

Outlook for FY18-19 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of FY17 corporate earnings

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

In FY17, sales at companies in the Russell/Nomura Large Cap Index (ex financials) rose 8.2% y-y and recurring profits increased 17.5%. Sales growth was 0.1ppt higher and recurring profit growth 1.2ppt lower than our estimates issued in March 2018 (based on data collated on 25 February 2018). This marks the sixth straight fiscal year that recurring profits were up y-y (starting in FY12).

In FY17 Q4, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) rose 0.1% y-y on a 5.6% increase in sales. The rate of recurring profit growth was down fairly substantially from the 24.5% growth in Q2 and 23.4% growth in Q3, but, when excluding Toshiba, recurring profits were up 17.1% in Q3 and 11.4% in Q4. The growth rate thus peaked in FY17 Q2 and has been gradually declining.

FY17 after-tax profits for Russell/Nomura Large Cap companies were up 32.2%y-y owing to a substantial boost from US tax reforms. ROE for Russell/Nomura Large Cap companies stood at 10.3%, above the previous peak of 10.1% recorded in FY05, owing in part to the aforementioned boost. The FY17 ROE figure was the highest in 37 years, or more specifically, the highest since the ROE of 12.1% reached in FY80.

Overview of the FY18 corporate earnings outlook

For FY18, our analysts look for sales growth of 3.0% y-y and recurring profit growth of 8.7% for companies in the Russell/Nomura Large Cap Index (ex financials). Our forex assumptions for FY18 are USD/JPY of 106.0 (previously: 111.0) and EUR/JPY of 131.0 (previously 135.0). Our WTI assumption is \$70.0/bbl (\$65.0/bbl).

These sales and recurring profit growth forecasts are each 0.3ppt lower than the last time we issued our FY18 outlook. Our actual FY18 recurring profit forecast is ¥576bn (1.3%) lower than our previous forecast owing in part to our assumption of a stronger yen, but FY17 recurring profits were also lower than we forecast, and as a result our FY18 recurring profit growth forecast is only slightly lower than before. The y-y boost from the US tax reforms will drop off in FY18, and we therefore expect after-tax profits for Russell/Nomura Large Cap companies to increase by just 2.6%, substantially less than the rate of growth we forecast for recurring and other profits.

We expect global real GDP growth to accelerate slightly from 3.9% in 2017 to 4.0% in 2018 because of the US government's aggressive fiscal policies. Japanese companies are also likely to benefit from this global economic growth, and we expect recurring profits to grow for a seventh consecutive year in FY18, the first time this has happened since FY70.

Some observers are concerned about what kind of an impact rising labor costs, raw material prices, and capex will have on corporate earnings. The recurring margin for Russell/Nomura Large Cap Index (ex financials) companies improved sharply from 7.6% in FY16 to 8.3% in FY17 with companies recording very strong sales growth. We expect the recurring margin to continue to rise to 8.7% in FY18 and 9.4% in FY19, but we believe that it will be important to monitor corporate earnings to determine if margins do in fact improve as the acceleration in the global economy tapers off a bit.

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

(% y-y, except where noted)

		No. of cos	New					Old	
			FY15	FY16	FY17E	FY18E	FY18E	FY17E	FY18E
Sales	Russell/Nomura Large Cap (ex financials)	303	-0.4	-3.3	8.2	3.0	3.1	8.1	3.3
	Manufacturing	181	0.2	-4.3	9.3	3.1	3.3	9.2	4.0
	Basic materials	41	-9.0	-5.6	17.1	6.3	1.5	17.0	3.8
	Processing	84	3.1	-4.4	7.9	2.2	3.9	7.8	4.2
	Nonmanufacturing (ex financials)	122	-1.2	-1.8	6.7	2.9	2.9	6.4	2.2
	Russell/Nomura Small Cap (ex financials)	1,135	1.8	-0.5	6.1	4.5	2.7	5.5	4.2
Operating profits	Russell/Nomura Large Cap (ex financials)	303	8.7	2.9	16.3	6.8	8.5	15.9	9.3
	Manufacturing	181	2.9	-0.5	17.8	8.4	9.9	18.3	11.8
	Basic materials	41	8.6	9.4	34.9	6.0	7.3	38.1	6.5
	Processing	84	-2.0	-3.6	15.9	9.5	11.2	15.6	15.2
	Nonmanufacturing (ex financials)	122	18.6	7.5	14.3	4.8	6.5	12.9	5.8
	Russell/Nomura Small Cap (ex financials)	1,135	10.5	7.2	6.8	9.5	6.3	7.3	10.7
Recurring profits	Russell/Nomura Large Cap	334	-0.6	1.4	15.3	8.1	10.0	16.6	8.4
	Russell/Nomura Large Cap (ex financials)	303	1.5	3.6	17.5	8.7	10.8	18.7	9.0
	Manufacturing	181	-1.9	0.2	21.6	8.6	9.3	22.7	10.1
	Basic materials	41	-7.4	12.1	43.6	8.1	7.3	46.3	6.7
	Processing	84	-4.2	-3.1	19.6	9.1	10.4	20.5	12.1
	Nonmanufacturing	153	0.6	2.5	9.7	7.6	10.7	11.1	6.7
	Nonmanufacturing (ex financials)	122	7.1	8.4	12.2	8.8	13.0	13.3	7.4
	Russell/Nomura Small Cap	1,229	3.7	5.8	9.0	8.4	5.0	9.2	9.4
Net profits	Russell/Nomura Large Cap	334	-3.9	8.5	32.2	2.6	6.5	31.1	0.9
	Russell/Nomura Large Cap (ex financials)	303	-4.7	10.8	38.5	3.3	6.8	37.6	0.8
	Manufacturing	181	-4.8	-1.5	53.1	4.1	2.7	50.7	0.6
	Basic materials	41	-27.1	58.4	49.6	10.5	4.1	49.2	7.6
	Processing	84	-3.0	-14.0	68.5	2.9	1.4	65.5	-0.7
	Nonmanufacturing	153	-3.0	18.2	15.1	1.0	10.9	15.0	1.3
	Nonmanufacturing (ex financials)	122	-4.6	30.9	20.4	2.0	13.5	21.3	1.2
	Russell/Nomura Small Cap	1,229	1.9	17.3	14.5	13.7	1.5	13.3	11.8
	Russell/Nomura Small Cap (ex financials)	1,135	0.0	21.7	10.1	18.0	2.9	12.6	13.6

Note: Latest estimates as of 28 May 2018. Previous estimates as of 25 February 2018.

