

# **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 8.1% y-y and recurring profit growth of 18.7% for companies in the Russell/Nomura Large Cap Index (ex financials). These forecasts represent upward revisions versus our previous forecasts issued in December 2017 (based on data collated on 26 November 2017) of 0.8ppt for sales growth and 0.7ppt for recurring profit growth. This is the third consecutive quarter in which we have raised our forecast for FY17 recurring profits.

Our forex assumptions for FY17 are USD/JPY of 111.5 (previously 111.0) and EUR/JPY of 130.1 (previously 128.7). Our West Texas Intermediate (WTI) assumption is \$54.2/bbl (\$49.1/bbl).

In FY17 Q3, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) rose 23.4% y-y on a 9.2% y-y increase in sales. Both these figures represent a slight slowdown compared with FY17 Q2, when recurring profits at the same companies ex (ex financials) rose 24.5% y-y on a 10.8% increase in sales. Moreover, recurring profit growth was pushed up substantially by Toshiba in Q3, and without Toshiba it came to 17.1%. As expected, profit growth has passed the peak of its recovery phase, having hit bottom in FY15 Q4, and has started to head gradually towards a more sustainable speed.

FY17 after-tax profits are likely to be boosted substantially by US tax reforms. We therefore forecast FY17 ROE of 10.3% for Russell/Nomura Large Cap companies, higher than the previous peak of 10.1% recorded in FY05.

## Overview of the FY18 corporate earnings outlook

For FY18, our analysts look for sales growth of 3.3% y-y and recurring profit growth of 9.0% for companies in the Russell/Nomura Large Cap Index (ex financials). The current forecasts represent upward revisions of 0.6ppt for sales growth and 0.7ppt for recurring profit growth.

Our forex assumptions for FY18 are USD/JPY of 111.0 (no change) and EUR/JPY of 135.0 (previously 131.0). Our WTI assumption is \$65.0/bbl (\$50.0/bbl).

We expect global real GDP growth to accelerate from 3.8% in 2017 to 4.1% in 2018 because of the US government's aggressive fiscal policies. Japanese companies are also likely to benefit from global economic growth, and we expect recurring profits to grow in FY18 for the seventh consecutive year, the first time this has happened since FY70.

Meanwhile, we expect the average ROE for Russell/Nomura Large Cap companies to fall to 9.7% in FY18, down from 10.3% in FY17. We expect attention to focus on the measures put in place in order to maintain ROE at 10%, the next target, by the Japanese companies that have passed the minimum line of ROE of 8%

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)	301	4.6	-0.4	-3.3	8.1	3.3	7.3	2.7
	Manufacturing	176	4.3	0.2	-4.3	9.2	4.0	8.6	3.1
	Basic materials	39	0.6	-9.0	-5.6	17.0	3.8	15.4	3.3
	Processing	80	5.7	3.1	-4.4	7.8	4.2	7.5	3.1
	Nonmanufacturing (ex financials)	125	5.0	-1.2	-1.8	6.4	2.2	5.5	2.0
	Russell/Nomura Small Cap (ex financials)	1,026	3.6	1.8	-0.5	5.5	4.2	5.2	3.6
Operating profits	Russell/Nomura Large Cap (ex financials)	301	5.2	8.7	2.9	15.9	9.3	16.2	7.8
	Manufacturing	176	5.8	2.9	-0.5	18.3	11.8	19.7	9.8
	Basic materials	39	-14.0	8.6	9.4	38.1	6.5	34.3	5.2
	Processing	80	14.7	-2.0	-3.6	15.6	15.2	19.0	11.8
	Nonmanufacturing (ex financials)	125	4.2	18.6	7.5	12.9	5.8	11.8	5.0
	Russell/Nomura Small Cap (ex financials)	1,026	4.3	10.5	7.2	7.3	10.7	7.8	9.8
Recurring profits	Russell/Nomura Large Cap	333	6.9	-0.6	1.4	16.6	8.4	15.5	8.2
	Russell/Nomura Large Cap (ex financials)	301	7.0	1.5	3.6	18.7	9.0	18.0	8.3
	Manufacturing	176	7.2	-1.9	0.2	22.7	10.1	23.4	8.5
	Basic materials	39	-8.9	-7.4	12.1	46.3	6.7	42.2	5.2
	Processing	80	15.3	-4.2	-3.1	20.5	12.1	22.6	9.7
	Nonmanufacturing	157	6.5	0.6	2.5	11.1	6.7	8.4	7.8
	Nonmanufacturing (ex financials)	125	6.6	7.1	8.4	13.3	7.4	10.9	7.9
	Russell/Nomura Small Cap	1,120	3.1	3.7	5.8	9.2	9.4	9.1	8.6
	Russell/Nomura Small Cap (ex financials)	1,026	5.0	4.1	8.8	9.0	10.5	9.4	9.5
Net profits	Russell/Nomura Large Cap	333	7.4	-3.9	8.5	31.1	0.9	18.7	9.2
	Russell/Nomura Large Cap (ex financials)	301	8.0	-4.7	10.8	37.6	0.8	23.6	9.9
	Manufacturing	176	10.2	-4.8	-1.5	50.7	0.6	33.7	11.1
	Basic materials	39	-11.0	-27.1	58.4	49.2	7.6	44.2	6.0
	Processing	80	15.7	-3.0	-14.0	65.5	-0.7	41.3	13.9
	Nonmanufacturing	157	4.6	-3.0	18.2	15.0	1.3	6.4	7.3
	Nonmanufacturing (ex financials)	125	4.2	-4.6	30.9	21.3	1.2	11.1	8.1
	Russell/Nomura Small Cap	1,120	2.2	1.9	17.3	13.3	11.8	13.0	10.7
	Russell/Nomura Small Cap (ex financials)	1,026	3.9	0.0	21.7	12.6	13.6	12.7	12.4

Note: Latest estimates as of 25 February 2018. Previous estimates as of 26 November 2017.

