

Outlook for FY17–18 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of the FY17 corporate earnings outlook

In this report, we collate and analyze earnings forecast data issued by our analysts. For FY17, our analysts forecast sales growth of 6.4% y-y and recurring profit growth of 16.3% for companies in the Russell/Nomura Large Cap Index (ex financials). These forecasts represent upward revisions of 1.8ppt for sales and 5.2ppt for recurring profits versus our previous forecasts issued in June 2017 (based on data collated on 24 May 2017). At ¥1,572.9bn, the upward revision to our analysts' recurring profit forecast at the Q1 results stage seems relatively large at such an early point in the fiscal year.

Our forex assumptions for FY17 are USD/JPY of 111.0 (previously 108.0) and EUR/JPY of 126.5.0 (previously 115.0). Our WTI assumption is \$45.8/bbl (\$50.0/bbl).

In FY17 Q1, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) rose 20.2% y-y on a 7.0% increase in sales. Our previous forecast called for FY17 H1 sales growth of 6.6% and recurring profit growth of 10.9%. Q1 earnings, particularly profits, thus look to have been running ahead of our previous H1 forecast.

FY17 Q1 sales growth almost doubled versus the FY16 Q4 level of 3.8%, moreover registering the strongest growth since FY13 Q4. All 18 sectors achieved y-y increases in sales. This suggests that all sectors benefited directly from the upturn in the macroeconomic environment, namely increased industrial production, growth in corporate goods prices, and yen depreciation. However, FY17 Q1 recurring profit growth slowed sharply versus 71.6% in FY16 Q4, as the low prior-year comparison base dropped out of the picture along with extraordinary factors.

In light of Q1 results announcements, we raised our H1 recurring profit forecast for the companies in the Russell/Nomura Large Cap Index (ex financials) to y-y growth of 16.7%. That said, based on macroeconomic conditions, we think Q2 sales growth could well outpace growth in Q1. We therefore see strong potential upside for H1 earnings versus the aforementioned forecast as a result of brisk sales.

Overview of the FY18 corporate earnings outlook

For FY18, our analysts look for sales growth of 2.1% y-y and recurring profit growth of 7.5% for companies in the Russell/Nomura Large Cap Index (ex financials). The current forecasts represent downward revisions of 0.2ppt for sales growth and 0.6ppt for recurring profit growth. The upward revision of ¥1,439.8bn to our analysts' recurring profit forecast is around the same size as that for FY17.

Our forex assumptions for FY18 are USD/JPY of 111.0 (previously 108.0) and EUR/JPY of 128.0 (previously 115.0). Our WTI assumption is \$45.0/bbl (\$50.0/bbl).

As we indicated above, the factor we see driving corporate earnings growth in FY17 is sales growth, against the backdrop of an improved macroeconomic environment. That said, we expect the impact of that macroeconomic improvement to become slightly more muted through FY18, on which basis we forecast a correspondingly more modest level of sales growth. Companies will therefore need to increase their profit margins in order to have any prospect of profit growth in the upper single digits. With sales growth on a downward trajectory, the focus is likely to be on the kinds of strategies companies adopt to improve their profit margins.

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

(% y-y, except where noted)

		No. of cos	New					Old	
			FY14	FY15	FY16	FY17E	FY18E	FY17E	FY18E
Sales	Russell/Nomura Large Cap (ex financials)	302	4.6	-0.4	-3.3	6.4	2.1	4.6	2.3
	Manufacturing	176	4.3	0.2	-4.3	7.5	2.4	4.9	2.7
	Basic materials	39	0.6	-9.0	-5.6	14.0	1.2	10.7	0.8
	Processing	80	5.7	3.1	-4.4	6.3	2.6	3.4	3.2
	Nonmanufacturing (ex financials)	126	5.0	-1.2	-1.8	5.0	1.7	4.1	1.9
	Russell/Nomura Small Cap (ex financials)	1,038	3.6	1.8	-0.5	4.7	3.5	4.2	2.1
Operating profits	Russell/Nomura Large Cap (ex financials)	302	5.2	8.7	2.9	14.3	7.6	10.2	8.0
	Manufacturing	176	5.8	2.9	-0.5	17.4	8.8	11.6	10.0
	Basic materials	39	-14.0	8.6	9.4	24.5	6.8	18.9	7.9
	Processing	80	14.7	-2.0	-3.6	18.5	10.1	11.1	11.9
	Nonmanufacturing (ex financials)	126	4.2	18.6	7.5	10.4	6.2	8.3	5.4
	Russell/Nomura Small Cap (ex financials)	1,038	4.3	10.5	7.2	7.4	9.4	7.2	6.0
Recurring profits	Russell/Nomura Large Cap	334	6.9	-0.6	1.4	14.4	6.9	10.6	7.5
	Russell/Nomura Large Cap (ex financials)	302	7.0	1.5	3.6	16.3	7.5	11.1	8.1
	Manufacturing	176	7.2	-1.9	0.2	19.8	8.1	12.8	9.8
	Basic materials	39	-8.9	-7.4	12.1	31.0	6.3	22.3	7.8
	Processing	80	15.3	-4.2	-3.1	20.4	9.3	11.7	11.7
	Nonmanufacturing	158	6.5	0.6	2.5	9.6	5.8	8.7	5.4
	Nonmanufacturing (ex financials)	126	6.6	7.1	8.4	11.7	6.7	8.9	5.9
	Russell/Nomura Small Cap	1,132	3.1	3.7	5.8	8.1	8.7	8.2	5.6
	Russell/Nomura Small Cap (ex financials)	1,038	5.0	4.1	8.8	8.3	9.6	8.0	6.1
Net profits	Russell/Nomura Large Cap	334	7.4	-3.9	8.5	19.1	6.2	13.2	7.5
	Russell/Nomura Large Cap (ex financials)	302	8.0	-4.7	10.8	23.7	6.9	16.2	8.3
	Manufacturing	176	10.2	-4.8	-1.5	31.9	8.1	22.7	10.5
	Basic materials	39	-11.0	-27.1	58.4	31.0	6.7	18.6	9.8
	Processing	80	15.7	-3.0	-14.0	42.8	9.6	31.5	12.1
	Nonmanufacturing	158	4.6	-3.0	18.2	8.7	4.3	5.4	4.6
	Nonmanufacturing (ex financials)	126	4.2	-4.6	30.9	13.5	5.1	8.3	5.2
	Russell/Nomura Small Cap	1,132	2.2	1.9	17.3	12.5	10.3	15.9	4.9
	Russell/Nomura Small Cap (ex financials)	1,038	3.9	0.0	21.7	12.2	12.0	16.3	5.5