Source: Nomura

Fig. 2: Major assumptions

	As of 19 April 2018					As of 18 January 2018				
	Industrial production 2010 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg) USD/JPY EUR/JPY		Industrial production 2010 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg) USD/JPY EUR/JPY	
FY17E	Estimate 4.7	-0.1	53.7	110.8	129.7	4.7	-0.1	54.2	111.5	130.1
FY18E	2.4	-0.1	70.0	106.0	131.0	2.3	-0.1	65.0	111.0	135.0
FY19E	1.2	-0.1	70.0	106.0	131.0	-	-	-	-	-
FY17 H1	4.8	-0.1	48.2	111.0	126.3	5.0	-0.1	48.2	111.0	126.3
FY17E H2	Estimate 4.6	-0.1	59.1	110.6	133.0	4.4	-0.1	60.2	111.9	134.0
FY18E H1	3.0	-0.1	70.0	106.0	131.0	2.9	-0.1	65.0	111.0	135.0
FY18E H2	1.7	-0.1	70.0	106.0	131.0	1.6	-0.1	65.0	111.0	135.0
FY19E H1	1.3	-0.1	70.0	106.0	131.0	-	-	-	-	-
FY19E H2	1.0	-0.1	70.0	106.0	131.0	-	-	-	-	-

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

Source: Nomura

Contributions to recurring profit growth by sector

Overview of FY17 corporate earnings

In FY17, recurring profits increased in all 19 sectors. This was the first time that all sectors recorded recurring profit growth since 2013.

The largest contributions to growth were from sectors such as electrical machinery & precision equipment, chemicals, automobiles, trading companies, and machinery.

There were three major drivers of earnings in the electrical machinery & precision equipment sector, namely automotive applications (a shift to electric powertrains, autonomous driving, and connected cars), industrial applications (adoption of automation and smart and energy-saving technologies), and data centers (cloud technologies). Profits were also up sharply for consumer electronics. New growth areas such as content operations contributed to profit growth and margins also improved thanks to cost cutting, better product mixes, and the rollout of high value-added strategies.

In the chemicals sector, oil companies' earnings improved sharply owing to merger benefits and an improvement in petroleum product margins. Margins remained favorable for petrochemical products owing to tight supply-demand conditions for products such as ethylene, MMA, graphite electrodes, and needle coke, and also for semiconductor materials on tight-supply demand for wafers.

For automobiles, profit growth was driven in part by better margins thanks to improvements in product mixes and COGS. Sales volumes were also firm in emerging markets such as India and ASEAN. Trading companies benefited from improvements in metal and energy prices, including for copper, coking coal, and oil. In the machinery sector, construction and mining equipment benefited from rising commodity prices. FA and robot-related operations also saw structural market growth with China's manufacturing industry becoming increasingly sophisticated and employing more automation.

Overview of the FY18 corporate earnings outlook

For FY18, we project that recurring profits will increase in 16 of the 19 sectors and decrease in three.

The sectors from which we expect large contributions to overall profit growth include electrical machinery & precision equipment, telecommunications, machinery, and trading companies. We expect growth to be affected by yen appreciation as we assume USD/JPY of 106 in FY18 versus 110.8 in FY17, but, even then, we still have strong expectations for profit growth in the electrical machinery & precision equipment and machinery sectors. We only expect three sectors (pharmaceuticals, healthcare; telecommunications, and financials) to see higher recurring profit growth than in FY17, and thus expect lower recurring profit growth in nearly all sectors.

The electrical machinery & precision equipment sector has three major earnings drivers (automotive and industrial applications and data centers), and we expect a wide range of subsectors to continue to contribute to sector profit growth. Aside from this, we also expect company-specific factors such as changes in the ways companies handle depreciation and a drop off in structural reform costs and impairment losses to contribute to profit growth.

For telecommunications, we mainly expect growth to be driven by company-specific factors, namely a dropping out of one-time costs booked a year earlier. For machinery, we expect global machinery demand to continue to recover in FY18, and we expect a variety of areas to continue to perform well, including general machinery, mining equipment, and automation. We also expect an earnings recovery in the shipbuilding and heavy machinery subsector, as added costs incurred in this subsector have tapered off.

For trading companies, we expect earnings to continue to be driven by commodity price trends, including metal and oil prices, and we also expect a profit boost from non-resource operations such as foods, household goods, and autos.

Sectors that we expect to make large negative contributions to profit growth include media. We forecast a comparatively large profit decline due to higher costs including from depreciation resulting from bringing new facilities on line and upgrades to corporate infrastructure as well as labor reforms.

We also expect profits to fall in the automobiles sector. We do not believe that factors boosting profits such as increased volumes in emerging markets such as ASEAN and India, improvements in product mixes in North America, or lower COGS will be enough to cover the drag on profits from yen appreciation versus developed and emerging market currencies, higher material costs, and increased R&D and depreciation costs.

