

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 a sales decline of 0.7% y-y and a recurring profit decline of 8.7% for companies in the Russell/Nomura Large Cap Index (ex financials). The earnings outlook has deteriorated, particularly for manufacturing sectors, as a result of US-China trade friction and other factors. It now looks more likely that sales will fall in FY19 for the first time since FY16, three years ago, and recurring profits will fall in FY19, for the first time since FY11, eight years ago.

We trim our sales growth forecast by 0.9ppt but reduce our recurring profit growth forecast by 3.4ppt, versus our previous forecasts (released in December 2019, collated on 25 November 2019, same throughout). One of the reasons why the downward revision was greater for recurring profits than for sales is that Nippon Steel [5401] recorded impairment losses in FY19 Q3 as a result of plant closures. The yen amount of the downward revision to our recurring profit forecast for Nippon Steel represented about 40% of the downward revision to our overall recurring profit forecast. The revision index, which captures the trend in revisions to forecasts by our analysts in terms of the number of companies, came in at -15.0%. While downward revisions exceeded upward revisions for the sixth straight quarter, the index improved q-q for the fourth consecutive quarter, up from -16.9% last time around. Our forex assumptions for FY19 are USD/JPY of 108.73 (previously 108.31) and EUR/JPY of 121.05 (previously 120.21). The changes to our assumptions are only minor and we think they were responsible for only minimal revisions to our analysts' forecasts.

In FY19 Q3, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) fell 6.8% y-y on a 3.5% drop in sales. This marked the first y-y decline in sales since FY16 Q3. Meanwhile, operating profits fell 16.8%, far more than the decline in recurring profits. We think this was mainly due to Toyota Motor [7203], which booked non-operating valuation losses on securities in FY18 Q3, and SoftBank Group [9984], which booked gains on changes in equity stakes at the non-operating level in FY19 Q3.

Overview of the FY20 corporate earnings outlook

For FY20, our analysts look for sales growth of 1.1% y-y and recurring profit growth of 9.8% for companies in the Russell/Nomura Large Cap Index (ex financials). Based on the assumption of economic recovery from around the beginning of FY20 H2, we expect profit growth to be driven mainly by economically sensitive sectors, including electrical machinery & precision equipment, steel & nonferrous metals, machinery, and automobiles.

The forex assumptions used for FY20 are USD/JPY of 109.00 (previously 108.00) and EUR/JPY of 121.00 (previously 119.00).

Compared with our previous forecasts, our sales growth forecast has been revised down by 0.8ppt while our recurring profit growth forecast has been raised by 0.5ppt. At the same time, our recurring profit forecast has been revised down by ¥1,424.3bn. The reason why the percentage change in our recurring profit growth forecast has, nevertheless, been revised up is that the forecast for FY19, the base year for the y-y growth calculation, has been revised down.

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

(% y-y, except where noted)

		No. of cos	New FY16	FY17	FY18	FY19E	FY20E	Old FY19E	FY20E
Sales	Russell/Nomura Large Cap (ex financials)	307	-3.3	8.2	6.5	-0.7	1.1	0.2	1.9
	Manufacturing	179	-4.3	9.3	3.0	-1.5	1.1	-0.7	2.4
	Basic materials	41	-5.6	17.1	7.0	-0.8	-1.5	0.2	0.4
	Processing	83	-4.4	7.9	1.7	-3.1	1.8	-2.3	3.1
	Nonmanufacturing (ex financials)	128	-1.8	6.7	11.5	0.4	1.2	1.4	1.2
	Russell/Nomura Small Cap (ex financials)	1,131	-0.5	6.1	4.6	1.3	2.6	2.2	2.9
Operating profits	Russell/Nomura Large Cap (ex financials)	307	2.9	16.3	3.6	-13.0	12.8	-9.2	11.6
	Manufacturing	179	-0.5	17.8	0.3	-14.6	16.0	-8.9	14.6
	Basic materials	41	9.4	34.9	0.1	-33.5	22.8	-18.0	9.4
	Processing	83	-3.6	15.9	0.2	-11.6	12.7	-7.5	14.0
	Nonmanufacturing (ex financials)	128	7.5	14.3	8.0	-11.1	9.2	-9.5	8.0
	Russell/Nomura Small Cap (ex financials)	1,131	7.2	6.8	-2.4	-0.9	11.6	3.3	10.5
Recurring profits	Russell/Nomura Large Cap	333	1.4	15.3	1.1	-6.3	8.0	-3.5	8.4
	Russell/Nomura Large Cap (ex financials)	307	3.6	17.5	3.1	-8.7	9.8	-5.3	9.4
	Manufacturing	179	0.2	21.6	-1.5	-13.9	16.2	-9.1	16.2
	Basic materials	41	12.1	43.6	2.1	-36.7	26.3	-21.5	11.4
	Processing	83	-3.1	19.6	-2.6	-8.6	11.8	-6.0	15.4
	Nonmanufacturing	154	2.5	9.7	3.7	0.9	1.4	1.8	1.9
	Nonmanufacturing (ex financials)	128	8.4	12.2	9.7	-2.2	2.7	-0.4	1.6
	Russell/Nomura Small Cap	1,227	5.8	9.0	-1.8	-2.5	11.0	1.1	10.0
	Russell/Nomura Small Cap (ex financials)	1,131	8.8	8.4	0.3	-4.1	11.8	-0.1	11.0
Net profits	Russell/Nomura Large Cap	333	8.5	32.2	-4.5	-11.6	9.8	-7.5	9.2
	Russell/Nomura Large Cap (ex financials)	307	10.8	38.5	-1.1	-16.1	12.1	-11.8	11.2
	Manufacturing	179	-1.5	53.1	-4.3	-23.7	20.0	-17.8	18.8
	Basic materials	41	58.4	49.6	0.9	-54.4	60.8	-31.1	17.2
	Processing	83	-14.0	68.5	-5.9	-19.3	12.4	-16.3	17.0
	Nonmanufacturing	154	18.2	15.1	-4.7	1.5	1.5	3.6	0.9
	Nonmanufacturing (ex financials)	128	30.9	20.4	3.9	-5.3	3.0	-3.3	2.1
	Russell/Nomura Small Cap	1,227	17.3	14.5	-5.9	0.9	15.7	6.8	11.4
	Russell/Nomura Small Cap (ex financials)	1,131	21.7	10.1	-3.4	0.5	17.5	7.1	13.1