Note: Latest estimates as of 27 August 2017. Previous estimates as of 24 May 2017.

Source: Nomura

Fig. 2: Major assumptions

As of 20 July 2017						As of 14 April 2017					
	Industrial production 2010 base year	Overnight call rate / Policy rate (FY-end)	WTI	Exchange rate (avg)			Industrial production 2010 base year	Overnight call rate / Policy rate (FY-end)	WTI	Exchange rate (avg)	
	% y-y	%	\$/bbl	USD/JP Y	EUR/JP Y		% y-y	%	\$/bbl	USD/JP Y	EUR/JP Y
FY16	1.2	-0.1	47.9	108.3	118.8	Estimate	1.3	-0.10	47.9	108.3	118.8
FY17	3.0	-0.1	45.8	111.0	126.5		3.0	-0.10	50.0	108.0	115.0
FY18	0.9	-0.1	45.0	111.0	128.0		0.7	-0.10	50.0	108.0	115.0
FY16 H1	-0.7	-0.1	45.3	105.2	118.1		-0.7	-0.10	45.3	105.2	118.1
FY16 H2	3.0	-0.1	50.6	111.5	119.5	Estimate	3.2	-0.10	50.5	111.5	119.5
FY17 H1	4.4	-0.1	46.6	111.0	125.1		4.3	-0.10	50.0	108.0	115.0
FY17 H2	1.7	-0.1	45.0	111.0	128.0		1.8	-0.10	50.0	108.0	115.0
FY18 H1	0.6	-0.1	45.0	111.0	128.0		0.9	-0.10	50.0	108.0	115.0
FY18 H2	1.1	-0.1	45.0	111.0	128.0		0.5	-0.10	50.0	108.0	115.0

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

Source: Nomura

Contributions to recurring profit growth by sector

Overview of the FY17 corporate earnings outlook

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

Sectors from which we expect large contributions to overall profit growth include electrical machinery & precision equipment, automobiles, chemicals, trading companies, steel & nonferrous metals, and machinery. In the electrical machinery & precision equipment sector we expect sizable contributions to profit growth from industrial electronics and consumer electronics companies. Industrial electronics companies have been benefiting from strong semiconductor-, IoT- and factory automation-related demand, while consumer electronics companies have benefited from buoyant conditions at LCD businesses. In the automobiles sector, while our global auto sales forecast calls for modest y-y volume growth of 1.6% in 2017, Japanese automakers have been increasing their shares in the key markets of the US, Europe, and China. There had been major concerns over auto finance operations in the US, but the decline in used car prices has slowed, and Q1 results indicated that the business environment has not deteriorated as much as expected. In the commodity-related sectors of chemicals, trading companies, and steel/nonferrous metals, amid firm demand in China, capacity cutbacks have enabled companies to benefit from higher prices of materials such as petrochemical products, nonferrous metals, and iron & steel. Under the chemicals heading, the electronic materials subsector has reaped the fruits of higher prices thanks to brisk 300mm wafer demand and short supplies, and conditions are similarly buoyant for trading companies' non-resource operations, such as iron & steel, machinery, and foods. In the machinery sector favorable conditions are spreading to all regions and product areas. Sector companies have also been maintaining solid machine tool orders, as despite the lull in iPhone-related investment Chinese orders remain at a high level for automotive and general machinery applications. European orders have reached their highest level since the financial crisis, with general machinery and automotive applications supporting the recovery. In North America too, we note that the period of declines seen in 2015-16 are over, with orders now back on a recovery trajectory. We note a firm picture too in Japan.

Utilities is the only sector where we forecast a negative profit contribution. That said we only project a 0.2% y-y decline, which is more or less flat.

Overview of the FY18 corporate earnings outlook

For FY18, we project that recurring profits will increase in 18 of the 19 sectors and decrease in one. We project a slower pace of profit growth compared with FY17 across most sectors, reflecting macroeconomic conditions. We expect to see the most pronounced slowdowns in profit growth in the chemicals, steel & nonferrous metals, and trading companies sectors, which are currently reaping the benefits of favorable prices.

For the telecommunications, machinery, and software sectors we project fairly strong y-y profit growth in excess of 10%. While this mainly reflects company-specific factors in the telecommunications and software sectors, for the machinery sector we expect the current strong picture to continue through FY18.

Sectors from which we expect particularly large contributions to overall profit growth include automobiles, telecommunications, and electrical machinery & precision equipment. While we expect a negative profit contribution from the media sector, here too we only look for a y-y decline of 2.1%. To a large extent this reflects a high comparison base owing to the impact of some recent hit movies.