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

FY17			
Increase in profits	Growth Contribution Contribution (%)		
19sectors	Growth	Contribution	Contribution (ex financials)
Electrical machinery, precision equipment	26.1	16.4	17.3
Chemicals	34.2	15.7	16.5
Automobiles	12.9	13.4	14.1
Trading companies	31.2	10.7	11.2
Machinery	29.3	8.3	8.8
Steel, nonferrous metals	93.4	8.1	8.5
Financials	4.4	4.8	-
Transportation	9.0	3.2	3.3
Housing, real estate	9.9	2.9	3.1
Software	44.2	2.7	2.9
Retailing	12.4	2.7	2.8
Services	10.9	2.6	2.7
Household goods	20.8	2.0	2.2
Utilities	10.2	1.6	1.7
Pharmaceuticals, healthcare	5.9	1.4	1.5
Food	4.8	1.2	1.3
Construction	9.8	0.9	1.0
Telecommunications	1.4	0.7	0.8
Media	9.6	0.5	0.5

FY18E			
Increase in profits	Growth Contribution Contribution (%)		
16 sectors	Growth	Contribution	Contribution (ex financials)
Electrical machinery, precision equipment	19.2	25.4	27.9
Telecommunications	17.2	15.3	16.8
Machinery	16.5	10.2	11.2
Trading companies	12.6	9.3	10.2
Financials	4.9	8.9	-
Chemicals	7.4	7.5	8.2
Software	35.5	4.9	5.3
Pharmaceuticals, healthcare	9.2	3.8	4.1
Retailing	9.5	3.5	3.9
Transportation	5.1	3.2	3.5
Steel, nonferrous metals	10.6	3.0	3.3
Household goods	11.5	2.3	2.5
Food	4.2	1.8	2.0
Services	4.1	1.7	1.9
Housing, real estate	3.2	1.7	1.9
Construction	0.3	0.0	0.0

Decrease in profits (%)			
3 sectors	Growth	Contribution	Contribution (ex financials)
Utilities	-1.1	-0.3	-0.4
Automobiles	-0.3	-0.6	-0.7
Media	-16.2	-1.5	-1.6

FY19E			
Increase in profits	Growth Contribution Contribution (%)		
19 sectors	Growth	Contribution	Contribution (ex financials)
Telecommunications	35.1	27.4	29.6
Automobiles	10.1	14.4	15.6
Electrical machinery, precision equipment	10.7	12.7	13.7
Financials	5.1	7.4	-
Chemicals	7.1	5.8	6.2
Machinery	10.4	5.6	6.1
Retailing	11.3	3.5	3.7
Software	22.5	3.1	3.4
Transportation	5.6	2.7	3.0
Food	8.0	2.7	2.9
Services	7.6	2.5	2.7
Housing, real estate	5.5	2.3	2.5
Pharmaceuticals, healthcare	6.8	2.3	2.5
Steel, nonferrous metals	8.0	1.9	2.0
Household goods	10.6	1.8	1.9
Trading companies	2.6	1.6	1.8
Utilities	5.1	1.1	1.2
Construction	4.5	0.6	0.7
Media	7.4	0.4	0.5

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of FY17 corporate earnings

Recurring profits in FY17 came in ahead of our estimates in 10 of 19 sectors and below them in nine.

Results exceeded our forecasts the most in sectors such as utilities, automobiles, services, and construction.

The utilities sector saw a large boost from increased power demand due to the cold winter. Cost cutting at some companies was also higher than we had expected. While profits in the automobiles sector took a major hit from yen appreciation and high material costs, profits were significantly boosted by improved margins owing in part to less discounting, reductions in sales costs, and an improved product mix on increased SUV sales in the US. Profits in the services sector were boosted substantially by price hikes and increased volumes in postal service operations. The construction sector saw better-than-expected improvement in gross margins on building construction and civil engineering projects owing to a boost from higher contract prices for construction work, as typified by average building start prices. The risk of higher costs never materialized in FY17.

Sectors for which earnings came in well below our forecasts include telecommunications, trading companies, electrical machinery & precision equipment, financials, and chemicals.

The shortfalls in many of these sectors look to have been mainly due to one-time factors. For instance, in the telecommunications sector, some companies saw expanded derivative-related losses. In the trading companies sector, operations such as fruit & vegetable and mineral & metal resource posted losses. In the electrical machinery & precision equipment sector, companies booked structural reform costs, provisions for losses and impairment on goodwill and other assets. In the chemicals sector, some companies booked impairment losses on copper mining operations, and in the financials sector, nonlife insurers saw increased disaster losses and some regional banks saw an increase in credit costs. In addition, the electrical machinery & precision equipment and chemicals sectors were impacted by rising input costs due to higher materials costs, including for crude oil, and a sharp drop off in smartphone demand.

Overview of the FY18 corporate earnings outlook

We have raised our FY18 recurring profit forecasts for 8 of the 19 sectors and lowered them for 11. We revise our USD/JPY assumption for FY18 from 111.0 to 106.0, as we expect the yen to gain strength.

The largest upward revisions were for our estimates for sectors such as trading companies, utilities, pharmaceuticals & healthcare, and household goods.

We revise up our forecast for the trading companies sector to reflect rising prices for commodities such as crude oil and coking coal. The upward revision to our forecast for the utilities sector is largely to reflect the restart of some nuclear reactors. In pharmaceuticals & healthcare, the revisions reflect a drop off in costs, including for the sale of fixed assets, as well as a boost from product mix improvements.

For household goods, we factor in an ongoing increase in sales to foreign tourists and Japanese nationals in Japan as well as margin improvement on favorable sales of high-end cosmetics. We also forecast favorable increases in cosmetics sales overseas.