Source: Nomura

Fig. 2: Major assumptions

As of 18 January 2018						As of 18 October 2017					
	Industrial production 2010 base year % y-y	Overnight call rate / Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg)		Industrial production 2010 base year % y-y	Overnight call rate / Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg)		
				USD/JPY	EUR/JPY				USD/JPY	EUR/JPY	
FY16	1.2	-0.1	47.9	108.3	118.8	1.2	-0.1	47.9	108.3	118.8	
FY17	4.7	-0.1	54.2	111.5	130.1	4.4	-0.1	49.1	111.0	128.7	
FY18	2.3	-0.1	65.0	111.0	135.0	1.4	-0.1	50.0	111.0	131.0	
FY16 H1	-0.7	-0.1	45.3	105.2	118.1	-0.7	-0.1	45.3	105.2	118.1	
FY16 H2	3.0	-0.1	50.6	111.5	119.5	3.0	-0.1	50.6	111.5	119.5	
FY17 H1	5.0	-0.1	48.2	111.0	126.3	Estimate 5.4	-0.1	48.2	111.0	126.3	
FY17 H2	4.4	-0.1	60.2	111.9	134.0	3.5	-0.1	50.0	111.0	131.0	
FY18 H1	2.9	-0.1	65.0	111.0	135.0	1.5	-0.1	50.0	111.0	131.0	
FY18 H2	1.6	-0.1	65.0	111.0	135.0	1.2	-0.1	50.0	111.0	131.0	

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

Source: Nomura

# Contributions to recurring profit growth by sector

## Overview of the 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, chemicals, trading companies, automobiles, and machinery. In the electrical machinery & precision equipment sector, companies have seen some success in management reforms (including strategies of shifting to high-value-added products) and in reducing costs within the consumer electronics subsector. We also note markedly strong performance in SPE (due to growing demand for flash memory), automotive semiconductors (owing to the shift toward electrified and self-driving cars), and industrial applications (mostly FA systems).

When it comes to chemicals, we note that the oil subsector generated sharp profit growth, as Japanese refining margins improved on the back of industry realignment/capacity reductions and higher crude oil prices. We also note a positive impact from higher prices of basic materials, a reflection of global economic expansion. In the case of trading companies, we note that earnings have trended favorably in resource-related operations on the back of stably high resource prices, including for copper and coal, while transportation & construction, living essentials, and other non-resource operations have also been solid.

In automobiles, US autos sales have held up well despite some expectations to the contrary. In Europe, a sharp expansion in sales of hybrid vehicles owing to a rapid shift away from diesel vehicles has benefited the Japanese automakers. When it comes to machinery, we note an ongoing recovery in demand for construction and mining machinery, while FA- and robot-related operations have also shown brisk trends against a backdrop of personnel shortages and higher industry technological needs.

Meanwhile, we expect profits to decline in the utilities sector. We look for deterioration in gains/losses under the fuel cost adjustment scheme due to higher oil prices and higher miscellaneous expenses related to regulatory reform in the electric power industry.

## 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.

Sectors from which we expect large contributions to overall profit growth include electrical machinery & precision equipment, automobiles, telecommunications, and machinery. In the electrical machinery & precision equipment sector, we look for a positive earnings impact as new technological innovation waves start coming together (including those related to the cloud, advances in automotive engineering, and renewable energy). The outlook for SPE would also appear to be bright, with active investment by memory makers likely to continue in 2018. Structural reforms have progressed even in the precision equipment & photographic film subsector (where earnings have slumped), while there are also signs of a bottoming out in the interchangeable lens camera market.

We expect a gradual expansion in global demand for automobiles. We expect US new car sales to remain above 17mn in 2018, and we look for ongoing growth in the Indian and ASEAN markets. Meanwhile, we expect Japanese automaker market share to continue to expand in North America and Europe. We expect the shift away from diesel vehicles in Europe to result in sharp growth for hybrid vehicles. We also believe the tapering off of expenses related to final inspection improprieties at some finished vehicle manufacturers will support a rebound in earnings.

In machinery, we look for an ongoing rebound in the global machinery cycle in 2018. We note that construction and mining machinery are in a recovery phase of the long-term cycle, while FA will likely benefit from automation demand (which is seeing structural growth).

Meanwhile, we expect profits to decline in the media sector. We look for a backlash effect from brisk trends in movie operations in the previous term and a dropout of gains on the sale of real estate.