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

FY17E			
Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)
18 sectors			
Electrical machinery, precision equipment	32.9	22.1	23.4
Automobiles	10.6	11.8	12.5
Chemicals	19.4	9.6	10.2
Trading companies	24.7	9.0	9.6
Steel, nonferrous metals	93.5	8.6	9.1
Machinery	28.1	8.5	9.0
Telecommunications	12.9	7.3	7.7
Financials	5.0	5.8	-
Software	46.1	3.0	3.2
Retailing	11.3	2.8	2.9
Services	11.2	2.7	2.9
Transportation	5.2	2.0	2.1
Housing, real estate	5.9	1.8	2.0
Food	6.8	1.8	1.9
Household goods	13.9	1.4	1.5
Pharmaceuticals, healthcare	5.3	1.3	1.4
Construction	3.4	0.3	0.4
Media	4.1	0.2	0.2
Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)
1 sector			
Utilities	-0.2	-0.0	-0.0
FY18E			
Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)
18 sectors			
Automobiles	9.3	20.7	22.6
Telecommunications	11.4	13.2	14.4
Electrical machinery, precision equipment	8.1	13.2	14.4
Financials	3.8	8.3	-
Machinery	11.7	8.3	9.0
Chemicals	6.8	7.3	7.9
Transportation	7.5	5.4	5.9
Food	8.5	4.3	4.7
Services	7.5	3.7	4.0
Software	16.4	2.9	3.1
Retailing	5.5	2.7	2.9
Housing, real estate	4.3	2.6	2.9
Household goods	9.8	2.1	2.3
Trading companies	2.4	2.0	2.2
Steel, nonferrous metals	4.6	1.5	1.6
Utilities	3.8	1.2	1.3
Construction	2.8	0.5	0.6
Pharmaceuticals, healthcare	0.7	0.3	0.4
Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)
1 sector			
Media	-2.1	-0.2	-0.2

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of the FY17 corporate earnings outlook

We have raised our FY17 recurring profit forecasts for 14 of the 19 sectors and lowered them for five.

The largest upward revisions to our estimates were for the electrical machinery & precision equipment, automobiles, trading companies, steel & nonferrous metals, and machinery sectors, among others. Our upward revision for the electrical machinery & precision equipment sector was relatively broad-based. Q1 results were substantially ahead of guidance in industrial machinery-related areas, which are centered on factory automation (FA) systems, and in components and devices for home appliances such as games consoles and air conditioners. Demand also was strong in areas related to data centers, automotive electronics, and autonomous driving, and those related to Japanese information technology (IT) investment performed well. In addition to the rise in memory prices, price hike negotiations are now fully under way for passive components and discrete semiconductors, and we see an increased likelihood that prices will be revised from FY17 H2 in response to the shortage of production capacity and rise in raw materials costs. For automobiles, our revised USD/JPY assumption from 108 to 111 was a major factor in our upward revision. Japanese automakers moreover increased their market share on the key markets of the US, Europe, and China more than we had expected, with the reasons varying from region to region. In the US, their increased market share stemmed from an increase in new light truck product launches and less aggressive sedan and fleet sales by US automakers, while in Europe they gained share amid a shift away from diesel vehicles, and in China they benefited from expansion of the compact SUV market and weakness at South Korean manufacturers. In each case, we think these factors are likely to continue for the time being. In the trading companies sector, despite the downward revision in our WTI price assumption from \$50/bbl to \$45.8/bbl, iron ore and coking coal prices have been buoyant, and non-resource areas such as consumer-related business (ie food) have also been performing well. Our revisions for the steel & nonferrous sector reflect a boost from higher steel prices in China. Chinese steel prices have been overheated of late, and in our view are therefore unsustainable over the long term at their current level, but capacity cuts and other measures should make it possible to avert a major deterioration in export margins in FY17. In the machinery sector, the global machinery demand cycle is on an uptrend, resulting in higher demand across all regions.

Sectors for which we have made large downward revisions include financials and retailing. In the financials sector, downward revisions for megabanks and trust banks were a major factor, although these largely reflected the undershoot in FY16 earnings versus projected levels.

Overview of the FY18 corporate earnings outlook

We have raised our FY18 recurring profit forecasts for 14 of the 19 sectors and lowered them for five.

The largest upward revisions to our estimates were for sectors such as electrical machinery & precision equipment, trading companies, automobiles, and telecommunications, while the largest downward revisions were for sectors such as financials and retailing. That said, with the fiscal year having only just gotten under way, the lineup of sectors in both our upward and downward FY18 forecast revisions were similar to those in FY17 forecast revisions.

That said, there were differences in size between our FY17 and FY18 forecast revisions for the telecommunications and steel & nonferrous metals sectors. Our revisions for the telecommunications sector reflected company-specific factors at Softbank Group, although there was an impact too from pricing strategies at telecom carriers. As the pricing strategies mean that profits will be lower in the first fiscal year when handsets are purchased, but higher in the next fiscal year, we have lowered our FY17 earnings forecasts for telecom carriers, but expect them to claw back the dent from this factor in FY18. For the steel & nonferrous metals sector, meanwhile, the differences reflect our cautious outlook for prices.