The largest downward revisions were for the automobiles, financials, chemicals, and machinery sectors.

The downward revisions for the automobiles, chemicals, machinery segments stem in part from our assumption of a stronger yen. In addition, for the automobiles sector, we expect a dropoff in sales in Europe owing to reduced supplies of diesel engines that comply with new European emissions standards, and it also looks like costs for meeting new standards in Europe and North America will be higher than previously expected. In the chemicals sector, we expect electronic materials to slump owing to weak smartphone demand, as per FY17; deterioration in supply/demand conditions for certain products; and higher raw material prices. We lower our forecasts for the financials sector to reflect a dropping out in one-time profits, weak earnings for asset management and insurance underwriting, and a slump in earnings from investments. For machinery, we expect lower sales of smartphone casing processing machinery on a contraction in smartphone demand.

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

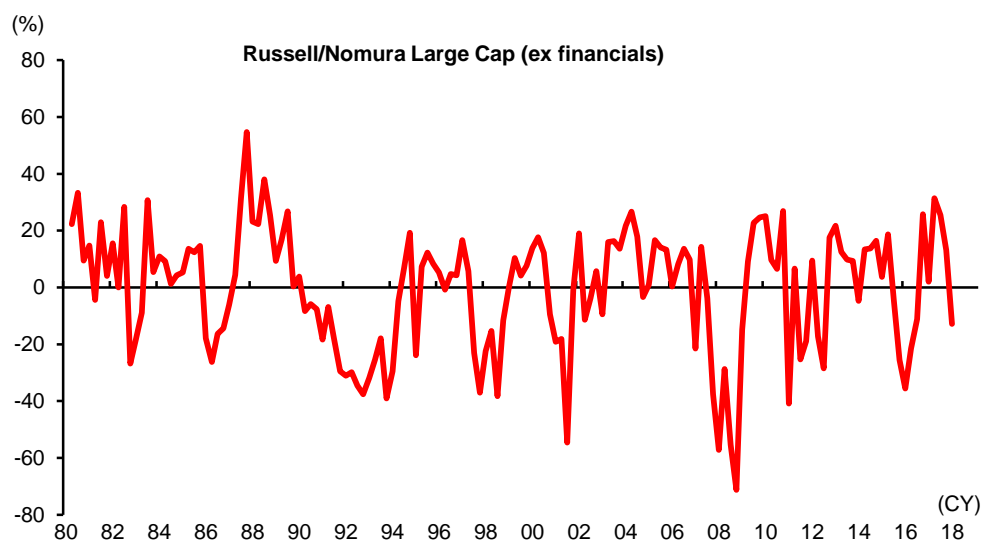
FY17					FY18E				
[Upward revisions] 10sectors					[Upward revisions] 8 sectors				
	New	Old	Revision	Change		New	Old	Revision	Change
	¥bn	¥bn	¥bn	%		¥bn	¥bn	¥bn	%
Utilities	1,112	955	157	16.5	Trading companies	3,213	3,028	185	6.1
Automobiles	7,419	7,317	102	1.4	Utilities	1,125	1,036	89	8.6
Services	1,671	1,589	82	5.2	Pharmaceuticals, healthcare	1,743	1,672	70	4.2
Construction	664	623	41	6.6	Household goods	863	835	28	3.3
Housing, real estate	2,054	2,020	33	1.7	Services	1,739	1,721	18	1.1
Pharmaceuticals, healthcare	1,616	1,594	21	1.3	Construction	706	695	12	1.7
Transportation	2,450	2,435	15	0.6	Housing, real estate	2,178	2,167	11	0.5
Media	349	337	12	3.7	Software	720	719	1	0.2
Household goods	755	750	5	0.6					
Retailing	1,545	1,544	1	0.0	[Downward revisions] 11 sectors				
[Downward revisions] 9 sectors						New	Old	Revision	Change
	New	Old	Revision	Change		¥bn	¥bn	¥bn	%
	¥bn	¥bn	¥bn	%	Retailing	1,588	1,597	-9	-0.6
Software	564	576	-12	-2.0	Steel, nonferrous metals	1,223	1,245	-22	-1.8
Food	1,723	1,747	-24	-1.4	Media	293	332	-39	-11.8
Steel, nonferrous metals	1,061	1,097	-36	-3.3	Transportation	2,544	2,587	-43	-1.7
Machinery	2,336	2,436	-100	-4.1	Food	1,762	1,842	-80	-4.3
Chemicals	3,911	4,032	-121	-3.0	Electrical machinery, precision equipment	6,141	6,222	-81	-1.3
Financials	7,160	7,284	-124	-1.7	Telecommunications	4,054	4,146	-92	-2.2
Electrical machinery, precision equipment	5,035	5,167	-131	-2.5	Machinery	2,797	2,895	-98	-3.4
Trading companies	2,852	3,025	-173	-5.7	Chemicals	4,232	4,339	-107	-2.5
Telecommunications	3,404	3,656	-252	-6.9	Financials	7,483	7,618	-135	-1.8
					Automobiles	7,435	7,854	-419	-5.3

Note: Latest estimates as of 28 May 2018. Previous estimates as of 25 February 2018.