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	29.4	17.1	18.2
Chemicals	36.4	15.7	16.7
Trading companies	39.1	12.4	13.2
Automobiles	11.1	10.7	11.4
Machinery	34.8	9.2	9.8
Steel, nonferrous metals	99.9	8.0	8.5
Financials	6.2	6.2	-
Telecommunications	8.9	4.3	4.6
Transportation	8.3	2.7	2.9
Software	47.1	2.7	2.9
Retailing	12.3	2.5	2.6
Housing, real estate	8.1	2.2	2.3
Services	10.4	2.2	2.3
Household goods	20.0	1.8	1.9
Food	6.3	1.5	1.6
Pharmaceuticals, healthcare	5.1	1.1	1.2
Construction	3.0	0.3	0.3
Media	5.7	0.3	0.3
Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)
1 sector			
Utilities	-5.4	-0.8	-0.8
FY18E			
Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)
18 sectors			
Electrical machinery, precision equipment	17.8	23.0	25.2
Automobiles	6.7	12.2	13.3
Telecommunications	11.8	10.7	11.8
Machinery	15.8	9.7	10.6
Financials	4.9	8.7	-
Chemicals	6.9	6.9	7.5
Transportation	7.5	4.4	4.8
Software	32.3	4.3	4.7
Retailing	10.1	3.6	3.9
Services	8.3	3.2	3.5
Food	7.4	3.1	3.4
Pharmaceuticals, healthcare	6.3	2.4	2.7
Housing, real estate	4.5	2.3	2.5
Steel, nonferrous metals	6.0	1.7	1.9
Household goods	8.8	1.6	1.8
Utilities	5.7	1.4	1.5
Construction	4.7	0.8	0.8
Trading companies	0.1	0.1	0.1
Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)
1 sector			
Media	-1.5	-0.1	-0.1

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 5.

Upward revisions were comparatively large in the financials, trading companies, and chemicals sectors, among others. In the financials sector, improved conditions in financial markets have helped bring about upside over expectations in securities companies' retail division earnings, gains/losses on banks' equity holdings, and insurance companies' earnings from asset management.

For trading companies, earnings in resource divisions have been stronger than expected on rising market prices for nonferrous metals, coal, crude oil, and other commodities, and earnings in non-resource divisions have stayed solid as well, particularly in machinery/equipment businesses thanks to recovering demand for automobiles and construction machinery in Asia and other parts of the world.

In the chemicals sector, upward forecast revisions are most pronounced in the oil subsector, reflecting the rise in the price of crude oil. Margins also remain high across a broad range of chemical products, including ethylene, methyl methacrylate (MMA), graphite electrodes, and needle coke, in part because the strength of the global economy and the Chinese government's moves to tighten environmental regulations are bringing about ongoing improvement in supply-demand for chemical products. In electronic materials as well, demand for semiconductor wafers is still strong.

We have made downward revisions to our forecasts for the electrical machinery & precision equipment sector, among others. The discontinuation of Toshiba's memory business has had a major impact on our forecasts for the electrical machinery & precision equipment sector. We have also sharply lowered our forecasts for businesses involved in telecommunications equipment, including base stations, optical transmission equipment, and optical components. Short-term performance has been affected by inventory corrections in microcontrollers (largely as memory control units embedded in CPUs) and memory for smartphones, but the impact has not been enough to upset the overall supply-demand balance for memory, and we expect the corrections to be a passing phenomenon.

## Overview of the FY18 corporate earnings outlook

We have raised our FY18 recurring profit forecasts for 13 of the 19 sectors and lowered them for five.

The largest upward revisions are for the chemicals, trading companies, electrical machinery & precision equipment, and machinery sectors. For many sectors, earnings upside in FY17 has made for a brighter outlook for FY18 earnings.

The upward revisions to our forecasts for the trading companies sector rest largely on hikes made to our price assumptions for crude oil and nonferrous metals in light of the present rise in market prices. For the electrical machinery & precision equipment sector, our upward revisions reflect hikes to our forecasts for earnings in SPE, as we expect continued major investments in flash memory in 2018 due to supply shortages. For the machinery sector as well, the recovery in demand for both general-use machinery and mining machinery has been stronger than we had anticipated, and the recovery is beginning to extend its geographic reach as well. We have also raised our demand forecasts for robots and FA in light of growing corporate interest in labor-saving technology and improvements in productivity.

The automobiles sector saw comparatively large downward revisions. The changes to our forecasts for this sector take into account an increase in sales incentives and the depreciation of emerging-market currencies relative to the yen.