Note: Latest estimates as of 25 February 2020, previous estimates as of 25 November 2019.

Source: Nomura

Fig. 2: Major assumptions

As of 20 January 2020						As of 17 October 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	0.2	-0.10	62.8	110.90	128.40	0.2	-0.10	62.8	110.90	128.40
FY19E	-3.2	-0.10	57.7	108.73	121.05	-1.7	-0.10	56.6	108.31	120.21
FY20E	1.1	-0.10	57.5	109.00	121.00	0.6	-0.10	55.0	108.00	119.00
FY18 H1	0.7	-0.10	68.7	110.33	129.92	0.7	-0.10	68.7	110.33	129.92
FY18 H2	-0.2	-0.10	56.9	111.46	126.87	-0.2	-0.10	56.9	111.46	126.87
FY19 H1	-1.6	-0.10	58.1	108.61	121.41	-1.9	-0.10	58.1	108.61	121.41
FY19E H2	-4.7	-0.10	57.2	108.85	120.68	-1.5	-0.10	55.0	108.00	119.00
FY20E H1	-2.8	-0.10	57.5	109.00	121.00	0.3	-0.10	55.0	108.00	119.00
FY20E H2	5.0	-0.10	57.5	109.00	121.00	1.0	-0.10	55.0	108.00	119.00

Note: WTI is 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 7 of 19 sectors and decrease in 12.

Sectors expected to make substantial positive contributions to overall profit growth include financials, utilities, pharmaceuticals & healthcare, housing & real estate, and software.

In the financials sector, the expected profit growth stems in part from low profits in FY18, when the market environment was harsh, but earnings at banks' non-retail client-facing operations have also been bottoming out. Market-related operations at banks have been firm, and we expect cost cuts to have an impact too. In the utilities sector, we expect improved gains/losses related to the fuel cost adjustment system. In pharmaceuticals & healthcare, progress has been made in reducing SG&A costs, and sales have been strong, both overseas and in Japan. In the housing & real estate sector, we expect profits on the sale of logistics facilities and overseas rental housing to contribute to profit growth. We also expect an impact from the disappearance of impairment losses at an overseas subsidiary recorded by Lixil Group [5938] in FY18. In the software sector, games consoles and software have been selling well in the amusement field. Meanwhile, in terms of software for enterprises, sector companies have been tapping into strong corporate appetite to invest in IT in order to boost productivity.

Sectors expected to make substantial negative contributions to overall profit growth include steel & nonferrous metals, chemicals, electrical machinery & precision equipment, telecommunications, and machinery.

In the steel & nonferrous metals sector, domestic demand has fallen sharply, and there are also concerns about a negative impact on overseas steel prices from the COVID-19 outbreak. Impairment losses at Nippon Steel resulting from plant closures have also had an impact. In the chemicals sector, business conditions are harsh, chiefly for petrochemical products, as a result of US-China trade friction, economic slowdown, and the fall in crude oil prices. In the electrical machinery & precision equipment sector, harsh conditions continue, mainly in economically sensitive businesses, owing to slumps in both auto sales and capex. While there are signs of an earnings recovery in some areas, with major semiconductor and memory manufacturers stepping up their capex plans, for example, we expect electrical machinery & precision equipment sector profits to fall in FY19 as a whole. In the telecommunications sector, equity-method losses and forward investment in mobile phone operations have had an impact. SoftBank Group has booked more than ¥1trn in settlement gains on a contract to sell shares in FY19, but the deterioration in earnings from investments by the investment fund business and by the company itself is greater than this. In the machinery sector, the decline in both domestic and overseas orders seen since FY18 H2 has spread to a broad range of subsectors, partly as a result of US-China trade friction.

Overview of the FY20 corporate earnings outlook

For FY20, our analysts expect recurring profits to increase in 14 of 19 sectors and decrease in 5.

Sectors expected to make substantial positive contributions to overall profit growth include electrical machinery & precision equipment, steel & nonferrous metals, pharmaceuticals & healthcare, machinery, and automobiles.

In electrical machinery & precision equipment, we expect tailwinds from higher demand for 5G smartphones, uptake of which is likely to pick up speed from 2020. In addition, major semiconductor/memory manufacturers around the world have moved to a more positive stance on capex, and we expect the SPE market to recover. In the steel & nonferrous metals sector, the disappearance of impairment losses from plant closures is likely to have a substantial effect. In pharmaceuticals & healthcare, the absence of acquisition-related costs is likely to have a major impact, but we expect solid profit growth throughout the sector even excluding this factor. In the machinery sector, we expect the global machinery demand cycle to head towards a recovery in FY20. In the automobiles sector, we think automakers will benefit from domestic production returning to normal, the dropout of one-time costs, and cost-cutting and other initiatives, and expect auto parts manufacturers to benefit from increased sales of electrification products and a recovery in automatic transmission (AT) sales.

