	38	3,996	5,035	5,641	5,719	5,303	6,587	6,351
	Consumer, distribution	98	8,630	10,162	10,312	10,714	10,570	12,047	11,866
	Information	23	3,999	4,317	5,753	5,991	6,198	5,159	5,176
	Utilities, infrastructure	62	5,704	6,280	6,216	6,706	6,784	7,040	6,948
	Financials	26	6,931	7,160	6,366	6,919	6,856	7,446	7,073
Sectors	Chemicals	33	3,002	3,911	4,036	4,338	3,775	4,562	4,253
	Steel, nonferrous metals	8	549	1,061	927	941	582	1,032	678
	Machinery	26	1,813	2,336	2,539	2,593	2,462	2,840	2,699
	Autos	19	6,716	7,419	6,372	6,990	6,549	7,659	7,189
	Electrical machinery, precision equipment	38	3,996	5,035	5,641	5,719	5,303	6,587	6,351
	Pharmaceuticals, healthcare	22	1,465	1,616	1,540	1,296	1,362	2,065	2,092
	Food products	20	1,487	1,723	1,625	1,599	1,494	1,737	1,682
	Household goods	13	613	755	830	899	872	1,009	981
	Trading companies	7	2,192	2,852	3,148	3,463	3,384	3,458	3,359
	Retailing	20	1,435	1,545	1,497	1,686	1,681	1,856	1,818
	Services	16	1,437	1,671	1,672	1,771	1,777	1,922	1,935
	Software	11	341	564	620	795	769	946	937
	Media	5	318	349	364	302	282	334	310
	Telecommunications	7	3,339	3,404	4,769	4,895	5,146	3,879	3,930
	Construction, engineering	7	617	664	696	730	738	748	722
	Housing, real estate	19	1,845	2,054	2,055	2,185	2,183	2,296	2,297
	Transportation	25	2,204	2,450	2,474	2,676	2,646	2,855	2,852
Utilities	11	1,038	1,112	992	1,114	1,218	1,141	1,077	
Financials	26	6,931	7,160	6,366	6,919	6,856	7,446	7,073	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 26 August 2019; previous estimates as of 27 May 2019.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY18 Q2–FY19 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	-	-	-	-	-	-	-	-	6.2	-17.0	1.1	-4.3	11.2	-27.4	-21.0	-10.6
	Russell/Nomura Large Cap (ex financials)	7.4	5.8	4.6	1.2	4.6	-5.7	2.4	-10.7	9.7	-16.6	2.6	-5.0	15.5	-27.6	-12.9	-14.1
	Manufacturing	3.7	2.1	-0.4	-0.1	4.5	-9.5	-10.5	-19.0	5.7	-25.1	-5.4	-26.2	16.0	-38.9	-23.4	-41.8
	Basic materials	9.8	7.3	0.1	2.4	9.8	-22.9	-9.9	-27.9	13.4	-23.8	-8.9	-33.0	16.6	-33.4	-11.9	-43.5
	Processing	2.2	0.6	-1.4	-2.3	2.4	-6.2	-10.2	-19.3	3.7	-29.5	-1.5	-27.6	15.9	-44.1	-27.1	-46.9
	Nonmanufacturing	-	-	-	-	-	-	-	-	6.6	-9.0	8.6	18.1	6.7	-15.0	-17.6	30.3
	Nonmanufacturing (ex financials)	12.6	11.4	11.8	3.0	4.8	-0.3	22.0	-0.1	15.0	-4.7	16.1	25.4	14.8	-10.8	9.7	38.1
Broad sectors	Basic materials	9.8	7.3	0.1	2.4	9.8	-22.9	-9.9	-27.9	13.4	-23.8	-8.9	-33.0	16.6	-33.4	-11.9	-43.5
	Machinery, autos	2.0	2.5	-1.1	-1.3	-3.4	-8.8	-22.2	-17.0	0.8	-31.0	-13.8	-20.7	7.3	-53.0	-20.4	-20.5
	Electronics	2.5	-2.4	-1.9	-4.1	11.2	-2.2	14.3	-23.5	8.3	-26.7	24.8	-39.9	32.0	-22.7	-34.6	-72.0
	Consumption, distribution	16.4	14.9	16.1	2.3	3.7	-7.0	2.2	-2.6	3.6	-7.5	1.0	-4.7	10.4	-14.5	1.0	-5.4
	Information	4.4	3.3	4.2	3.5	21.7	18.8	52.2	-8.5	62.0	0.8	39.2	56.8	63.3	-13.2	-14.1	72.7