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

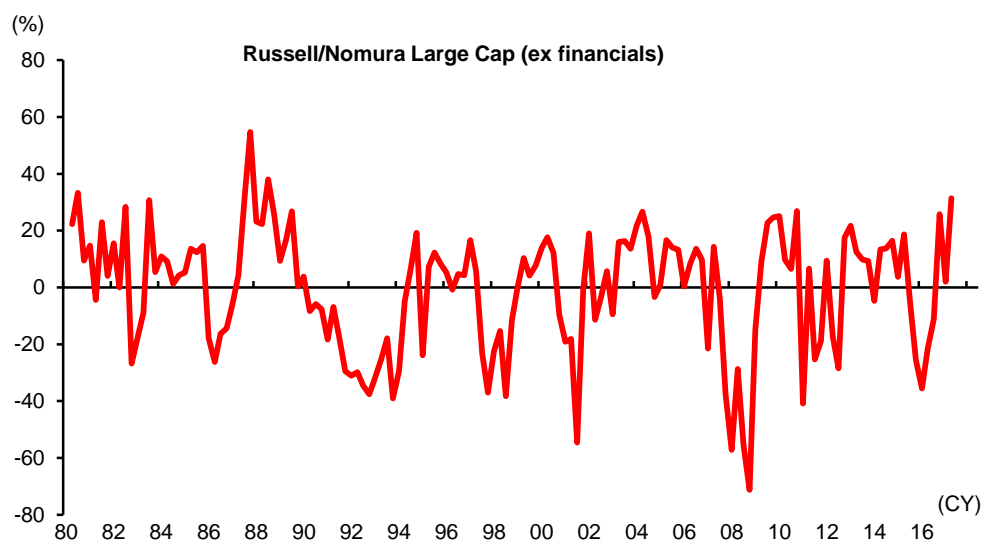
FY17E				
[Upward revisions] 14 sectors				
	New	Old	Revision	Change
	¥bn	¥bn	¥bn	%
Electrical machinery, precision equipment	5,305	4,646	660	14.2
Automobiles	7,285	7,016	269	3.8
Trading companies	2,711	2,476	235	9.5
Steel, nonferrous metals	1,061	917	144	15.7
Machinery	2,312	2,230	81	3.7
Software	572	502	70	14.0
Services	1,601	1,540	62	4.0
Chemicals	3,527	3,470	57	1.6
Construction	625	591	34	5.8
Telecommunications	3,790	3,763	27	0.7
Household goods	707	682	25	3.7
Transportation	2,365	2,347	19	0.8
Media	332	325	7	2.2
Housing, real estate	1,979	1,977	3	0.1
[Downward revisions] 5 sectors				
	New	Old	Revision	Change
	¥bn	¥bn	¥bn	%
Food	1,666	1,667	-2	-0.1
Utilities	1,007	1,031	-24	-2.3
Pharmaceuticals, healthcare	1,598	1,624	-27	-1.6
Retailing	1,612	1,679	-67	-4.0
Financials	7,199	7,416	-218	-2.9
FY18E				
[Upward revisions] 14 sectors				
	New	Old	Revision	Change
	¥bn	¥bn	¥bn	%
Electrical machinery, precision equipment	5,736	5,254	483	9.2
Trading companies	2,777	2,551	226	8.9
Automobiles	7,963	7,767	197	2.5
Telecommunications	4,223	4,081	142	3.5
Services	1,722	1,603	119	7.4
Software	666	567	98	17.3
Machinery	2,583	2,490	93	3.7
Chemicals	3,765	3,693	73	2.0
Steel, nonferrous metals	1,110	1,039	71	6.8
Construction	643	607	36	5.8
Transportation	2,543	2,513	30	1.2
Household goods	777	749	27	3.7
Media	325	322	3	0.8
Housing, real estate	2,065	2,063	2	0.1
[Downward revisions] 5 sectors				
	New	Old	Revision	Change
	¥bn	¥bn	¥bn	%
Food	1,807	1,809	-2	-0.1
Pharmaceuticals, healthcare	1,609	1,625	-15	-0.9
Utilities	1,045	1,062	-17	-1.6
Retailing	1,700	1,825	-124	-6.8
Financials	7,471	7,724	-254	-3.3

Note: Latest estimates as of 27 August 2017, previous estimates as of 24 May 2017.

Source: Nomura

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

	(yy/m)	15/12	16/3	16/6	16/9	16/12	17/3	17/6	17/9 (%)
Russell/Nomura Large Cap		-3.6	-24.0	-36.4	-22.1	-9.6	26.0	1.5	27.5
Russell/Nomura Large Cap (ex financials)		-4.3	-25.6	-35.6	-21.5	-11.1	25.8	2.0	31.5
Manufacturing		-19.4	-38.5	-41.4	-33.9	-18.4	40.1	-6.8	42.6
Basic materials		-17.4	-27.3	-29.5	-20.5	-13.6	32.5	5.1	56.4
Processing		-35.6	-75.9	-73.4	-59.5	-22.8	61.3	-26.3	53.8
Nonmanufacturing (ex financials)		18.3	-7.3	-27.4	-4.0	-0.8	5.6	14.3	15.9



Note: (1) Calculated by Nomura based on revisions to recurring profit forecasts. Excludes consolidated subsidiaries. (2) Revision index = (number of upward revisions – number of downward revisions) ÷ number of constituent companies.

Source: Nomura

Russell/Nomura Large Cap Index: earnings indicators

Fig. 6: Percentage change in sales by sector

(% y-y, except where noted)