Source: Nomura

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

	(yy/m)	16/9	16/12	17/3	17/6	17/9	17/12	18/3	18/6 (%)
Russell/Nomura Large Cap		-22.1	-9.6	26.0	1.5	27.5	23.7	14.4	-11.4
Russell/Nomura Large Cap (ex financials)		-21.5	-11.1	25.8	2.0	31.5	25.5	13.2	-12.9
Manufacturing		-33.9	-18.4	40.1	-6.8	42.6	24.4	13.3	-23.8
Basic materials		-20.5	-13.6	32.5	5.1	56.4	28.2	26.8	-17.1
Processing		-59.5	-22.8	61.3	-26.3	53.8	26.3	17.9	-33.3
Nonmanufacturing (ex financials)		-4.0	-0.8	5.6	14.3	15.9	27.0	13.1	3.3



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

Source: Nomura

Russell/Nomura Large Cap Index: earnings indicators

Fig. 6: Percentage change in sales by sector

(% y-y, except where noted)

		No. of cos	FY15	FY16	FY17E Old	FY17 New	FY18E Old	FY18E New	FY19E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	303	-0.4	-3.3	8.1	8.2	3.3	3.0	3.1
	Manufacturing	181	0.2	-4.3	9.2	9.3	4.0	3.1	3.3
	Basic materials	41	-9.0	-5.6	17.0	17.1	3.8	6.3	1.5
	Processing	84	3.1	-4.4	7.8	7.9	4.2	2.2	3.9
	Nonmanufacturing (ex financials)	122	-1.2	-1.8	6.4	6.7	2.2	2.9	2.9
Broad sectors	Materials	41	-9.0	-5.6	17.0	17.1	3.8	6.3	1.5
	Machinery, autos	46	5.7	-3.1	8.9	9.0	4.2	2.1	3.5
	Electronics	38	-0.9	-6.3	6.0	6.0	4.2	2.4	4.6
	Consumer, distribution	95	-1.4	-2.2	6.5	6.7	3.0	3.4	3.4
	Information	23	5.7	0.1	6.7	6.3	4.4	2.9	3.1
	Utilities, infrastructure	60	-1.3	-2.5	5.5	6.0	0.5	2.0	2.3
Sectors	Chemicals	31	-9.9	-5.8	16.8	18.0	4.7	7.5	1.0
	Steel, nonferrous metals	10	-6.8	-5.1	17.4	15.0	2.0	3.4	2.5
	Machinery	26	3.3	-2.9	13.0	13.9	4.9	4.2	3.9
	Autos	20	6.5	-3.2	7.8	7.7	3.9	1.4	3.4
	Electrical machinery, precision equipment	38	-0.9	-6.3	6.0	6.0	4.2	2.4	4.6
	Pharmaceuticals, healthcare	24	5.2	-2.7	3.0	3.2	2.0	1.2	3.1
	Food products	19	1.6	-1.8	6.9	6.7	5.4	3.4	2.9
	Household goods	13	6.0	-4.1	7.1	7.5	3.1	3.2	4.9
	Trading companies	7	-9.7	-4.6	13.6	13.1	1.6	4.1	3.4
	Retailing	18	7.3	2.2	5.3	5.1	4.2	5.4	3.9
	Services	14	4.1	-2.7	-1.5	0.7	3.6	1.4	2.8
	Software	9	-0.1	2.9	20.4	20.8	18.5	19.0	8.0
	Media	5	12.0	-1.3	5.0	5.3	3.0	3.2	3.0
	Telecommunications	9	5.5	0.0	5.3	4.7	2.8	0.8	2.4
	Construction, engineering	6	1.7	0.2	2.3	1.9	3.5	3.2	3.4
	Housing, real estate	19	4.3	5.1	5.3	5.1	3.4	5.5	3.4
	Transportation	24	0.3	-3.1	6.2	5.8	-4.5	-2.0	1.7
	Utilities	11	-7.7	-8.2	5.9	8.5	2.5	2.8	1.4