Sectors where we expect profits to decline are telecommunications, financials, utilities, trading companies, and construction.

In telecommunications, the dropping out of the picture at SoftBank Group of settlement gains on the contract to sell shares, as discussed earlier, is likely to be a major factor. We forecast profit growth for the sector after adjusting for this factor. In utilities, downward pressure is likely to come from an intensification of competition owing to deregulation of electricity/gas retail sales. In trading companies, we forecast profit declines mainly in resource businesses on the assumption that prices of coking coal, iron ore, and other commodities will be weak. We also expect an impact from the dropout of one-time profits that have either been booked already or look likely to be booked in FY19.

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

FY19E				FY20E			
Increase in profits				Increase in profits			
	Growth	Contribution	Contribution (%)		Growth	Contribution	Contribution (%)
			(ex financials)				(ex financials)
7 sectors				14 sectors			
Financials	9.7	20.2	-	Electrical machinery, precision equipment	21.5	29.0	27.9
Utilities	21.7	7.0	5.8	Steel, nonferrous metals	SP	17.6	17.0
Pharmaceuticals, healthcare	9.5	4.7	3.9	Pharmaceuticals, healthcare	37.5	17.0	16.3
Housing, real estate	6.6	4.4	3.7	Machinery	13.3	7.9	7.6
Software	18.2	4.0	3.3	Automobiles	3.7	6.3	6.1
Retailing	6.5	3.3	2.7	Transportation	7.3	5.2	5.0
Construction	1.5	0.4	0.3	Chemicals	5.5	5.1	4.9
Decrease in profits				Software	22.2	5.1	4.9
	Growth	Contribution	Contribution (%)	Food	13.2	5.0	4.8
			(ex financials)	Media	96.5	4.0	3.9
12 sectors				Services	8.4	3.9	3.8
Household goods	-4.6	-1.2	-1.0	Retailing	6.9	3.2	3.1
Services	-2.8	-1.5	-1.3	Housing, real estate	5.0	3.0	2.9
Transportation	-1.8	-1.6	-1.3	Household goods	11.6	2.6	2.5
Trading companies	-3.3	-3.3	-2.8	Decrease in profits			
Automobiles	-2.7	-5.6	-4.6		Growth	Contribution	Contribution (%)
Media	-58.4	-6.9	-5.8				(ex financials)
Food	-16.2	-8.7	-7.2	5 sectors			
Machinery	-15.6	-13.0	-10.8	Construction	-1.1	-0.2	-0.2
Telecommunications	-12.3	-18.9	-15.7	Trading companies	-3.0	-2.5	-2.4
Electrical machinery, precision equipment	-12.1	-22.1	-18.4	Utilities	-8.4	-2.8	-2.7
Chemicals	-19.4	-26.5	-22.1	Financials	-2.0	-3.8	-
Steel, nonferrous metals	SL	-34.7	-28.9	Telecommunications	-4.8	-5.5	-5.3

Note: SP = switch to profits. SL = switch to losses.

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.

Upward revisions were made to forecasts for the pharmaceuticals & healthcare, financials, housing & real estate, software, and construction sectors.

In the pharmaceuticals & healthcare sector, earnings were strong both in Japan and overseas in Q3, and we have factored in progress with SG&A cost controls and other cost reductions. In financials, our upward revisions reflect cost savings and strong earnings from market-related operations at major banks. In the housing & real estate, software, and construction sectors, upward revisions were only minor.

We made the largest downward revisions to our forecasts in the steel & nonferrous metals, chemicals, machinery, automobiles, and media sectors.

In the steel & nonferrous metals sector, impairment losses on plant closures accounted for the majority of the downward revision in our forecast. Our forecasts also reflect the further weakening of domestic demand and uncertain conditions overseas, partly because of the COVID-19 outbreak. In the chemicals sector, our forecasts reflect a slowdown in product demand owing to US-China trade friction and economic weakness in China, as well as lackluster growth in automobile-related materials because of a deterioration in automobile demand. For the machinery sector, our forecasts reflect delays to plant openings as a result of COVID-19. In automobiles, our forecasts factor in a further increase in quality-related costs and a downturn in domestic sales, among other factors. We have also factored in a further deterioration in the automobile market, mainly in China, because of COVID-19. The downward revision to our forecasts for the media sector reflects goodwill impairment losses overseas.

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.

Upward revisions were made to the pharmaceuticals & healthcare, software, construction, and utilities sectors.

The upward revisions for the pharmaceuticals & healthcare sector reflect higher forecasts for sales of mainstay products. Our analysts made only minor revisions to their forecasts for the software, construction, and utilities sectors.

Downward revisions to our forecasts were largest for the automobiles, chemicals, electrical machinery & precision equipment, financials, and machinery sectors.

Our forecasts for the automobiles sector reflect our expectation that auto production will fall in China through FY20 H1 because of COVID-19, and that demand will also be lower than we had previously expected in areas with strong economic ties to China such as the ASEAN countries, Australia, and Japan. For chemicals, our earnings forecasts reflect the impact of COVID-19 and a downturn in auto output. For financials, we have reflected weak earnings from retail operations and higher systems expenses. For the machinery sector, we still expect global machinery demand to recover in 2020 but have partially reflected the impact of delays to plant start-ups as a result of COVID-19.