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

<b>FY17E</b>				
[Upward revisions] 14 sectors				
	<b>New</b>	<b>Old</b>	<b>Revision</b>	<b>Change</b>
	¥bn	¥bn	¥bn	%
Financials	7,284	7,053	231	3.3
Trading companies	3,025	2,804	222	7.9
Chemicals	4,032	3,877	155	4.0
Telecommunications	3,656	3,548	108	3.0
Automobiles	7,317	7,264	53	0.7
Food	1,747	1,700	47	2.8
Household goods	750	727	23	3.2
Machinery	2,436	2,416	20	0.8
Transportation	2,435	2,415	20	0.8
Pharmaceuticals, healthcare	1,594	1,583	12	0.7
Software	576	567	8	1.5
Services	1,589	1,584	5	0.3
Media	337	332	5	1.5
Utilities	955	953	2	0.2
[Downward revisions] 5 sectors				
	<b>New</b>	<b>Old</b>	<b>Revision</b>	<b>Change</b>
	¥bn	¥bn	¥bn	%
Housing, real estate	2,020	2,026	-5	-0.3
Steel, nonferrous metals	1,097	1,103	-7	-0.6
Construction	623	636	-13	-2.0
Retailing	1,544	1,616	-71	-4.4
Electrical machinery, precision equipment	5,167	5,499	-333	-6.0
<b>FY18E</b>				
[Upward revisions] 13 sectors				
	<b>New</b>	<b>Old</b>	<b>Revision</b>	<b>Change</b>
	¥bn	¥bn	¥bn	%
Chemicals	4,339	4,121	219	5.3
Trading companies	3,028	2,831	198	7.0
Electrical machinery, precision equipment	6,222	6,087	135	2.2
Machinery	2,895	2,788	108	3.9
Financials	7,618	7,545	73	1.0
Software	719	664	56	8.4
Pharmaceuticals, healthcare	1,672	1,619	53	3.3
Transportation	2,587	2,568	19	0.7
Steel, nonferrous metals	1,245	1,227	18	1.4
Services	1,721	1,709	12	0.7
Media	332	325	7	2.1
Construction	695	688	7	0.9
Household goods	835	831	3	0.4
[Downward revisions] 5 sectors				
	<b>New</b>	<b>Old</b>	<b>Revision</b>	<b>Change</b>
	¥bn	¥bn	¥bn	%
Telecommunications	4,146	4,149	-4	-0.1
Utilities	1,036	1,045	-9	-0.9
Food	1,842	1,852	-10	-0.5
Retailing	1,597	1,661	-64	-3.9
Automobiles	7,854	8,009	-155	-1.9

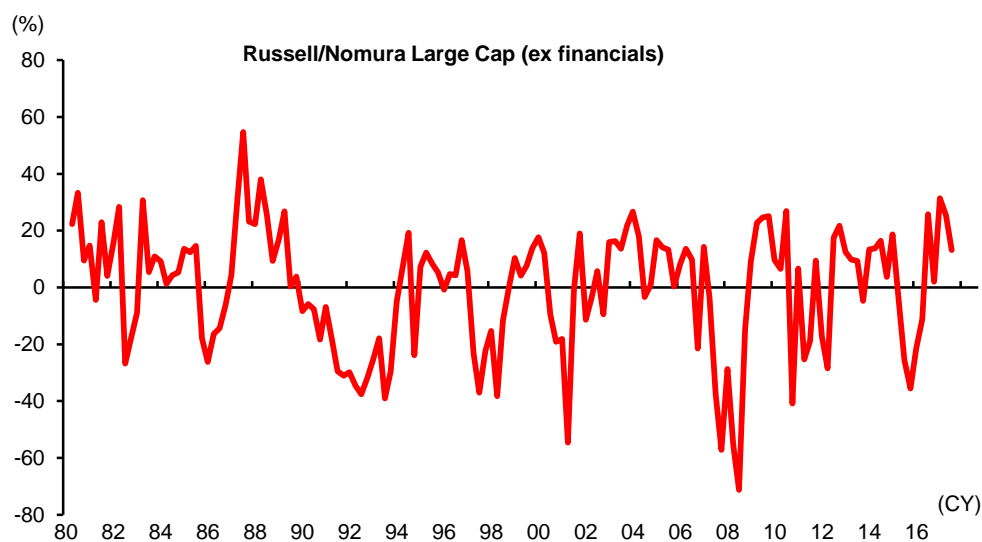
Note: Latest estimates as of 25 February 2018. Previous estimates as of 26 November 2017.

Source: Nomura



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

	(yy/m)	16/6	16/9	16/12	17/3	17/6	17/9	17/12	18/3 (%)
Russell/Nomura Large Cap		-36.4	-22.1	-9.6	26.0	1.5	27.5	23.7	14.4
Russell/Nomura Large Cap (ex financials)		-35.6	-21.5	-11.1	25.8	2.0	31.5	25.5	13.2
Manufacturing		-41.4	-33.9	-18.4	40.1	-6.8	42.6	24.4	13.3
Basic materials		-29.5	-20.5	-13.6	32.5	5.1	56.4	28.2	26.8
Processing		-73.4	-59.5	-22.8	61.3	-26.3	53.8	26.3	17.9
Nonmanufacturing (ex financials)		-27.4	-4.0	-0.8	5.6	14.3	15.9	27.0	13.1