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 28 May 2018; previous estimates as of 25 February 2018.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY15	FY16	FY17E Old	FY17 New	FY18E Old	FY18E New	FY19E New
Industrial groups	Russell/Nomura Large Cap	334	-0.6	1.4	16.6	15.3	8.4	8.1	10.0
	Russell/Nomura Large Cap (ex financials)	303	1.5	3.6	18.7	17.5	9.0	8.7	10.8
	Manufacturing	181	-1.9	0.2	22.7	21.6	10.1	8.6	9.3
	Basic materials	41	-7.4	12.1	46.3	43.6	6.7	8.1	7.3
	Processing	84	-4.2	-3.1	20.5	19.6	12.1	9.1	10.4
	Nonmanufacturing	153	0.6	2.5	11.1	9.7	6.7	7.6	10.7
	Nonmanufacturing (ex financials)	122	7.1	8.4	13.3	12.2	7.4	8.8	13.0
Broad sectors	Materials	41	-7.4	12.1	46.3	43.6	6.7	8.1	7.3
	Machinery, autos	46	1.9	-13.0	16.2	16.5	9.1	3.8	10.2
	Electronics	38	-19.7	27.8	29.4	26.1	17.8	19.2	10.7
	Consumer, distribution	95	-7.6	19.8	16.8	14.8	5.7	8.7	6.8
	Information	23	4.3	0.2	12.3	6.1	13.3	16.8	31.7
	Utilities, infrastructure	60	37.3	-3.8	5.3	9.6	5.9	2.8	5.4
	Financials	31	-8.6	-8.1	6.2	4.4	4.9	4.9	5.1
Sectors	Chemicals	31	21.6	16.1	36.4	34.2	6.9	7.4	7.1
	Steel, nonferrous metals	10	-54.6	-5.5	99.9	93.4	6.0	10.6	8.0
	Machinery	26	-6.6	-17.9	34.8	29.3	15.8	16.5	10.4
	Autos	20	4.7	-11.6	11.1	12.9	6.7	-0.3	10.1
	Electrical machinery, precision equipment	38	-19.7	27.8	29.4	26.1	17.8	19.2	10.7
	Pharmaceuticals, healthcare	24	39.2	-5.4	5.1	5.9	6.3	9.2	6.8
	Food products	19	-0.5	8.3	6.3	4.8	7.4	4.2	8.0
	Household goods	13	3.3	5.8	20.0	20.8	8.8	11.5	10.6
	Trading companies	7	-62.2	233.4	39.1	31.2	0.1	12.6	2.6
	Retailing	18	13.4	-1.4	12.3	12.4	10.1	9.5	11.3
	Services	14	-5.6	-9.6	10.4	10.9	8.3	4.1	7.6
	Software	9	-11.4	21.1	47.1	44.2	32.3	35.5	22.5
	Media	5	10.4	-1.0	5.7	9.6	-1.5	-16.2	7.4
	Telecommunications	9	5.6	-1.4	8.9	1.4	11.8	17.2	35.1
	Construction, engineering	6	92.4	30.5	3.0	9.8	4.7	0.3	4.5
	Housing, real estate	19	11.3	22.4	8.1	9.9	4.5	3.2	5.5
	Transportation	24	13.3	-5.2	8.3	9.0	7.5	5.1	5.6
	Utilities	11	146.7	-36.2	-5.4	10.2	5.7	-1.1	5.1
Financials	31	-8.6	-8.1	6.2	4.4	4.9	4.9	5.1	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as 28 May 2018; previous estimates as of 25 February 2018.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY15	FY16	FY17E Old	FY17 New	FY18E Old	FY18E New	FY19E New
Industrial groups	Russell/Nomura Large Cap	334	39,670	41,339	48,183	47,681	52,549	51,838	57,021
	Russell/Nomura Large Cap (ex financials)	303	32,151	34,408	40,899	40,521	44,931	44,355	49,153
	Manufacturing	181	19,524	19,641	24,139	23,855	26,904	26,196	28,641
	Basic materials	41	3,177	3,551	5,128	4,971	5,584	5,455	5,853
	Processing	84	12,880	12,524	14,919	14,790	16,971	16,373	18,070
	Nonmanufacturing	153	20,146	21,698	24,043	23,826	25,645	25,642	28,380
	Nonmanufacturing (ex financials)	122	12,627	14,766	16,760	16,666	18,026	18,159	20,512
Broad sectors	Materials	41	3,177	3,551	5,128	4,971	5,584	5,455	5,853
	Machinery, autos	46	9,835	8,528	9,753	9,755	10,749	10,232	11,272
	Electronics	38	3,045	3,996	5,167	5,035	6,222	6,141	6,798
	Consumer, distribution	95	6,048	8,630	10,250	10,162	10,694	10,907	11,653
	Information	23	4,087	3,999	4,568	4,317	5,196	5,066	6,672
	Utilities, infrastructure	60	5,959	5,704	6,033	6,280	6,484	6,553	6,904
	Financials	31	7,519	6,931	7,284	7,160	7,618	7,483	7,868
Sectors	Chemicals	31	2,583	3,002	4,032	3,911	4,339	4,232	4,532
	Steel, nonferrous metals	10	594	549	1,097	1,061	1,245	1,223	1,321
	Machinery	26	2,264	1,813	2,436	2,336	2,895	2,797	3,088
	Autos	20	7,571	6,716	7,317	7,419	7,854	7,435	8,184
	Electrical machinery, precision equipment	38	3,045	3,996	5,167	5,035	6,222	6,141	6,798
	Pharmaceuticals, healthcare	24	1,578	1,465	1,594	1,616	1,672	1,743	1,861
	Food products	19	1,383	1,487	1,747	1,723	1,842	1,762	1,904
	Household goods	13	507	613	750	755	835	863	954
	Trading companies	7	657	2,192	3,025	2,852	3,028	3,213	3,298
	Retailing	18	1,386	1,435	1,544	1,545	1,597	1,588	1,767
	Services	14	538	1,437	1,589	1,671	1,721	1,739	1,871
	Software	9	352	341	576	564	719	720	883
	Media	5	322	318	337	349	332	293	314
	Telecommunications	9	3,414	3,339	3,656	3,404	4,146	4,054	5,476
	Construction, engineering	6	462	617	623	664	695	706	738
	Housing, real estate	19	1,604	1,845	2,020	2,054	2,167	2,178	2,297
	Transportation	24	2,267	2,204	2,435	2,450	2,587	2,544	2,686
	Utilities	11	1,627	1,038	955	1,112	1,036	1,125	1,183
Financials	31	7,519	6,931	7,284	7,160	7,618	7,483	7,868	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as 28 May 2018; previous estimates as of 25 February 2018.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY17 Q3-FY18 Q2)