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

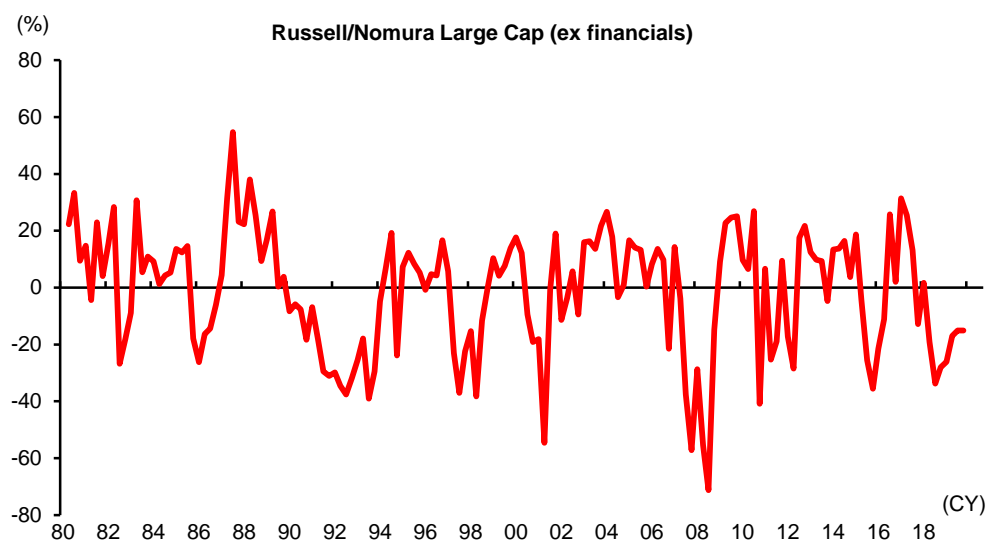
FY19E					FY20E				
[Upward revisions] 5 sectors					[Upward revisions] 4 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Pharmaceuticals, healthcare	1,653	1,485	168	11.3	Pharmaceuticals, healthcare	2,247	2,115	132	6.2
Financials	6,985	6,874	111	1.6	Software	1,010	989	20	2.0
Housing, real estate	2,191	2,182	9	0.4	Construction	733	722	11	1.5
Software	800	795	5	0.6	Utilities	1,084	1,073	11	1.0
Construction	741	738	4	0.5					
[Downward revisions] 14 sectors					[Downward revisions] 15 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Telecommunications	4,131	4,142	-11	-0.3	Housing, real estate	2,237	2,237	-1	-0.0
Retailing	1,649	1,667	-18	-1.1	Services	1,828	1,831	-4	-0.2
Services	1,654	1,672	-18	-1.1	Media	297	308	-10	-3.3
Utilities	1,207	1,258	-51	-4.0	Telecommunications	3,909	3,925	-17	-0.4
Transportation	2,579	2,630	-51	-1.9	Retailing	1,786	1,812	-26	-1.4
Household goods	792	865	-73	-8.5	Steel, nonferrous metals	447	493	-46	-9.3
Trading companies	3,046	3,120	-74	-2.4	Food	1,539	1,593	-55	-3.4
Food	1,378	1,455	-77	-5.3	Transportation	2,740	2,813	-73	-2.6
Electrical machinery, precision equipment	4,935	5,018	-83	-1.7	Trading companies	2,956	3,033	-77	-2.5
Media	151	279	-127	-45.7	Household goods	900	988	-88	-8.9
Automobiles	6,163	6,295	-132	-2.1	Machinery	2,432	2,573	-141	-5.5
Machinery	2,146	2,305	-160	-6.9	Financials	6,726	6,938	-212	-3.0
Chemicals	3,380	3,579	-199	-5.6	Electrical machinery, precision equipment	5,926	6,156	-229	-3.7
Steel, nonferrous metals	-140	438	-577	-131.9	Chemicals	3,496	3,800	-303	-8.0
					Automobiles	6,391	6,918	-528	-7.6

Note: Latest estimates as of 25 February 2020; previous estimates as of 25 November 2019.

Source: Nomura

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

	(yy/m)	18/6	18/9	18/12	19/3	19/6	19/9	19/12	20/3
Russell/Nomura Large Cap		-11.4	0.9	-17.4	-31.4	-27.6	-24.6	-15.6	-15.5
Russell/Nomura Large Cap (ex financials)		-12.9	1.7	-19.1	-33.8	-28.0	-26.1	-16.9	-15.0
Manufacturing		-23.8	7.2	-26.0	-47.8	-34.1	-46.4	-25.7	-21.7
Basic materials		-17.1	9.8	-36.6	-42.9	-31.7	-63.4	-56.1	-40.5
Processing		-33.3	14.3	-29.8	-57.8	-41.0	-50.6	-32.5	-23.8
Nonmanufacturing (ex financials)		3.3	-6.6	-9.0	-14.1	-19.5	2.3	-4.7	-6.1