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	FY14	FY15	FY16	FY17E Old	FY17E New	FY18E Old	FY18E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	301	4.6	-0.4	-3.3	7.3	8.1	2.7	3.3
	Manufacturing	176	4.3	0.2	-4.3	8.6	9.2	3.1	4.0
	Basic materials	39	0.6	-9.0	-5.6	15.4	17.0	3.3	3.8
	Processing	80	5.7	3.1	-4.4	7.5	7.8	3.1	4.2
	Nonmanufacturing (ex financials)	125	5.0	-1.2	-1.8	5.5	6.4	2.0	2.2
Broad sectors	Materials	39	0.6	-9.0	-5.6	15.4	17.0	3.3	3.8
	Machinery, autos	43	7.8	5.7	-3.1	7.8	8.9	3.6	4.2
	Electronics	37	2.7	-0.9	-6.3	7.1	6.0	2.3	4.2
	Consumer, distribution	99	3.7	-1.4	-2.2	4.9	6.5	3.1	3.0
	Information	24	9.6	5.7	0.1	6.4	6.7	4.0	4.4
Utilities, infrastructure	59	5.2	-1.3	-2.5	5.3	5.5	-0.2	0.5	
Sectors	Chemicals	31	-1.1	-9.9	-5.8	14.8	16.8	4.0	4.7
	Steel, nonferrous metals	8	4.7	-6.8	-5.1	16.9	17.4	1.7	2.0
	Machinery	24	11.1	3.3	-2.9	11.6	13.0	4.5	4.9
	Autos	19	6.9	6.5	-3.2	6.7	7.8	3.4	3.9
	Electrical machinery, precision equipment	37	2.7	-0.9	-6.3	7.1	6.0	2.3	4.2
	Pharmaceuticals, healthcare	25	0.6	5.2	-2.7	2.1	3.0	2.0	2.0
	Food products	20	6.7	1.6	-1.8	5.9	6.9	3.7	5.4
	Household goods	12	11.5	6.0	-4.1	4.6	7.1	4.2	3.1
	Trading companies	7	2.7	-9.7	-4.6	9.8	13.6	2.1	1.6
	Retailing	21	5.7	7.3	2.2	5.3	5.3	4.2	4.2
	Services	14	-0.4	4.1	-2.7	-2.3	-1.5	3.6	3.6
	Software	10	1.4	-0.1	2.9	20.5	20.4	17.0	18.5
	Media	5	5.1	12.0	-1.3	4.4	5.0	1.7	3.0
	Telecommunications	9	10.9	5.5	0.0	4.9	5.3	2.7	2.8
	Construction, engineering	5	7.2	1.7	0.2	4.5	2.3	2.1	3.5
	Housing, real estate	18	7.9	4.3	5.1	5.2	5.3	3.1	3.4
	Transportation	25	3.4	0.3	-3.1	5.6	6.2	-4.8	-4.5
Utilities	11	4.7	-7.7	-8.2	5.4	5.9	1.3	2.5	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 25 February 2018; previous estimates as of 26 November 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	333	6.9	-0.6	1.4	15.5	16.6	8.2	8.4
	Russell/Nomura Large Cap (ex financials)	301	7.0	1.5	3.6	18.0	18.7	8.3	9.0
	Manufacturing	176	7.2	-1.9	0.2	23.4	22.7	8.5	10.1
	Basic materials	39	-8.9	-7.4	12.1	42.2	46.3	5.2	6.7
	Processing	80	15.3	-4.2	-3.1	22.6	20.5	9.7	12.1
	Nonmanufacturing	157	6.5	0.6	2.5	8.4	11.1	7.8	6.7
	Nonmanufacturing (ex financials)	125	6.6	7.1	8.4	10.9	13.3	7.9	7.4
Broad sectors	Materials	39	-8.9	-7.4	12.1	42.2	46.3	5.2	6.7
	Machinery, autos	43	16.2	1.9	-13.0	15.4	16.2	10.4	9.1
	Electronics	37	13.0	-19.7	27.8	37.8	29.4	8.5	17.8
	Consumer, distribution	99	-9.0	-7.6	19.8	14.3	16.8	6.3	5.7
	Information	24	8.0	4.3	0.2	9.3	12.3	15.0	13.3
	Utilities, infrastructure	59	28.3	37.3	-3.8	5.2	5.3	5.7	5.9
	Financials	32	6.5	-8.6	-8.1	2.9	6.2	7.4	4.9
Sectors	Chemicals	31	-21.7	21.6	16.1	31.2	36.4	5.6	6.9
	Steel, nonferrous metals	8	24.0	-54.6	-5.5	101.2	99.9	3.6	6.0
	Machinery	24	23.7	-6.6	-17.9	33.8	34.8	12.7	15.8
	Autos	19	13.9	4.7	-11.6	10.3	11.1	9.6	6.7
	Electrical machinery, precision equipment	37	13.0	-19.7	27.8	37.8	29.4	8.5	17.8
	Pharmaceuticals, healthcare	25	-15.3	39.2	-5.4	4.3	5.1	3.9	6.3
	Food products	20	4.9	-0.5	8.3	9.0	6.3	11.1	7.4
	Household goods	12	11.0	3.3	5.8	17.1	20.0	11.7	8.8