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	18.1	19.3	19.5	2.4	27.3	9.3	52.0	39.7
	Russell/Nomura Large Cap (ex financials)	7.9	10.8	9.3	5.6	15.0	22.6	26.8	-0.3	20.2	24.5	23.4	0.1	29.8	14.4	65.6	41.9
	Manufacturing	8.8	12.8	10.1	6.3	17.3	28.7	44.3	-9.7	32.5	36.3	33.8	-9.0	41.8	25.9	93.0	49.9
	Basic materials	16.5	21.6	19.0	12.5	42.4	63.4	29.7	11.8	75.4	72.8	27.4	13.5	87.4	61.2	47.8	8.8
	Processing	7.7	11.4	8.0	4.4	18.3	24.1	67.7	-20.6	33.2	34.4	48.7	-20.3	45.2	25.6	142.5	65.3
	Nonmanufacturing	-	-	-	-	-	-	-	-	6.7	6.8	8.3	20.1	15.5	-2.6	23.3	27.2
	Nonmanufacturing (ex financials)	6.7	8.1	8.1	4.6	12.4	16.0	9.0	18.5	6.0	11.8	11.6	20.9	15.0	2.2	36.2	27.0
Broad sectors	Basic materials	16.5	21.6	19.0	12.5	42.4	63.4	29.7	11.8	75.4	72.8	27.4	13.5	87.4	61.2	47.8	8.8
	Machinery, autos	8.7	12.8	10.5	4.7	4.1	15.4	28.3	11.4	18.5	22.5	16.1	8.6	36.3	25.8	74.8	4.6
	Electronics	6.1	9.1	4.0	4.0	62.7	39.4	304.9	-52.2	80.5	57.9	242.2	-50.0	71.8	25.2	5,476.2	384.5
	Consumption, distribution	6.4	10.0	7.8	4.4	14.5	24.6	8.7	12.9	18.5	23.3	9.4	13.0	22.8	19.8	27.9	83.8
	Information	6.5	6.1	9.5	3.0	16.7	15.8	6.5	29.2	-8.3	-2.2	11.5	64.1	-17.4	-35.3	130.9	-50.9
	Utilities, infrastructure	5.5	5.4	7.5	6.1	-3.3	6.4	12.3	25.7	-0.9	9.0	10.8	27.6	26.4	19.7	-7.7	140.8
	Financials	-	-	-	-	-	-	-	-	8.2	-4.1	1.1	18.3	16.5	-12.7	-1.3	27.7
Sectors	Chemicals	16.7	22.9	19.8	13.9	19.2	63.7	24.5	12.8	35.2	73.9	19.8	12.9	29.4	66.2	33.6	25.2
	Steel, nonferrous metals	16.1	18.5	17.0	9.5	285.4	61.9	60.7	8.4	759.4	67.9	72.7	15.8	4,389.9	40.9	142.7	-43.8
	Machinery	13.9	15.8	17.8	8.8	24.3	50.1	44.9	7.5	62.4	62.8	16.2	-0.0	60.8	94.3	21.0	-10.1
	Automobiles	7.3	12.0	8.6	3.5	-0.9	6.3	23.5	12.9	9.7	12.7	16.1	11.4	30.8	11.9	90.4	10.1
	Electrical machinery, precision equipment	6.1	9.1	4.0	4.0	62.7	39.4	304.9	-52.2	80.5	57.9	242.2	-50.0	71.8	25.2	5,476.2	384.5
	Pharmaceuticals, healthcare	0.8	5.1	4.5	3.2	-14.6	14.7	17.1	72.7	-5.4	10.1	1.6	73.9	1.2	-0.6	29.8	64.9
	Food products	6.6	8.7	10.1	7.3	16.1	11.4	-1.5	5.6	16.5	13.0	0.4	11.6	31.5	14.5	22.5	18.0
	Household goods	5.3	11.1	8.1	7.3	4.4	24.1	22.8	37.1	16.8	27.5	28.3	33.1	-3.2	-20.6	66.9	42.9
	Trading companies	12.7	20.7	14.4	5.7	53.6	65.0	3.3	22.6	46.7	46.9	16.7	18.5	51.9	53.9	22.8	4.7
	Retailing	6.6	7.4	4.9	4.5	6.8	16.9	10.6	0.2	7.8	23.3	7.5	-1.2	10.1	105.2	20.4	-7.2
	Services	0.8	0.9	1.1	0.2	30.8	11.0	12.6	-6.5	31.9	11.2	10.7	-7.1	29.1	-18.8	32.5	SP
	Software	24.6	27.9	30.1	3.3	65.5	69.0	45.8	18.9	263.2	69.0	9.6	-2.3	218.2	-16.3	-4.8	44.4
	Media	6.5	4.5	4.5	3.5	-19.2	-2.6	13.7	-9.8	-8.8	1.5	22.9	1.8	-10.0	-8.2	29.3	-2.0
	Telecommunications	4.6	3.9	7.5	2.9	15.6	13.4	-0.0	36.0	-17.4	-7.9	10.6	119.3	-28.1	-39.2	190.8	-58.0
	Construction, engineering	4.2	2.2	4.9	-2.4	35.2	-9.2	2.2	13.1	43.6	-5.9	-2.1	16.8	52.0	1.6	-4.1	16.7
	Housing, real estate	6.5	1.1	5.6	8.7	15.1	0.5	3.4	18.3	18.0	1.5	1.2	26.0	23.7	-6.5	2.5	44.2
	Transportation	5.8	6.3	7.3	4.0	16.7	12.5	9.1	-3.2	21.6	14.7	4.3	-13.0	32.6	104.6	7.8	-17.5
Utilities	4.7	9.2	10.7	9.4	-42.9	8.7	76.3	1,611.8	-45.0	14.4	145.0	SP	14.4	-10.5	-54.9	SP	
Financials	-	-	-	-	-	-	-	-	8.2	-4.1	1.1	18.3	16.5	-12.7	-1.3	27.7	