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	FY17	FY18	FY19E Old	FY19E New	FY20E Old	FY20E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	307	-3.3	8.2	6.5	0.2	-0.7	1.9	1.1
	Manufacturing	179	-4.3	9.3	3.0	-0.7	-1.5	2.4	1.1
	Basic materials	41	-5.6	17.1	7.0	0.2	-0.8	0.4	-1.5
	Processing	83	-4.4	7.9	1.7	-2.3	-3.1	3.1	1.8
	Nonmanufacturing (ex financials)	128	-1.8	6.7	11.5	1.4	0.4	1.2	1.2
Broad sectors	Materials	41	-5.6	17.1	7.0	0.2	-0.8	0.4	-1.5
	Machinery, autos	45	-3.1	9.0	2.2	-1.9	-2.8	2.8	1.3
	Electronics	38	-6.3	6.0	0.8	-2.9	-3.5	3.8	2.6
	Consumer, distribution	98	-2.2	6.7	15.5	2.0	0.7	1.4	1.3
	Information	23	0.1	6.3	3.7	1.4	1.4	2.4	2.5
	Utilities, infrastructure	62	-2.5	6.0	3.8	2.1	1.6	0.8	0.5
Sectors	Chemicals	33	-5.8	18.0	8.0	1.4	0.5	0.1	-2.1
	Steel, nonferrous metals	8	-5.1	15.0	4.7	-3.0	-4.3	1.2	0.3
	Machinery	26	-2.9	13.9	3.0	0.3	-1.5	2.9	3.4
	Autos	19	-3.2	7.7	2.0	-2.6	-3.2	2.7	0.7
	Electrical machinery, precision equipment	38	-6.3	6.0	0.8	-2.9	-3.5	3.8	2.6
	Pharmaceuticals, healthcare	22	-2.7	3.2	3.5	10.1	10.2	1.4	1.9
	Food products	20	-1.8	6.7	2.5	1.2	1.0	0.8	0.4
	Household goods	13	-4.1	7.5	3.5	1.3	-0.1	5.5	4.0
	Trading companies	7	-4.6	13.1	45.0	-0.3	-3.6	-0.1	0.1
	Retailing	20	2.2	5.1	3.1	3.3	3.2	3.5	3.1
	Services	16	-2.7	0.7	1.9	0.4	0.2	1.2	1.1
	Software	11	2.9	20.8	9.5	5.9	5.7	7.7	8.8
	Media	5	-1.3	5.3	6.4	1.4	0.8	2.7	0.9
	Telecommunications	7	0.0	4.7	2.7	0.8	0.9	1.5	1.6
	Construction, engineering	7	0.2	1.9	8.0	4.4	5.0	-1.0	-1.0
	Housing, real estate	19	5.1	5.1	5.4	3.7	3.5	2.2	2.6
	Transportation	25	-3.1	5.8	-1.1	1.6	1.1	2.3	2.0
	Utilities	11	-8.2	8.5	6.6	0.1	-0.7	-1.7	-2.4

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 25 February 2020; previous estimates as of 25 November 2019.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY16	FY17	FY18	FY19E Old	FY19E New	FY20E Old	FY20E New
Industrial groups	Russell/Nomura Large Cap	333	1.4	15.3	1.1	-3.5	-6.3	8.4	8.0
	Russell/Nomura Large Cap (ex financials)	307	3.6	17.5	3.1	-5.3	-8.7	9.4	9.8
	Manufacturing	179	0.2	21.6	-1.5	-9.1	-13.9	16.2	16.2
	Basic materials	41	12.1	43.6	2.1	-21.5	-36.7	11.4	26.3
	Processing	83	-3.1	19.6	-2.6	-6.0	-8.6	15.4	11.8
	Nonmanufacturing	154	2.5	9.7	3.7	1.8	0.9	1.9	1.4
	Nonmanufacturing (ex financials)	128	8.4	12.2	9.7	-0.4	-2.2	1.6	2.7
Broad sectors	Materials	41	12.1	43.6	2.1	-21.5	-36.7	11.4	26.3
	Machinery, autos	45	-13.0	16.5	-8.9	-3.1	-6.4	10.4	6.2
	Electronics	38	27.8	26.1	9.3	-10.6	-12.1	24.0	21.5
	Consumer, distribution	98	19.8	14.8	2.8	-1.1	-2.0	10.5	10.3
	Information	23	0.2	6.1	33.1	-9.3	-11.6	-0.3	2.6
	Utilities, infrastructure	62	-3.8	9.6	-2.5	6.3	4.9	2.2	2.8
	Financials	26	-8.1	4.4	-10.5	8.0	9.7	2.7	-2.0
Sectors	Chemicals	33	16.1	34.2	4.5	-14.7	-19.4	9.5	5.5
	Steel, nonferrous metals	8	-5.5	93.4	-7.3	-52.6	SL	28.6	SP
	Machinery	26	-17.9	29.3	9.6	-9.3	-15.6	11.6	13.3
	Autos	19	-11.6	12.9	-14.6	-0.6	-2.7	9.9	3.7
	Electrical machinery, precision equipment	38	27.8	26.1	9.3	-10.6	-12.1	24.0	21.5
	Pharmaceuticals, healthcare	22	-5.4	5.9	-3.5	-1.7	9.5	44.3	37.5
	Food products	20	8.3	4.8	-3.7	-11.5	-16.2	11.1	13.2
	Household goods	13	5.8	20.8	6.9	4.2	-4.6	12.2	11.6
	Trading companies	7	233.4	31.2	10.4	-0.9	-3.3	-2.8	-3.0
	Retailing	20	-1.4	12.4	3.3	7.7	6.5	7.5	6.9
	Services	16	-9.6	10.9	0.0	-1.7	-2.8	7.5	8.4
	Software	11	21.1	44.2	16.7	17.5	18.2	20.7	22.2
	Media	5	-1.0	9.6	4.1	-23.4	-58.4	10.4	96.5
	Telecommunications	7	-1.4	1.4	38.5	-12.1	-12.3	-5.1	-4.8
	Construction, engineering	7	30.5	9.8	-1.1	1.0	1.5	-2.1	-1.1
	Housing, real estate	19	22.4	9.9	-2.7	6.2	6.6	5.3	5.0
	Transportation	25	-5.2	9.0	2.2	0.1	-1.8	8.0	7.3
	Utilities	11	-36.2	10.2	-12.8	26.8	21.7	-13.0	-8.4
	Financials	26	-8.1	4.4	-10.5	8.0	9.7	2.7	-2.0

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 25 February 2020; previous estimates as of 25 November 2019. (2) SP = switch to profits. SL = switch to losses.