		No. of cos	FY14	FY15	FY16	FY17E Old	FY17E New	FY18E Old	FY18E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	302	4.6	-0.4	-3.3	4.6	6.4	2.3	2.1
	Manufacturing	176	4.3	0.2	-4.3	4.9	7.5	2.7	2.4
	Basic materials	39	0.6	-9.0	-5.6	10.7	14.0	0.8	1.2
	Processing	80	5.7	3.1	-4.4	3.4	6.3	3.2	2.6
	Nonmanufacturing (ex financials)	126	5.0	-1.2	-1.8	4.1	5.0	1.9	1.7
Broad sectors	Materials	39	0.6	-9.0	-5.6	10.7	14.0	0.8	1.2
	Machinery, autos	43	7.8	5.7	-3.1	3.6	6.8	3.3	3.2
	Electronics	37	2.7	-0.9	-6.3	3.2	5.5	3.2	1.7
	Consumer, distribution	100	3.7	-1.4	-2.2	3.3	4.3	3.2	2.9
	Information	24	9.6	5.7	0.1	5.7	5.9	3.0	3.4
	Utilities, infrastructure	59	5.2	-1.3	-2.5	4.6	5.0	-0.4	-0.5
Sectors	Chemicals	31	-1.1	-9.9	-5.8	10.1	13.4	1.3	1.6
	Steel, nonferrous metals	8	4.7	-6.8	-5.1	12.1	15.4	-0.2	0.4
	Machinery	24	11.1	3.3	-2.9	5.2	10.0	4.0	3.2
	Autos	19	6.9	6.5	-3.2	3.1	6.0	3.1	3.2
	Electrical machinery, precision equipment	37	2.7	-0.9	-6.3	3.2	5.5	3.2	1.7
	Pharmaceuticals, healthcare	25	0.6	5.2	-2.7	1.7	2.1	2.2	2.0
	Food products	20	6.7	1.6	-1.8	5.7	5.8	3.1	3.1
	Household goods	12	11.5	6.0	-4.1	2.2	3.1	3.9	3.9
	Trading companies	7	2.7	-9.7	-4.6	4.1	7.6	2.1	2.3
	Retailing	22	5.7	7.3	2.2	1.4	4.8	6.1	3.6
	Services	14	-0.4	4.1	-2.7	3.9	-0.8	2.2	3.3
	Software	10	1.4	-0.1	2.9	14.7	19.3	3.1	11.4
	Media	5	5.1	12.0	-1.3	3.2	4.4	2.0	1.7
	Telecommunications	9	10.9	5.5	0.0	5.0	4.5	3.1	2.5
	Construction, engineering	5	7.2	1.7	0.2	2.1	3.8	3.1	2.4
	Housing, real estate	18	7.9	4.3	5.1	5.8	4.9	3.1	3.4
	Transportation	25	3.4	0.3	-3.1	3.4	5.5	-4.7	-4.8
Utilities	11	4.7	-7.7	-8.2	5.8	4.8	0.2	0.0	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 27 August 2017, previous estimates as of 24 May 2017.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY14	FY15	FY16	FY17E Old	FY17E New	FY18E Old	FY18E New
Industrial groups	Russell/Nomura Large Cap	334	6.9	-0.6	1.4	10.6	14.4	7.5	6.9
	Russell/Nomura Large Cap (ex financials)	302	7.0	1.5	3.6	11.1	16.3	8.1	7.5
	Manufacturing	176	7.2	-1.9	0.2	12.8	19.8	9.8	8.1
	Basic materials	39	-8.9	-7.4	12.1	22.3	31.0	7.8	6.3
	Processing	80	15.3	-4.2	-3.1	11.7	20.4	11.7	9.3
	Nonmanufacturing	158	6.5	0.6	2.5	8.7	9.6	5.4	5.8
	Nonmanufacturing (ex financials)	126	6.6	7.1	8.4	8.9	11.7	5.9	6.7
Broad sectors	Materials	39	-8.9	-7.4	12.1	22.3	31.0	7.8	6.3
	Machinery, autos	43	16.2	1.9	-13.0	10.3	14.4	10.9	9.9
	Electronics	37	13.0	-19.7	27.8	14.6	32.9	13.1	8.1
	Consumer, distribution	100	-9.0	-7.6	19.8	9.8	12.9	5.1	5.0
	Information	24	8.0	4.3	0.2	12.8	15.4	8.3	11.1
	Utilities, infrastructure	59	28.3	37.3	-3.8	3.7	4.3	5.0	5.3
	Financials	32	6.5	-8.6	-8.1	8.2	5.0	4.2	3.8
Sectors	Chemicals	31	-21.7	21.6	16.1	14.2	19.4	6.4	6.8
	Steel, nonferrous metals	8	24.0	-54.6	-5.5	67.3	93.5	13.3	4.6
	Machinery	24	23.7	-6.6	-17.9	23.9	28.1	11.6	11.7
	Autos	19	13.9	4.7	-11.6	6.6	10.6	10.7	9.3
	Electrical machinery, precision equipment	37	13.0	-19.7	27.8	14.6	32.9	13.1	8.1
	Pharmaceuticals, healthcare	25	-15.3	39.2	-5.4	7.1	5.3	0.0	0.7
	Food products	20	4.9	-0.5	8.3	6.6	6.8	8.5	8.5
	Household goods	12	11.0	3.3	5.8	9.8	13.9	9.9	9.8
	Trading companies	7	-20.6	-62.2	233.4	12.9	24.7	3.0	2.4