Note: (1) Q1 = Feb-Apr, Mar-May, or Apr-Jun; Q2 = May-Jul, Jun-Aug, or Jul-Sep; Q3 = Aug-Oct, Sep-Nov, or Oct-Dec; Q4 = Nov-Jan, Dec-Feb, or Jan-Mar. (2) Figures are for companies that had announced results (either full year, Q1, Q2, or Q3) by 28 May 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			
		FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY17	FY18E	FY19E	FY16	FY17	FY18E	FY19E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	14.5	14.1	13.2	-	-	-	1.44	1.35	1.95	2.14	2.30	8.2	10.3	9.9	9.9
	Russell/Nomura Large Cap (ex loss-making cos)	14.4	14.1	13.2	-	-	-	1.45	1.35	1.94	2.14	2.30	9.3	10.5	9.9	9.9
	Russell/Nomura Large Cap (ex financials)	15.2	14.7	13.8	8.3	8.5	8.0	1.63	1.52	1.83	2.07	2.23	8.5	11.2	10.7	10.6
	Manufacturing	15.2	14.7	14.3	8.5	9.0	8.7	1.73	1.62	1.89	2.11	2.30	8.2	11.9	11.4	10.9
	Basic materials	12.6	11.5	11.1	6.6	6.1	5.8	1.17	1.09	2.07	2.36	2.52	6.5	9.7	9.8	9.5
	Processing	13.4	13.1	12.9	7.4	8.3	8.1	1.64	1.52	1.98	2.22	2.45	8.1	12.8	12.1	11.3
	Nonmanufacturing	13.6	13.3	12.0	-	-	-	1.19	1.12	2.02	2.18	2.30	8.2	9.1	8.6	9.0
	Nonmanufacturing (ex financials)	15.2	14.7	13.0	7.9	7.7	7.1	1.49	1.38	1.75	1.99	2.12	8.9	10.2	9.7	10.2
Broad sectors	Basic materials	12.6	11.5	11.1	6.6	6.1	5.8	1.17	1.09	2.07	2.36	2.52	6.5	9.7	9.8	9.5
	Machinery, autos	11.6	12.6	11.5	6.4	7.9	7.3	1.40	1.32	2.38	2.66	2.95	9.7	12.5	10.8	11.1
	Electronics	16.8	13.8	15.5	9.3	8.8	9.3	2.10	1.89	1.47	1.66	1.82	4.7	13.3	14.5	11.7
	Consumption, distribution	20.6	19.4	18.3	13.1	12.7	12.1	1.91	1.79	1.75	1.91	2.01	7.6	9.6	9.5	9.5
	Information	14.6	15.8	11.5	6.9	7.1	6.0	1.85	1.70	1.67	2.09	2.31	15.0	13.3	11.1	14.1
	Utilities, infrastructure	14.0	13.3	12.7	6.7	6.5	6.3	1.36	1.26	1.62	1.79	1.87	8.8	10.1	9.8	9.6
	Financials	10.0	10.1	9.7	-	-	-	0.70	0.69	2.94	2.81	2.92	7.2	7.2	6.8	6.9
Sectors	Chemicals	12.8	11.8	11.4	7.2	6.8	6.5	1.33	1.23	1.95	2.25	2.39	7.7	11.0	10.9	10.4
	Steel, nonferrous metals	12.0	10.5	10.0	5.0	4.5	4.3	0.79	0.76	2.57	2.76	3.02	3.6	6.8	7.4	7.4
	Machinery	19.8	17.5	15.7	12.1	11.2	10.3	1.89	1.77	1.73	1.89	2.09	8.1	9.9	10.5	10.9
	Automobiles	9.5	10.9	10.0	5.1	6.8	6.3	1.23	1.16	2.73	3.10	3.42	10.3	13.4	10.9	11.2
	Electrical machinery, precision equipment	16.8	13.8	15.5	9.3	8.8	9.3	2.10	1.89	1.47	1.66	1.82	4.7	13.3	14.5	11.7
	Pharmaceuticals, healthcare	27.5	26.6	26.0	17.9	17.9	17.4	2.57	2.49	1.64	1.71	1.74	8.7	9.6	9.6	9.3
	Food products	19.0	20.0	18.5	12.1	12.5	11.8	2.28	2.20	1.95	2.30	2.47	12.8	13.0	11.3	11.5
	Household goods	34.4	30.2	27.2	23.6	21.0	19.0	4.60	4.20	1.01	1.07	1.18	12.2	14.1	14.5	14.8
	Trading companies	8.3	7.5	7.3	5.8	5.3	5.1	0.95	0.87	3.38	3.83	3.94	9.9	12.0	12.2	11.4
	Retailing	31.0	27.9	24.4	16.2	14.8	13.6	2.63	2.45	1.12	1.24	1.37	6.5	8.7	9.1	9.7
	Services	24.1	23.5	21.6	14.6	15.5	14.5	1.24	1.18	1.70	1.74	1.80	2.3	5.2	5.2	5.4
	Software	33.4	25.7	20.9	26.3	21.3	18.0	3.93	3.77	1.35	2.02	2.49	10.3	12.0	15.2	17.2
	Media	16.7	20.8	19.3	11.5	13.7	12.8	1.21	1.19	1.58	1.54	1.54	7.4	7.7	5.8	6.0
	Telecommunications	11.7	13.3	9.3	5.1	5.3	4.5	1.59	1.45	1.82	2.19	2.33	17.2	14.5	11.3	14.7
	Construction	9.8	9.8	9.4	8.7	8.7	8.3	1.53	1.35	2.24	2.46	2.60	16.5	16.8	14.2	13.7
	Housing, real estate	15.0	14.1	13.5	10.9	10.3	9.8	1.59	1.46	1.97	2.09	2.20	10.6	11.1	10.7	10.4
	Transportation	16.5	14.9	14.3	7.5	7.1	6.9	1.53	1.42	1.16	1.27	1.34	7.4	9.6	9.9	9.6
	Utilities	10.0	10.4	10.1	3.0	3.0	3.0	0.79	0.76	1.89	2.23	2.28	6.9	8.2	7.5	7.3
	Financials	10.0	10.1	9.7	-	-	-	0.70	0.69	2.94	2.81	2.92	7.2	7.2	6.8	6.9
	Russell/Nomura Small Cap	18.6	16.5	16.2	-	-	-	1.32	1.27	1.55	1.62	1.68	7.4	7.3	7.9	7.6
Russell/Nomura Small Cap (ex financials)	20.3	17.3	16.8	10.6	9.9	9.7	1.48	1.41	1.49	1.55	1.61	7.8	7.5	8.4	8.1	

Note: Share prices and forecasts are as of 28 May 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
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