	Trading companies	7	-20.6	-62.2	233.4	28.9	39.1	1.0	0.1
	Retailing	21	-4.8	13.4	-1.4	11.6	12.3	9.1	10.1
	Services	14	-2.4	-5.6	-9.6	10.0	10.4	7.8	8.3
	Software	10	22.6	-11.4	21.1	45.0	47.1	23.9	32.3
	Media	5	11.0	10.4	-1.0	4.1	5.7	-2.1	-1.5
	Telecommunications	9	6.5	5.6	-1.4	5.7	8.9	15.3	11.8
	Construction, engineering	5	38.4	92.4	30.5	5.1	3.0	1.8	4.7
	Housing, real estate	18	4.6	11.3	22.4	8.4	8.1	4.3	4.5
	Transportation	25	10.4	13.3	-5.2	7.4	8.3	7.6	7.5
Utilities	11	1,682.0	146.7	-36.2	-5.6	-5.4	6.8	5.7	
Financials	32	6.5	-8.6	-8.1	2.9	6.2	7.4	4.9	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 25 February 2018; previous estimates as of 26 November 2017.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY14	FY15	FY16	FY17E Old	FY17E New	FY18E Old	FY18E New
Industrial groups	Russell/Nomura Large Cap	333	38,488	39,670	41,339	47,701	48,183	51,886	52,549
	Russell/Nomura Large Cap (ex financials)	301	30,350	32,151	34,408	40,648	40,899	44,341	44,931
	Manufacturing	176	19,085	19,524	19,641	24,169	24,139	26,535	26,904
	Basic materials	39	3,325	3,177	3,551	4,980	5,128	5,348	5,584
	Processing	80	12,834	12,880	12,524	15,179	14,919	16,884	16,971
	Nonmanufacturing	157	19,403	20,146	21,698	23,532	24,043	25,351	25,645
	Nonmanufacturing (ex financials)	125	11,265	12,627	14,766	16,479	16,760	17,806	18,026
Broad sectors	Materials	39	3,325	3,177	3,551	4,980	5,128	5,348	5,584
	Machinery, autos	43	9,213	9,835	8,528	9,680	9,753	10,797	10,749
	Electronics	37	3,621	3,045	3,996	5,499	5,167	6,087	6,222
	Consumer, distribution	99	6,151	6,048	8,630	10,013	10,250	10,503	10,694
	Information	24	3,841	4,087	3,999	4,447	4,568	5,138	5,196
	Utilities, infrastructure	59	4,198	5,959	5,704	6,029	6,033	6,468	6,484
	Financials	32	8,138	7,519	6,931	7,053	7,284	7,545	7,618
Sectors	Chemicals	31	2,059	2,583	3,002	3,877	4,032	4,121	4,339
	Steel, nonferrous metals	8	1,266	594	549	1,103	1,097	1,227	1,245
	Machinery	24	2,306	2,264	1,813	2,416	2,436	2,788	2,895
	Autos	19	6,908	7,571	6,716	7,264	7,317	8,009	7,854
	Electrical machinery, precision equipment	37	3,621	3,045	3,996	5,499	5,167	6,087	6,222
	Pharmaceuticals, healthcare	25	1,113	1,578	1,465	1,583	1,594	1,619	1,672
	Food products	20	1,341	1,383	1,487	1,700	1,747	1,852	1,842
	Household goods	12	471	507	613	727	750	831	835
	Trading companies	7	1,740	657	2,192	2,804	3,025	2,831	3,028
	Retailing	21	1,087	1,386	1,435	1,616	1,544	1,661	1,597
	Services	14	399	538	1,437	1,584	1,589	1,709	1,721
	Software	10	324	352	341	567	576	664	719
	Media	5	271	322	318	332	337	325	332
	Telecommunications	9	3,246	3,414	3,339	3,548	3,656	4,149	4,146
	Construction, engineering	5	212	462	617	636	623	688	695
	Housing, real estate	18	1,363	1,604	1,845	2,026	2,020	2,168	2,167
	Transportation	25	1,963	2,267	2,204	2,415	2,435	2,568	2,587
Utilities	11	660	1,627	1,038	953	955	1,045	1,036	
Financials	32	8,138	7,519	6,931	7,053	7,284	7,545	7,618	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as 25 February 2018; previous estimates as of 26 November 2017.