	Retailing	22	-4.8	13.4	-1.4	13.8	11.3	8.7	5.5
	Services	14	-2.4	-5.6	-9.6	6.9	11.2	4.1	7.5
	Software	10	22.6	-11.4	21.1	28.2	46.1	13.1	16.4
	Media	5	11.0	10.4	-1.0	1.9	4.1	-0.8	-2.1
	Telecommunications	9	6.5	5.6	-1.4	12.1	12.9	8.4	11.4
	Construction, engineering	5	38.4	92.4	30.5	-2.3	3.4	2.7	2.8
	Housing, real estate	18	4.6	11.3	22.4	5.7	5.9	4.4	4.3
	Transportation	25	10.4	13.3	-5.2	4.4	5.2	7.1	7.5
	Utilities	11	1,682.0	146.7	-36.2	2.2	-0.2	3.0	3.8
Financials	32	6.5	-8.6	-8.1	8.2	5.0	4.2	3.8	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as 27 August 2017, previous estimates as of 24 May 2017. (2) SP = switch to profits; SL = switch to losses; LS = losses shrinking; LI = losses increasing.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY14	FY15	FY16	FY17E Old	FY17E New	FY18E Old	FY18E New
Industrial groups	Russell/Nomura Large Cap	334	38,488	39,670	41,339	45,898	47,253	49,342	50,528
	Russell/Nomura Large Cap (ex financials)	302	30,350	32,151	34,408	38,482	40,055	41,618	43,058
	Manufacturing	176	19,085	19,524	19,641	22,253	23,460	24,425	25,351
	Basic materials	39	3,325	3,177	3,551	4,388	4,589	4,732	4,876
	Processing	80	12,834	12,880	12,524	13,891	14,901	15,510	16,282
	Nonmanufacturing	158	19,403	20,146	21,698	23,645	23,793	24,918	25,177
	Nonmanufacturing (ex financials)	126	11,265	12,627	14,766	16,229	16,594	17,193	17,707
Broad sectors	Materials	39	3,325	3,177	3,551	4,388	4,589	4,732	4,876
	Machinery, autos	43	9,213	9,835	8,528	9,246	9,596	10,256	10,546
	Electronics	37	3,621	3,045	3,996	4,646	5,305	5,254	5,736
	Consumer, distribution	100	6,151	6,048	8,630	9,668	9,894	10,160	10,391
	Information	24	3,841	4,087	3,999	4,589	4,694	4,970	5,213
	Utilities, infrastructure	59	4,198	5,959	5,704	5,946	5,977	6,245	6,295
	Financials	32	8,138	7,519	6,931	7,416	7,199	7,724	7,471
Sectors	Chemicals	31	2,059	2,583	3,002	3,470	3,527	3,693	3,765
	Steel, nonferrous metals	8	1,266	594	549	917	1,061	1,039	1,110
	Machinery	24	2,306	2,264	1,813	2,230	2,312	2,490	2,583
	Autos	19	6,908	7,571	6,716	7,016	7,285	7,767	7,963
	Electrical machinery, precision equipment	37	3,621	3,045	3,996	4,646	5,305	5,254	5,736
	Pharmaceuticals, healthcare	25	1,113	1,578	1,465	1,624	1,598	1,625	1,609
	Food products	20	1,341	1,383	1,487	1,667	1,666	1,809	1,807
	Household goods	12	471	507	613	682	707	749	777
	Trading companies	7	1,740	657	2,192	2,476	2,711	2,551	2,777
	Retailing	22	1,087	1,386	1,435	1,679	1,612	1,825	1,700
	Services	14	399	538	1,437	1,540	1,601	1,603	1,722
	Software	10	324	352	341	502	572	567	666
	Media	5	271	322	318	325	332	322	325
	Telecommunications	9	3,246	3,414	3,339	3,763	3,790	4,081	4,223
	Construction, engineering	5	212	462	617	591	625	607	643
	Housing, real estate	18	1,363	1,604	1,845	1,977	1,979	2,063	2,065
	Transportation	25	1,963	2,267	2,204	2,347	2,365	2,513	2,543
	Utilities	11	660	1,627	1,038	1,031	1,007	1,062	1,045
Financials	32	8,138	7,519	6,931	7,416	7,199	7,724	7,471	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as 27 August 2017, previous estimates as of 24 May 2017.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY16 Q2–FY17 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	-	-	-	-	-	-	-	-	-6.0	6.1	51.4	18.1	1.0	20.7	110.9	27.3