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	46,795	45,442	50,318	48,682
	Russell/Nomura Large Cap (ex financials)	307	34,408	40,521	41,796	39,921	38,457	43,380	41,956
	Manufacturing	179	19,641	23,855	23,510	21,439	20,307	24,636	23,378
	Basic materials	41	3,551	4,971	4,963	4,017	3,241	4,293	3,943
	Processing	83	12,524	14,790	14,552	13,618	13,244	15,647	14,748
	Nonmanufacturing	154	21,698	23,826	24,652	25,355	25,134	25,682	25,304
	Nonmanufacturing (ex financials)	128	14,766	16,666	18,286	18,482	18,149	18,744	18,578
Broad sectors	Materials	41	3,551	4,971	4,963	4,017	3,241	4,293	3,943
	Machinery, autos	45	8,528	9,755	8,911	8,600	8,309	9,492	8,822
	Electronics	38	3,996	5,035	5,641	5,018	4,935	6,156	5,926
	Consumer, distribution	98	8,630	10,162	10,312	10,263	10,172	11,373	11,256
	Information	23	3,999	4,317	5,753	5,216	5,083	5,222	5,216
	Utilities, infrastructure	62	5,704	6,280	6,216	6,807	6,717	6,845	6,793
	Financials	26	6,931	7,160	6,366	6,874	6,985	6,938	6,726
Sectors	Chemicals	33	3,002	3,911	4,036	3,579	3,380	3,800	3,496
	Steel, nonferrous metals	8	549	1,061	927	438	-140	493	447
	Machinery	26	1,813	2,336	2,539	2,305	2,146	2,573	2,432
	Autos	19	6,716	7,419	6,372	6,295	6,163	6,918	6,391
	Electrical machinery, precision equipment	38	3,996	5,035	5,641	5,018	4,935	6,156	5,926
	Pharmaceuticals, healthcare	22	1,465	1,616	1,540	1,485	1,653	2,115	2,247
	Food products	20	1,487	1,723	1,625	1,455	1,378	1,593	1,539
	Household goods	13	613	755	830	865	792	988	900
	Trading companies	7	2,192	2,852	3,148	3,120	3,046	3,033	2,956
	Retailing	20	1,435	1,545	1,497	1,667	1,649	1,812	1,786
	Services	16	1,437	1,671	1,672	1,672	1,654	1,831	1,828
	Software	11	341	564	620	795	800	989	1,010
	Media	5	318	349	364	279	151	308	297
	Telecommunications	7	3,339	3,404	4,769	4,142	4,131	3,925	3,909
	Construction, engineering	7	617	664	696	738	741	722	733
	Housing, real estate	19	1,845	2,054	2,055	2,182	2,191	2,237	2,237
	Transportation	25	2,204	2,450	2,474	2,630	2,579	2,813	2,740
	Utilities	11	1,038	1,112	992	1,258	1,207	1,073	1,084
	Financials	26	6,931	7,160	6,366	6,874	6,985	6,938	6,726

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 25 February 2020; previous estimates as of 25 November 2019.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY18 Q4–FY19 Q3)