Source: Nomura

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

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	55.0	18.1	19.3	19.5	166.3	27.3	9.3	51.4
	Russell/Nomura Large Cap (ex financials)	3.9	7.9	10.8	9.2	56.9	15.0	22.6	26.7	73.9	20.2	24.5	23.4	258.2	29.8	14.4	64.7
	Manufacturing	4.5	8.8	12.8	10.0	65.7	17.3	28.7	44.2	82.7	32.5	36.3	33.7	61.5	41.8	25.9	91.1
	Basic materials	9.5	16.5	21.6	19.0	72.4	42.4	63.4	29.7	105.5	75.4	72.8	27.4	SP	87.4	61.2	47.8
	Processing	3.8	7.7	11.4	7.9	85.9	18.3	24.1	67.5	103.6	33.2	34.4	48.5	30.4	45.2	25.6	142.3
	Nonmanufacturing	-	-	-	-	-	-	-	-	25.1	6.7	6.8	8.3	1,432.3	15.5	-2.7	23.3
	Nonmanufacturing (ex financials)	3.3	6.7	8.1	8.1	41.8	12.4	16.0	9.0	56.7	6.0	11.8	11.6	SP	15.0	2.2	36.3
Broad sectors	Basic materials	9.5	16.5	21.6	19.0	72.4	42.4	63.4	29.7	105.5	75.4	72.8	27.4	SP	87.4	61.2	47.8
	Machinery, autos	5.4	8.7	12.8	10.3	4.1	4.1	15.4	28.0	10.1	18.5	22.5	15.9	45.0	36.3	25.8	74.5
	Electronics	1.4	6.1	9.1	4.0	636.0	62.7	39.4	304.9	1,162.8	80.5	57.9	242.2	-8.6	71.8	25.2	5,476.2
	Consumption, distribution	3.4	6.4	10.0	7.8	108.8	14.5	24.6	8.7	201.0	18.5	23.3	9.4	SP	22.8	19.7	25.9
	Information	2.8	6.5	6.1	9.5	-1.6	16.7	15.8	6.5	-47.3	-8.3	-2.2	11.5	150.3	-17.4	-35.3	130.9
	Utilities, infrastructure	1.7	5.5	5.4	7.5	-7.2	-3.3	6.4	12.3	-1.9	-0.9	9.0	10.8	SP	26.4	19.7	-7.7
	Financials	-	-	-	-	-	-	-	-	-13.8	8.2	-4.1	1.1	5.6	16.5	-12.7	-1.3
Sectors	Chemicals	10.7	16.7	22.9	19.8	68.2	19.2	63.7	24.5	86.9	35.2	73.9	19.8	SP	29.4	66.2	33.6
	Steel, nonferrous metals	6.9	16.1	18.5	17.0	88.9	285.4	61.9	60.7	224.0	759.4	67.9	72.7	SP	4,389.9	40.9	142.7
	Machinery	3.8	13.9	15.8	17.0	-7.8	24.3	50.1	43.7	-1.9	62.4	62.8	15.3	35.8	60.8	94.3	19.9
	Automobiles	5.8	7.3	12.0	8.6	9.5	-0.9	6.3	23.5	14.8	9.7	12.7	16.1	48.8	30.8	11.9	90.4
	Electrical machinery, precision equipment	1.4	6.1	9.1	4.0	636.0	62.7	39.4	304.9	1,162.8	80.5	57.9	242.2	-8.6	71.8	25.2	5,476.2
	Pharmaceuticals, healthcare	-1.0	0.8	5.1	4.5	-38.8	-14.6	14.7	17.1	-34.9	-5.4	10.1	1.6	-12.6	1.2	-0.5	29.7
	Food products	-0.2	6.6	8.7	10.1	-5.6	16.1	11.4	-1.5	-0.9	16.5	13.0	0.4	8.7	31.5	14.5	12.5
	Household goods	3.6	5.3	11.1	8.1	22.6	4.4	24.1	22.8	31.1	16.8	27.5	28.3	10.5	-3.2	-20.6	66.9
	Trading companies	7.4	12.7	20.7	14.4	SP	53.6	65.0	3.3	SP	46.7	46.9	16.7	SP	51.9	53.9	22.8
	Retailing	4.1	6.6	7.4	4.9	8.4	6.8	16.9	10.6	17.0	7.8	23.3	7.5	23.9	10.1	101.0	21.4
	Services	0.3	0.8	0.9	1.1	12.9	30.8	11.0	12.6	13.4	31.9	11.2	10.7	SL	29.1	-18.8	32.5
	Software	14.7	24.6	27.9	30.1	19.9	65.5	69.0	45.8	68.4	263.2	69.0	9.6	47.1	218.2	-16.3	-4.8
	Media	4.8	6.5	4.5	4.5	-7.9	-19.2	-2.6	13.7	-12.4	-8.8	1.5	22.9	-6.9	-10.0	-8.2	29.3
	Telecommunications	1.3	4.6	3.9	7.5	-3.0	15.6	13.4	-0.0	-61.5	-17.4	-7.9	10.6	183.5	-28.1	-39.2	190.8
	Construction, engineering	8.0	4.2	2.2	4.9	10.7	35.2	-9.2	2.2	15.9	43.6	-5.9	-2.1	31.0	52.0	1.6	-4.1
	Housing, real estate	5.8	6.5	1.1	5.6	27.6	15.1	0.5	3.4	34.0	18.0	1.5	1.2	124.1	23.7	-6.5	2.5
	Transportation	1.5	5.8	6.3	7.3	5.0	16.7	12.5	9.1	10.2	21.6	14.7	4.3	SP	32.6	104.6	7.8
	Utilities	-4.0	4.7	9.2	10.7	-94.7	-42.9	8.7	76.3	SL	-45.0	14.4	145.0	LI	14.4	-10.5	-54.9
	Financials	-	-	-	-	-	-	-	-	-13.8	8.2	-4.1	1.1	5.6	16.5	-12.7	-1.3

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 2018. (3) Excludes consolidated subsidiaries. (4) SP = switch to profits; SL = switch to losses; LS = losses shrinking; LI = losses increasing.