	Russell/Nomura Large Cap (ex financials)	-7.8	-2.6	3.8	7.0	-9.8	-3.6	55.1	15.0	-9.4	5.9	71.6	20.2	-3.3	21.5	161.8	29.7
	Manufacturing	-8.9	-3.9	4.3	8.8	-17.5	-18.7	63.8	17.3	-17.0	-6.7	80.1	32.5	-16.2	5.4	61.3	41.8
	Basic materials	-12.1	-2.3	8.8	16.5	-7.2	29.1	60.4	42.4	-5.5	59.3	88.3	75.4	4.8	179.1	SP	87.3
	Processing	-9.1	-4.3	3.8	7.7	-21.5	-34.9	87.3	18.3	-21.1	-23.4	105.2	33.2	-19.7	-22.2	30.5	45.2
	Nonmanufacturing	-	-	-	-	-	-	-	-	4.2	18.6	20.6	6.6	17.7	33.8	257.2	15.4
	Nonmanufacturing (ex financials)	-6.3	-0.9	3.1	4.5	0.2	18.4	40.0	12.3	0.5	25.0	55.0	5.9	15.0	44.6	SP	14.9
Broad sectors	Basic materials	-12.1	-2.3	8.8	16.5	-7.2	29.1	60.4	42.4	-5.5	59.3	88.3	75.4	4.8	179.1	SP	87.3
	Machinery, autos	-8.4	-3.1	5.4	8.7	-29.0	-21.2	4.7	4.1	-24.7	-9.8	10.8	18.5	-26.4	-12.9	44.9	36.3
	Electronics	-10.1	-6.3	1.2	6.1	-2.7	-68.5	748.4	62.7	-12.4	-60.1	1,532.1	80.5	-1.7	SL	-11.8	71.8
	Consumption, distribution	-7.4	-1.6	3.3	3.3	-6.5	21.8	104.5	14.3	-2.8	22.1	187.7	18.3	-3.9	50.3	SP	22.7
	Information	-1.8	-1.2	2.7	6.5	6.3	12.7	-2.2	16.7	1.1	32.5	-50.3	-8.3	65.8	27.1	157.9	-17.4
	Utilities, infrastructure	-4.7	-1.3	1.4	5.5	-2.9	4.5	-10.8	-3.3	-2.9	9.2	-5.7	-0.9	-12.3	39.9	796.8	26.4
	Financials	-	-	-	-	-	-	-	-	12.9	6.9	-20.6	8.2	23.4	17.7	-7.2	16.5
Sectors	Chemicals	-12.7	-2.1	9.4	16.7	1.0	38.6	54.3	19.2	1.5	54.8	73.8	35.1	23.3	159.7	SP	29.4
	Steel, nonferrous metals	-10.5	-2.7	7.3	16.1	-34.1	-8.3	88.4	285.4	-28.9	93.1	180.5	759.4	-30.1	452.3	2,865.4	4,389.9
	Machinery	-6.6	-3.3	4.0	13.9	-35.0	-20.2	-8.0	24.3	-30.0	0.3	-2.4	62.4	-38.9	0.9	31.4	60.8
	Automobiles	-8.9	-3.1	5.9	7.3	-27.3	-21.4	10.4	-0.9	-23.4	-12.6	15.9	9.7	-23.3	-16.2	50.5	30.8
	Electrical machinery, precision equipment	-10.1	-6.3	1.2	6.1	-2.7	-68.5	748.4	62.7	-12.4	-60.1	1,532.1	80.5	-1.7	SL	-11.8	71.8
	Pharmaceuticals, healthcare	-4.3	-3.4	-1.0	0.8	-29.3	-5.5	-36.9	-14.6	-28.6	4.3	-33.2	-5.4	-19.3	9.7	-7.4	1.2
	Food products	-1.7	-2.9	-0.3	6.6	-0.7	11.0	-6.6	16.1	-2.4	12.4	-2.4	16.5	-25.6	148.0	7.8	31.5
	Household goods	-3.8	-7.6	1.6	5.3	10.5	-14.0	12.5	4.4	18.0	-8.9	19.6	16.8	29.1	-13.0	5.7	-3.2
	Trading companies	-15.2	-1.0	7.4	1.9	10.4	193.3	SP	53.6	26.3	133.8	SP	46.7	22.6	282.9	SP	51.9
	Retailing	-0.6	2.9	4.2	6.6	10.0	6.7	9.5	6.1	6.3	13.0	17.0	7.2	-22.4	20.0	21.2	10.0
	Services	-7.0	-3.9	0.1	0.8	-18.9	-5.5	11.2	30.8	-18.4	-4.3	11.6	31.9	17.0	-4.3	SL	29.1
	Software	-4.4	0.9	13.6	24.6	-19.4	28.4	23.4	65.5	-0.1	71.9	79.1	263.2	154.9	103.2	53.6	218.2
	Media	1.3	-7.0	4.8	6.5	-4.8	-2.8	-7.9	-19.2	-2.6	-6.8	-12.4	-8.8	-2.1	-8.6	-6.9	-10.0
	Telecommunications	-1.9	-0.6	1.3	4.6	9.0	12.9	-4.0	15.6	1.4	33.1	-65.9	-17.4	63.3	21.2	193.1	-28.1
	Construction, engineering	-3.9	-2.7	8.0	4.2	47.8	27.9	10.6	35.2	53.9	33.8	16.2	43.6	67.8	35.0	35.0	52.0
	Housing, real estate	1.7	8.5	5.7	6.5	7.6	24.2	25.1	15.1	7.3	29.2	31.9	18.0	6.7	28.6	127.3	23.7
	Transportation	-6.2	-2.6	1.1	5.8	-10.8	1.5	-0.2	16.7	-11.5	5.9	4.5	21.6	-49.4	20.4	SP	32.6
	Utilities	-8.3	-6.9	-3.8	4.7	-10.6	-36.3	-91.5	-42.9	-11.2	-45.0	SL	-45.0	7.9	162.2	LI	14.4
	Financials	-	-	-	-	-	-	-	-	12.9	6.9	-20.6	8.2	23.4	17.7	-7.2	16.5