	Utilities, infrastructure	4.0	3.3	4.7	5.4	-5.9	-6.5	14.3	10.2	-6.0	-8.4	11.8	18.3	-7.6	-9.7	21.5	46.5
	Financials	-	-	-	-	-	-	-	-	-14.9	-19.7	-7.8	-0.4	-13.5	-26.4	-71.0	12.7
Sectors	Chemicals	12.1	8.0	0.4	3.7	12.8	-24.0	-8.7	-23.6	15.6	-26.8	-7.1	-30.1	14.7	-38.5	-25.7	-35.1
	Steel, nonferrous metals	4.8	5.8	-0.5	-0.8	-4.2	-18.2	-13.4	-44.4	3.7	-12.9	-20.7	-44.7	24.4	-16.3	SP	-68.2
	Machinery	4.0	2.4	-0.9	-3.5	9.1	-4.5	18.3	-22.2	3.1	-7.9	29.6	-25.6	1.1	-0.9	30.1	-24.0
	Automobiles	1.5	2.5	-1.1	-0.7	-8.1	-10.2	-35.2	-15.3	0.1	-38.6	-25.9	-19.0	9.5	-62.7	-33.8	-19.4
	Electrical machinery, precision equipment	2.5	-2.4	-1.9	-4.1	11.2	-2.2	14.3	-23.5	8.3	-26.7	24.8	-39.9	32.0	-22.7	-34.6	-72.0
	Pharmaceuticals, healthcare	0.2	1.3	10.2	12.4	9.2	2.7	10.6	8.1	8.6	-4.6	-3.7	-3.1	21.4	-15.2	43.6	-7.2
	Food products	2.5	0.2	-1.5	0.1	3.1	-15.3	-22.5	-20.4	-0.2	-19.2	-27.9	-21.5	-1.3	-19.3	-46.8	-24.0
	Household goods	3.3	2.9	-0.2	0.8	2.4	2.4	-20.2	-3.9	3.5	-3.6	-16.3	-7.9	60.5	-45.2	-12.2	-11.3
	Trading companies	47.2	42.7	43.6	0.6	3.6	-8.7	20.2	-3.7	3.9	-3.4	19.7	-1.5	-3.2	-8.5	23.9	-4.8
	Retailing	6.3	6.0	5.9	4.0	-0.5	-2.8	0.6	4.5	2.0	-2.6	4.3	-0.8	5.1	-5.6	28.0	8.0
	Services	2.9	2.1	1.6	-1.6	3.3	-14.4	8.8	2.1	4.3	-12.6	10.2	3.1	38.8	-11.2	-25.8	10.9
	Software	5.8	17.5	12.2	8.5	1.8	23.6	43.0	16.1	4.1	12.4	96.0	-3.2	-12.7	20.1	85.5	-1.6
	Media	4.5	6.1	8.9	2.3	-8.2	-13.4	-6.6	-29.4	73.8	-19.6	-22.2	-17.6	113.5	-31.2	-28.1	32.8
	Telecommunications	4.2	0.9	2.7	3.0	25.0	21.9	59.1	-9.4	68.5	1.1	40.9	65.6	73.6	-15.3	-27.6	83.0
	Construction, engineering	7.7	9.4	10.9	10.6	3.7	-5.8	11.4	12.2	7.3	-6.4	10.8	10.5	1.7	-3.4	24.1	18.7
	Housing, real estate	4.6	1.0	7.2	4.3	6.2	-7.7	-8.9	7.0	7.1	-7.5	-13.7	8.4	11.0	-11.7	-14.5	5.2
	Transportation	-1.4	-0.3	-2.3	1.2	-0.3	7.9	7.9	2.2	-1.7	5.9	13.6	4.5	-3.7	1.4	107.5	7.3
	Utilities	8.3	7.8	7.4	9.6	-29.1	-52.8	127.3	37.3	-29.7	-60.4	156.2	76.2	-35.9	-62.0	88.6	246.2
	Financials	-	-	-	-	-	-	-	-	-14.9	-19.7	-7.8	-0.4	-13.5	-26.4	-71.0	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 August 2019. (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			
		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18	FY19E	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	13.3	12.4	11.7	-	-	-	1.17	1.14	2.63	2.78	2.93	9.2	8.8	9.0	9.1
	Russell/Nomura Large Cap (ex loss-making cos)	12.9	12.2	11.5	-	-	-	1.16	1.14	2.60	2.83	2.98	9.5	9.1	9.0	9.1
	Russell/Nomura Large Cap (ex financials)	14.2	13.2	12.2	7.5	7.1	6.8	1.33	1.28	2.49	2.64	2.80	10.3	9.2	9.4	9.6
	Manufacturing	15.7	13.3	12.1	8.4	7.6	7.1	1.38	1.33	2.57	2.74	2.93	10.5	8.6	9.7	10.0
	Basic materials	11.4	9.9	8.9	4.7	4.4	4.2	0.80	0.77	3.26	3.36	3.63	9.0	6.9	7.6	7.9
	Processing	13.7	11.9	10.9	7.9	7.1	6.7	1.30	1.25	2.59	2.82	3.05	11.2	9.4	10.2	10.4
	Nonmanufacturing	11.2	11.5	11.2	-	-	-	0.99	0.98	2.70	2.83	2.93	8.2	8.9	8.3	8.3