Source: Nomura

Fig. 10: Valuation indicators

		P/E			P/CF			P/B		Dividend yield			ROE			
		FY17E	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	14.3	13.1	-	-	-	1.52	1.44	1.97	2.14	2.28	8.2	10.3	9.7	10.0
	Russell/Nomura Large Cap (ex loss-making cos)	14.4	14.3	13.0	-	-	-	1.60	1.44	1.97	2.14	2.28	9.3	10.3	9.7	10.0
	Russell/Nomura Large Cap (ex financials)	15.2	15.0	13.6	8.7	8.5	7.9	1.73	1.61	1.89	2.07	2.22	8.5	11.1	10.4	10.7
	Manufacturing	15.5	15.5	14.2	9.5	9.3	8.7	1.89	1.75	1.93	2.11	2.28	8.2	11.8	11.0	11.2
	Basic materials	12.8	12.0	11.2	6.7	6.3	5.9	1.31	1.20	2.06	2.25	2.37	6.5	9.8	9.7	9.7
	Processing	14.1	14.3	13.0	8.9	8.8	8.2	1.84	1.71	1.99	2.19	2.40	8.1	12.6	11.6	11.8
	Nonmanufacturing	13.4	13.1	11.8	-	-	-	1.21	1.17	2.02	2.18	2.29	8.2	9.1	8.6	8.9
	Nonmanufacturing (ex financials)	14.6	14.3	12.6	7.6	7.4	6.9	1.51	1.43	1.84	2.02	2.13	8.9	10.2	9.6	10.1
Broad sectors	Basic materials	12.8	12.0	11.2	6.7	6.3	5.9	1.31	1.20	2.06	2.25	2.37	6.5	9.8	9.7	9.7
	Machinery, autos	12.3	12.8	11.7	8.0	8.1	7.5	1.59	1.47	2.41	2.63	2.89	9.7	12.4	11.3	11.5
	Electronics	17.6	17.1	15.4	10.4	10.0	9.3	2.36	2.19	1.43	1.60	1.73	4.7	13.0	12.3	12.5
	Consumption, distribution	19.5	19.1	17.9	12.6	12.5	11.9	1.88	1.78	1.87	1.98	2.08	7.6	9.5	9.1	9.1
	Information	14.5	15.2	11.3	6.8	6.9	5.9	2.02	1.84	1.74	2.05	2.25	15.0	13.5	11.5	14.2
	Utilities, infrastructure	13.3	12.7	12.2	6.4	6.2	6.0	1.36	1.29	1.68	1.83	1.89	8.8	10.1	9.7	9.5
	Financials	10.4	10.3	9.8	-	-	-	0.76	0.74	2.60	2.69	2.80	7.2	7.2	7.0	7.0
Sectors	Chemicals	13.0	12.0	11.4	7.3	6.8	6.5	1.49	1.34	2.01	2.22	2.33	7.8	11.0	10.8	10.6
	Steel, nonferrous metals	12.4	11.7	10.5	5.2	4.9	4.6	0.89	0.85	2.26	2.36	2.51	3.6	7.1	7.2	7.7
	Machinery	20.5	18.0	16.5	12.9	11.8	11.0	2.18	2.00	1.66	1.84	2.00	8.1	10.2	10.9	11.0
	Automobiles	10.1	10.9	10.0	6.6	6.9	6.4	1.39	1.28	2.82	3.07	3.40	10.3	13.2	11.4	11.7
	Electrical machinery, precision equipment	17.6	17.1	15.4	10.4	10.0	9.3	2.36	2.19	1.43	1.60	1.73	4.7	13.0	12.3	12.5
	Pharmaceuticals, healthcare	26.9	28.3	27.3	17.2	18.5	18.0	2.62	2.45	1.76	1.77	1.83	8.9	9.4	8.6	8.5
	Food products	18.4	19.3	17.8	11.8	12.4	11.7	2.56	2.22	2.00	2.33	2.51	12.8	13.0	11.6	12.1
	Household goods	30.0	26.9	24.5	20.4	18.8	17.4	3.98	3.94	1.12	1.21	1.31	12.2	13.8	14.0	14.2
	Trading companies	8.0	7.9	7.6	5.6	5.6	5.4	1.03	0.92	3.44	3.54	3.67	9.9	12.2	11.0	10.5
	Retailing	27.9	24.4	22.1	14.7	13.3	12.4	2.40	2.38	1.29	1.38	1.47	6.4	8.8	9.4	9.7
	Services	25.5	23.4	21.7	16.4	15.3	14.4	1.16	1.17	1.77	1.85	1.92	2.0	4.6	4.9	5.1
	Software	33.6	26.9	22.0	26.4	22.4	18.9	4.07	4.07	1.35	1.96	2.41	10.3	12.3	15.1	16.9
	Media	16.2	17.2	16.3	11.2	11.9	11.2	1.28	1.18	1.60	1.61	1.61	7.4	7.6	6.8	7.0
	Telecommunications	11.5	12.6	9.1	5.0	5.1	4.3	1.77	1.57	1.92	2.14	2.25	17.2	14.6	11.7	14.7
	Construction	10.0	9.7	9.1	8.8	8.6	8.1	1.62	1.57	2.34	2.43	2.58	16.5	16.6	14.5	14.0
	Housing, real estate	15.3	14.4	13.7	11.0	10.4	9.9	1.68	1.58	1.93	2.03	2.14	10.6	10.7	10.5	10.2
	Transportation	14.4	13.4	13.0	6.8	6.5	6.3	1.52	1.42	1.25	1.34	1.37	7.4	10.3	10.1	9.7
	Utilities	9.6	10.1	9.6	2.6	2.7	2.6	0.75	0.70	2.05	2.43	2.43	6.9	7.5	6.8	6.9
	Financials	10.4	10.3	9.8	-	-	-	0.76	0.74	2.60	2.69	2.80	7.2	7.2	7.0	7.0
	Russell/Nomura Small Cap		18.7	16.8	16.2	-	-	-	1.49	1.32	1.55	1.60	1.65	7.3	7.3	7.7
Russell/Nomura Small Cap (ex financials)		19.8	17.4	16.8	10.6	9.9	9.7	1.66	1.49	1.50	1.54	1.58	7.7	7.8	8.3	8.1

Note: Share prices as of 23 February 2018. Earnings forecasts as of 25 February 2018.

Source: Nomura

# What are the Russell/Nomura Japan Equity Indexes?

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

Russell/Nomura Japan Equity Indexes should be useful in:

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

Russell/Nomura Japan Equity Indexes have the following characteristics:

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

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 31 December 2017.

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