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 2017. (3) Excludes consolidated subsidiaries. (4) SP = switch to profits; SL = switch to losses; LS = losses shrinking; LI = losses increasing.

Source: Nomura

Fig. 10: Valuation indicators

		P/E			P/CF			P/B		Dividend yield			ROE			
		FY17 E	FY18E	FY19E	FY17E	FY18E	FY19E	FY16	FY17E	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	14.5	13.7	12.7	-	-	-	1.38	1.33	2.09	2.23	2.37	8.2	9.4	9.4	9.5
	Russell/Nomura Large Cap (ex loss-making cos)	14.5	13.7	12.7	-	-	-	1.46	1.33	2.09	2.23	2.37	9.3	9.4	9.4	9.5
	Russell/Nomura Large Cap (ex financials)	15.4	14.4	13.3	8.4	8.0	7.5	1.57	1.50	2.00	2.14	2.29	8.5	10.1	10.1	10.2
	Manufacturing	15.9	14.7	13.6	9.2	8.7	8.2	1.69	1.60	2.08	2.25	2.43	8.2	10.4	10.5	10.6
	Basic materials	13.5	12.7	11.8	6.6	6.2	5.9	1.20	1.12	1.96	2.09	2.19	6.5	8.7	8.6	8.7
	Processing	14.3	13.1	12.1	8.5	7.9	7.4	1.61	1.52	2.20	2.40	2.63	8.1	11.0	11.2	11.3
	Nonmanufacturing (ex financials)	14.6	13.9	12.8	7.4	7.1	6.7	1.42	1.36	1.88	1.99	2.08	8.9	9.6	9.5	9.7
Broad sectors	Basic materials	13.5	12.7	11.8	6.6	6.2	5.9	1.20	1.12	1.96	2.09	2.19	6.5	8.7	8.6	8.7
	Machinery, autos	12.3	11.2	10.4	7.6	7.1	6.6	1.38	1.30	2.65	2.93	3.25	9.7	10.9	11.2	11.3
	Electronics	18.3	16.6	15.3	10.1	9.5	8.9	2.11	1.97	1.59	1.70	1.82	4.7	11.2	11.3	11.3
	Consumption, distribution	18.8	18.3	17.2	11.8	11.5	11.0	1.69	1.64	2.04	2.12	2.24	7.5	9.0	8.7	8.8
	Information	16.8	14.9	12.4	7.3	6.9	6.2	1.97	1.89	1.80	1.96	2.09	15.0	11.6	12.2	13.5
	Utilities, infrastructure	12.9	12.6	12.1	6.1	6.0	5.9	1.33	1.25	1.61	1.73	1.74	8.8	10.1	9.6	9.3
	Financials	9.8	9.6	9.2	-	-	-	0.69	0.67	2.84	2.93	3.02	7.1	7.0	6.9	6.8
Sectors	Chemicals	14.0	12.9	12.1	7.3	6.8	6.4	1.36	1.26	1.92	2.04	2.12	7.8	9.4	9.4	9.3
	Steel, nonferrous metals	12.0	11.8	10.6	5.0	4.8	4.5	0.84	0.82	2.11	2.25	2.47	3.6	7.0	6.7	7.1
	Machinery	18.4	16.4	15.2	11.2	10.3	9.7	1.80	1.69	1.79	1.99	2.14	8.1	9.5	10.0	10.1
	Automobiles	10.5	9.7	8.9	6.5	6.1	5.7	1.23	1.16	3.10	3.42	3.82	10.3	11.4	11.6	11.7
	Electrical machinery, precision equipment	18.3	16.6	15.3	10.1	9.5	8.9	2.11	1.97	1.59	1.70	1.82	4.7	11.2	11.3	11.3
	Pharmaceuticals, healthcare	25.1	25.4	24.8	15.5	16.4	16.2	2.27	2.17	2.03	2.07	2.16	8.9	8.8	8.4	8.3
	Food products	22.1	20.6	18.9	13.7	13.0	12.3	2.65	2.50	2.05	2.23	2.42	12.2	11.7	11.8	12.1
	Household goods	26.3	24.2	22.2	17.6	16.5	15.4	3.35	3.42	1.26	1.36	1.45	12.1	13.5	13.6	13.8
	Trading companies	7.3	7.3	7.1	5.0	4.9	4.8	0.86	0.79	3.67	3.83	3.99	9.9	11.3	10.3	9.9
	Retailing	24.9	23.6	21.6	12.5	11.7	11.1	2.12	2.13	1.51	1.49	1.65	6.6	8.8	8.8	9.1
	Services	22.1	21.4	19.9	14.5	14.0	13.2	1.06	1.07	1.90	1.95	2.03	2.0	4.9	4.9	5.1
	Software	27.8	24.6	21.9	21.8	19.8	18.0	3.29	3.35	1.73	2.00	2.27	10.3	12.2	13.1	13.7
	Media	17.9	17.0	16.6	12.3	11.7	11.3	1.25	1.19	1.66	1.66	1.66	7.4	6.8	6.8	6.7
	Telecommunications	14.8	13.0	10.5	5.8	5.4	4.9	1.85	1.74	1.84	1.98	2.08	17.2	12.3	12.9	14.5
	Construction	10.0	9.8	9.4	8.8	8.6	8.3	1.66	1.58	1.83	1.93	2.02	16.5	16.7	15.3	14.3
	Housing, real estate	14.3	13.6	13.1	10.0	9.6	9.2	1.56	1.47	2.02	2.12	2.23	10.6	10.7	10.4	10.1
	Transportation	14.3	13.4	12.8	6.6	6.4	6.2	1.48	1.37	1.24	1.33	1.24	7.4	10.0	9.9	9.6
	Utilities	9.6	10.5	10.4	2.8	2.8	2.8	0.80	0.74	1.60	1.88	1.94	6.9	7.9	6.9	6.6
	Financials	9.8	9.6	9.2	-	-	-	0.69	0.67	2.84	2.93	3.02	7.1	7.0	6.9	6.8
Russell/Nomura Small Cap		17.0	15.4	15.0	-	-	-	1.34	1.19	1.66	1.73	1.76	7.3	7.2	7.5	7.4
Russell/Nomura Small Cap (ex financials)		17.8	15.9	15.4	9.5	8.9	8.7	1.48	1.34	1.61	1.66	1.69	7.7	7.7	8.2	7.9

Note: Share prices as of 25 August 2017, earnings forecasts as of 27 August 2017.

Source: Nomura

What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by FTSE Russell Indexes and the Global Research Division, Financial Engineering & Technology Research Center, Nomura Securities Co., Ltd.

Russell/Nomura Japan Equity Indexes should be useful in:

- Determining investment strategies (strategic asset allocation)
- Determining manager structures
- Devising asset management benchmarks
- Supporting portfolio management activities
- Evaluating the performance of various investment styles
- Managing risk

Russell/Nomura Japan Equity Indexes have the following characteristics:

- They are share price indexes that are weighted by free-float adjusted market capitalization and cover the top 98% of all listed stocks in terms of float-adjusted market capitalization, thereby offering broad market coverage
- In addition to stocks listed on the First Section of the Tokyo Stock Exchange (TSE-1), they include stocks listed on other exchanges
- Because the indexes take into consideration the stable shareholding ratio, they reflect the stocks that are actually available for investment
- There are style indexes for large and small companies and for value and growth stocks
- The Prime Index consists of the top 1,000 stocks in the Total Market Index by market cap excluding stable shareholdings
- Stocks are selected quantitatively based on clearly defined criteria
- The composition of each index is reviewed once a year.

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 2017.

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