	Nonmanufacturing (ex financials)	12.5	13.0	12.2	6.5	6.6	6.3	1.26	1.21	2.38	2.49	2.62	9.9	10.0	9.0	9.1
Broad sectors	Basic materials	11.4	9.9	8.9	4.7	4.4	4.2	0.80	0.77	3.26	3.36	3.63	9.0	6.9	7.6	7.9
	Machinery, autos	11.6	10.4	9.7	6.9	6.4	6.0	1.09	1.05	3.17	3.41	3.66	9.4	9.3	9.8	9.9
	Electronics	17.4	14.2	12.8	9.5	8.3	7.8	1.69	1.64	1.91	2.12	2.31	14.5	9.6	11.1	11.3
	Consumption, distribution	19.2	16.6	15.3	10.8	10.0	9.5	1.64	1.59	2.40	2.48	2.60	9.1	8.4	9.3	9.5
	Information	12.0	14.8	13.1	5.7	6.2	5.9	1.53	1.49	2.34	2.55	2.76	13.9	12.6	9.8	10.5
	Utilities, infrastructure	11.5	11.5	11.1	5.8	5.7	5.6	1.11	1.06	2.20	2.27	2.31	8.9	9.5	8.9	8.7
	Financials	7.7	7.7	8.1	-	-	-	0.52	0.54	4.08	4.29	4.26	5.3	6.9	6.9	6.8
Sectors	Chemicals	10.9	9.6	9.0	5.2	4.8	4.6	0.93	0.87	3.38	3.49	3.62	10.0	8.3	8.8	8.8
	Steel, nonferrous metals	14.7	11.5	8.5	3.5	3.2	2.9	0.50	0.50	2.70	2.78	3.64	6.7	3.4	4.3	5.6
	Machinery	15.6	14.2	13.4	9.4	8.8	8.4	1.47	1.40	2.25	2.40	2.49	10.1	9.2	9.6	9.5
	Automobiles	10.1	9.1	8.5	6.0	5.5	5.2	0.96	0.92	3.67	3.97	4.31	9.2	9.3	9.8	10.0
	Electrical machinery, precision equipment	17.4	14.2	12.8	9.5	8.3	7.8	1.69	1.64	1.91	2.12	2.31	14.5	9.6	11.1	11.3
	Pharmaceuticals, healthcare	38.8	23.2	19.4	16.1	13.9	12.6	2.10	2.12	2.12	2.15	2.18	8.4	5.5	9.0	10.2
	Food products	20.1	16.8	15.7	11.1	9.9	9.5	1.87	1.81	3.04	3.27	3.46	10.9	9.2	10.6	10.8
	Household goods	26.5	23.3	21.4	18.1	16.2	15.0	3.86	3.65	1.51	1.58	1.70	13.3	14.1	15.0	15.1
	Trading companies	6.2	6.3	6.1	3.7	3.7	3.6	0.76	0.73	4.95	5.00	5.19	12.0	12.1	11.2	10.7
	Retailing	24.0	21.9	19.9	12.6	11.7	10.9	2.21	2.14	1.88	1.96	2.16	8.8	9.3	9.5	9.7
	Services	23.0	20.7	19.5	15.2	13.9	13.3	1.23	1.19	1.78	1.84	1.90	5.1	5.3	5.6	5.8
	Software	24.1	20.0	17.4	19.9	17.0	15.0	3.60	3.41	2.00	2.42	2.80	13.2	14.4	16.3	17.1
	Media	17.8	15.4	14.7	11.4	10.4	10.1	1.01	0.98	2.02	2.02	2.02	7.3	5.6	6.2	6.2
	Telecommunications	9.6	13.2	11.7	4.2	4.7	4.5	1.30	1.24	2.52	2.67	2.83	15.0	13.3	9.2	9.9
	Construction	7.6	7.8	7.9	6.5	6.8	6.8	0.97	0.91	3.51	3.55	3.58	14.0	12.5	11.2	10.4
	Housing, real estate	12.3	11.7	11.3	8.6	8.2	7.9	1.28	1.22	2.62	2.70	2.77	10.0	10.2	10.0	9.8
	Transportation	13.9	12.9	12.5	6.6	6.3	6.2	1.32	1.26	1.50	1.58	1.62	8.8	9.3	9.4	9.1
	Utilities	7.9	9.9	9.5	2.6	2.7	2.7	0.65	0.61	2.84	2.86	2.86	6.2	8.0	6.0	6.0
	Financials	7.7	7.7	8.1	-	-	-	0.52	0.54	4.08	4.29	4.26	5.3	6.9	6.9	6.8
		Russell/Nomura Small Cap	14.0	13.0	12.9	-	-	-	1.00	0.93	2.71	2.72	2.70	6.6	6.8	7.0
	Russell/Nomura Small Cap (ex financials)	14.7	13.5	13.2	7.9	7.5	7.3	1.14	1.08	2.21	2.22	2.27	7.0	7.6	7.8	7.6

Note: Share prices and forecasts are as of 26 August 2019.

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.

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

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As at 30 June 2019.

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