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	1.1	-4.3	-18.4	-4.6	-21.0	-10.6	-18.2	-16.8
	Russell/Nomura Large Cap (ex financials)	4.6	1.2	0.6	-3.5	2.4	-10.7	-16.9	-16.8	2.6	-5.0	-20.8	-6.8	-12.9	-14.1	-22.0	-18.0
	Manufacturing	-0.4	-0.1	-0.2	-4.1	-10.5	-19.0	-10.4	-20.6	-5.4	-26.2	-15.4	-7.7	-23.4	-41.8	-16.1	-12.5
	Basic materials	0.1	2.4	-1.1	-5.2	-9.9	-27.9	-30.7	-51.4	-8.9	-33.0	-35.0	-50.0	-11.9	-43.5	-41.4	-94.0
	Processing	-1.4	-2.3	-1.4	-5.5	-10.2	-19.3	-6.2	-18.5	-1.5	-27.6	-12.2	2.9	-27.1	-46.9	-13.5	6.7
	Nonmanufacturing	-	-	-	-	-	-	-	-	8.6	18.1	-21.2	-2.2	-17.6	30.3	-20.3	-20.1
	Nonmanufacturing (ex financials)	11.8	3.0	1.7	-2.8	22.0	-0.1	-24.6	-12.1	16.1	25.4	-27.3	-5.9	9.7	38.1	-29.9	-23.5
Broad sectors	Basic materials	0.1	2.4	-1.1	-5.2	-9.9	-27.9	-30.7	-51.4	-8.9	-33.0	-35.0	-50.0	-11.9	-43.5	-41.4	-94.0
	Machinery, autos	-1.1	-1.3	-0.8	-6.5	-22.2	-17.0	-7.5	-27.5	-13.8	-20.7	-12.2	8.5	-20.4	-20.5	-11.8	14.6
	Electronics	-1.9	-4.1	-2.2	-3.8	14.3	-23.5	-4.5	-5.0	24.8	-39.9	-12.3	-6.3	-34.6	-72.0	-16.1	-4.9
	Consumption, distribution	16.1	2.3	1.7	-2.0	2.2	-2.6	2.6	3.5	1.0	-4.7	-2.3	3.0	1.0	-5.4	6.0	-1.1
	Information	4.2	3.5	2.5	0.3	52.2	-8.5	-79.6	-34.3	39.2	56.8	-79.9	-18.0	-14.1	72.7	SL	-53.0
	Utilities, infrastructure	4.7	5.4	3.8	-2.2	14.3	10.2	6.4	-2.8	11.8	18.3	8.6	0.7	21.5	46.5	21.4	-4.4
	Financials	-	-	-	-	-	-	-	-	-7.8	-0.4	-0.8	9.1	-71.0	12.7	9.3	-8.8
Sectors	Chemicals	0.4	3.7	-1.3	-3.9	-8.7	-23.6	-25.9	2.2	-7.1	-30.1	-30.9	4.6	-25.7	-35.1	-35.5	-24.3
	Steel, nonferrous metals	-0.5	-0.8	-0.7	-8.7	-13.4	-44.4	-55.6	SL	-20.7	-44.7	-57.3	SL	SP	-68.2	-66.0	SL
	Machinery	-0.9	-3.5	-1.6	-6.0	18.3	-22.2	-18.2	-38.6	29.6	-25.6	-20.2	-34.7	30.1	-24.0	-22.0	-13.9
	Automobiles	-1.1	-0.7	-0.6	-6.6	-35.2	-15.3	-2.7	-23.3	-25.9	-19.0	-9.2	30.0	-33.8	-19.4	-8.4	28.8
	Electrical machinery, precision equipment	-1.9	-4.1	-2.2	-3.8	14.3	-23.5	-4.5	-5.0	24.8	-39.9	-12.3	-6.3	-34.6	-72.0	-16.1	-4.9
	Pharmaceuticals, healthcare	10.2	12.4	15.2	9.2	10.6	8.1	21.4	15.9	-3.7	-3.1	12.2	27.9	43.6	-7.2	22.3	11.0
	Food products	-1.5	0.1	0.1	1.2	-22.5	-20.4	-16.8	3.7	-27.9	-21.5	-16.1	1.8	-46.8	-24.0	-17.0	0.2
	Household goods	-0.2	0.8	2.2	-3.8	-20.2	-3.9	10.9	-7.4	-16.3	-7.9	7.6	-15.8	-12.2	-11.3	12.4	15.3
	Trading companies	43.6	0.6	-3.0	-7.8	20.2	-3.7	-10.3	-7.2	19.7	-1.5	-16.1	-9.1	23.9	-4.8	-11.9	-12.1
	Retailing	5.9	4.0	5.2	1.4	0.6	4.5	23.9	-1.4	4.3	-0.8	16.5	-1.6	28.0	8.0	17.1	-9.8
	Services	1.6	-1.6	-0.3	-3.3	8.8	2.1	6.3	14.2	10.2	3.1	5.7	12.9	-25.8	10.9	45.2	5.6
	Software	12.2	8.5	9.9	3.3	43.0	16.1	39.9	11.8	96.0	-3.2	21.8	25.3	85.5	-1.6	38.9	27.7
	Media	8.9	2.3	5.5	0.7	-6.6	-29.4	19.6	-93.8	-22.2	-17.6	-44.4	SL	-28.1	32.8	-43.9	SL
	Telecommunications	2.7	3.0	1.1	-0.3	59.1	-9.4	-93.0	-38.8	40.9	65.6	-91.2	-18.9	-27.6	83.0	SL	-57.8
	Construction, engineering	10.9	10.6	12.2	-0.5	11.4	12.2	16.9	-2.0	10.8	10.5	12.0	-0.8	24.1	18.7	11.7	-16.4
	Housing, real estate	7.2	4.3	6.4	-0.7	-8.9	7.0	8.8	0.2	-13.7	8.4	6.6	1.0	-14.5	5.2	7.5	4.2
	Transportation	-2.3	1.2	2.5	-2.9	7.9	2.2	1.8	-10.6	13.6	4.5	4.5	-8.2	107.5	7.3	7.6	-11.5
	Utilities	7.4	9.6	0.0	-3.3	127.3	37.3	8.5	44.7	156.2	76.2	19.0	87.8	88.6	246.2	85.7	69.4
	Financials	-	-	-	-	-	-	-	-	-7.8	-0.4	-0.8	9.1	-71.0	12.7	9.3	-8.8

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 25 February 2020. (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	15.9	14.6	13.3	-	-	-	1.28	1.27	2.35	2.50	2.66	9.2	8.1	8.6	8.9
	Russell/Nomura Large Cap (ex loss-making cos)	15.0	14.1	12.9	-	-	-	1.25	1.28	2.35	2.58	2.75	9.5	8.6	8.6	8.9
	Russell/Nomura Large Cap (ex financials)	17.3	15.6	14.0	8.6	8.2	7.7	1.45	1.41	2.21	2.36	2.52	10.3	8.3	8.9	9.4
	Manufacturing	19.7	16.4	14.5	9.9	9.1	8.4	1.54	1.49	2.21	2.42	2.60	10.5	7.7	9.0	9.6
	Basic materials	21.2	12.9	11.5	6.4	5.4	5.1	0.88	0.87	2.83	2.85	3.08	9.0	4.1	6.8	7.3
	Processing	16.8	15.0	13.2	9.3	8.7	7.9	1.47	1.42	2.19	2.37	2.61	11.2	8.7	9.2	9.9
	Nonmanufacturing	12.9	12.9	12.1	-	-	-	1.05	1.07	2.53	2.60	2.74	8.2	8.3	8.2	8.3
	Nonmanufacturing (ex financials)	14.6	14.4	13.4	7.1	7.1	6.8	1.33	1.30	2.21	2.29	2.41	9.9	9.1	8.9	9.0
Broad sectors	Basic materials	21.2	12.9	11.5	6.4	5.4	5.1	0.88	0.87	2.83	2.85	3.08	9.0	4.1	6.8	7.3
	Machinery, autos	13.4	12.8	11.2	7.8	7.5	6.8	1.18	1.13	2.74	2.87	3.17	9.4	8.6	8.6	9.4
	Electronics	22.9	18.3	16.2	11.8	10.5	9.7	2.01	1.96	1.61	1.84	2.01	14.5	8.7	10.4	10.9
	Consumption, distribution	21.0	19.2	17.4	11.4	11.1	10.4	1.77	1.73	2.11	2.31	2.40	9.1	8.4	8.9	9.3
	Information	18.3	17.1	14.8	7.2	7.2	6.7	1.70	1.72	2.16	2.28	2.46	13.9	9.4	10.0	11.0
	Utilities, infrastructure	11.3	11.4	11.1	5.7	5.7	5.6	1.11	1.05	2.22	2.29	2.35	8.9	9.6	9.0	8.7
	Financials	8.6	8.8	8.6	-	-	-	0.57	0.62	3.84	3.94	4.17	5.3	7.0	7.0	6.9
Sectors	Chemicals	14.9	12.5	11.8	6.5	6.0	5.8	1.05	0.99	2.97	2.97	3.05	10.0	6.8	8.0	8.0
	Steel, nonferrous metals	-	15.9	10.0	6.0	3.6	3.1	0.49	0.52	2.11	2.16	3.21	6.7	-3.0	3.3	5.2
	Machinery	20.0	17.6	15.6	11.3	10.4	9.6	1.63	1.57	1.96	2.11	2.28	10.1	8.0	8.6	9.2
	Automobiles	11.3	11.1	9.7	6.6	6.4	5.8	1.02	0.98	3.18	3.31	3.67	9.2	8.9	8.6	9.4
	Electrical machinery, precision equipment	22.9	18.3	16.2	11.8	10.5	9.7	2.01	1.96	1.61	1.84	2.01	14.5	8.7	10.4	10.9
	Pharmaceuticals, healthcare	34.5	25.8	22.5	17.6	16.3	14.8	2.54	2.53	1.81	2.25	2.27	8.4	7.4	9.7	10.5
	Food products	21.1	18.3	16.9	11.0	10.4	9.8	1.87	1.81	2.81	3.14	3.29	10.9	8.7	9.7	10.1
	Household goods	28.5	25.8	22.5	18.3	17.3	15.5	3.82	3.63	1.49	1.55	1.70	13.3	13.1	13.7	14.7
	Trading companies	7.8	8.0	7.5	4.5	4.5	4.3	0.86	0.83	4.28	4.23	4.41	12.0	10.9	10.0	9.9
	Retailing	24.8	23.0	20.7	11.7	11.3	10.5	2.22	2.18	1.44	1.60	1.73	8.8	9.1	9.4	9.8
	Services	24.7	23.8	22.7	14.4	14.0	13.6	1.32	1.30	1.65	1.67	1.72	5.1	5.3	5.5	5.6
	Software	24.0	20.3	17.8	19.9	17.1	15.3	3.79	3.60	1.98	2.36	2.70	13.2	15.3	16.9	17.6
	Media	51.0	14.1	13.4	14.1	9.4	9.2	0.88	0.87	2.46	2.32	2.32	7.3	1.7	6.1	6.2
	Telecommunications	15.9	16.3	14.0	5.5	5.8	5.4	1.51	1.51	2.20	2.24	2.38	15.0	9.5	9.4	10.4
	Construction	8.1	8.3	8.3	7.0	7.2	7.1	1.06	0.98	3.25	3.28	3.31	14.0	12.6	11.4	10.7
	Housing, real estate	12.9	12.5	12.0	9.0	8.8	8.5	1.37	1.32	2.46	2.55	2.64	10.0	10.4	10.2	10.0
	Transportation	13.4	12.3	11.8	6.3	6.0	5.8	1.23	1.17	1.61	1.69	1.76	8.8	9.0	9.2	8.9
	Utilities	7.1	9.2	9.1	2.4	2.6	2.6	0.62	0.58	2.93	2.95	2.95	6.2	8.5	6.2	6.0
	Financials	8.6	8.8	8.6	-	-	-	0.57	0.62	3.84	3.94	4.17	5.3	7.0	7.0	6.9
Russell/Nomura Small Cap		16.9	14.2	13.8	-	-	-	1.08	1.01	2.51	2.57	2.59	6.6	6.1	6.7	6.7
Russell/Nomura Small Cap (ex financials)		18.2	15.0	14.3	9.0	7.9	7.6	1.22	1.17	2.04	2.11	2.15	7.0	6.6	7.3	7.3

Note: Share prices and forecasts are as of 25 February 2020.

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
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As at 31 December 2019.

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